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The Institute of Cost Accountants of India

The Institute of Cost Accountants of India (ICAI) is a statutory body set up under an Act of Parliament in 1959. The Institute, as a part of its obligation, regulates the profession of Cost and Management Accountancy. The Institute also believes that cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting are the key drivers of the profession. ICAI is headquartered in Kolkata. It has four Regional Councils in Kolkata, Delhi, Mumbai and Chennai and 96 Chapters in important cities in India and nine Overseas Centres. The Ministry of Corporate Affairs, Government of India, has administrative control of the institute.

Circulation and content

- The magazine reaches about 40,000 members, students, non-members, Government departments and organisations, corporates, educational institutions and libraries
- It has a target set of readers and therefore is more visible
- Articles on various subjects like, Cost & Management Accounting, Taxation, Audit, Case Studies, Financial Reporting, Banking, Governance and Ethics

the MANAGEMENT ACCOUNTANT

The Institute publishes *The Management Accountant* for Cost and Management Accountants (CMAs). The magazine, which touched its 50th year of publication, has insightful and informative articles on current developments and changes in the global and national financial scenario. The wide circulation and valuable inputs from academicians, researchers and industry stalwarts are the keys to the success of this journal.

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The Institute of Cost Accountants of India

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

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

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

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

MISSION STATEMENT

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

VISION STATEMENT

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

IDEALS THE INSTITUTE STANDS FOR

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

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



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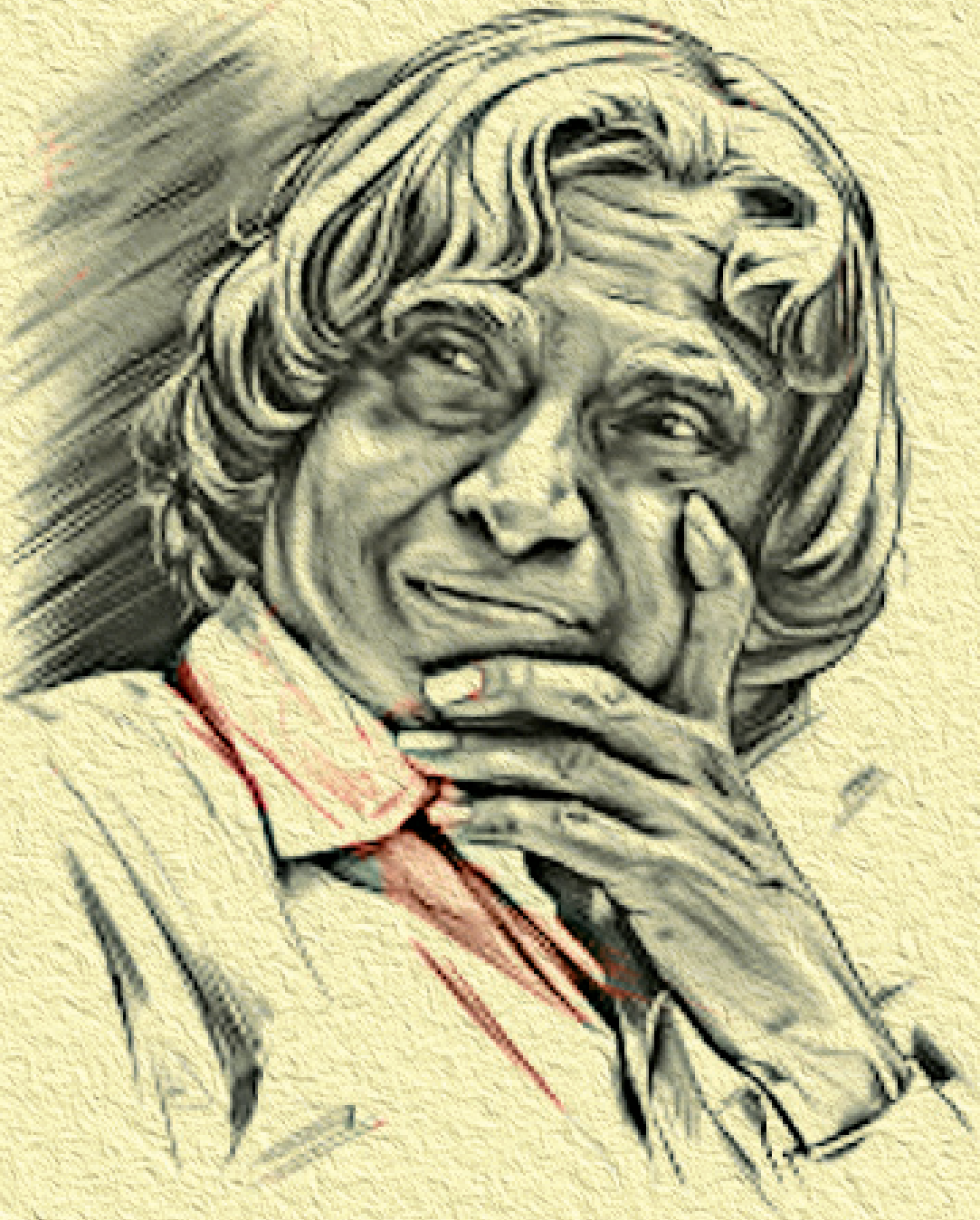
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Dr. A. P. J. Abdul Kalam

15 October 1931- 27 July 2015

"It is very easy to defeat someone, but it is very hard to win someone", said by Avul Pakir Jainulabdeen Abdul Kalam, 11th Indian President who passes away on 27 July, 2015. He was considered the father of country's missile programme, a man of many parts - a great scientist, an inventor, a visionary thinker, a teacher and a philanthropist. As a role model and an ideal citizen to every Indian, he ignited the minds of young people.

*It was an immense privilege that Dr. A.P.J. Abdul Kalam accepted our invitation and was present at Institute's Golden Jubilee celebration. January 15, 2009 was a red letter day for our Institute when he addressed the members at Pune and delivered the Golden Jubilee Commemorative Address marking the 50th year of enactment of the Cost and Works Accountants Act. The key message of Dr. Kalam to the professionals was **"Promote Profit with Integrity - Work with integrity and Succeed with integrity"**.*

Avul Pakir Jainulabdeen Abdul Kalam was born on 15 October 1931 at Rameswaram in the Indian state of Tamil Nadu. After graduating from the Madras Institute of Technology in 1960, Dr. Kalam joined the Aeronautical Development Establishment of the Defence Research and Development Organisation (DRDO) as a scientist. He made significant contribution as Project Director to develop India's first indigenous Satellite Launch Vehicle (SLV-III) which successfully injected the Rohini satellite in the near earth orbit in July 1980 and made India an exclusive member of Space Club. As Chief Executive of Integrated Guided Missile Development Programme (IGMDP), he also played major part in developing many missiles of India including Agni and Prithvi. He was the Chief Scientific Adviser to Defence Minister and Secretary, Department of Defence Research & Development from July 1992 to December 1999. Pokhran-II nuclear tests were conducted during this tenure, led by him. During this phase he, as Chairman of the Technology Information, Forecasting and Assessment Council (TIFAC), also got involved with the creation of Technology Vision 2020 and the India Millennium Missions (IMM 2020). In November 1999, Dr. Kalam was appointed as Principal Scientific Adviser to the Government of India.

One of India's most accomplished scientists, Dr. Kalam was awarded the Padma Bhushan in 1981, Padma Vibhushan in 1990 and Bharat Ratna - the highest civilian honour - in 1997.

In addition to all the profiles that Dr Kalam held, he authored numerous influential and inspirational books. Amongst all his books-"Wings of Fire", "India 2020 - A Vision for the New Millennium", "My journey" and "Ignited Minds - Unleashing the power within India" have become household names in India and among the Indian nationals abroad. In his book" INDIA 2020 - A Vision for the New Millennium", he dreamt of making India a technological superpower. Technological strengths are the key to creating more productive employment in an increasingly competitive market place and to continually upgrade human skills. Without a pervasive use of technologies, we cannot achieve overall development of our people in the years to come. Technology is important as well in combating the dangers posed by existing and newer forms of diseases.

Dr. Kalam engaged the youth by reaching out to them through lectures and public interactions. One of his pet themes was PURA or the "Provision of Urban Amenities in Rural Areas" which proposes that urban infrastructure and services be provided in rural hubs to create economic opportunities outside of cities. He called for "effective policy alignments" in favour of rural sector to create new markets and generate employment.

"Without your involvement you can't succeed. With your involvement you can't fail". In the USI national security lecture delivered in 1996 he told that a developed India should be able to take care of its strategic interests through its internal strength and its ability to adjust itself to the new realities. For this it will need the strength of its healthy, educated and prosperous people, the strength of its economy, as well as strength to protect its strategic interests of the day and in the long term. The sad demise of Dr. Kalam is an irreparable loss to this nation and the nation has lost a real "Bharat Ratna".

May his divine soul rest in peace.



Our New President



CMA Pramodkumar Vithaldasji Bhattad, born in 1957, a fellow member of the Institute of Cost Accountants of India has been unanimously elected as the President of the Institute for the year 2015-16.

He had a very bright academic career. A Science Graduate with Post Graduation in Economics, Diploma in Management, First rank holder in Bachelor in General Law and fourth rank holder in LLB.

At professional front, he started his career from private sector in 1977 and joined Western Coalfields Ltd., a subsidiary of Coal India Limited in 1980. Presently he is General Manager (Finance) of Western Coalfields Limited, Nagpur.

CMA Bhattad was associated with Nagpur Chapter of Cost Accountants since student's day and he was representing as student member on the managing committee of the Nagpur

Chapter, actively participated for the development of Nagpur Chapter and rose to the level of the Chairman in 2001.

CMA Bhattad was elected to the Western India Regional Council in 2001 and was Chairman of WIRC in 2005-06. He was elected to Central Council for the term 2011-15 from Western Region and chaired various committees viz. Region & Chapter Co-ordination Committee, Member in Industries & Placement Committee etc. CMA Bhattad served the Institute as Vice-President during 2014-15.

CMA PV Bhattad has been representing the Institute on the Committee on Governmental and Public Sector Enterprises Accounting of South Asian Federation of Accountants (SAFA) and also on the Public Sector Financial Management Committee of Confederation of Asian and Pacific Accountants (CAPA). He has also represented the Institute in the meetings of International Valuation Standards Council (IVSC).

Our New Vice President



CMA Manas Kumar Thakur, born in 1961, a fellow member of the Institute of Cost Accountants of India has been unanimously elected as the Vice President of the Institute for the year 2015-16.

Since childhood day's his mind was application oriented, thus, he found keen interest both in mathematics as well as in playing football. An academican with more than 25 years of teaching experience he has authored several books on Valuation Management, Operations Management, Cost Audit, Law & Audit, Cost & Management etc. He has published several articles in different reputed journals and offered his professional acumen in different professional institutes including organizations controlled by the Government of India.

CMA Manas Kumar Thakur was a Regional Council Member during 2004 -2011 and became the Chairman of EIRC in 2009-2010. He was elected to the Central Council of the

Institute from Eastern Region for the period 2011-2015 and chaired various committees especially the Research, Innovation & Journal Committee and Indirect Taxation Committee with remarkable achievements.

He is the member of different Chambers of Commerce like ASSOCHAM, CII, Bharat Chamber of Commerce, Indian Chamber of Commerce and also in the Advisory member of CDR of SBI. He is also the Partner of Thakur & Co (Cost Accountants).

Greetings!

A business process is a collection of activities designed to produce a specific output for a particular customer or market. Business process modelling (BPM) is the activity of representing processes of an enterprise, which analyses and improves the current process. It is an important instrument for documenting business operations, facilitating communication between relevant stakeholders and automation as well as execution purposes. Additionally, process models enable process change decisions to address cost, compliance and efficiency issues.

Business process modelling (BPM) helps organizations in the following ways:

- To become more process-oriented
- To maintain consistency across processes in line with the overall strategy of the organization
- To optimize business processes through Process Change Management
- To identify bottlenecks and inefficiencies in the processes and thus improving them
- To improve operational efficiency
- To gain competitive advantage

Business process management:

Business Process Management (BPM) is concerned with managing change to improve business processes. BPM is a management approach used for describing, controlling, modeling, and optimizing business processes. Business Process Management builds a bridge between various business processes and forms the basis for organizational and information-technological initiatives aiming at

improving the value-added chain within companies and between companies and their suppliers.

BPM subsumes Supply Chain Management (SCM), Customer Relationship Management (CRM), Enterprise Resource Planning (ERP) and Business Intelligence (BI).

Business Process Management (BPM) consists of different steps:

Design – Preparation of an appropriate and efficient theoretical design; identification of existing processes; design of to-be processes

Modelling – Introduction of variants to the theoretical process design to determine how different circumstances may affect the process

Execution – Actual execution of a process with a combination of automated activities and human intervention

Monitoring – Definition and monitoring of control parameters; tracking of processes; identification and verification of improvements

Optimization – Optimization of processes based on process performance information that was retrieved from prior BPM phases

Improving performance using Business process models:

Business Process modelling helps to remove factors that negatively affect performance and to allocate resources adequately for value-adding activities in the following ways:

Value chain:

It is the sequence of business functions in which utility is added to

the products or services of the firm. Through proper analysis of each segment of the value chain, customer value is enhanced. No-value creating activities are eliminated.

Process mapping

To develop a service, it is essential to draw on the knowledge of business processes; this knowledge must form the basis of analysis, designing, testing, evaluation and launch of new business logic and information systems. Effective mapping projects have more chance of success and are more likely to achieve good results.

Process piloting

The target process should be tested under limited, well-supported conditions before its widespread implementation. Process modeling helps to judge the feasibility, defects, and areas for development in the process.

Implementation of process

Process implementation involves developing the competences of the people involved in carrying out the process, and adapting the necessary systems to the process. Good BPM helps to develop the essential environment so that process can be implemented smoothly.

This issue presents a good number of articles on the cover story theme 'Business Process Modelling' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

PRESIDENT'S COMMUNIQUE



“THE INSTITUTE IS READY TO SUPPORT THE GOVERNMENT INITIATIVES”

**CMA Pramodkumar Vithaldasji Bhattad
President,
The Institute of Cost Accountants of India**

The keys to patience are acceptance and faith. Accept things as they are, and look realistically at the world around you. Have faith in yourself and in the direction you have chosen. - Ralph Marston

My Dear Professional Colleagues,

Namaskaar.

I take this opportunity to convey my best wishes to the members of the profession for their support in electing me to the Council of the Institute for the second term and as President of the Institute. I am thankful all of my council colleagues for unanimously electing me as the President and CMA Manas Kumar Thakur as Vice-President of the Institute for the year 2015-16. This is a huge responsibility and I seek your support to serve my mother Institution and CMA profession. I am grateful to all of you for showing full confidence and faith in me to carry out this all important assignment. I am sure that together we can take the Institute and CMA Profession to the next level of success.

I would like to express my gratitude to the outgoing President CMA Dr. A.S. Durga Prasad for his visionary leadership and agenda for the growth of the Institute. I wish to continue to work on the same agenda with renewed vigor and enthusiasm. I firmly believe that we are ready to support the Government in its initiatives such as Make in India, ease of doing business, smart cities, infrastructure growth, agricultural reforms and Swatch Bharat etc. I am fully aware that in order to accomplish this task we have to constantly enhance our competencies and skill sets beyond the conventional cost accounting.

I am pleased to inform you that in the first meeting with Secretary (MCA), she appreciated the contribution of CMA profession in the growth of economy. She has a lot of expectations from the members of the Institute in the area of Socio-economic cost benefit analysis. It can be applied to both Public & private investments, since the Government plays a significant role in the economic development and private investments are also approved by various Governmental agencies. The prime focus of this analysis should be to determine economic benefits of such projects and their impact on the livelihood & benefits to the society. We will have to develop our competencies in this area by applying the skill sets of our professionals. Another area which was mentioned by the Secretary is Environmental Sustainability which is a global concern and we have to support organisations in sustainability initiatives through cost-benefit analysis.

I am pleased to note that CMA Professionals are developing competencies to contribute in improving the economy and general governance system of the country. Since the role of management accounting has shifted its focus to broader disciplines, it is imperative for the professionals to fully understand the Business model of emerging industries. This will enable them to support

PRESIDENT'S COMMUNIQUE

Developing Management Accounting models for businesses would help provide essential services at affordable cost, improve governance system, provide quality services and ensure effectiveness of resource utilization to match global standards

those industries in developing management accounting models in order to provide essential services at affordable cost and also to improve the governance system for ensuring the quality of services and effectiveness of resource utilization to match with the global standards. Such emerging areas which provide opportunities to professional members are Infrastructure, Engineering, Transport, Urban Planning, Smart cities, Waste Management and Environmental sustainability.

I am very pleased to inform you that buoyant by the success of the first edition, the Institute is planning to organize the second "Corporate Cost Management Week" across the country for our Members and Industry. The objective of this initiative is to spread the message that Cost Management is essential in order to maintain cost competitiveness in this fiercely competing global market.

The Institute has been involved in providing inputs on cost and management accounting to the Government in various sectors in the past few years. Last year the Institute initiated capacity building exercise in the areas of Health Care, Education and SMEs. I plan to take up more such areas this year. To continue our focus on capacity building of the members we have already issued a number of Technical Guidance Notes for the members and we are ready with some more technical papers in the areas like Internal Audit and Risk Management.

I am happy to note that the previous Council took many initiatives with regard to visibility and branding of the Institute and profession. The following broad fundamentals of the media strategy were addressed by the previous Council, which has set the tone for us to take it forward.

- a. Build the brand image of the Institute as a world-class professional body with its members trusted for vision, leadership and integrity
- b. Build the image of the Institute that leads the agenda for change by positively influencing intellectually with governments, regulators, standard-setters and other stakeholders.
- c. Build the image of the Institute that ensures

messaging that also leads to a roadmap for the Institute's development for the future.

I wish to inform you that the Council of the Institute is in process of preparing a Road Map for the term 2015-19 in order to move ahead for development of the Institute, CMA Profession, Members and Students.

I will be taking up the following important issues / initiatives in the time to come:

- Enhance the opportunities for CMA professionals in the Banking and Insurance sector
- Look up to improving the knowledge base of the members by introducing robust post qualification courses
- Assure an effective and significant role of CMA professionals in GST and other important statutes
- Undertaking research studies to propagate the Cost Consciousness and Cost Culture amongst the Government departments.
- Encourage tie ups with chambers of commerce and industry to move along with them
- Improvement in the quality of professional services to set a benchmark.

I take this opportunity to urge all of you to gear up for a successful journey of the Cost and Management Accounting profession and growth of the Institute. Friends, we have to grab the opportunities and with our professional approach deliver the best possible services.

I wish prosperity and happiness to members, students and their family on the occasion of Independence Day, Onam and Raksha Bandhan.

With warm regards,



(CMA P.V. Bhattad)
1st August 2015

COUNCIL COMMITTEES

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<h3>Other Committees</h3>	
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<p>6. Research, Journal and IT Committee</p> <p>Quorum: 3 Chairman: 1. CMA Avijit Goswami Members 2. CMA Dr. I. Ashok 3. CMA Sanjay Gupta 4. CMA Dr. P.V.S. Jagan Mohan Rao 5. CMA H. Padmanabhan Secretary (Research & Journal) CMA Dr. Debaprosanna Nandy, Director (Research & Journal) & Editor Secretary (IT) Ms Anita Singh, Additional Director (IT)</p>	<p>7. Professional Development Committee</p> <p>Quorum: 3 Chairman: 1.CMA Vijender Sharma Members 2.CMA A.B. Nawal 3.CMA Niranjan Mishra 4.CMA Papa Rao Sunkara 5. CMA Balwinder Singh 6. CMA R. Asokan, Advisor (Cost) (subject to confirmation) Secretary CMA J.K. Budhiraja, Senior Director (Professional Development)</p>

COUNCIL COMMITTEES

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<p>10. Regional Council & Chapters Coordination Committee</p> <p>Quorum :3 Chairman: 1. CMA Niranjan Mishra Members 2. CMA Dr. P.V.S. Jagan Mohan Rao 3. CMA Dr. I. Ashok 4. CMA A. B. Nawal 5. CMA H. Padmanabhan Secretary CMA Arnab Chakraborty, Senior Director (Administration)</p>	<p>11. WTO, International Affairs and Sustainability Committee</p> <p>Quorum :3 Chairman: 1. CMA Sanjay Gupta Members 2. CMA Avijit Goswami 3. CMA P. Raju Iyer 4. CMA Biswarup Basu 5. CMA Dr. P.V.S. Jagan Mohan Rao Secretary CMA S. C. Gupta, Director (International Affairs)</p>
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<p>14. Corporate Laws, Governance & Corporate Sustainability Committee</p> <p>Quorum:3 Chairman: 1. CMA Dr. P.V.S. Jagan Mohan Rao Members 2. CMA Biswarup Basu 3. CMA Balwinder Singh 4. CMA Papa Rao Sunkara 5. CMA A.B. Nawal Secretary CMA Dibbendu Roy, Joint Director (Professional Development)</p>	<p>15. Members' Facilities & Services Committee</p> <p>Quorum:3 Chairman: 1. CMA Biswarup Basu Members 2. CMA A.B. Nawal 3. CMA Sanjay Gupta 4. CMA Papa Rao Sunkara 5. CMA Niranjan Mishra 6. CMA P. Raju Iyer Secretary CMA Arup S. Bagchi, Director (Membership)</p>

COUNCIL COMMITTEES

Other Committees

16. Members in Service - Training & Placement Committee

Quorum:3

Chairman: 1. CMA H. Padmanabhan

Members

2. CMA Dr. P.V.S. Jagan Mohan Rao
3. CMA A.B. Nawal
4. CMA Avijit Goswami
5. CMA Dr. I. Ashok
6. CMA Vijender Sharma

Secretary

CMA L. Gurumurthy, Senior Director (Training & Placement)

18. Infrastructure Committee

Quorum:3

Chairman: 1. CMA P.V. Bhattad, President

Members

2. CMA Biswarup Basu
3. CMA Vijender Sharma
4. CMA Dr. P.V.S. Jagan Mohan Rao
5. Government Nominee

Secretary

CMA Kushal Sengupta, Joint Director (Finance)

19. Cost Accounting Standards Board

Quorum:8

Chairman: 1. CMA Balwinder Singh

Members

2. CMA Vijender Sharma
3. CMA A.B. Nawal
4. CMA Niranjana Mishra
5. CMA P. Raju Iyer
6. CMA B.M. Sharma
7. CMA R. Asokan, Advisor (Cost) (subject to confirmation)
8. CMA K. Narasimha Murthy
9. CMA Dr. D. Jagannathan
10. CMA Dr. Asish K. Bhattacharya
11. Dr. Sailesh Gandhi
12. CMA S.A. Murali Prasad
13. CA S.C. Vasudeva
14. CMA Asim K. Mukhopadhyay
15. CMA Murali Ganesan
16. Nominee of MCA
17. Nominee of CBEC
18. Nominee of CBDT
19. Nominee of ICAI
20. Nominee of ICSI
21. Nominee of SEBI
22. Nominee of CCI
23. Nominee of TRAI
24. Nominee of PNGRB
25. Nominee of CII
26. Nominee of FICCI
27. Nominee of ASSOCHAM
28. Nominee of PHDCCI

Secretary

CMA J.K. Budhiraja, Sr Director (PD)

17. Committee on Banking & Insurance

Quorum:3

Chairman: 1. CMA Amit Anand Apte

Members

2. CMA H. Padmanabhan
3. CMA Balwinder Singh
4. CMA Sanjay Gupta
5. CMA Avijit Goswami
6. CMA P. Raju Iyer
7. CMA Dr. J.D. Sharma (Co-opted)
8. NIBM (Director) (Co-opted)
9. NIA (Director) (Co-opted)
10. IRDA (Director) (Co-opted)

Secretary

Shri Pradipta Ganguly, Deputy Director (Research & Journal)

20. Disciplinary Committee U/s 21D

Quorum: 2

Chairman: 1. CMA P. V. Bhattad,

Members

2. CMA Dr. P. V.S. Jagan Mohan Rao,
3. Govt. Nominee

Secretary

CMA Kaushik Banerjee, Secretary (Acting)

Office bearers of Regional Councils for the year 2015-2016

WIRC	
Name	Position
CMA Debasish Mitra	Chairman
CMA Pradip H. Desai	Vice Chairman
CMA Shriram N. Mahankaliwar	Secretary
CMA Laxman D. Pawar	Treasurer
SIRC	
Name	Position
CMA K Sanyasi Rao	Chairman
CMA V. Murali	Vice Chairman
CMA Dr. A. Mayil Murugan	Secretary
CMA Suresh R. Gunjalli	Treasurer
EIRC	
Name	Position
CMA Shiba Prasad Padhi	Chairman
CMA Bibekananda Mukhopadhyay	Vice Chairman
CMA Pranab Kumar Chakrabarty	Secretary
CMA Ashis Banerjee	Treasurer

President and Vice-President are Permanent Invitees to all the Committees except Disciplinary Committees.

ICAI-CMA SNAPSHOTS



The newly elected President and Vice President of the Institute with the Council Members on July 22, 2015 at the Headquarters of the Institute, Kolkata



CMA P V Bhattad, the President of the Institute being felicitated by the Immediate Past President, CMA Dr A S Durga Prasad at the Institute Headquarters on July 22, 2015 in Kolkata



CMA Manas Kumar Thakur, Vice President of the Institute being felicitated by CMA P V Bhattad, the President of the Institute on July 22, 2015 at the Institute Headquarters in Kolkata

ICAI-CMA SNAPSHOTS



CMA P V Bhattad, the President of the Institute being felicitated by the Council Members of the Institute on July 22, 2015 at his office in Kolkata



CMA Manas Kumar Thakur, Vice President of the Institute being felicitated by the Council Members and CMA Kaushik Banerjee, Secretary (Acting) of the Institute at his office in Kolkata



The Council Members (2011-2015) on July 21, 2015 at the Institute Headquarters, Kolkata

ICAI-CMA SNAPSHOTS



From left CMA Anjana Chadha, Chairperson, Lucknow Chapter, Shri R K Sharan, Regional Director, PHD Chamber of Commerce & Industry, CMA Dr AS Durga Prasad, Immediate Past President, CMA Kunal Banerjee, CMA Rakesh Singh, CMA Chandra Wadhwa, Past Presidents of the Institute, Shri K L Prabhakar, Past Chairman, Lucknow Chapter, CMA J K Budhiraja, Sr. Director, Professional Development, CMA SK Mohan, Past Chairman, Lucknow Chapter of the Institute, at the seminar on 'Decoding the Amended Companies (Cost Record & Audit) Rules, 2014' held in association with PHD Chamber of Commerce & Industry on June 28, 2015 at Lucknow



From the left CMA Shyamal Kr Bhattacharya, Treasurer, EIRC, CMA S Natarajan, Advisor, TDEC, Chennai - ICAI, Shri Rajat Jain, ICMA Cadre, CMA Nisha Dewan, Joint Secretary, CMA Bibekananda Mukhopadhyay, Vice Chairman, EIRC of the Institute at the 'Session on Healthcare Cost Management' organized by Cost & Management Accounting Committee on July 3, 2015 at Kolkata



From left CMA S Natarajan, Advisor, TDEC Chennai - ICAI, CMA Ashish Bhavsar, Vice Chairman of the chapter, CMA Manish Analkat, Secretary, of the chapter, CMA Nisha Dewan, Joint Secretary at the 'Session on Healthcare Cost Management' organized by Cost & Management Accounting Committee on July 5 2015 at Ahmedabad



From left CMA DLS Sresthi, Council Member of the Institute, CMA D. Surya Prakasam, Vice Chairman, Hyderabad Chapter, CMA S Natarajan, Advisor, TDEC Chennai - ICAI, CMA K.V.N. Lavanya, Secretary, Hyderabad Chapter at the 'Session on Healthcare Cost Management' organized by Cost & Management Accounting Committee on July 10, 2015 at Hyderabad



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
 Statutory body under an Act of Parliament

Felicitation of Shri Hansraj Gangaram Ahir, Minister of State (C & F), Government of India

The Institute organized a felicitation programme to felicitate Hon'ble minister Shri Hansraj Gangaram Ahir, Minister of State (C & F), Government of India on July 6, 2015 at EIRC Auditorium of the Institute. Shri Hansraj Gangaram Ahir, Minister of State (C & F), Government of India was felicitated by CMA Manas Kumar Thakur, Central Council Member & Chairman, Research, Innovation & Journal Committee. Shri Ahir deliberated that the Ministry is



ready to work jointly for in-depth research studies in association with the Institute to make the industry cost competitive and to control cost in order to regulate chemical and fertilizer price. He also said deep knowledge and expertise of the Cost Accountants are required to be utilized in this perspective. He also invited the members of the Institute to be a part of

the various nation building movements. Shri E.A. Subramanian, Managing Director, Bengal Chemicals & Pharmaceuticals Ltd also shared in brief his insight on Chemical & Fertilizers Industries in India. Knowledge Study on 'An Overview of Chemical & Fertilizer Industry in India' by the Directorate of Research & Journal of the Institute got released in the programme. The welcome address was delivered by CMA Manas Kumar Thakur, Central Council Member & Chairman, Research, Innovation & Journal Committee of the Institute. The seminar ended with the summing up and valedictory address by CMA Bibekananda Mukhopadhyay, Secretary, EIRC of the Institute.

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

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PAPERS INVITED

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

Issue Month	Themes	Subtopics
September 2015	Securities Markets in India & Economic Growth	<ul style="list-style-type: none">• Indian Financial system• Return, Risk & Performance Analysis• Regulation and Stock exchanges• Government support and Investor awareness• Public fund and its protection• Emerging areas• Role of CMAs
October 2015	Digital Revolution in India	<ul style="list-style-type: none">• Digital Infrastructure as a Utility to Every Citizen• Digital Empowerment• Business Process Re-engineering using IT• National e-governance plan• Nine Pillars of Digital India• eKranti - Electronic Delivery of Services• Digital Innovation & e-portals
November 2015	Cost Management Strategy for Economic Sustainability	<ul style="list-style-type: none">• Tourism & Hospitality industry• MSME sector• Telecom industry• Healthcare sector• Education sector• Insurance sector• Transport sector
December 2015	Green Accounting and Sustainability	<ul style="list-style-type: none">• Welfare measurement and reporting practices• Health, Safety and Environmental (HSE) Reporting• Environmental accounting (EA) and auditing• Green Accounting for Corporate Sustainability• Current practice and future prospects of EA• Green issues in developing countries• Green Accounting and Role of CMAs

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.



Directorate of Research & Journal

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When Countries Fail: What it means for Greece and the rest of the World



Dr. Saibal Kar
Centre for Studies in Social Sciences,
Calcutta and IZA, Bonn




The trouble in Greece would easily remind the onlooker of a famous poem by the Bengali poet and essayist and the ICS officer of British India, Annada Shankar Roy. A bitter opponent of the partition of India in 1947,

he wrote on the narrative of a child that how could one be angry with a little girl if she breaks a bottle of hair oil by mistake, when one should instead be really worried that perfectly grown up intelligent men are so intent on breaking up and partitioning a whole good country! While that did not stop the country from being partitioned, because surely the gains to Mr. Nehru and

Mr. Jinnah were much more than the loss to a few Annada Shankar Roy of this country, one could at least start imaging the country as a palpable entity. Countries are no abstract concepts – they are just like a living or a non-living object. They might break and as we see now, they may also fail.

The economic depression in Greece, which started in 2009, finally became way too serious for the European Union and the world over to consider it as an independent event and an internal matter of one country. It was on 30th June 2015 that Greece became the first developed country to default on the repayment of an IMF loan. Before delving into how a one-off economic crisis such as this may trigger something lot bigger in magnitude and spread, let us first review briefly as to what led to the crisis. For Greece, it seems to have started with the introduction of Euro as the common currency of Euro zone. The adoption of common currency was typically based on the average exchange rates prevailing in all the initial member states, and not surprisingly weighed heavily in favour of the country that was economically and financially most stable at the time of the adoption of

Euro. The exchange rate of Euro vis-à-vis US Dollar and other strong currencies resembled Deutsch Mark of the immediate pre-unification regime to a large extent, closely followed by the Franc. For countries like Greece, the adoption and conversion to Euro meant a revaluation of their own currency. This creates an exactly opposite effect to that of devaluation of currency, which in other words means that the currency became dearer relative to other currencies. The possible way out is devaluing the currency vis-à-vis other currencies. Without such a policy, the immediate impact of this revaluation of currency is the rise in price of all goods that are potentially exportable. It lowers the demand for the country's exports as a result. At the same time, the imports become relatively cheaper, so that import demand rises. These taken together might directly lead to a fall in the external balance of the country, i.e., the income from foreign sale falling short of expenditure on foreign purchases. In an accounting sense, the deficit cannot be left unattended. The overall balance of payments for a country comprises of the current account and the capital accounts. The current account deals with transaction of goods and services, mainly the exports and imports of the nature we just discussed. The capital account, as the complementary set deals with movement of capital between countries. When the current account falls short, meaning runs a deficit, the capital account must have a surplus by the same amount to balance the overall balance of payments. This surplus may be automatic, such that the country has received more money from abroad while sending out less and somehow by an accident of nature the deficit in the current account is exactly balanced by the surplus in the capital account. Like most other things in the global economics and politics strongly rooted in predictions, anticipations, strategies, opportunism, need for such adjustments are also seen well ahead of time. Subsequently, fortunate accidents of nature do not have to be relied upon all that much, and instead the country can strategically borrow during deficits and lend out during surpluses. Both of these transactions are made with one or more foreign countries. These are fairly well-known to accountants from all corners. In case of deficits leading to external borrowing, it is then easy to understand that unless the economy turns around significantly in the near future and manages to earn foreign exchange sufficiently, the current account gap burgeons and more borrowing may be necessary. This may be the point of entry to a long-run crisis. We will see if this is also true for Greece.



In Greece, the adoption and conversion to Euro means a revaluation of their own currency which makes the currency dearer relative to other currencies. As a result import demand rises and country's export gets lowered, directly leading to a fall in the country's external balance.

In the immediate aftermath of forming the Euro, the trade volume increased for other member countries, but the already high labour cost in Greece accentuated further on account of the revaluation of currency and made its exports less competitive than countries like Germany. Consequently, the current account deficit rose substantially. To meet its external deficit, the country started borrowing from other countries in the Euro zone, such as Germany. During the recent global recession of 2007-2009, the flow of such external funds both in the form of loans and as capital investments however, began to shrivel. As private investment shrunk (and Greece could not depreciate its currency unilaterally being in the European Union and having adopted the Euro), Greece tried to deflate its labour cost by about 20%. This resulted in a fall in GDP, increase in 'voluntary' unemployment and a significant rise in debt to GDP ratio. It is to be noted at this point that a fall in wage or labor cost always raises employment, because the companies now find it cheaper to hire workers. However, such will be true only if the labor is still willing to work at a lower wage. For European countries, the unemployment benefit is usually so generous that it dissuades many from working unless the wages are substantially high. So, when a large number of workers sit out voluntarily, the onus is on the government to keep providing unemployment benefits as part of the labor contract entered upon without any tangible product. This probably explains the higher unemployment rate for Greece. Overall, when the negative shock hit Greece, two of its major revenue generating activities – tourism and shipping

took a downturn. This should be deemed as another point of entry into the crisis.

How? Well, if the state is not producing enough, not collecting enough tax revenue from direct and indirect sources and yet has a high amount of spending to endure on a never-ending basis, including unemployment benefits, it should be considered as a crisis. It is funny enough that many governments do not consider this as crisis, because they are under the impression that the government can always borrow from internal sources and tide over the deficit in the short run. Afterwards, things will evidently get rosier and would help the government pay back its loans to the people and it would be business as usual from that point. But, what if the economy does not turn around as quickly as the pundits had imagined? What if the global slump continues? Most household members and head of the household will spend sleepless nights if similar situations confront a family; but governments can be fearless. They can lie for the duration of their elected term and then pass the trouble to the next government. This is hardly uncommon, and is also the case with Greece – otherwise the oldest democracy. After a point, many economists globally were continuously pointing out the fact that Greece has borrowed 125% of its GDP! It has reached the stage where successful settlement of debts would either require discovery of a diamond mine in the whitish hills of Greece or something unexpected and unusual to help out in the situation. None of these happened.

The debt to GDP level in Greece was expected to worsen to 198% in 2012 as estimated by the EU. Greece was even termed as the most corrupt country in EU by Transparency International, with a score of 36 out of 100 in 2012. Banks like Goldman Sachs were employed to hide Greece's debt. Most of the credits given to European government were circumvented as 'swaps', which were not accounted for in the faulty statistics. As the deficit piled up, so did the debt to GDP ratio and Greece lost its credibility in private capital lending market. In this situation, on 2nd May 2010, the European Commission, European Central Bank (ECB) and International Monetary Fund (IMF) (Troika), loaned out 110 billion Euros to rescue Greece from sovereign default and secured its financial requirements from May 2010 to June 2013. This loan did not come free of cost. Certain austerity measures were put on the working of the Greek government, along with some structural reforms and privatization of government assets. In 2011, the recession as well as delayed implementation of the austerity measures led Greece to the second bailout loan

of 130 billion Euros. All the private creditors with Greek government bonds were compelled to accept extended maturities, lower interest rate and a 53.5% loss in face value of the bond.

In December 2012, the same set of events led to the third set of bailout programme and Troika agreed on the last round of debt relief measures, while IMF extended its support with another 8.2 billion Euro loan to be provided during the period of January 2015 to March 2016. With this support the Greek economy achieved a structural surplus both in 2013 and 2014 with reduced unemployment rate and positive economic growth in 2014. As they gained some confidence among the investors, they began to sale bonds to private creditors.

This optimistic phase did not last long and was soon replaced by a recession in fourth quarter of 2014. The parliamentary election in December led to the formation of Syria-led government who refused to comply with the current bailout structural reforms. Due to growing political unrest, Troika suspended the entire remaining fund until further negotiation. This led to low cash flow in the economy and a fall in stock prices at Athens Stock Exchange. After this, the EU gave a four month extension of the bailout programme to help Greece, but the renegotiation deal was pending by May 2015.

Before moving on to the negotiations and political fiasco and finally the referendum, let us see how much Greece owes its lenders. A major share of the bailout fund was borne by Germany amounting to 56 billion Euro, whereas the cumulative lending by other Euro zone members was 34 billion euro. IMF provided 34 billion euro. Italy, France, Spain together provided 104 billion euro as Greek's bailout plan. Greece owes its own banks a sum of 14.7 billion euro approximately. To foreign creditors, investors and foreign banks Greece owes about 61.7 billion euro. Total debt of Greece stood at 360 billion euro in 2012. As Greece went bankrupt on 30th June 2015, the debt was reduced to \$315 billion. But, the country had certainly failed economically.

In the month of June 2015, Greece tried to renegotiate the terms of the bailout. The opposition of the Tsipras-led government referred to the reforms as unconstitutional and asked the parliament to reconsider. On 28th June the referendum was approved by the Greek parliament, and ECB continued its funding to maintain liquidity in the market. But the people feared that the worst was not yet over. They started withdrawing money from the bank and ATM, thus creating a situation of bank run.

The major dilemma was whether Greece will remain

or leave Euro zone? It was day-by-day becoming difficult for Greece to make all the payments in Euro. Moreover how was Greece supposed to repay this mammoth debt it has taken from the whole world? At Brussels, German chancellor, Angela Merkel, and French president, François Hollande had already presented Tsipras with an ultimatum on the repayment of the debt. Thus the answer to this came from 17 hours of marathon meeting among the Eurozone leaders on 13th July 2015. Donald Tusk, the head of the European Union, announced that the 19 member nations have unanimously reached an agreement on a new programme for Greece under the eurozone bailout fund, the European Stability Mechanism. In addition, he mentioned that Athens signed up for “serious reforms”. As part of this programme, Greece had to surrender on fiscal sovereignty along with other initiatives. These apparently draconian measures were necessary to avoid another financial collapse and ejection of the country from the single currency bloc.

The key points of this agreement were:

- ✳ *Transfer of Greek assets:* Up to 50 billion euro worth of Greek assets will be transferred to a new fund which will contribute to the recapitalisation of Greek banks. This will be based in Athens and not Luxembourg as Angela Merkel demanded. The location was a major point in the overnight summit that discussed the condition of Greece and the rest of Europe with utmost care.

Moreover Tsipras pointed out that transferring asset meant “liquidity asphyxiation” for Greece.

- ✳ *Immediate legislation:* Agreed measures, as discussed in the summit are to be brought about in the form of legislation from the Greek parliament. Some of these include channelization of VAT and mitigate tax evasion, meet bank recovery and resolution directive, broadening of tax base to increase government revenue, reforming pension system, etc. Moreover Greece ELSTAT, the office for statistics, will be made autonomous- legally and politically, so that the data can be relied upon to make further adjustments as and when required.


- ✳ *Restructuring of Debt:* Greece has agreed on talks on debt restructuring. Eurozone members have also considered on extending maturity on Greek loans.

- ✳ *Immediate finance:* Greece needs to pay more than 7 billion euro to the European Central Bank by July and August 2015 before any bailout cash can be handed over. This is necessary to avoid the collapse of the Greek banking system.

- ✳ *Reforming Greek oligarchy:* Radical reforms were to be implemented to ensure that Greek oligarchy makes a fair contribution in this situation.

The Greek prime minister said, “The measures are





.....the 19 member nations unanimously reached an agreement on a new programme for Greece under the eurozone bailout fund, necessary to avoid another financial collapse and ejection of the country from the single currency bloc

recessionary, but we hope that putting Grexit to bed means inward investment can begin to flow, negating them.” He was proved right as the reform measures got immediate positive response from the investors, as the stock markets around the world reacted supportively. While it is not prudent to read too much into the behaviour of stock markets especially as reactions to some global event, yet it still provides an indication of investor confidence and whether a country would find its financial conditions credible to attract investments in future. The German Dax went up by 1.4% and FTSE100 was up by almost 1%. Even the Asian and Australian markets went up following this news. The stock market in Tokyo improved by 1.50%, in Sydney it rose by 0.64%, in Shanghai by 2.28% and that in Hong Kong by 0.22%. It does imply that whatever happens to Greece, it is no longer going to remain as an ignominious affair of a far-off Mediterranean country – it could bring the world financial system down with it to the dust.

So, the Greek crisis may send ripples across the global financial system, which could affect US and Asia as well. However, Russians can gain a strong foothold in the Balkans due to this crisis. This deal could withhold Grexit temporarily, but whether government in Athens can muster the political support it needs to deliver on its promises is something yet to be seen. In between, however, the BRICS bank spokesperson on behalf of Russia has suggested that Greece may approach the BRICS bank for more loans if they buy the bank shares.

He nonetheless suggested that loans or not, Greece must get back to the fundamentals of protecting the economy. The reasons could also be treated as selfish motives. If the loans are not paid back with due alacrity, many other debtors will remain unpaid. It is easy to see that the chain reaction of this default can be pervasive. From the experiences of the previous economic and financial crisis, many of us now clearly see that investments and returns are not limited to the boundaries of one country any longer. It is quite possible that the share one buys of a multinational oil company or a consumer goods selling company in India help investments in Africa and Europe. Any crisis in these countries will affect the company’s payback options and capacities and will lead to loss of invested capital for investors in India. This is just an example. There is no evidence whether it is so, albeit the previous crisis did lay open the case where the shares of Reliance were found to be held by people in Bahamas. This was not through direct investments by those people who held the shares, but was part of various financial innovations, mortgage and loans developed in the last decade aided by the ICT revolution. So, it should not hurt to be prudent with one’s investments now.

The referendum, which for many was a masterstroke by the left-oriented Tsipras to pledge the support of fellow Europeans in an uphill task, voted in favor of no further conditionality and hardships for its people. At this juncture it is politically and economically infeasible for the eurozone countries to completely throw Greece out of the picture and reconstitute the entire system. The account presented above should loudly testify that if the bailout does not work, then a sum of 500 billion euros of loans and supports amassed from the taxpayers and investors’ money globally, will drown in the Mediterranean along with Greece. The room for more talks has to open naturally, although as of now, the main suppliers of the Greek loans namely Greece and France are not showing any further lenience with the push-over plan that the referendum sought to achieve. Surely, democracy cannot be blackmailed by conditionality of lenders, but a country does not have to be identified with Shylock the usurer in the Merchant of Venice to ask its money back. Greece has a responsibility, and others too. We hope to see in a short while if these are manifested with the best of economic, political and social will in Europe and elsewhere. **MA**

saibal@cscsscal.org



Workshop on ‘Introducing Community Audit for SHGs’

A Workshop on ‘Introducing Community Audit for SHGs’ had been conducted on July 4, 2015 by the Directorate of Research and Journal at EIRC Auditorium of the Institute wherein the inaugural session, IAS Smt. C.D. Lama, Director & CEO, West Bengal State Rural Livelihoods Mission (WBSRLM) being the Chief Guest briefly deliberated on the role played by her concern for the improvement of SHGs. Smt. Nilanjana Dasgupta, Additional CEO, West Bengal State Rural Livelihoods Mission, Shri Abanibhusan Dwari, Consultant, WBSRLM, Dr. Ashish Kr. Sana, Associate Professor, C.U. were among other dignitaries present in the workshop. Smt. Dasgupta highly acclaimed the Training Manual for Accounting and Auditing of SHGs prepared by the Institute and expressed her hope that this manual would help to build up concrete audit system and ensure



transparency in the SHGs. There were presentation sessions where the MoU between WBSRLM and the Institute, the audit manual for community audit, accounts manual for SHG auditing had been aptly described. Dr. Sana briefly explained the role played by Swarnajayanti Gram Swarogjar Yojana (SGSY) and National Rural Livelihood Mission (NRLM) both of which aim at providing self employment to villagers through the establishment of self help groups

and focus on socio economic impact through women empowerment. All the dignitaries on the dais gave their valuable opinion on setting up a concrete audit procedure for the SHG groups. At the end there was a discussion session in which eminent dignitaries present in the dais cleared all the relevant doubts in a very lucid approach raised by the audience. CMA Manas Kumar Thakur, Central Council Member & Chairman, Research, Innovation and Journal Committee, CMA Bibeknanda Mukhopadhyay, Secretary, EIRC, CMA (Dr.) Debaprosanna Nandy, Director, Research and Journal were among the members present in the session.

50 Years of Research



CMA Dr P Chattopadhyay
Former Director, Research,
ICAI-CMA, Kolkata

The Birth Pangs

The birth pangs of the concept and applicational dimensions of management accounting are a heart rending story. It was the Anglo-American Council on Productivity that visited and studied the issues concerning enhancement of productivity in the early 1950s that coined the hallowed phrase, 'management accounting', for assisting management in interpreting and assisting in formulating the decisional phenomena. This move also generated an urge in the accounting professions for getting a ring-side seat in the name of assisting management in decision making. It was realized that there were too many bodies with about the same or similar objectives of assisting management. In the USA all the financial accounting and cost accounting bodies were unified. For quite some time, this issue created a rumble in the UK as also in India and the move for unification of all the accountancy-related professions was successfully resisted and in their new incarnations, CIMA and the ICA-CMA are basking in the glory of statutorily recognized bodies with the avowed objectives of assisting management in the decision making processes. It came to be increasingly recognized that as expert bodies, the professions would have to render not only expert service instantly but also to accumulate knowledge and experience in a formalized manner so that experience

Management Accounting in India

as accumulated both within the country and outside could be utilized in deciphering the problems. The lessons from experience and the rationale behind the action-result processes could be stored in the form of knowledge for unfolding the situations as faced and the rationale behind them. Accumulated experience and the wisdom for unfolding the rationale behind the challenge-response processes provided the key to the management accountants in their mission to effectively assist management in breaking the ice, called decision making. In this context, dissection of the decisional phenomena called for assessment of exactly what was required of the management accountant and how his work was supposedly different from the traditional approaches to the issue. All this had to take into view that there are different dimensions of the alternative processes as much as they required a deeper appreciation of the phenomena called decision making, in a combative world of competitors and substitutes. Decision making in the world of turmoil has already been aptly bisected and vivisected with reference to the sophisticated ways of analyzing elements to be branded a science in itself, as it calls for a high degree of competence in fathoming the depths of future riddled with knotty uncertainties. While decision-making is truly considered prerogative of management, the preparatories underline the need for both a clear idea of the alternative choices available and the selection of the one considered most appropriate.

Decisional Phenomena

It is pertinent to quote what W.H. Auden highlighted in his inaugural lecture as the Chair in English Poetry at the University of Oxford, later published under the imposing title 'Making, Knowing and Judging Poetry', by way of quoting from an old issue of Punch, London, now defunct:

Two English Examiners (EE) were having a stroll in the

garden when the first EE loudly quoted Wordsworth: Oh Cuckoo! Shall I call the bird, or but a wandering voice? The second EE replied: State the alternative preferred with reasons for your choice.

In a more serious vein, decision making has been defined by Professor G. L. S. Shackle in his famous book entitled, *Decision, Order and Time*, as 'An individual decides when at any point in time he selects from mutually exclusive alternative courses of action'. The finding of the alternative courses of action entails searching, pinpointing, analyzing and selecting the one that presents the best prospects, considering also the feasibility aspects. The decision not to decide as a matter of deliberate action is also counted as a decision but not when the decision maker only sits over the alternatives. Professional competence and ability ramifies in tracing the alternatives, duly analyzing them on the basis of their relative merits and demerits and presenting them before managers for selection. Environment scanning, scenario planning and response management are essential aspects of such exercises. Professional ability shows up in tracing and analyzing the alternatives so that their cost-benefits show up from the organization's point of view indicating broadly whether to go for it or leave it like that. The management accountant has carved the niche insofar as he appreciates that decision-making implies what Professor Peter F. Drucker underlined as 'making the future to-day'. To-day's decision is tomorrow's action and day-after-tomorrow's assessment of results. Excepting in a marginal area like variance analysis, the decisional phenomena in which a senior manager engages himself, relate to the future much more than the past maybe in the form of variance analysis, though past performance does offer him guidance as to the bumps on the way and how to avoid them. This also underscores the fact that the management accountant does not replace any of the existing professionals; he accepts the challenges offered by

the bumpy business world of the future, the crux being the constancy of change called homoeostasis, meaning no resting on oars, as much as assisting management in the marketplace where profit is supposedly made. In the aforesaid circumstances, management accounting emerged as a discrete discipline seeking to unravel the whole field of choices on the basis of deep analysis of the alternatives available to choose from. All this meant that tracking the opportunities – both clear and not-so-clear – in the form of tasks and responses as conceived, had to be accepted as a continuing responsibility of the management accountant and his acumen has had to face continuing threats from the belligerent marketplace, with the consumer calling the shots and the competitors revelling in an overtly turbid phenomenon. Managerial revolution has at long last been recharged and rejuvenated with the advent of management accountants providing a shield to the cult of managerialism a la James Burnham, against undue exposure of sorts to umpteen competency issues lurking on the horizon.

Standpoints

Management accounting, and with it management accounting research, got a de facto shot in the arm in 1965 with the creation of a separate Committee on Public Undertakings by the Parliament which became functional with throwing up a huge lot of data, an up and coming Bureau of Public Enterprises that published the annual multi-volume report on Central Public Enterprises and the Audit Report (Commercial) by the Comptroller and Auditor-General of India that

initiated a surge in research on different aspects of management and management accounting related to the Central and state government controlled public sector enterprises, the latter under the Accountants General of different states. A very large number of articles, research papers and books based on different issues in the financial and operational sectors of the Public Sector Enterprises appeared both in India and abroad that centred on the operational and financial issues. Incidentally, the Indian Council of Social Science Research assigned the Research Directorate of the ICWA of India – renamed ICA-CMA of India – for preparing a Research Survey on Public Sector Enterprises which was vetted by well-known scholars on the subject and was published in a volume of Research Surveys on various issues related to different subject-areas. Availability of organized, authentic data from the published and unpublished official sources as also a growing interest of managers in effectively freeing the public sector enterprises from the shackles of the virtually distance management, made serious research on various issues with regard to both newly established and nationalized public enterprises, under Industries I (D & R) Act, a highly relevant and rewarding proposition. Management audit, as a logical and natural off-shoot of management and management accounting, came to be aptly defined as a ‘regular and systematic review and appraisal of the factors and forces that contribute to realization of objectives of the organization’. In the public sector context, audit itself got a series of new nomenclatures like propriety audit, efficiency audit, performance audit,

gestation audit, decision audit, technical audit and management audit. These are all in addition to what are known as statutory audit and tax audit as provided for in the Companies Act and the Income Tax Act respectively. On all these issues related to audit, serious research works were published either as books or as research pamphlets. About the latter, reference is invited to the monthly research pamphlets published by Commerce Publications, Bombay, now defunct. The Institute of Public Enterprise, Hyderabad and the one at Allahabad made their mark as sponsors of serious

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research on different issues concerning the functioning of public enterprises including the management accounting problems. Several conferences organized by these Institutes highlighted various structural-functional issues concerning different forms of public sector enterprises, such as the departmental undertakings, public corporations and government companies – both private and public limited companies, with the word ‘private’ dropped from their names in response to continuing criticism against the nomenclature. Both these Institutes functioned under the umbrella of Osmania University of Hyderabad and the University of Allahabad, respectively.

The IPE, Hyderabad has expanded its focus of activity to a number of cognate areas. The five year plans provided a national perspective for the management accounting exercises and the Research Directorate of the Institute took due advantage in taking the national perspectives in the research problems selected for pursuance, in a mix of policy issues concerning both the national economy at large in its various ramifications and the specific industry problems as also the different management accounting techniques for interpreting and better understanding of various current national economic issues. In all these ventures, scholars and researchers in the Institute’s Research Directorate and scholars from universities, the Union Government and IIMs came forward with research ideas and projects having an overt bearing on both theory and practice. Thus, what broke the ice in the arena of professional research was a drastic change in attitudes with a professional stance provided by the insistence of the Research and Publications committee of the Institute that ‘while going for the sky, one foot must be firmly on the ground!’ The research efforts of the Directorate of Research of the Institute religiously followed this dictum, as would be borne out by a close perusal of the Institute’s research publications, since the establishment of the Directorate of Research in September, 1969.

Decisional Phenomena and the Management Accountant

The first research publication of the Institute was

The idea of introduction of planning in a democracy involving a freedom of the people to choose specific economic activities and, more pointedly, the freedom to consume and spend, contained in it a large number of overtly contradictory choices as between consuming and investing, that also with regard to the capital-intensive industries as against labour-intensive, consumer-oriented industries

titled Decisional Phenomena and the Management Accountant that appeared in 1970. The draft chapters of the study were seen through by several experts within the country and abroad, notably by Shri N.K. Roy, Shri Shyamal Banerjee and Dr B.P. Banerjee, all scholars in their own right and members of the Council of the Institute, Professor David Solomons, Chairman, Accounting Department, Wharton School of Finance and Commerce, and Professor B. R. Williams, vice-chancellor of the University of Sydney. This study sought to highlight the decision making processes in the broad macro-economic scenario in the country and the ways in which the Management Accountants could be of effective assistance to the decision makers both at the national and enterprise levels. The study sought to unfold the typicality of the choice processes having an impact on the whole series of actions based on the choices exercised. The study took into view that the planning process initiated in the country had in it three time dimensions, namely, the annual plans – the annual budget, for that matter reflective of the five year plans, and the perspective planning exercises providing for a twenty five year perspective. The sectoral targets and their integration into the overall aims for the economy as a whole provided a way of rational approach to making the long term targets more realistic with the integration of self-correcting perspectives. The principles and practices of targetry provided a rational base at all these three levels so that national economic growth parameters could be more sustainable

while addressing to often-contrasting pushes and pulls in various ways. The lessons of economic planning exercises as reflected in the enterprise-phenomena were sought to be charted for the desired effect. The study noted the inherent disruptions typical of planning under democracy reflected and contrasted by the biting competition prevailing in the market, though not much from foreign sources except on a limited scale. This was indeed a problem during the entire era under planning, even before globalism intervened in the early 1990s exposing the Indian economy to competitors from other countries. The Research Bulletin published by the Institute accommodated articles and quite a few papers regarding the aftermath of suddenly opening up the economy. In the decision making context, the role of the management accountant The typicality concerning the arraying of the alternatives, formulating them in clear contours and assessing their overt and covert impacts underlined the job of the Management Accountant which ramified in practice posing alternative courses of action, while that of the manager was to choose one from this array, the span of focus being different in the two cases. The idea of introduction of planning in a democracy involving a freedom of the people to choose specific economic activities and, more pointedly, the freedom to consume and spend, contained in it a large number of overtly contradictory choices as between consuming and investing, that also with regard to the capital-intensive industries as against labour-intensive, consumer-oriented industries. A totally new world of innovation and enterprise opened up before the management accountant as he had to

increasingly concern himself with umpteen problems posing themselves for the unborn enterprises, a large number of central and state government enterprises both acquired and newly established enterprises, referred to earlier, proving his mettle in the face of many challenging phenomena. The measurement of efficiency acquired a new dimension in the face of many challenges faced by both public and private sectors. Both decision theory and the application of decision-making techniques in the context of their practical manifestation were underlined in the research publication.

Distinctive Functions

The study presented quite a few charts, diagrams and illustrations underlining the role and distinctive functioning of the management accountant both at the national and enterprise levels. The principal decisional variants at the company level were indicated in the study with particular reference to the problem description, key decisions related thereto such as objectives and goals, expansion and diversification and expansion strategies, financing and growth strategies, as also decisions triggered by strategic or operating problems having several overt and covert financial overtones. More particularly, the reflection on the roles of the management accountant was sought to be made loud and clear. The study challenged several of the ruling notions about decision-making process in different settings and in proper response to various structural-functional issues concerning size of operations, nature of product and market. In a three-part paper entitled 'Management, Accounting and Management Accounting' that appeared

in Industrial Times, Bombay, in the early 1970s, as an extension, it was contended that the major concern of the Management Accountant was to look deep into the future, where certainty of outcome gave way to both risk and uncertainty, in situations in which he was called upon to assess the likelihood of things happening or otherwise, in the context of stochastic distribution of probabilities. The risk-return matrix came in for closer assessment so that managers at the upper echelons could fathom the chances of succeeding with particular choices in the conditions as envisaged. At this level of exercising choices, management was confronted with

The study challenged several of the ruling notions about decision-making process in different settings and in proper response to various structural-functional issues concerning size of operations, nature of product and market.

the chances of two and two making less than or greater than four. As one came down the rungs of the hierarchy, at the middle level the chances of going either way were less but they were still there. At the lower levels, the deterministic levels for that matter, two plus two would invariably make four. This posed a virtual rigmarole but higher level managers aspiring to make the best of possibilities for remaining ahead of competition had to step into this uncertain world of alternatives. The analysis of variances and the change in activities relates to a shorter time-span. However, the Bayesian theorem or subjective probability would have made it possible to modify the futuristic exercises, even in the shorter span, to make the estimates more down to earth. But the applicability of the theorem on a larger scale was riddled with different problems especially because most of the industrial and commercial enterprises, barring a few, sought to thrive through the doors opened by the licence and permit raj, throwing the rational approaches to building up long term strength to the winds.

The Break-Even Concept and Its Practical Dimensions

The specific issues concerned with the applicational dimensions of the Break-Even Concept were delineated in the second research study undertaken by the Research Directorate with a view to underlining the high relevance of the technique in interpreting the complex business phenomena consisting of a whole range of productive activities. Though the Break-Even concept was not new, its high relevance in interpreting umpteen complexities faced in contexts for knowing and judging different issues for purposes of decision making were not quite appreciated in practice. Nor was the whole range of applicability of the technique, and its usefulness in reshaping and reorienting managerial policies and cognate actions, taken into view many a time. This rather overt indifference to a highly relevant tool for managerial decision making prompted the Research Directorate to undertake this study for assessing the applicability of the technique at some depth. Its application for different management decisions in varied types of activities required a detailed survey of the uses of the technique for different management decisions. In the course of the study it was found that undeservedly not much weight was attached to both application of the technique on a larger scale and findings from such application, for purposes of implementation as the study emphasized. The study included detailed comments on the then prevailing empirical phenomena depicted in seventy

six charts, churning the varieties of industries and organizations as also information available in different official reports underlining the various uses of the concept. The charts prepared on the basis both first and second hand information suggested that if properly interpreted and used, they possessed high potential to guide and regulate managerial actions on a lot more knowledgeable lines. The advent of the knowledge economy threw a de facto challenge to the unquestioned acceptability of the pointers raised by the charts in the later years but even taking all these changes into view, it could be stressed that break-even analysis still retained its usefulness. On the same logic of affectivity study acknowledged that these charts could not transcend the quality of the data on the basis of which they had been drawn, thus pinpointing the practical directions for the management and the management accountant to assure the verity of the data used and the logic of the pointers raised. However, from the point of view of Drucker's 'making the future today', what might be considered more significant was the direction of truth, rather than the arithmetical accuracy.

Cost and Quality Control

Approved by the Research and Publications Committee of the Institute, this study undertaken by Shri Ashutosh Sett, M. Sc., A.I.C.W.A, Assistant Director of Research, cut many new grounds in the sense that it opened up several new vistas of assessment of quality control as it brought into play various tests of the concepts of quality as understood in practice with reference to what prevailed in the selected organizations belonging to different manufacturing units belonging to the electrical goods manufacturing and few other engineering goods. The practices prevailing with regard to statistical quality control covering both in-process quality control and quality inspection of the final products and their impacts on costs of production and the distinct features of cost of quality provided the hallmarks of professional research. The demonstration of the 'three sigma limits' in theory and its ramification in practice came in for a searching scrutiny. The study was rich in terms of the first-hand data presented, linkages to the concept and practices of statistical quality control and the high quality of analysis of the data. The cost accountants in industry concerned, like ELMI, appreciated the quality of perception and the research that went into the study. The study was considered too technical though the practicability of the findings of the study was beyond even an iota of doubt.

Small Scale Industries

Research on the burning issues of Management Accounting Problems of Small-Scale Industries was undertaken by Shri Dipak Kumar Sen, M. Com., A.I.C.W.A., Assistant Director of Research, at the instance of the Research Committee of the Institute. Throughout the 1970s, small scale industries remained the cynosure of all eyes and banks and financial institutions extended liberal financial assistance to these industries in all parts of the country. It was considered appropriate to have a close professional look at these industries with particular reference to the needs for disciplined funding of these units and effective deployment of the resources so dispensed. Shri Sen did a competent job and the study received wide attention, especially with reference to E. F. Schumacher's book entitled, 'Small is Beautiful' and several other publications on small scale industries that almost created a craze.

In this country, several research studies on the subject were undertaken by university scholars and funded by the UGC. While most of these studies dealt with the nature of these industries, the policy issues governing their operations in the context of a growing economy like India by way of a sort of status report, Shri Sen's was more down to earth, as it dealt with specific management accounting problems concerning economic and more efficient deployment of the resources garnered, sticking to the rules of the game concerning employment creation, efficient input management and production as also responsive marketing of the goods and services produced. These were areas considered vulnerable to a number of untoward forces. This study also received appreciation from the entrepreneurs and professionals for knowing and judging the soft spots - mainly attitudinal - and the ways to get over them.

Banking Operations and Their Costs

Determining the operational costs of banks for long remained an uncharted area. While a good lot of attention went to the side of the recipients of bank services, the costs incurred by the dispensers of the services to a fast growing economy like India remained almost totally unknown. Appreciating this phenomenon, the Research Committee adopted the research scheme submitted by Shri Arun Kumar Ghose, M. A.(Econ.), Assistant Director of Research. Shri Ghose undertook a penetrating analysis of the different types of costs incurred by banks in their anxiety to render effective assistance to the large scale operations undertaken by banks in response to the national policy and call for rapid

and sustained economic growth of the economy. The in-depth analysis of the banking operations brought to the fore several hitherto unexplored issues related to the banking operations that had several policy implications. The study was released by Professor Dhires Bhattacharya of the University of Calcutta who commended the study for wider study by the bank officials and the policy makers in the Union Ministry of Finance. The study raised several policy issues for serious perusal by bank officials, the Reserve Bank of India and Government in the new era ushered in by bank nationalization. Different issues concerning sensitive banking policy and their effective implementation considered appropriate were raised in the study that received wide appreciation both in the academic and industry circles. The relevant issues concerning management accounting techniques and their application were effectively brought to the fore, addressed to the entrepreneurs, bank officials and policy makers in the Planning Commission.

Inflation Accounting

A large number of publications concerning accounting problems during periods of sharp price level changes appeared during the 1970s highlighting different issues of translating the book prices of various assets acquired during different periods. The book prices of the assets were considered unrealistic as they did not indicate a true and fair view. Changing prices of different classes of assets did figure in wide-ranging discussions in the professional accounting circles in the U.S.A, the U.K., different countries of Europe, Australia, Japan and also India. The major concern of the authors was to find out the logical way(s) to translate the book figures into their current market value.

Authoritative studies on the issue appeared that took the accounting practitioners by storm. Shri Bahadur Murao, Council Member of the Institute, showed interest and in fact he undertook the onerous task of doing research on the hot topic of inflation accounting. His draft report was instantly approved for publication and the Research Committee thanked him profusely for this generous act. The typicality of the Indian economic scene was, however, fundamentally different from the experience of the developed countries on counts of the fact much of the price rise was caused by a heavy incidence of indirect taxes which, by definition, passed on to the final consumers in a chain of transactions. All this was caused by the pressing need for creation of export surplus and restraint of internal consumption through the price mechanism. A second study on the tools and

techniques of Inflation Accounting was thus considered in order by the then Research Committee members. The second study took into view the tax element in the price push and presented the entire set of calculations in support of the contention that all price rise was not inflationary, as the economy required some trade surplus for financing the development requirements and this could be had from virtual and significant restraint on internal consumption, akin rather to price elasticity of demand. Professor D.R. Gadgil, Vice-chairman, Planning Commission signified this urgent need. Studies revealed that unlike the countries of the west as also America and Japan, the incidence of indirect taxes on costs of both manufactured and non-manufactured, and traditional and non-traditional products, ranged between eighty and eighty five per cent of the total cost of production. No allowance was given for this fact even in the calculation of the price indices compiled by the Central Bureau of Statistics.

This presented a totally contradictory picture of what emanated from the advanced countries of the north. The export products were incidentally exempt from this incidence by way of refund of these taxes. Several internationally famous experts on the subject expressed their approval of this rather new approach to the subject, notably Professors R.J. Chambers of Australia (famous for his logical exposition of what he aptly surnamed 'COCOA' or Constantly Contemporaneous Accounting) and Adolph J. H. Enthoven of the U.S.A. (noted for his seminal work, Accountancy and Economic Development Policy). All of them in fact wrote to the Research Directorate to express their appreciation and encouragement.

Farm Management Accounting and Control

The reach of management accounting as a concept and as a discrete discipline extended itself to different other fields of high socio-economic significance like farm management accounting. A relatively unexplored area of management accounting research has been concerned with the application of different techniques and processes with reference to the farm sector of the country that has languished all this while despite the fact that has languished largely because of inattention to regular compilation, collation and analysis of factual information for the purpose of knowing and judging the quality of information, analysis of the collected information and action at the farm, gram panchayat and state government levels for recording, variance

analysis of deviations over time arising due to different factors such as the application of proper inputs, absence of required inputs and methods as multiple cropping, simultaneous cropping, scientific storage and supply of the stored farm products.

It was on the basis of the biting deficiencies on these fronts that prompted the Research Committee of the Institute to approve the undertaking of a research project on Farm Management Accounting and Control. Most of the data available in different official, second-hand sources such as the Reserve Bank of India annual and periodic reports as also the Finance Minister's Economic Survey Report along with the Farm Management Surveys undertaken by the Union Ministry of Agriculture. The analysis of data collected under the Farm Management Surveys related to all the chosen districts and repeated in several of them.

The surveys took into view that data in several districts should be comparable and had a standard methodology to assess both total and individual factor productivity on the basis of partial differentiation. The study on management accounting issues had in view most of what were presented in these reports juxtaposed with cognate data collected from other sources alongside those collected from the fields. The study noted that absence of regular and systematic information on continuous field surveys came in the way of exercise of proper recording of production, storage and distribution for consumption through various outlets. More importantly, heavy damage and other losses of different farm products came in the way of bringing in an aura of surplus even during the worst years of food scarcity. The application of management accounting techniques could have shown the way of making the best of the huge potential that existed. State intervention for managing scarcity would have been redundant if the management accounting techniques were seriously practised at the field level. The study was released by Dr Sushil K. Mukherjee, the then Vice-chancellor, Calcutta University, who appreciated the pointers raised. The effort of the Institute in this regard did have its impact by way of being prescribed as a text in some universities. Dr M. S. Swaminathan, the father of green revolution in India, complimented the effort, agreeing with the major contentions. ■

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Business Process Modelling

for Sustainable Growth



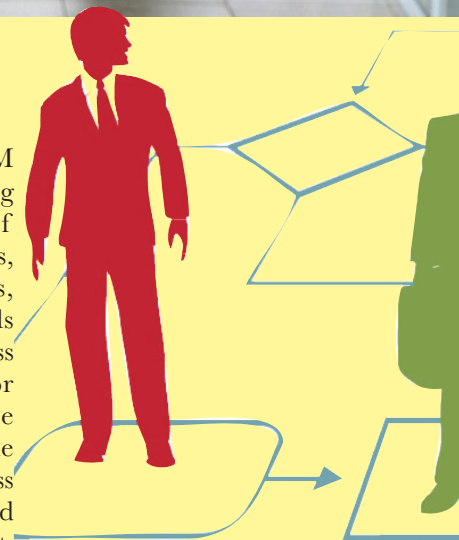
Dr K Kanaka Raju
Assistant Professor,
Andhra University, Tadepalligudem

Business, as a process, was born when legendary economist Adam Smith attempted to categorise it according to stages, to be carried out by different people as a sequence of activities. Federick Winsow Taylor, and Frank and Lillian Gilbreth, merged business with motion study in the 1990s. Frank, later, developed the process flowchart. The technique of workflow was established between 1975 to 1985. Total quality management (TQM) was developed in 1980 to reach incremental developments to process quality, cost, speed and service. James Champy and Michael Hammer developed the reengineering of business processes in 1993. The business process model (BPM) was developed in the 2000s and it concentrated on value added tasks.

BPM is a central activity and related to other activities. It is flexible, constantly reviewed and reprioritised. BPM represents the specific flow of activities in a specific business or unit of an organisation, relates to several management issues (profits, revenues and costs, change and business organisation), and is considered as a quality management tool. It includes information technology (IT) as well as people, and cross-

functional processes. BPM involves positioning and repositioning of activities and events, creating flowcharts, and assigning symbols and notations. Business process modelling or business reference modelling refers to the improvement in business quality management and change in management.

The change cycle of business process adjusts to an organisation's goals and strategy, while the business reference model helps to use the business architecture model and projects core structural elements as static. Business process reengineering (BPR), also known as business process innovation (BPI) involves restructuring and re-measuring the entire organisation. BPI constantly improves the existing business, while BPM also involves aligning, process designing, implementing and measuring,



Business process mapping involves comprehensive overview of the documentation system.

Objectives of the study

The study was carried out to examine the usage of different techniques, tools, and products of BPSM and to know the process of business landscape and improvements in models of business process. It also offers suitable suggestions to ameliorate BPMs.

Methodology

The data was procured from secondary sources, journals and websites.

Mapping the business landscape

Business landscape mapping promotes the processes, systems, and information repositories across the business

for improvement and is also useful to take decisions as a sequence distribution of resources for further development. It is neither time consuming nor complex. It enables to take the right decisions according to the demands of time. It concentrates on further development regarding corporate/subsidiary interlock, consolidation, IT, acquisition, divestiture, and merger.

BPM

It involves organising the outcome instead of tasking, mending, or ameliorating the process, creating new processes, endorsing ownership, and standardisation of processes. BPMs allow changes for further improvements and refer to perennial evaluation of the processes and include total flow of the process.

Steps in BPM

Interpretation, reorganisation, implementation, supervision and automation.

BPM tools and techniques

There are several techniques used in BPMs. The major ones are given below.

Flowcharts: The familiar version of the basic flowchart technique is the BPM notation.

Data flow diagrams: The Yourdon's technique. It represents the transmission of information and was first developed by Edward Yourdon, a leading developer of structured analysis techniques, in the 1970s. It organises information from the original data.

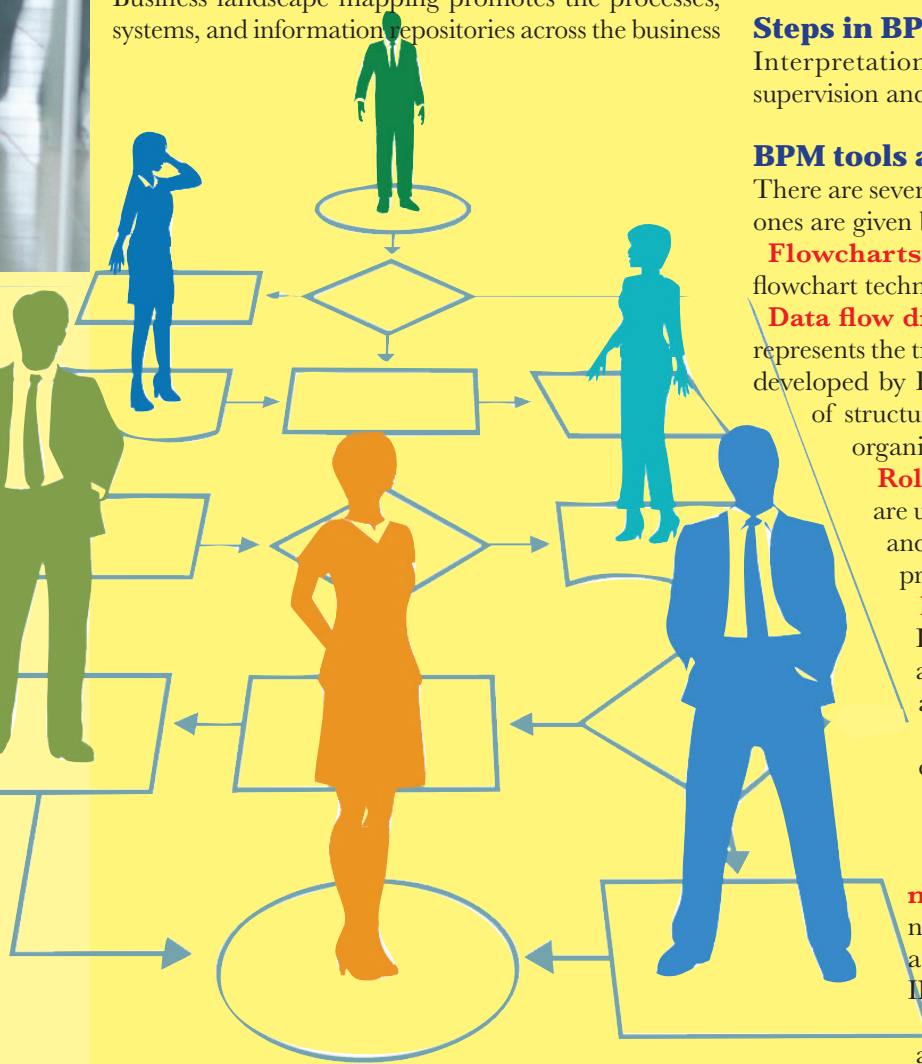
Role activity diagrams (RADs): These are useful in mapping an expected behaviour and furnish a comprehensive picture of the process and activities.

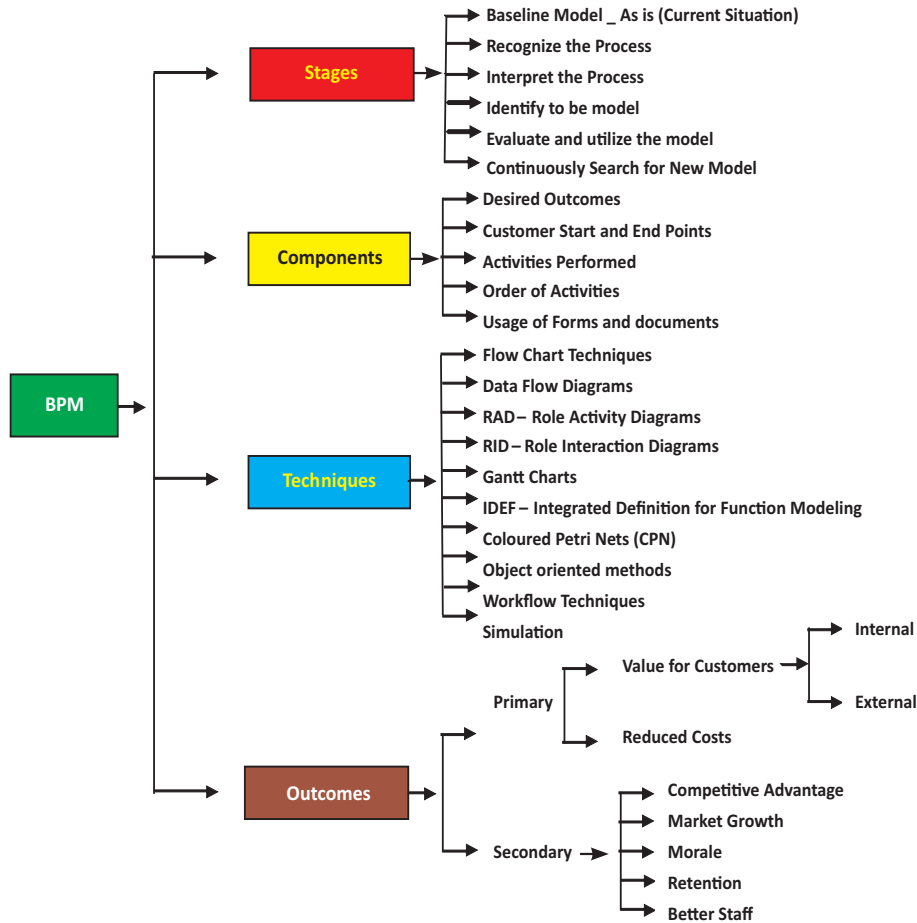
Role interaction diagrams (RIDs): It is a kind of matrix connected with the activities of roles. It is difficult to build and is inflexible.

Gantt charts: It is a matrix that comprises the tasks and activities on the vertical axis and represents a sum of incidents to a measure scale.

Integrated definition for function modelling (IDEF): It enables the need for modelling of a firm. Its parts are IDEF5, IDEF4, IDEF3, IDEF2, IDEF_{IX}, IDEF₁ and IDEF₀.

Coloured petri nets (CPNs): These are graphic-oriented languages for specification, design and verification





of systems and simulation. It explains how individual processes coincide with each other.

Object oriented methods: It represents the objects of universe, state and class. A change in the state is reflected by the behaviour, and a sum of similar objects is called a class.

Workflow techniques: This is a method to interpret and develop a process and its modelling. It considers the workflow models and comprises four stages i.e. gathering information, model of business process, workflow modelling, execution, and verification.

Simulation: It is used to analyse the complex real world system and comprises many forms.

IT applications: The following IT applications were applied under BPM. It refers to the object management group (OMG) and consists of unified modelling language (UML) which is an OMG modelling standard, meta object facility (MOF) and XML meta data interchange.

Conclusion

BPM creates a value for customers and also reduces costs, thereby enhancing profits. It witnessed a competitive gain, increase in market share, morale, retention and skilled staff. Every organisation should embrace an appropriate BPM model for its sustainability. **MA**

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Impact of IT on

BPR

No BPR plan can evolve and meet its logical end until the IT systems and processes are put to effective use. A proper combination of both is sine qua non to ensure success in business enterprises



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Review that redundant and no-value works should be obliterated rather than accelerating them through automation. It was a challenge thrown open to managers indicating that they were barking at the wrong tree. So long a particular work does not add value to customers serve the objective of the organisation, it really needs to be banished from the value chain. Management gurus Peter Drucker and Tom Peters, too, contributed a great deal on the issue.

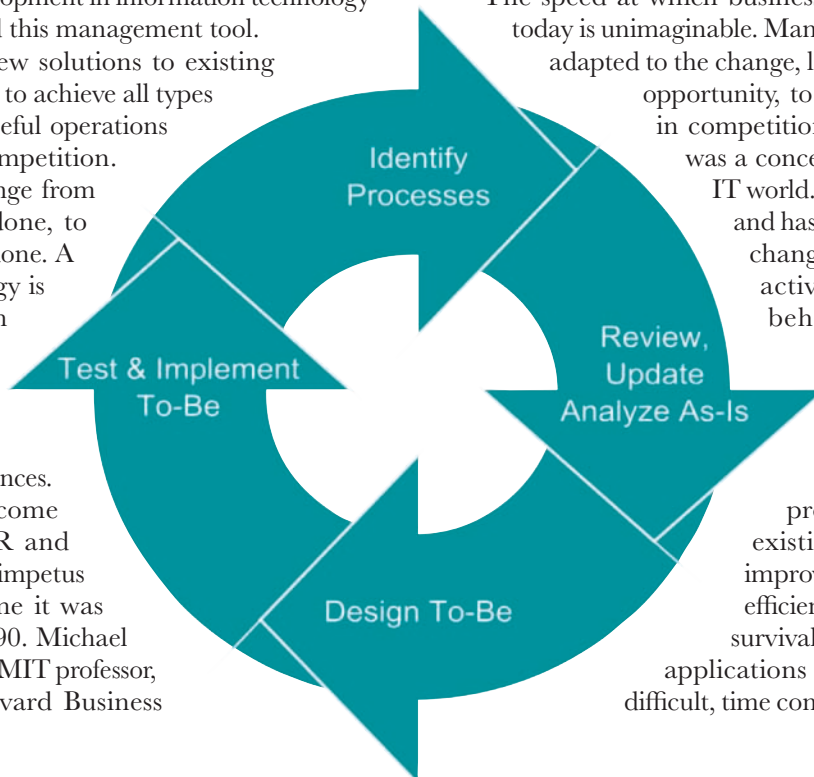
At the very outset, one must understand what business process reengineering (BPR) is all about, before seeing how the latest development in information technology (IT) has influenced this management tool.

BPR refers to new solutions to existing business problems, to achieve all types of economy for useful operations and staying in competition.

It is a radical change from what was being done, to what needs to be done. A great deal of energy is demonstrated with conviction that change is the driving force under market economy circumstances. Technology has come to the aid of BPR and it has injected an impetus right from the time it was first mooted in 1990. Michael Hammer, a former MIT professor, wrote in the Harvard Business

IT: A BPR tool

The speed at which business processes operate today is unimaginable. Many organisations have adapted to the change, looking at it as a new opportunity, to prevail and sustain in competition. 'Reengineering' was a concept developed in the IT world. It has evolved much and has ushered in dramatic changes to our lives and activities. The reason behind organisations embracing BPR as a device and a management tool, was the incentive it provided to expedite existing processes, and improve productivity and efficiency, thereby ensuring survival in competition. IT applications replaced humanly difficult, time consuming, mechanical



With computers becoming cheaper and powerful and software enabling all types of processes, the use of IT has moved these devices beyond computational purposes. It has, in fact, reduced the cost of coordination, communication and information processing

and tiring processes. Mass use of IT applications got a shot in the arm when businesses perceived cost benefits and speed that became possible through reengineering.

Process reengineering through IT has introduced the following features. Most of them were taken for granted, without considering the enormous benefits that they would usher in, as time moved on.

- Speed with which data can be shared and accessed across countries;
- Handling of repetitive and mechanical jobs by IT systems, resulting in manpower attending to special tasks only;
- Prompt flow of information between parties so that there is no delay in the communication process;
- Computation-led decision processes, aided by IT;
- Access between geographical areas by the use of electronic communication and mobile devices that have become more sophisticated, courtesy IT;

BPR, however, is not merely about automating what already exists. It provides opportunities to hunt new methodologies and new processes that provides answers to a host of existing problems and business issues. But IT alone cannot forge success in the BPR plans. No BPR plan can evolve and meet its logical end until the IT systems and processes are put to effective use. A proper combination of both is sine qua non to ensure success in business enterprises.

Management evolution in the last century

Businesses passed through several stages over the years (table 1) to evolve into what they are today. With so many changes in the business environment, between one decade and the other, it would not be surprising to know that management philosophies and concepts also kept pace with these changes.

Table 1: Evolution of business processes

Year	Management concepts
1900 to 1950	Taylor's time and motion study, Walter Shewhart's statistical sampling, Deming's statistical quality control, application of statistical process control
1960	Japanese quality movement; Ishikawa Tuguchi
1970	Philip Crosby on zero defects
1980	Total quality management from quality circles
1990	Michael Hammer on business process reengineering
2000 and onwards	Application of IT on business processes and its impact

IT in BPR is not an end in itself and certainly has to see many more developments.

Effect of IT on business processes

With computers becoming cheaper and powerful and software enabling all types of processes, the use of IT has moved these devices beyond computational purposes. It has, in fact, reduced the cost of coordination, communication and information processing, resulting in a whole lot of things and ensuring flexibility to change without hassles.

It is a pity that people and organisations expect IT systems and processes to meet their individual requirements. The argument holds water as IT is expected to subserve the organisational goals. Traditional management thoughts have also impressed upon employees to align their endeavour to these goals. This far and no further. Beyond this, an organisation and its employees have to understand that while IT processes are designed to meet organisational goals, the structure and efforts have to be geared to dovetail the IT process and system design. Only then, BPR will be meaningful and the expected results can be seen without losing much time, in the development process.

Mindset of participants and remedies

BPR often suffers because of employee reluctance to appreciate the changes brought in by IT. Many of

the prevailing methods and processes may have to be surrendered. The workers, however, are often reluctant to use the improved versions and the desired result gets defeated to a large extent. For example, employees expected to hold lesser inventories on account of improved and assured relationship with suppliers, were asked to follow a particular process, by using IT. The method provided an insight to the suppliers of what and when materials are to be despatched. The key function of updating the electronic records, which was fully automated, was partly done manually and partly with computers, creating a disaster for the reengineered process.

Unless the whole organisation understands the spirit of BPR supported by IT, the entire process would turn counterproductive. The tone has to be set at the top. There can be many planned instances for change under BPR, but this has to go hand in hand with a change in the mindset of the management and its employees.

A careful scrutiny into what ails a BPR will reveal that not enough is done at the planning stage. One would not fail to miss the following issues, that requires consideration.

- No functional department will be willing to make their functions all pervasive, They will be unwilling to let go their functional power.
- In the absence of adequate paper-board planning, too much time and money are spent in ineffective coordination and communication;
- Much productive time goes into processes and too little time is left to take care of customer's needs. This may not be entirely true because benefits of IT has surpassed such rudimentary constraints.
- It is often presumed that controls on overheads will be diluted, but a cost benefit analysis cannot be overlooked at the planning stage.
- Many believe that business processes evolve over time and are not expected to take on the opportunities of changing technologies and changing business environments. The fact is, any change in technology, is lapped up at the earliest. Traditionally or otherwise, business processes have always geared to target available opportunities in the external environment, as long as it appears to be profitable and productive.

Principles driving BPR

Here are some of the principles that drive BPR.

- Outcomes and results are more important than activities and tasks;
 - Users of output are the people who perform the process because they have a stake and are responsible for the output quality;
 - Information processing is equally important and is the real work because it produces further information for decision making;
 - Geographically dispersed resources, are considered fully centralised, which is possible only through automation;
 - It is not enough to integrate results but it is important to link parallel activities and the resulting output can be readily integrated;
 - Controls are established into processes and all decisions are taken at output points;
 - Information is gathered at the source point itself and is not allowed to dissipate before decisions are taken.
- All these and more can be achieved only if the process is automated through IT. It means that re-engineering requires action points along with automation.

Examples

Core banking is a classic example of BPR, both in the Indian context and the global banking industry. It is also a live example of how IT and automation have unfolded a plethora of services to the customers for anytime and anywhere banking. The centralised online real-time exchange (CORE) has changed the way banks work and customers transact. Except for the lack of education in some rural pockets, all banking services are largely available to customers at any branch, ATM, and through internet and mobile banking channels. Funds can be transferred to any parts of the world with the click of a button. It is as if the customers themselves are operating the accounts, while earlier, the bank staff transacted on the customer's behalf. A tremendous opportunity with speed has opened up the banking sector. The whole system has undergone a radical change.

Other interesting events that have unfolded include:

- Online business transactions between sellers and customers;
- Credit card transactions and authentication ensuring safety and security;
- E-tendering and transparency in allowing competitive bidding;

- E-payments of statutory dues;
- Filing of statutory returns and obtaining authenticated acknowledgements;
- E-procurements and supply chain management;
- Accounting transactions through business process outsourcing firms across borders;
- Computer aided designing and computer aided manufacturing for product management, product design and materials management;
- ERP and MRP for enterprise resource planning and materials resource planning.

These and many more activities have changed how the world conducts business. IT has almost invaded the personal lives of people across the world. It will not be surprising if the rural people also start embracing IT for their individual needs leading to a cashless economy. All that it needs is a gentle push from the government.

Prerequisites for a successful BPR

Organisations, over the years, have identified prerequisites that are necessary for a BPR to be successful. IT has played a major role in this regard, but people-centric initiatives are essential to overcome the initial reluctance. People must be re-educated and retrained so that they adapt the new process. They have to accept the rule book in the same spirit for which it is designed. The common fear that surfaces in such situations include job loss, because machines and technology take over human functions. Also, there is an apprehension that the past experience will turn out redundant and a feeling sets in that they are no longer useful employees of the organisation. Both these fears are unwarranted because businesses have expanded both in pace and volume, and that demands more manpower than available. A new set of skills is all that's required to meet the changing situations.

People have gradually started to accept the change but there are still some bottlenecks as to why some BPRs fail. IT can play its role effectively in this regard. Information systems teams have little domain knowledge and are not adept in understanding the nuances of business processes and their needs. It is obvious that processes may not be able to deliver the required results. The requirement therefore, for IT specialists, is to challenge the existing processes and not to accept the way they are done. The specialist have to own up to the changes with others by eliminating superfluous work, redundancies, unwanted reports and make people think out of the box through innovative methods. This translates into understanding the needs of internal and external customers, and

changing everything else to cater this requirement.

There are several examples like Walmart that procure and distributes mass consumer products by linking business processes with IT. Reengineering has taken place so frequently that the concept has been adapted and adopted for various retail giants. American Express is another big success story, which used the expert system to achieve many objectives in redesigning its credit authorisation. This was later replicated by other credit card businesses as the process was found to be robust and useful for providing the required security to customers.

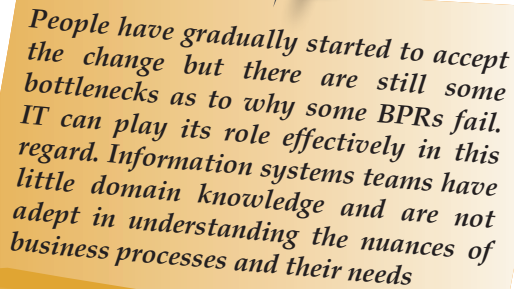
Ford Motors is another company which worked hard on reengineering and reduced considerable procurement manpower and related costs. The reduction was almost 75 percent of its manpower cost in the bills payable section. An online database was created and every supplier and its supplies could be effectively tracked on the computers.

Another effective BPR story is that of food giant Taco Bell, which stored its items away from the restaurant, called commissaries, and procured them according to the customer's demand, to be assembled and served. It thus cut down wastages and improved quality to help the business grow from \$500 in 1982 to \$3 billion in the early 1990s. This could not have been possible without embedding IT in its BPR strategy.

IT as part of change agent

The reengineering team has to believe and understand that IT has to be part of the change agent right from the beginning. The IT utility has to be engaged from the planning stage itself and there are some basic rules to be followed that have been universally accepted to make it as part of the BPR. These are as follows.

- Information shall be used as a tool for computing, collecting, storing, analysing, communicating and distribution of data and information among all concerned;
- IT tools to be exhaustively used and repeated, programming of tools are to be avoided by using all those that are already available in its domain;
- In-house expertise is built by the recruiting staff if they are required for longer term, or external experts are hired in the reengineering process if they are just required for the initial setup;
- Getting the process and systems validated before they are put to use and ensuring robustness;
- Continuous monitoring of the process to take care of change requirements and developments.



People have gradually started to accept the change but there are still some bottlenecks as to why some BPRs fail. IT can play its role effectively in this regard. Information systems teams have little domain knowledge and are not adept in understanding the nuances of business processes and their needs

Lean six-sigma, a BPR initiative

Reengineering processes today have advanced further and has moved from six-sigma to lean six-sigma. It is like improving the quality of food, on a continuous basis, to attract customers. There are five steps to be followed for achieving the desired results and this requires a constant endeavour to keep it lean and performing. The current literature is as follows.

- Values are defined according to the customer's needs and requirements; thereafter the product is defined for its value in terms of specific price and time;
- Mapping is done to determine the management tasks for the business i.e. problem solving, information management and transformation of the idea into a product or a service according to customer's needs. Wastages are identified and eliminated at the planning stage itself to bring the correct value to the product or the service;
- Functional barriers are eliminated and a product or service oriented organisation is conceived; it leads to lead-time improvement;
- There is a need to develop and improve the customer desire for the product or service rather than pushing sales;
- There is no time for complacency. The next lean transformation is repeated when perfection is reached in the first initiative. This process is repeated for every product and service of the organisation. Every step or process in the lean transformation initiative has its own method that needs to be scrupulously employed;

All or any of the above initiatives require robust and speedy IT processes to see a result oriented lean transformation.

Recommendations for the BPR success

Several recommendations have been mooted to ensure that BPR plans are successful. There can be many

more that are unique to specific businesses. However, organisations have to take care to include these in their agenda, to initiate a BPR process.

- BPR schemes have to be strategically planned and at no stage they should be carried on without using IT as a necessary tool in transformation;
- No initiatives of transformation should take place unless the user or the customer is at the centre of re-engineering effort;
- Process segments creating delays or roadblocks to customer's service have to be reviewed either for elimination or correction;
- Care must be taken to involve external consultants or experts only if there is inadequacy of skill sets within the organisation. The right approach would be to drive the process from within and ensure ownership;
- The top management should be fully involved in the BPR plan, and executives who have served the organisation for a long time, are the ones to be involved in decision making;
- From the beginning, the IT team should be involved in the BPR plan and process development;
- Wherever needed, the persons actually performing the work have to be engaged to elicit the right views;
- A structured approach and a decent timeline needs to be proposed for the initiative to kickstart the transformation process;
- Constant communication and feedback cannot be ignored at any stage to ensure that there are course corrections throughout the endeavour.

Conclusion

Many organisations are yet to derive the expected benefits of BPR and its close connection with IT systems. It was initially unpopular and disappointment held sway when transformation initiatives failed. Success or failure in any reengineering process depends on how deep the process improvement mindset is. Further, it is important to plan strategically as to how time, effort and money will be invested in reaching the expected goals. Of course cost-benefit analyses have to be carried out before venturing into the initiatives. All said and done, it will be a constant endeavour of the human mind to look for ingenuity and every such attempt is part of the BPR plan. whether it is for profits or non-profits. A vigilant mind and a raring-to-go attitude is the hallmark of a BPR initiative. **MA**

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B P R in the Stone Carving Process



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Business process reengineering (BPR) is a fundamental rethinking of business processes to achieve dramatic improvements in performance, such as cost, quality, service, and speed. BPR steps include need for change, identifying the processes, enabling the reengineering, understanding the current process design, creating a new process design, and implementing the reengineered process.

The introduction of stone in architecture by cutting rock caves during the Mauryan period, became particularly popular after the successor of Ashoka assumed the throne. Several sculptors

and stone carvers were engaged to build temples and monuments. Temple building activity expanded to a much larger scale under the patronage of the Guptas in the 4th century AD. A new technique of temple building replaced the traditional rock-cut method. The demand for sculptors and their skills visualised the dexterous achievements on stone. The sculptors were largely from the artisan group, particularly the Vishwakarma community, and claimed to be the descendents of Hindu god Viswakarma.

Temple building activity tasted large-scale success up to the Muslim invasion in India. Muslims, later, patronised religious edifices but the sculptors became masons and indulged in gross labour works. Many changed professions. Later, British policies were detrimental to the development of sculptures. Nonetheless, many families migrated to south India and continued their trade. Allagadda of Andhra Pradesh's Kurnool district is a hub of such artisans.

Stone carving, in the beginning, involved traditional tools like chisels and hammers. Both polished and wet stones were used, and the finished process took much time to complete. It required energy and efforts. The output, in the process, met the spiritual and aesthetic parameters of the idol. The process, however, bore huge costs.

Stone carvings, today, are placed in landscape architecture with both religious and secular themes. The same is applicable to interior designs. Sculptures are established in parks, open areas and other urban points that create a captive demand for stone carvings. Setting up of tourism circuits, resorts and other promotional activities, lead to the demand of stone carvings. Portraits, busts and life-size statues also created a demand for stone carvers. However, there is a burgeoning gap between the supply and demand of stone carvers.

Review of literature

Aswathappa K and Sridhara Bhat K in Production and Operations Management, observed that quality has been a tradition in India and monuments, relics, handicrafts, gems and jewellery, and craftsmanship have woven quality into our heritage. The quality movement was consolidated in the 1980s in Indian industries to forge a synergy of resources through the pioneering efforts of the Confederation of Indian Industries.

PK Acharya, in his writings, shed light on various categories of silpins in medieval India that enhances the understanding of the subject in a more comprehensive manner. Alice Boner, Sadasivarath Sharma and RP Das,

in New Light on the Sun Temple of Konark, penned a daily account on the construction activity of the temple, from the beginning of marking the layout, selection and extraction of stone from different quarries, transportation to the site, selection of silpins from all over Kalinga Desa (present day Odisha and north eastern Andhra Pradesh), to the arrangement of camps for sculptors, carving, and fixing the stones in layers and the completion.

RN Misra, in Ancient Artists and Art Activity, wrote on the use of various materials to etch sculpture like clay, ivory, bronze, wood and stone. B Rajendra Prasad, in Art of South India: Andhra Pradesh, wrote about sculptors and their activities in places like Alampur and Pondugula, the temple towns of western and eastern Chalukyas respectively.

Objectives

The objectives of the study are as follows:

1. To understand the evolution of stone carving/ sculpting from ancient times until date, along with the changes over time.
2. To analyse the inherent risks connected with various carving reengineering processes.
3. To assess the impact of training, technology and new processes on productivity, cost reduction and fatigue of carvers.
4. To explore the involvement of education on the carving process reengineering.
5. To suggest more effective processes for the present carvers.

Research methodology

Population of the study is the carving community. Instruments used to collect data were a structured questionnaire and field observations. Primary data was collected from 150 respondents. The study was carried out in 2014-15. Tools applied in the study were; mean difference, t-test, and chi-square test. Responses were rated on a one to five point scale, where one represents the least response score of a given variable, and five the highest. The variables considered in the study were; experience, technology, education, productivity and training, and others. The edited data was directly used in SPSS.

Data analysis

Data pertaining to process re-engineering was collected by the observation method and the questionnaire method. The field observations on stone carving, with respect to build culture, have been discussed here.

Reengineering in logistics

Selecting the stone from the quarry and transporting it back to the place of work, is usually the first process in sculpting. The logistics matter in mitigating the risks connected with the lifting process. Earlier, stone was transported to the workplace by bullock carts and involved a lot of manual labour. Transportation became easier with the advent of vehicles but the risks were still in place.

After the idols or sculptures were completed, they were transported to the place of temple construction. Bullock carts, again, was the mode of transportation. Huge labour was again involved and the costs were borne by the carver and client.

The introduction of motor vehicles replaced the traditional transportation modes and the process of outbound logistics became more convenient and cost effective. Cranes were deployed to lift and carry the idols and interior panels.

Pre-carving, carving, and post-carving are the three stages involved in the entire carving process. The pre-carving stage involves sculptor and client interaction and inbounds logistic operations. In the second stage, the sculptor smoothes the stone surface to mark the desired idol or panels. Chiselling starts soon after and continues to the post carving stage. The carver, finally, communicates his client about the completion of the assignment.

Once information technology (IT) made major inroads in our daily life, everything was electronically communicated to the client from the beginning to the end. It reduced confusion and last minute hassles in the carving process.

In the post-carving stage, the carver moves the idol(s), performs the rituals, and installs it in the temple.

Reengineering in due-diligence

This process involved offering an agreed price and a ritual took place in the earlier days. Now IT has significantly changed the due-diligence process where the client deposits the agreed amount in the carver's account directly, and also pays the amount for rituals in the post-carving stage. The client can utilise these services through representatives. In fact, sometimes the idols and panels can be transported to the client's place, without any representative.

The post carving stage starts where the due-diligence process ends. In this process the sculptor has to negotiate with the client about the modes of logistics along with costs and risks associated. Both parties have to arrive at

a decision regarding the best mode of logistics, which is free from incidental risks. In this regard, the sculptor is predominant and final.

Carving reengineering risks

Sculpting, especially stone carving, expose workers to ailments like asthma, dust allergy and lung disorders. New technologies accelerate productivity but also affect carvers' life-span at an early age. While the process of inbound and outbound logistics have undergone a sea change, modern machineries have played a key role for easier handling. But lack of professionalism in operations is evident from the mishaps in this phase more than earlier.

The sculptor's pre-occupation is to create divinity and aura of the idol is a significant factor. Earlier, it was done manually but the modern machinery could not yield these factors.

The questionnaire data was processed with appropriate statistical techniques and the results were inferred in connection with BPR in the stone carving processes (table 1).

Table 1: One-Sample Test

Parameters	Test Value = 0				Decision
	T	df	Sig. (2-tailed)	Mean Difference	
Training on process Vs productivity	34.824	149	0.000	3.65333	Null rejected
New processes reduce cost	39.662	149	0.000	3.77333	Null rejected
Technology vs risks of processes	35.927	149	0.000	3.73333	Null rejected
Technology vs fatigue of carvers	36.979	149	0.000	3.57333	Null rejected

Source: primary data using SPSS v.20

Null hypothesis (H_0): There is no impact of training on the reengineering process of carving and productivity of carvers.

Alternate hypothesis (H_a): There is an impact of training on the reengineering process of carving and productivity of carvers.

It is observed from table 1 that t-value 34.824, with a 149 degree of freedom, has a p-value of 0.000 which is less than 0.05. The null hypothesis is thus

rejected and the alternative is accepted. It is inferred that the training will improve the process reengineering, besides improving the productivity of the carvers.

Null hypothesis (H_0): There is no impact of new process on the reduction of cost in carving.

Alternate hypothesis (H_a): There is an impact of new process on the reduction of cost of carving.

It is revealed from table 1 that the t-value is 39.662, the degree of freedom is 149, and the p-value is 0.00 with respect to the cost of new processes. Here the p-value is less than 0.05. The null hypotheses again rejected and the alternate one is accepted. The new processes had a positive impact on the reduction of costs in the carving processes.

Null hypothesis (H_0): The technology will not minimise the inherent- risks of carving processes.

Alternate hypothesis (H_a): The technology will minimise the inherent- risks of carving processes.

It is noticed from table 1 that the t-value is 35.927, degree of freedom is 149, and the p-value is 0.00, which is less than 0.05. The null hypothesis is thus rejected and the alternative is accepted. Technology will minimise the inherent risks of carving processes.

Null hypothesis (H_0): Technology will not reduce carver fatigue.

Alternate hypothesis (H_a): Technology will reduce the fatigue of carvers.

From table 1, it is found that t-value is 36.979, with degree of freedom 149. and p-value is 0.00, which is less than 0.05. The null hypotheses is rejected and the alternate hypothesis is accepted. It is concluded that technology will significantly reduce carver fatigue.

Table 2: Chi-square tests

	Value	df	Asymp. Sig. (2-sided)	Decision
Pearson chi-square	11.118	5	0.049	Rejected
Likelihood ratio	13.432	5	0.02	
Linear-by-linear association	6.318	1	0.012	
N of valid cases	150	—	—	

Source: Primary Data using SPSS v.20

Null hypothesis (H_0): The process of re-engineering is independent of the education of carvers.

Alternate hypothesis (H_a): The process of re-engineering is dependent of education of carvers.

The introduction of stone in architecture by cutting rock caves during the Mauryan period became particularly popular after the successor of Ashoka assumed the throne. Several sculptors or stone carvers were engaged to build temples and monuments

It is revealed from table 2, that the chi-square value is 11.118, with a five degree of freedom, and p-value is 0.049, which is less than 0.05. The null hypothesis is rejected and the alternative hypothesis is accepted. The process of reengineering is thus dependent of the education of carvers.

Findings

Training on the reengineering process in stone carving, accelerates the speed, coupled with the increased productivity of carvers. New business processes in stone carving leads to cost reduction and quality. Also, technology used in the carving process, exposed workers to health hazards, despite reducing the fatigue.

Conclusion

Based on continuous observations on the sculpting process, sculptors nowadays should utilise modern technology. Stone carving is an unorganised sector and the industry is not assessed by any certified quality institution. It is desirable for carvers to attain formal education along with related reengineering of carving processes. **MA**

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Fate of GST: Economy in waiting



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The month of July comes with a mix of novel fiscal experiment, a huge disaster in the capital of an empire and a daring military exploit in ancient and modern History. It was in the month of July in the year A.D 64 that the city of Rome was gutted by wild fires. According to Roman historian Tacitus, the mysterious fires destroyed three of the fourteen districts of the city and inflicted considerable loss of property in the seven. Only four districts were left standing. The enigmatic reigning young Emperor Nero had prior to the fires endeared himself to the commoners by reducing Indirect taxes at the points of entry into his empire in order to lower the prices of commodities and checking overzealous tax collection by his taxmen by issuing a decree for the prompt initiation of and priority in judicial proceedings against taxmen against whom there were complaints of having forced excess tax collection from the tax-payers. I have recounted in one of my previous articles in the Management Accountant how Arthashastra forbade Mauryan royal officials from resorting to excess collection of taxes and prescribed as a punishment the transfer of such overzealous officials to the dangerous regions of the country. Taxmen are nowadays rewarded with choice postings, certificates of appreciation and promotions for exceeding their tax targets! Emperor Nero had to reverse course due to the consequences of the fire. The reconstruction of Rome after the fire losses required huge funds. Nero at the beginning was said to have spent from his own funds but was compelled to levy additional taxation and soon became unpopular. The tax collection degenerated into extortion. It is said that it was not the fire itself but the tax measures initiated by him after the catastrophic incident that led to increased unrest in the empire and his eventual demise within four years. It is interesting in the context of current Greek Debt crisis to note from Author A.J.S Spawforth's book "Greece and the Augustan Cultural Revolution" that Nero granted administrative autonomy and tax immunity to Greece which was later cancelled by the emperor Vespasian. It was also in July 1862 that President Abraham Lincoln introduced the first Income-tax in American history and

also created the Internal Revenue bureau to collect it. The US income-tax has had a chequered past and though it is well-ensconced by now, it has not been without its abiding detractors. In July in the year 1976, Israeli commandos launched a stunning 2500-mile military air-raid on the Ugandan airport at Entebbe to rescue successfully over a hundred people kept hostage by some Palestinian groups. In India, the July of this year has witnessed stalled hopes and persistent doubts on the GST coming. The fate of the GST reform hangs in the balance in the Rajya Sabha. The 122nd GST constitution amendment bill still awaits a second wind in the Upper House. The bill was referred to a select committee and the committee has submitted its report containing its recommendations. The highlights are as follows:

Additional tax up to 1%

The Bill empowers the centre to levy an additional tax, up to 1% on the supply of goods in inter-state trade. This tax will be given to the state from where the supply of the good originates. The Select Committee stated that the provision of 1% additional tax is likely to lead to cascading of taxes. Hence, it recommended that the term 'supply' be explained to mean "all forms of supply made for a consideration".

Compensation to states

The Bill permits Parliament to make a law to provide compensation to states for any loss of revenue from the implementation of GST for a period of upto five years. The Committee recommended that compensation would be provided to states for a period of five years.

This should satisfy states like west Bengal which are worried about potential tax losses from the GST.

Functions of the GST Council

The GST Council will make recommendations on the GST rates, including the bands of GST that may be levied. The Committee has recommended that the term 'bands' must be defined to include the range of GST rates over the floor rate, within which CGST and SGST may be levied on specific goods or services or classes of goods or services.

The GST Council is also tasked with making recommendations on taxes that would be subsumed by the central and state GST laws. The Committee has recommended that in the drafting of state GST laws, revenue sources of Panchayats, Municipalities etc must

be protected. State governments must also take measures to ensure adequate revenue flow to local bodies.

How far this suggestion will find favour with the states remains to be seen.

Dispute resolution

The Bill states that the GST Council would decide upon the modalities to resolve disputes. The Committee has recommended that the creation of a separate dispute settlement authority outside the Council would hamper the functioning of the GST Council in general and legislation in particular.

The Committee has also made certain other recommendations in relation to the implementation of GST. These include the levy of GST on Banking services, the GST Network (GSTN) etc.

GST rates of banking services

The Committee recommended that the GST rate for the banking industry should be minimal so as to ensure its international competitiveness and that if possible, Banking services could be kept outside the purview of GST.

GSTN

The GSTN is the comprehensive back-end infrastructure network for the management of tax data and reporting of the GST. The Committee noted that the non-government shareholding in GSTN is dominated by private banks, and that this is not desirable. It recommended that the non-government institution shareholding be limited to public sector banks and financial institutions. It also stated that the information technology preparedness of states must be improved. Further, the IT infrastructure, unified tax credit clearing mechanism may be put in place. The Select committee's report is appended with dissent notes given by the Congress, the AIADMK and the Left parties.

The Implications

The Goods and Services Tax (GST) has been well talked about and debated for the last several years. Since the introduction of GST in India requires an amendment to the constitution, the onset of GST statutes needs the arrival of the constitutional amendment. The Rajya Sabha Select Committee has finished its work and submitted its recommendations to the House. The government is interested in the bill but it needs the support of the Opposition parties to pass the bill with the requisite majority in the Upper House. From an analysis of the reactions to the Bill, the Select committee report, the dissent notes and the endless debates, the sticky issues in

the process of constitutional amendment are analysed as follows:

The VETO in the Union voting power in the GST Council

The Union government is bestowed with one-third weighted voting power which will be a clincher when seen in the context of the requirement of three-fourths voting required to pass tax proposals to be recommended by the GST council. In effect, it means that the central government can block any proposal from the states which it does not find to its liking. Without the support of the central government, no GST council proposal can pass muster, even if all the states have combined their voting power. The central government has justified this unique, freezing VETO on the ground that it is the principal architect and facilitator of the GST system in the country. Several state governments have disputed this voting power granting a veto to the central government by calling for reduction in the weightage of Union voting to 25% from 33% plus. A reduction of Union voting power to 25% will enable the States override the Centre if all of them combined. The Select Committee report prefers the weightage of 1/3rd voting power of GST council in the hands of the central government. A give and take approach on the part of the states will enable the union weighted voting to be seen as a check and balance against unviable tinkering by the states and the issue should not be seen as weakening fiscal federalism.

The cascading effect of 1% additional tax

There has been widespread opposition to the proposal to keep an additional 1% non-vatable additional tax which is seen to be bringing cascading effect. The Select Committee seeks to cushion the blow by recommending that this 1% tax should not be levied on the supplies made without a consideration, in effect exempting branch transfers and inter-plant clearances within the same business entity. However, it will be wise and prudent for the central government altogether to remove the 1% additional tax which will be a distorting presence in the functioning of the GST system. The revenues planned from this tax can instead be sourced from the GST compensation fund.

The all important GST standard rate

There has been no light on the crucial issue of the rates of GST in the country. A tax system will be made or marred by its effective incidence which will in turn depend on its nominal revenue neutral rate. The opposition party has called for a standard 18% which seems reasonable as

compared to the rate band of 20% to 23% favoured in the Union circles and in some of the States. However, there is a compelling case to seize the historic opportunity of a revolutionary new tax system and widen the tax base which will enable the GST to be levied at a rate at 16% or even less. It is a moot point whether the historical momentum and tax statesmanship will be in evidence in the formulation of the GST rates. Globally, taxes on Income, Profit, and Capital Gains yield higher tax revenues in the total tax basket in the case of developed and high-income countries. Developing and low-to-middle income countries such as India find that taxes on income, profit and capital gains do not yield as much as indirect taxes. In our country, almost two-thirds of total tax revenues of both central and state governments combined is realized from Indirect taxation. The implications of a high tax rate could be as follows:

- A. A high GST rate may discourage current average consumption and depress future investment, though it may lead to some savings in current expenditure.
- B. Optimum collection of revenues from a high GST tax rate can be attempted only if the tax administrations are well-prepared and well-trained. The information technology backbone is crucial to its success. The state of administrative efficiency at GST crossing does not inspire optimism. The tax agencies would be still devoting a considerable portion of their time in legacy issues pertaining to the previous tax systems displaced by the GST. Commensurate with the arrival of GST, the government should devise a plan to quickly deal with pending matters concerning previous taxation. The GST road ahead requires a clear field view unencumbered by the brooding presence of displaced taxation.
- C. A high GST tax rate comes with the moral hazard of indirectly incentivising tax evasion. Combating quick, new evasion in an emerging tax system will be a huge task.
- D. The GST constitution amendment Bill has promised better life and competitive prices for the industry and the consumers in its preamble. The assurances cannot be fulfilled with a high tax rate.

GST Dispute resolution

The Select Committee recommends that keeping a separate dispute settlement authority outside the GST council would hamper the functioning of the GST council later. This recommendation effectively means that the GST council will become a powerful tax body and may

even be in the nature of a tax parliament. It will be ideal if the GST council is not encumbered with dispute resolution tasks.

High GST and the risk of BEPS

Globally, tax agencies are grappling with the phenomenon of Base Erosion and Profit Shifting (BEPS) which in plain English means the ability of agile multi-national firms to shift their main accounting and profits to low-tax jurisdictions or low-tax schemes resulting in sub-optimal tax revenues for affected tax jurisdictions. If India were to adopt a high GST higher than the Asian peers, there is the prospect of BEPS risk afflicting the country even more than at present and we could witness a renewed foreign investment drought. That is the reason why introducing a new tax system on which a country of the size of India has to depend is not a walk in the park in the twenty-first century. Only a coordinated global fiscal discipline and meaningful cooperation among countries can tackle the spread of BEPS. It is a long journey.

Conclusion

In all the debate on the GST including the tortuous progress of the GST Constitutional amendment bill, it would come as a sad surprise that there has been little or no attention paid to the question of whether the citizens of the country who will ultimately pay the tax to the government will get a fairer deal. There is no concerted plan of action to ensure that the GST system witnesses better treatment of the taxpayers and also will result in elimination of widespread and endemic tax overcharging by the tax departments. Replacing the existing taxes merely with new taxes is not a solution to the tax crisis facing the country. It must be understood that the greater tax flows that the government seeks cannot simply be coerced from the taxpayers. There are two ways of generating greater taxation. One is to simply increase the tax rate and force it down on the taxpayers with strict rules on compliance and enforcement which will certainly degenerate into harassment on the ground. The other salutary method is to strive to increase the economic activity in the country which in turn will increase the number of taxable economic exchanges of goods and services among the people yielding higher taxation. It is obvious which method is prudent and preferable in the long run. Seeing the vision requires self-belief as well as statesmanship on the part of decision-makers. Only History will tell, but time is running out even for a nation steeped in timeless traditions. **MA**

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A New Armory to fight illegal money Stashed Abroad



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Govt. of India has repeatedly reiterated its abiding commitment to track down and bring back income and wealth illegally stashed abroad. Such income legitimately belongs to India. The present income tax law has not been able to deal with this problem. More than half a century has gone by. The operation of the present Act only showed how difficult it is to lay our hands on undisclosed foreign income and wealth. At last, Govt. recognized the limitations under the existing legislations. A comprehensive new law on black money has just been enacted specifically to deal with such money stashed away abroad.

Key Features

While presenting the Budget 2015-16, our Finance Minister highlighted some of the key features of the new law on black money.

“With your permission, Madam Speaker, I would like to highlight some of the key features of the proposed new law on black money.

(1) Concealment of income and assets and evasion of tax in relation to foreign assets will be prosecutable



T.C.A. Sangeetha

with punishment of rigorous imprisonment upto 10 years. Further, this offence will be made non-compoundable; the offenders will not be permitted to approach the Settlement Commission; and penalty for such concealment of income and assets at the rate of 300% of tax shall be levied.

(2) Non filing of return or filing of return with inadequate disclosure of foreign assets will be liable for prosecution with punishment of rigorous imprisonment up to 7 years.

(3) Income in relation to any undisclosed foreign asset or undisclosed income from any foreign asset will be taxable at the maximum marginal rate. Exemptions or deductions which may otherwise be applicable in such cases, shall not be allowed.

(4) Beneficial owner or beneficiary of foreign assets will be mandatorily required to file return, even if there is no taxable income.

(5) Abettors of the above offences, whether individuals, entities, banks or financial institutions will be liable for prosecution and penalty.

(6) Date of Opening of foreign account would be mandatorily required to be specified by the assessee in the return of income.

(7) The offence of concealment of income or evasion of tax in relation to a foreign asset will be made a predicate offence under the Prevention of Money-laundering Act, 2002 (PMLA). This provision would enable the enforcement agencies to attach and confiscate unaccounted assets held abroad and launch prosecution against persons indulging in laundering of black money.

(8) The definition of 'proceeds of crime' under PMLA is being amended to enable attachment and confiscation of equivalent asset in India where the asset

located abroad cannot be forfeited.

(9) The Foreign Exchange Management Act, 1999 (FEMA) is also being amended to the effect that if any foreign exchange, foreign security or any immovable property situated outside India is held in contravention of the provisions of this Act, then action may be taken for seizure and eventual confiscation of assets of equivalent value situated in India. These contraventions are also being made liable for levy of penalty and prosecution with punishment of imprisonment up to five years."

Is the new law draconian?

The Undisclosed Foreign Income and Assets (imposition



of Tax) Act, 2015, received the assent of the President and has been published in the Official Gazette. It lays down the procedure for dealing with undisclosed foreign income and assets and provides for imposition of tax on such undisclosed foreign income and asset held outside India. The Novelty lies in the fact that the new Act will operate side by side with the present income Tax Act, 1961. One will deal with black money within India; the other with black money abroad. It has been considered draconian by many critics and difficult to decode (see Economic Times dt. 6th July, 2015). It has been subjected to criticism on the ground that it levies tax on money that has probably been spent. Properties acquired abroad will be taxed on the basis of violation report of a valuer recognized by Govt. of that country. There are several grey areas to be clarified. If the property is sold, how will we deal with the sale proceeds and the gains if any?

What about unlisted Shares? How will they be valued?

Time Limit

A crucial difference between the Act of 2015 and the Act of 1961 lies in the period covered. Income Tax Act, 1961 permits reopening of assessments upto a maximum period of 16 years, depending on the facts of the case. The new Act on foreign money and the undisclosed assets prescribed no such time limit. Even income and assets relating to a period beyond 16 years can be brought to tax.

Opportunity to Come Clean

Taking advantage of the psychosis created by the new law, Govt. has come up with a new scheme which will enable those with undisclosed foreign income and assets to come clean and file voluntarily a return under the new law. This has to be done before 30th Sept, 2015. Such voluntary disclosure will help them to escape prosecution. For this purpose assets will have to be valued at cost or fair market value on the valuation date, whichever is higher. Tax will be at 30% and penalty 30%. Such voluntarily disclosure will help avoid imprisonment upto 3 to 10 years. Disclosures have to be made between July 1st and 30th Sep 2015. Taxes and penalties will have to be paid before 31st Dec, 2015. This is a onetime opportunity for compliance available for a limited period only. Govt. is hoping that fear of prosecutions will result in large scale compliance. The new scheme is not considered an amnesty scheme because it levies penalty. It will benefit our software professionals who can declare their foreign holdings before Sep 15, 2015.

The American Scene

Our tax laws are modeled on their western counterparts. America has been in the forefront in leading the global assault on tax dodgers and their enablers. Tracking down on tax evasion has been a core piece of President Obama's Agenda. The American campaign against black money has been called 'historic and ground breaking'. When the American Congress passed the Foreign Accounts Tax Compliance Act in 2010, it knocked a hole in the impregnable secrecy of Swiss Banks. The Act forces financial firms around the world to disclose their American clients or face penalties. Several Swiss Banks pleaded guilty and chose to comply with the new law. Well known financial institutions like the UBS, Wegelin, Credit Suisse, Julius Bar and HSBC, Switzerland have come for settlement with the Inland Revenue. European countries exploited the weakness shown by these financial institutions. Credit Suisse had over 22,000 tax dodging American clients. The aim in America's efforts to curb tax evasion is not necessarily to maximise convictions but to curb those hiding money to come forward. The voluntarily-compliance program of the IRS brought in \$ 7billion in black taxes and penalty from 60,000 individuals. It became controversial when it allowed for anonymous payment and no admission of guilt. The focus has been mainly on Switzerland (see Economist dt.11.7.2015). The IRS regulators are well ahead of their European counterparts. American prosecutors have won more cases than they have lost.

Conclusion

At a recent conference of top income tax officials, the Central Board of Direct Taxes has come out with a strategy paper suggesting that the need of the hour is to effectively launch prosecution in willful cases of tax evasion even without waiting for the outcome of any other appellate process. Tax evasion is endemic and rampant. Surveys and searches can never be the solution. Remedy lies in creating credible deterrence so that potential evaders desist from crossing the red line.

The Board advised taxman to instill the fear of "incarceration, loss of liberty and social opprobrium" in tax evaders and prosecute them in large numbers to create a credible deterrence against the menace of black money.

One year from now, we will be able to view the results of the stringent action taken by the Govt. in fighting the menace of black money. **MA**

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Tax Titbits

MANAGEMENT
ACCOUNTANT

(i) Time of filing return extended

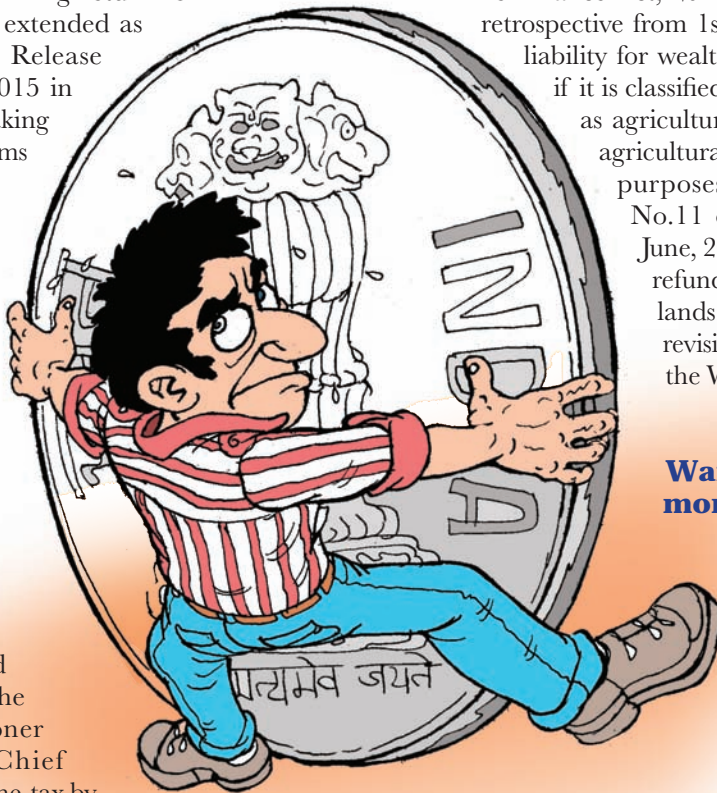
Time limit for filing return for the A.Y. 2015-2016 is extended as conveyed by a Press Release issued on 31st May, 2015 in view of the delay in making available the revised forms of income-tax returns.

(ii) Powers of condonation delegated

The power to condone the delay in making an application for refund in case of genuine hardships for refunds between Rs.10 lakhs and Rs.50 lakhs is delegated by the Central Board of Direct Taxes to the Principal Commissioner of Income-tax/ Chief Commissioner of Income-tax by Circular No.9 of 2015 dated 9th June, 2015. Power for claim above Rs.50 lakhs will continue with the Board, while refund below Rs.10 lakhs will be with the Commissioner. Applications for condonation will be disposed of within six months from the end of the month in which the application is filed. It is, however, provided that no interest would be permissible for such refunds for which delay has been condoned.

(iii) Wealth tax wrongly paid on urban land will be refunded

The Finance Act, 2013 by an amendment retrospective from 1st April, 1993 spares liability for wealth tax on urban land, if it is classified in the State records as agricultural land and used for agricultural purposes. Board Circular No.11 of 2015 dated 11th June, 2015 concedes right to refund on tax paid on such lands on an application for revision under section 25 of the Wealth Tax Act, 1957.



Warnings for black money hoarders

(i) Income-tax Department has access to information across the borders

Press Release dated 3rd June, 2015 reports, that the Government of India is a party to a multilateral competent authority agreement for automatic exchange of information, which covers sixty member countries. This is apart from ninety four countries with which India has Double Taxation Avoidance Agreements, which contains provision for exchange of information. The result is that the Government of India can receive information

from almost every country about the taxpayers' activities abroad on matters relating to black money. Obviously the purport of the Press Release is to warn the taxpayers about the risk of hoarding black money abroad.

(ii) New policy to launch prosecution for tax defaults

Reports of Central Action Plan of the Income Tax Department is to launch prosecution for the F.Y.2015-2016 not to confine its activities to soft actions and raids, so as to provide effective deterrents in extreme and big cases of tax evasion even without waiting for the outcome of normal appeal process. The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 already provides prosecution for the imprisonment for ten years which is longer than any period of incarceration thus far. Apparently, it is the belief of Tax Administration that compliance is invariably proportionate to the period of imprisonment. The period has increased from two years to five, seven and now ten years. Will the next amendment to law is only sentence for life, if not death! Rational choice of cases for scrutiny and investigation would be a far more effective solution.

Fallout of TDS provisions

(i) Tax credit for tax deducted, but not deposited

An assessee is entitled to the credit under section 199 of the Act for tax deducted at source, though deducted tax may not have been deposited by the deductor with the Government. In such a case, a demand ignoring the tax credit is not to be enforced vide Instruction No.275 dated 1st June, 2015 asking the Assessing Officers not to put the deductees to any inconvenience on account of the default of the deductors. It is a welcome Circular.

(ii) TDS credit on exempt income – Whether could be denied?

An Assessing Officer understood, that tax credit is available only when tax is payable on such income in a case where the related income was

exempt under section 10A. The Tribunal had to intervene in *Blue Star Infotech Ltd. v. Asst. CIT* (2015) 57 taxmann.com 386 (Mumbai-Trib) and direct refund of deducted tax. Fortunately, a recent Board Instruction No.275 dated 1st June, 2015 points out, that section 199 is mandatory and that in the event of a mismatch between tax deducted and credit claimed, there can be no recovery of tax against deductee. It is also a welcome Circular, because section 199 is being wrongly understood to mean, that tax credit is only against tax payable. The Assessing Officers could not possibly be blamed because sub-rule (3) of Rule 37BA inserted by the Income-tax (Sixth Amendment) Rules, 2009 with effect from 1st April, 2009 has foisted this myth. The sub-rule reads as under:

“(3) (i) Credit for tax deducted at source and paid to the Central Government, shall be given for the assessment year for which such income is assessable.

(ii) Where tax has been deducted at source and paid to the Central Government and the income is assessable over a number of years, credit for tax deducted at source shall be allowed across those years in the same proportion in which the income is assessable to tax.”

This Rule goes beyond the law. The Board should amend the Rule and explain to the field officers, that where there is no income to be assessed in the year for which tax is deducted, the tax deducted should be refunded. The statute does not contemplate a running ledger account of each assessee in the matter of tax deducted at source.

(iii) TDS – No deduction under section 40(a)(ia)

The expenditure on legal fees was being booked by the assessee on estimate as at the end of the year by way of provision, but the same was reversed at the beginning of the subsequent financial year. The Assessing Officer disallowed the said provision under section 40(a)(ia) on account of non-deduction of the tax as in his view the liability had crystallized on provision during the year. The assessee submitted that the tax relating to the corresponding provision has been duly deducted and paid by the assessee at the time of actual payment in the next year. The Tribunal in *Nortel Networks India (P) Ltd. v. Addl.CIT* [2015] 40 ITR (Trib) 102 (Del) upheld the disallowance

of the provision claimed during the year for non-deduction of tax at source under section 40(a)(ia), but directed the Assessing Officer to allow deduction in the year in which it was deducted and paid. The decision needs review as tax is not required from a mere provision made on estimated liability with the amount not credited to any particular party. Probably, the only remedy for assessee against abuse of law is not to make a provision in law, so as to avoid the contingency of disallowance under section 40(a)(ia), but to claim it as an adjustment in computation of taxable income.

(iv) Amount not paid for services rendered by human agency are not technical fees – No TDS

Where the assessee had claimed deduction of payment for leased-line expenses under the head ‘communication expenses’ without deduction of tax at source, it was disallowed by the Assessing Officer purportedly under section 40(a)(ia) of the Act for non-deduction of tax at source on the ground that payments are for technical services requiring tax deduction under section 194J. The disallowance was deleted in first appeal. The Tribunal in *Asst. CIT v. Torry Harris Business Solutions P. Ltd* [2015] 40 ITR (Trib) 256 (Bangalore) upheld the order in first appeal and held, that the expression ‘technical service’ would relate only to service rendered by a human agency and would not include any service provided by machines or robots, following the decision of the Madras High Court in the case of *Skycell Communications Ltd. v. Dy.CIT* [2001] 251 ITR 53 (Mad), wherein it was held that installation and operation of sophisticated equipments with a view to earn income by allowing customers to avail the benefit of the user of such equipment, does not result in the provision of technical service to the customer for a fee. It was also held that technical service referred to in Explanation 2 to section 9(1)(vii) contemplated the rendering of a ‘service’ to the payer of the fee and not to mere collection of an amount for use of a standard facility provided to all those willing to pay for it.

(v) Payments for removal of encroachments not covered by section 194L/ 194LA

A Government Authority engaged in the project of road-widening scheme acquired immovable property

for its various projects. Where the project affected some persons, they were compensated as provided in the Land Acquisition Act, 1894. The Assessing Officer treated the assessee as an assessee-in-default for non-deduction of tax at source under section 194L/194LA and raised a demand of tax failed to be deducted under section 201(1) and interest for delay under section 201(1A) of the Act. The demands were cancelled in first appeal as the compensation was not to owners, but to those in unauthorised and illegal occupation. On departmental appeals, the Tribunal in *ITO (TDS) v. Mumbai Metropolitan Regional Development Authority* [2015] 40 ITR (Trib) 60 (Mumbai) confirmed the order of the Commissioner (Appeals) pointing out that the roads in these cases belonged to the State. It was only the encumbrances which were removed by the assessee by making payments of the amounts as compensation. Merely because they were described as compensation, the provisions to section 194L/194LA of the Act could not be applied.

(vi) Payments for maintenance contracts are not technical fees – Section 194C v. 194J

The assessee has made payment towards annual maintenance of air conditioners and lifts from which tax was deducted at 2% under section 194C of the Act as works contract, whereas the Assessing Officer was of the opinion that these services fell under the category of technical services subject to TDS under section 194J of the Act requiring tax deduction at 10%. A shortfall in deduction of tax to the extent of Rs. 73,79,004 was inferred and the assessee was made liable for the difference under section 201(1) and interest under section 201(1A) of the Act. The Tribunal in *ITO (TDS) v. Mumbai Metropolitan Regional Development Authority* [2015] 40 ITR (Trib) 60 (Mumbai) held, that the payments have been made by the assessee only in respect of annual maintenance contract, which relates to minor repairs, replacement of some spare parts and oiling and greasing of the machinery. These services do not require any technical expertise and therefore cannot be categorised under the head “Technical services”. There was, therefore, no default on the part of the assessee, so that departmental appeal was dismissed. **MA**

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Interest Rate Risk Management: A HDFC Case Study



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HDFC started off in 1977 as a mortgage bank and operated like S&Ls in the first few years and raised retail deposits. This did not create much problem for the entity in the administered interest rate regime

Housing finance institutions (HFIs) provide financial assistance to acquire houses that calls for a substantial financial outlay in excess of financial eligibility of the potential buyer. Most HFIs have a substantial asset-liability mismatch in their balance sheets because mortgage loans (assets) have a longer tenure compared to the sources of finance (liabilities). The sources of finance of HFIs depend on their financing pattern. There are four different types of housing finance arrangements: direct (the informal route), deposit-taking (retail deposits from households), mortgage bank (wholesale borrowing and retail lending), and the contract system (borrower savings for several years before accessing credit). Interest rate risk arises out of asset-liability mismatch because risk profile of long-term mortgage loans is different from that in the short-term. Risk profiles of securities are substantially lower during an administered interest rates regime, where the government presets them. In such a regime, the HFIs follow a simple financial strategy of 'riding the yield curve' and the managers are referred

to as 3-6-3 bankers.

During periods of administered interest rates, the yield curve is normally upward sloping because maturity premium on long-term securities is greater than the short-term ones. Financial markets in a deregulated regime, on the other hand, have no government-preset interest rates. It is rather determined by the demand and supply of money. The yield curve, as a result, is flatter and/or inverted and the strategy of 'riding the yield curve' is doomed. Also, in this period, there is considerable volatility of interest rates that creates sizeable risks. Rajwade (2002) noted the adverse impacts of deregulation in the US financial markets on the operations of the savings and loan associations (S&Ls) that are considered an important pillar of the US housing finance industry. In the Indian financial market, the deregulation process was initiated in 1991 (Nayar, 2001). Indian HFIs, in contrast to the S&Ls, were able to manage their interest rate risk during their initial years of operation.

The S&Ls debacle of the 1980s was a direct fallout of the deregulation process. The financial strategy of ‘riding the yield curve’ was destined to fail in a market-led interest rate regime. This researcher also studied the financial reports of Housing Development Finance Corporation (HDFC) since inception, to comprehend its financing pattern. A paradigm shift in the financing pattern of HDFC was observed. The shift of financial strategy is suited to counter-shift risk profiles in the housing finance business in India and thus HDFC managed to create a niche in the industry.

US HFIs

Lea (1996) noted that the US housing finance industry underwent three evolution phases. In the first phase between 1831-1931, the country witnessed growth of mortgage lending institutions and instruments. The second phase, 1932 to 1981, featured growth of government sponsored enterprises (GSEs) that dealt in mortgage-backed securities (MBS). The period after 1981 is considered as an era of specialised institutions (special circuits) and innovative technology. The S&Ls and savings banks, two major types of special circuits, operated in the US mortgage finance sector even prior to the first phase. These entities followed the deposit-taking route and were labelled as ‘thrifts’ (depository institutions that raise finance through retail time deposits and advance residential mortgages loans). The S&Ls operated exclusively in the housing finance sector while the savings banks started as safe repositories for household savings.

The S&Ls are a cornerstone in the US housing finance industry. The first S&L was founded in Charleston, South Carolina in 1840. The US mortgage finance industry was largely scattered between 1840 to 1930. The Federal Home Loan Bank Act, 1932, provided the long overdue impetus. The act established the Federal Home Loan Bank Board (FHLBB) that supervised the Federal Home Loan Bank System (FHLBS). The FHLBS comprised 12 regional home loan banks that were to sell bonds in the capital market and lend proceeds to various S&Ls. The National Housing Act, 1934, was another important step. It created the Federal Savings and Loan Insurance Corporation (FSLIC), for insuring deposits of S&Ls. The FSLIC was later brought under the supervision of the FHLBB.

The S&L debacle

The S&L industry grew rapidly in the 1920s. The gross assets of these associations increased from \$2.8

billion in 1922 to \$7.4 billion in 1929. The number of such associations increased from 8,600 to 12,000 during this time. S&Ls accounted for over one-third of the new residential mortgages (Kohn, 1999).

S&Ls underwent their second boom phase from 1940 to 1967 when their assets grew from \$6 billion to \$144 billion. But they suffered a major setback in the 1980s when the industry lost \$6 billion in 1981 and \$5 billion in 1982. These entities earned meagre profits between 1983 to 1986. The number of S&Ls fell from 5,050 in 1980 to 3,200 in 1986. The FSLIC closed or resolved 296 institutions with total assets of \$125 billion (table 1) from 1986 to 1989.

An even more shocking period followed, with the creation of the Resolution Trust Corporation (RTC) in 1989. Within 1995, this trust had resolved 747 more thrifts with total assets of \$394 billion. Prior to 1986, the thrift insurance fund of FSLIC was able to cover losses from thrift failures. But in 1986, FSLIC was reported insolvent and had to resolve or close the cases of the various defaulting S&Ls. Recognition of FSLIC insolvency in 1986 was a watershed moment because many observers realised that the taxpayer’s involvement in the resolution of the crisis was a strong possibility.

Table 1: Thrift failures, 1986–1995 (\$ millions)

Year	FSLIC		RTC	
	Number	Assets (\$)	Number	Assets (\$)
1986	54	16,264		
1987	48	11,270		
1988	185	96,760		
1989	9	725	318	134,520
1990			213	129,662
1991			144	78,899
1992			59	44,197
1993			9	6,148
1994			2	137
1995			2	435
Total	296	\$125,019	\$747	\$393,998

Source: http://www.fdic.gov/bank/analytical/banking/2000dec/brv13n2_2.pdf

Though various authors have provided several reasons for the S&Ls crisis, the researcher here focuses on the issue of their interest risk management.

As already said, the S&Ls followed a simple financial

strategy of ‘riding the yield curve’. These entities did not immunise (hedging technique to counter interest rate risk) their respective portfolio of securities by matching the duration (measure of interest rate sensitivity of securities) of the assets (mortgage loans) with the duration of the liabilities (retail household deposits). In a regulated environment, the term structure of interest rates suggests that the yield curve is upward sloping. The financial strategy of riding the yield curve, as a result, was successful.

But since the early 1980s, the US financial market underwent severe deregulation measures, and the administered interest rate regime prevalent during the 1960s and 1970s, paved the way for a market led model of interest rate fixation. This forged severe volatility. During this period, high inflation coupled with the process of deregulation of interest rates, posed a major threat to the simple financial strategy of ‘riding the yield

The HDFC case

HT Parekh, the first chairman of HDFC, dreamt of mortgage finance in India in the 1930s when he was a student of the London School of Economics. The building societies of Great Britain and the S&Ls of the US inspired him to try something similar for India. HDFC was incorporated in 1977 to blend the three major issues: housing, finance and development. Parekh emphasised on short-term deposits to service long-term mortgage loans, provided that the cycle of operation is maintained. He was influenced by the success of S&Ls. Parekh was a proponent of ‘riding the yield curve’ in India. HDFC’s financials, in the initial years of operation, reflected Parekh’s strategy.

Though HDFC was conceived as a mortgage bank which became a wholesale borrower, and later a retail lender, a closer look at the assets and liabilities of the company 1982-83 (table 2) suggests that it operated

Table 2: HDFC assets and liabilities as at 30 June, 1983

Liabilities	Amount (₹ million)	Percent	Assets	Amount (₹ million)	Percent
Loans			Housing loans		
From banks	243.70	20.09	Individuals	764.40	63.02
LICI	100.00	8.24	Corporate bodies	175.90	14.5
GIC	30.00	2.47	Cooperatives	34.40	2.84
IFC	23.90	1.97	Others	1.10	0.09
ICICI	2.30	0.19	Investments	31.30	2.58
Certificate of deposits	666.00	54.92	Net current assets	183.50	15.13
Loan linked deposits	4.70	0.39	Other assets	22.30	1.84
Share capital	100.00	8.24			
Reserves and surplus	42.30	3.49			
	1212.90	100.00		1212.90	100.00

Source: <http://books.google.co.in/books?hl=en&lr=&id=d-IIR-UVHSgC&oi=fnd&pg=PP13&dq>

curve’ for S&Ls. This especially affected the S&Ls as there was mismatch of duration of long-term mortgage loans and the corresponding short-term retail deposits. The S&Ls suffered as interest rate rose since the basic principle states that the interest rate sensitivity of long-term securities is more than the shorter ones. The value of the assets of these entities declined sharply, so did their value of the business.

largely as thrifts in its first few years.

Public deposits were the main sources of funds for HDFC and constituted 54.92 percent of its total funds. These were issued in ₹ 1,000 denominations with maturity periods from six months to five years. Interest from these deposits was exempt from income tax and wealth to a maximum of ₹7,000 and ₹1,65,000 respectively. In October 1982, the interest rates varied

from nine percent (on six-month deposits) to 12 percent (on five-year deposits). The denominations, tenure and the tax advantage of the certificates suggest that these were largely for retail investors. Though HDFC was formed as a mortgage bank, it actually acted as thrifts (raising most of its funds from retail depositors) and followed the deposit-taking route of housing finance. The company, initially, rode on the yield curve as the term structure of interest rate. It suggests that the interest rate on long-term housing loan was more than that of short-term public deposits. The strategy operates perfectly in an administered interest rate regime when the market interest rate is less volatile. The S&L debacle highlighted that ‘riding the yield curve’ is not a suitable financing strategy for HFIs in a deregulated interest rate regime. Interest rates, in India, were deregulated in the early 1990s, which increased the interest rate risk for the HFIs.

HDFC depended heavily on the certificate of deposit route of financing during the early years of operation. The impact of thrift failures, evident during 1986-95, along with the deregulation of the interest rate regime in India, suggests that for a HFI, shifting away from the deposit-taking route and depending on the capital market for source of finance in a deregulated interest rate regime, is win-win strategy. HDFC, later, shifted from the financial strategy of ‘riding the yield curve’. It is argued that the company learnt from the mistakes of the S&Ls and started acting more as a mortgage banker though there could be other reasons for this shift.

It is clear from the company’s balance sheet that the sources of finance are categorised either as shareholder’s funds (share capital, and reserves and surplus) or loan funds raised from scheduled commercial banks (SCBs) and other financial institutions, debentures (convertible, redeemable, non-redeemable and subordinate), and public deposits (short term certificates). All other sources of finance are found to be long term and are thus considered as ‘other long term borrowings’. Public deposits in the company increased marginally between 1991 to 1999, from 30.02 percent of total funds to 44.54 percent (₹603.18 crore to ₹5,252.40 crore). But between 2000 to 2008, deposits fell significantly from 41.26 percent (₹6,223.84 crore) to 13.93 percent (₹11,296.25 crore). The decline was also repeated between 2009–14 when it fell further from 19.98 percent (₹19,374.66 crore) to 8.76 percent (₹19,785.82 crore). Total funds and public deposits of the company is significantly small in comparison to its total funds. Public deposits grew in the initial years but declined steadily since 1998 and fell sharply since 2005.

The short-term certificate of deposits that comprised 54.9 percent of total funds in 1983, are no longer favoured by the company. It now prefers debentures and other long-term borrowings that are linked to the capital market. HDFC has made a strategic shift in its financing policy following the deregulation in the interest rate regime and have learnt a lesson that ‘riding the yield curve’ as a financing and investment strategy does not work in a deregulated interest rate regime.

Conclusion

The traditional gap model advises on its minimisation (difference between rate sensitive assets and rate sensitivities liabilities) to mitigate interest rate risk embedded in the balance sheet of financial institutions. In the case of HFIs, the ‘gap’ is bigger and they are more susceptible to interest rate risk because the duration of the assets (mostly mortgage loans) are higher than the duration of the liabilities (funds raised to finance the assets). In the US, S&Ls (HFIs that raised finance through the deposit-taking route) followed a simple financial strategy of ‘riding the yield curve’, which is suited only when the yield curve is upward sloping. A regulated interest rate regime features an upward sloping yield curve and thus all S&Ls succeeded. The US financial system underwent major changes in the 1970s and interest rates were deregulated which led to volatility in market interest rate. The simple financial strategy of S&Ls failed and created a severe crisis.

In India, HDFC started off in 1977 as a mortgage bank. Financials of the company suggest that the company operated like S&Ls in the first few years and raised retail deposits. This did not create much problem for the entity in the administered interest rate regime. The paradigm shift in the financial policy of HDFC is a direct fallout of the S&Ls debacle. HDFC considered it as a failure to ride the yield curve that created a niche for the company in the Indian housing finance industry. MA

Annexures

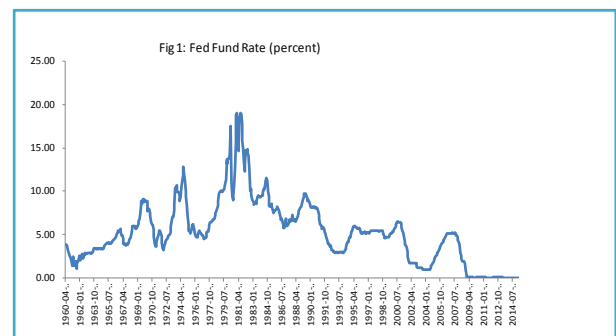


Fig 2: Total Funds ofHDFC and Public Deposits

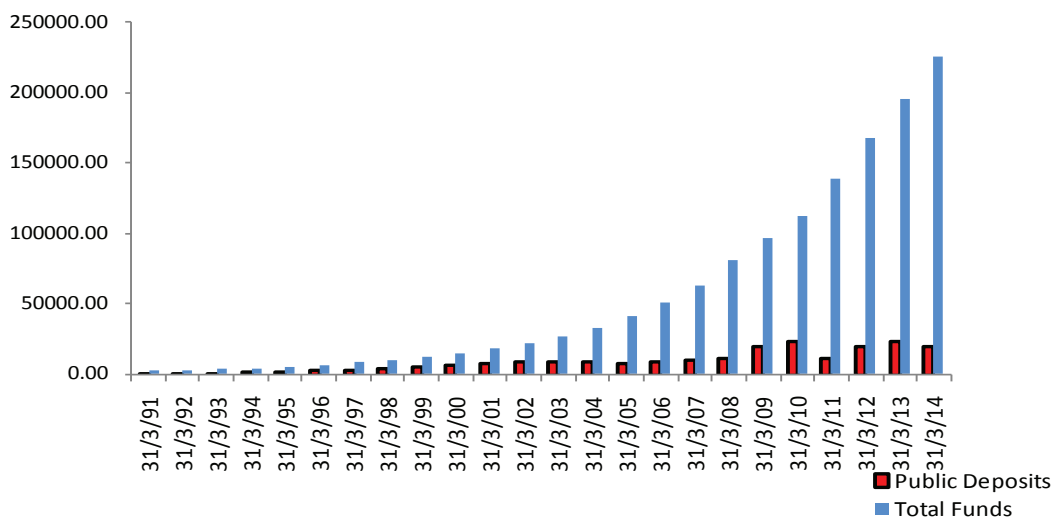
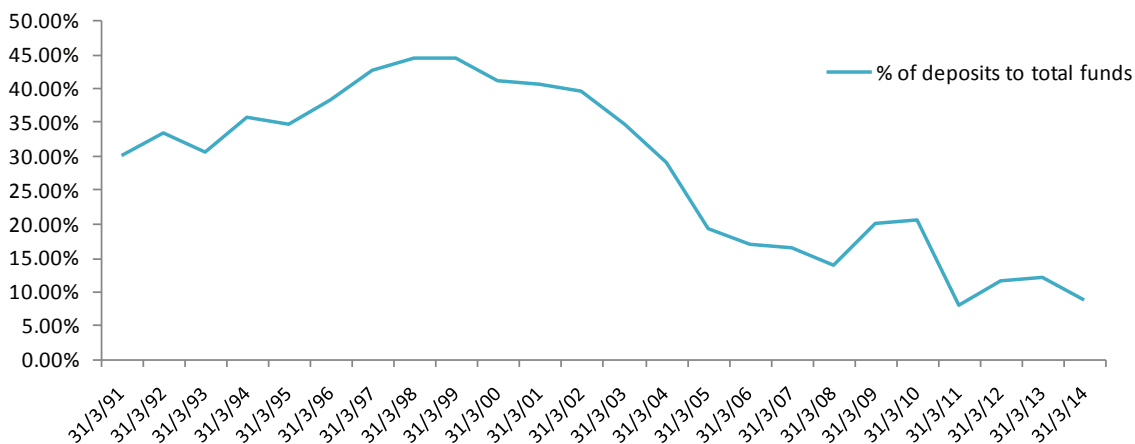


Fig 3: Percentage of Public Deposits to Total Funds



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A Study on Financial Literacy in and around Kolkata



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Over the recent years, financial literacy has become a major area of concern for governments, banks, community service groups and other similar organisations in India. People largely lack basic knowledge about financial matters, required to take household decisions, day-to-day money management as well as saving for the long term. Lack of financial literacy often makes consumers vulnerable to financial crises. It also adversely affects market operations and competitive forces. On the other hand, consumers who are well informed and knowledgeable can help to create a more competitive and more efficient market system. Knowledgeable consumers demand products that meet both their short-term and long-term financial needs. Vendors, thus, try to create products and services having characteristics that best suit such demands for collecting investible funds from the public.

The researchers chose West Bengal for the study. Recurrent financial frauds are a major area of concern in this state. The collapse of Sanchayita Investments in 1979 brought to light one of the then biggest financial scams. In the 1980s, Sanchayani Savings & Investments India and Verona Commercial Credit & Investments, two residuary nonbanking financial companies, again ruined millions of small depositors and wiped out investor wealth worth crores. People of West Bengal, surprisingly, never learnt any lesson and again fell prey to a similar but much bigger scam in 2013. The collapse of the Saradha Group (incorporated in 2008), exposed a financial scam worth about ₹30,000 crore. The group ran various collective (ponzi) investment schemes in eastern India. Investors were convinced that their deposits will be invested in credible projects and they will receive astronomical

returns. Agents were lured with high commission and they often brought in money liquidating bank fixed deposits. The company mostly targeted the poor and daily wage earners. The schemes they promoted were fraudulent and subsequently collapsed. Many other groups like Saradha like MPS and iCore are allegedly collecting public money through similar deposit schemes.

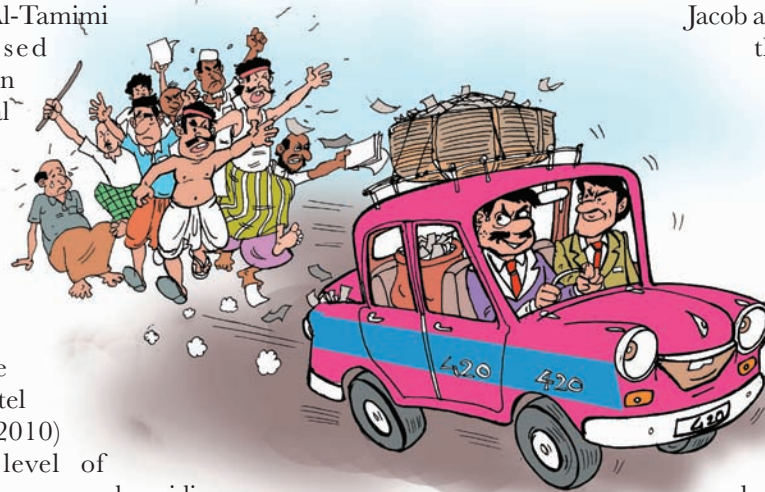
But the total amount of money collected from fraudulent dealings and scams have not been entirely reported by the media. People from rural and semi-urban areas, particularly those from the unorganised labour markets, were the ones mostly affected in scams. The urban people were reluctant to disclose their losses in this regard. The study was thus attempted to first determine the status of financial literacy in some selected pockets of West Bengal, giving weightage to factors like proximity to the respondents and convenience of data collection. Initially 100 people were targeted from Kolkata, and the North 24 Parganas and South 24 Parganas districts. The first two mainly covers city and urban areas whereas the last one has several rural and remote pockets that lend an ideal background to compare the literacy level based on domicile, like rural, semi-urban and urban areas.

Previous studies

Various studies were conducted from time to time across the world on financial literacy and household decision making. Chen and Volpe (1998), in their survey in the US, found lower levels of financial literacy among subgroups like students in the lower class, non-business majors, women and those with little work experience. Hilgert Hogarth and Beverly (2003) observed in another US study that financial knowledge could be statistically

linked to financial practices that are related to cash flow management, credit management, savings and investment. Campbell (2006) observed that some US households made gross investment mistakes like nonparticipation in risky asset markets, underdiversification of risky portfolios and failure to exercise options for refinancing mortgages. Lusardi and Mitchell (2008), found that older US women had little financial literacy in matters related to compound interest, inflation, stock risk, retirement planning calculation and planning tools. Kalli and Al-Tamimi (2009) assessed financial literacy in UAE for individual investors and found it to be far from the desired level. The same was also affected by income level, education level and workplace activity. Seth, Patel and Krishnan (2010) examined the level of financial literacy among people residing in and around Delhi, who invested in various financial instruments, and found their investments getting affected by age, income and educational level. Lusardi and Mitchell (2011) measured financial knowledge across Germany, New Zealand, the US, Japan, Sweden, Russia, Netherlands and Italy, and concluded that financial literacy is very low around the world, irrespective of the level of financial market development and the type of pension provided. They further found that women and the relatively older population had less knowledge regarding financial matters.

Melissa Donohue (2011), in her study, looked into gender-based differences in financial literacy in the US, with women having lower financial literacy than men, probably being caused by the disparities in women's access to capital. Nash (2012) observed inequalities in financial literacy across different sections of the population in India. Ramakrishnan (2012) identified financial literacy on the demand side of financial inclusion in a theoretical model. Diagne and Villa (2012) found widespread debt and financial illiteracy among people living below the poverty line in France. Financial illiteracy was more acute among women, elderly and the divorced, separated, or widowed. Thilakam (2012) observed that rural masses in India are comfortable



with conventional investment choices and are more risk averters than risk takers. Seshan and Yang (2012) provided a savings-oriented financial literacy workshop to migrant Indian workers in Qatar and observed large positive effects on migrant savings, and their remittance to their family after the workshop. Wood, Downer, Lees and Toberman (2012) found that couples in Britain do not typically enjoy managing their household finances, and also that only a few people emerged to be truly active in putting a retirement plan in place. Agarwalla, Barua, Jacob and Varma (2012) observed that financial knowledge among Indians, appeared to be low by global standard, who did not understand the basic principles of money and household finance. Mahdzan and Tabiani (2013) conducted an exploratory study in Malaysia which revealed that savings regularity, gender, income and educational level, influenced the probability of positive savings.

Bhushan and Medury (2013) observed that the overall financial literacy level among the salaried individuals in India is not encouraging. The level of financial literacy varies significantly among respondents based on various demographic and socio-economic factors like gender, education, income, nature of employment, and place of work whereas it does not get affected by age and geographic region. Brown and Graf (2013) have examined the financial literacy among Swiss households and found it to be lower among low-income and immigrant groups as well as among women. Bhushan (2014) inferred that Indians with low level of financial literacy invest their money in traditional financial products instead of the modern ones with higher returns.

A careful review of the existing literature in the area of financial literacy in relation to household decision making reveals that very few studies have focused on the relationship between financial literacy and investment preferences of individuals. More research is needed to understand how the financial literacy level awareness about products are available for investment. Another area of financial literacy which needs more focus is planning for insurance to understand individual perception in this

regard. Retirement planning and its association with financial literacy of individuals is another important aspect where more studies are required in India. It is noteworthy to mention that such studies have been done in good numbers in developed countries like the US.

Objectives of the study

The overall objective of the study is to assess the status of financial literacy in the selected zone of West Bengal and how various demographic factors like age, gender, domicile, occupation, educational background, household income, marital status and other factors affect their financial literacy. Thus, the study attempts to look into the financial knowledge and financial planning ability of such individuals as the two primary constituents of financial literacy.

Questionnaire

A comprehensive questionnaire was designed to cover major aspects of financial knowledge and household financial planning for the purpose of collection of primary data. It included questions to examine the individual's financial literacy in matters related to general awareness, savings, borrowings, insurance, investment and retirement planning. The respondents were asked questions on demographic issues, personal finance, issues concerning general awareness on financial matters, and household finance. A financial knowledge score and a household financial planning score were calculated for each individual and based on these two scores, a composite financial literacy score was calculated with equal weightage to both the components.

Research hypotheses

For the purpose of testing the relationship between financial literacy (or financial knowledge, or financial planning ability) and demographic variables, it was hypothesised that the former was associated with age, gender, domicile, occupation, educational background, household income, position in the family, marital status, and the number of members in the family.

Statistical techniques used

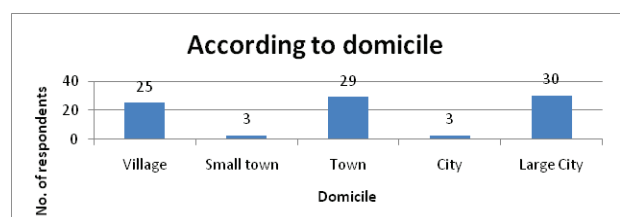
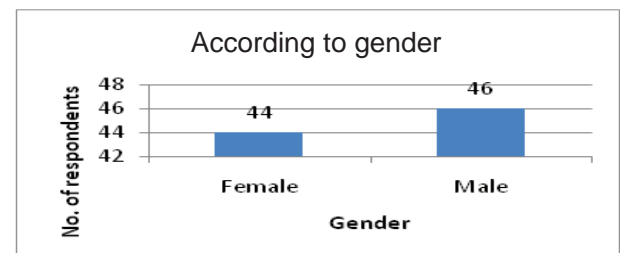
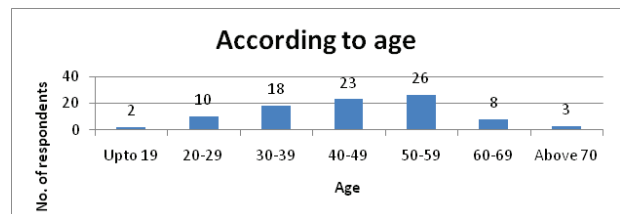
Descriptive statistics were used to examine the sample characteristics on the basis of demographic factors. The independent variables were similar to the ones in the hypotheses, while the dependent variable was financial knowledge or financial planning or financial literacy, alternatively.

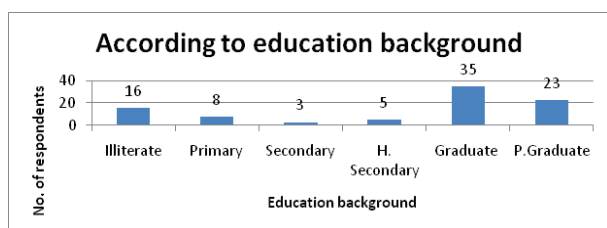
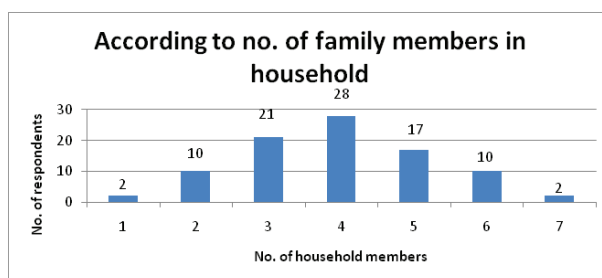
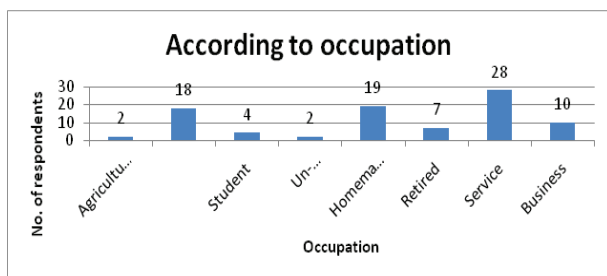
For the purpose of testing a significant relation, if any, in financial literacy level among different demographic

groups of respondents according to age, gender, educational background, domicile and household income, a bi-variate correlation analysis was conducted as a primary step. This also helped in collinearity among the independent variables. Finally, multiple linear regressions were used to test the significance of relationship of all the independent variables taken together with the dependent variables, that is, financial knowledge or financial planning ability or finally with financial literacy.

Sample size

The target, initially, was to collect response from 100 individuals. But, a total of 90 respondents could be finally reached of which as many as 16 happened to be illiterate. These illiterate section could not be subjected to in-depth questioning and had to be excluded for the correlational part of the survey. The 90 respondents were collected almost equally from the three selected districts. The bar graphs depict the sample characteristics based on the demographic factors.





Financial awareness scores

The financial knowledge/planning/literacy scores of the sample respondents were summarised and tabulated (table 1) to exhibit the status of financial literacy in the selected districts of West Bengal. It was far from satisfactory. Most respondents obtained low scores regarding financial knowledge, household financial planning, as well as financial literacy.

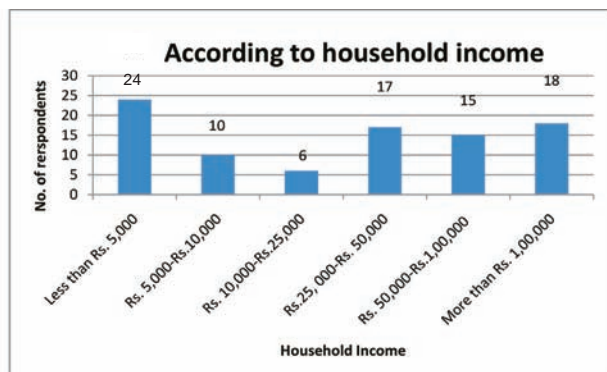
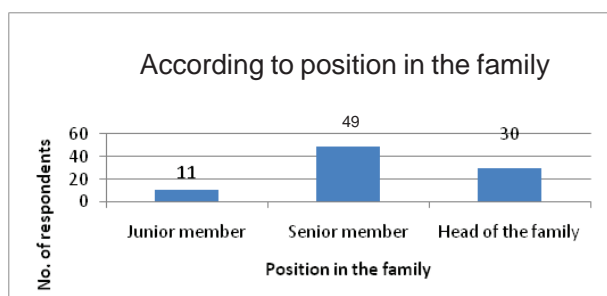


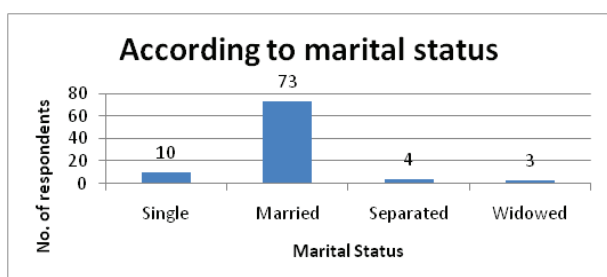
Table 1: Financial awareness of the respondents

Percentage Score	Number of respondents			Score Type
	Financial knowledge score	Household financial planning score	Financial literacy score	
81% - 100%	2	2	1	Good
61% - 80%	28	6	24	Satisfactory
41% - 60%	18	21	19	Average
21% - 40%	21	19	17	Below Average
20% or less	21	42	29	Poor



Correlation and regression analysis

Out of the 90 respondents targeted to constitute the sample size, 16 were found to be illiterate. They found responding to advanced queries and even some basic queries extremely difficult. The correlation and regression analysis was thus carried out with the remaining 74 respondents who had at least some basic level of literacy. Most of the bi-variate correlation coefficient results, except age, marital status and number of household members in a family, are statistically significant with financial literacy (table 2), thus following their hypothesized relationship.



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Table 2: Table showing bi-variate correlation coefficient results with financial literacy

Variables (with relation to financial literacy)	Pearson correlation coefficient	Correlation	Sign	Interpretation
Age	0.067	Insignificant	Positive	There is no significant correlation between age and financial literacy of individuals
Gender	0.414	Significant	Positive	There is a positive significant correlation between gender and financial literacy of individuals
Domicile	0.494	Significant	Positive	There is a positive significant correlation between domicile and financial literacy of individuals
Occupation	0.673	Significant	Positive	There is a positive significant correlation between occupation and financial literacy of individuals
Education background	0.740	Significant	Positive	There is a positive significant correlation between education background and financial literacy of individuals
Household income	0.681	Significant	Positive	There is a positive significant correlation between household income and financial literacy of individuals
Position in family	0.296	Insignificant	Positive	There is no significant correlation between position in family and financial literacy of individuals
Marital status	-0.254	Insignificant	Negative	There is no significant correlation between marital status and financial literacy of individuals
No. of household members	-0.095	Insignificant	Negative	There is no significant correlation between no. of household members and financial literacy of individuals

Multiple linear regressions between each dependent variable and the independent variables revealed the following results.

With financial knowledge as the dependent variable

Table 1A : Model summary table

R	R square	Adjusted R square	Std. error of the estimate
0.872	0.760	0.726	3.81060

The table provides the R, R², adjusted R², and the standard error of the estimate, which represent the fact that the regression model is a good fit.

Table 1B: ANOVA table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2939.324	9	326.592	22.491	0.000
Residual	929.324	64	14.521		
Total	3868.649	73			

The table shows that the independent variables predict the dependent variable in a statistically significant manner; F(9, 64) = 22.491 is a good fit of the data.

Table 1C: Estimated model coefficients

Variables	Age	Gender	Domi- cile	Occu- pation	Education	Household income	Position in family	Marital status	Household members
Regression coefficients	-.462	2.104	-.347	1.126	2.244	1.322	1..686	.259	-.039
Sig.	.333	.094	.432	.007	.002	.004	.199	.838	.922

From the table it is observed that occupation, education and household income are statistically significant independent variables that have an effect on the dependent variable—financial knowledge of individuals.

With household financial planning as the dependent variable

Table 2A: Model summary table

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.740	0.548	0.484	3.45445

The table provides R, R², adjusted R², and the standard error of the estimate, which represents the fact that the regression model is good fit.

Table 2B: ANOVA table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	925.679	9	102.853	8.619	0.000
Residual	763.727	64	11.933		
Total	1689.405	73			

The table shows that the independent variables predict the dependent variable in a statistically significant manner; F(9, 64) = 8.619 is a good fit of the data.

Table 2C: Estimated model coefficients

Variables	Age	Gender	Domi- cile	Occu- pation	Education	Household income	Position in family	Marital status	Household members
Regression coefficients	-.166	1.748	-.249	.831	.270	1.488	-.310	1.393	-.569
Sig.	.700	.125	.533	.026	.670	0.000	.793	.228	0.123

From the table, it is observed that household income is a statistically significant independent variable which has an effect on the dependent variable i.e. the household financial planning ability of individuals.

With financial literacy as the dependent variable

Table 3A: Model summary table

R	R square	Adjusted R square	Std. error of the estimate
0.853	0.727	0.688	3.21279

The table provides the R, R², adjusted R², and the standard error of the estimate, which represent the fact that

FINANCIAL INCLUSION

the regression model is good fit.

Table 3B: ANOVA table

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	1757.294	9	195.255	18.916	0.000
Residual	660.611	64	10.322		
Total	2417.905	73			

The table shows that the independent variables predict the dependent variable in a statistically significant manner; $F(9, 64) = 18.916$ is a good fit of the data.

Table 3C: Estimated model coefficients

Variables	Age	Gender	Domi- cile	Occu- pation	Education	Household income	Position in family	Marital status	Household members
Regression coefficients	-.314	1.926	-.298	.978	1.257	1.405	0.688	.826	-.304
Sig.	.435	.070	.423	.005	.036	.000	.533	.440	.372

From the table, it is observed that occupation and household income are statistically significant independent variables that have an effect on the dependent variable, i.e. financial literacy of individuals.

End note

The study, in fine, concludes about a very low level of financial literacy in the selected zone of West Bengal which is far from satisfactory. The concepts as developed in the study as the key constituents of financial literacy like financial knowledge and financial planning ability are thus proven to be poor, too, among the sample respondents. Occupation, education background and household income are found to be statistically significant demographic factors affecting the level of financial literacy. Thus, low level of financial literacy, coupled with the inherent greed for making quick money, make common people vulnerable to repeated financial scams and frauds. The lenient government surveillance system and other regulatory agencies also make it easier for

unscrupulous private investment companies to vanish with the common man's money. [MA](#)

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Managing Project Costs: A Thrust on Infrastructure Development



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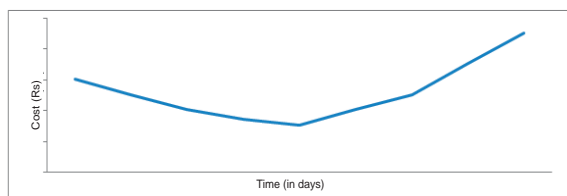


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Cost estimation and cost budgeting are two very important sub-processes of project cost management. They bridge the transition between the planning and execution phases of the project

Time and cost are often considered as the two important components to measure the success of a project. Most projects fail because of time and cost overruns. The cost to complete a project with its scope of work and within the stipulated time, as decided in the contract, is very important in the context of project management and finance. Time and cost are dependent on each other. Regardless of the activity, they are inversely related to each other until a certain point, beyond which an increase in time inflates the cost (figure 1).

Figure 1: Relationship of cost with respect to time



In several cases, project cost escalates because of increase in the cost of inputs (land, raw materials, labour, ancillaries, and others). In such situations, if the management does not initiate the process of cost control and cost reduction in the early stages, it will be difficult to adopt corrective measures at a later stage, to control the cost overrun. The viability of the project, as a result, could be adversely affected.

Overview of Project Cost Management

Project Cost Management (PCM) is a methodology which helps measure cost and productivity throughout the life cycle of a project. PCM is primarily concerned with managing the cost of the resources required to complete project activities. In infrastructure projects, PCM also demands prediction and analysis of the performance of the commercial operations of the utility structure. This involves additional processes and numerous general and financial management techniques, like return on investment, discounted cash flows, payback period analysis and others. A scheme of activities precede

PCM (figure 2).

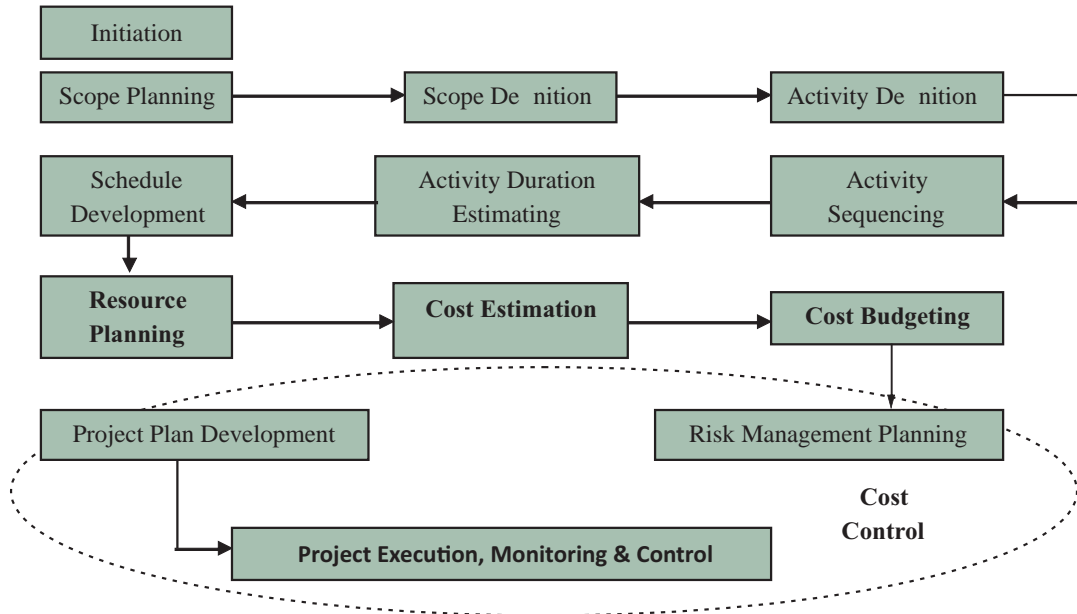


Figure 2: Schematic representation of the PCM process

The scope of the project must be properly defined, with detailed breakups, before preparing the budget. A project budget is prepared based on the properly defined scope, with estimates of quantities on engineering drawings, resources estimates for the defined scope, historic records, assumptions, estimated duration of the project, sources of funding, and the cost of capital.

PCM includes all processes required to ensure that the project is completed within the approved budget and deadline. PCM, conceptually, looks fairly simple. Just set a budget and meet it. The reality, however, is far from that because terminology, accounting, policies, estimating, scope, control, procurement, and other factors, all add to the complexity to the process.

Principles of PCM

A project cost professional/management accountant can significantly contribute to put in place effective cost control processes and offer an independent viewpoint on the project control status. While specific PCM techniques for estimating, scheduling, controlling costs, and implementation vary according to the nature and size of the project, there are certain principles that apply throughout the life of all projects.

- PCM is the responsibility of all team members and

they must understand the deliverables expected out of them.

- The project control process has to continually answer questions whether the project team is building the facilities estimated within the estimated cost, whether the facility will start on schedule, whether actual expenditures are in line with the forecasts, and similar issues.
- Controlling the scope of work and maintaining the project schedule are major factors in project cost control.
- Every project has cost management plans (for estimating, scheduling, and cost control activities) that are tailored specifically for that project, or a particular phase of work within the project.
- The cost management activities must be objective and predictive in nature. The process must generate accurate cost data at the right time to provide the senior management with reliable information to make superior decisions.
- Status of cost and schedule should be regularly reviewed and the senior management be informed accordingly.

PCM: The process in a capsule

The major components of Cost Management Plan are briefly discussed below.

Resource planning

Resource planning is closely linked with cost estimation. For instance, a construction project team needs to be familiar with local building codes. Such knowledge is often readily available at almost no additional cost by using local engineers and foremen. However, if the local pool lacks the experience of unusual or specialised construction techniques to be used in the project, additional cost may be incurred for a consultant having such knowledge. Else, the designer or the member(s) of the project team may be sent to seminars or training programmes to gain such knowledge. Besides, knowledge of available resources is necessary for planning. Moreover, the policies of the executing organisation regarding staffing and rent of supplies and equipment, must be considered during resource planning.

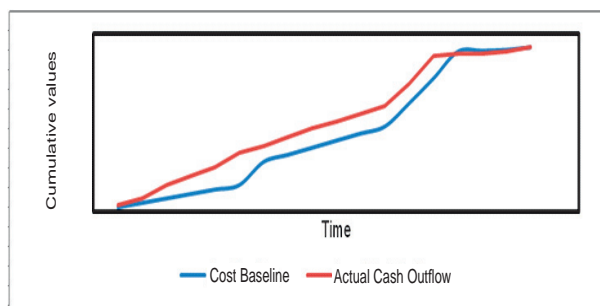
Cost estimation

Cost estimation involves developing assessments of how much it will cost the project team/organisation to provide the scope of works under the contract. Cost estimate includes identifying and considering various cost alternatives. For instance, in most infrastructure projects, several alternatives during the design phase have the potential to reduce the cost of production. However, the cost estimation process must consider whether, and to what extent, the expected savings will offset and overcome the cost of additional work during design phase. The individual or group preparing the estimates must know the unit rates (staff cost per hour, material cost per unit) for each resource in order to calculate the project cost. Rates have to be estimated if they are not known.

Cost budgeting

Cost budgeting involves allocating the overall cost estimates to individual work items in order to establish a cost baseline (figure 3) for measuring project performance.

Figure 3: Project cost (cash outflow) vs. time



The budget of a greenfield project may be allocated under the following broad heads.

- Land
- Site enabling activities
- Statutory clearances
- Studies and investigation
- Civil construction services
- Civil consumables like steel, cement, aggregates, sand and others
- Equipment and component supply
- Mechanical equipment
- Electrical equipment
- Spare parts
- Project insurance i.e. contractor's all risk (CAR), advanced all purpose risk (ALOP),
- Freight and transport insurance.
- Services (mechanical, electrical and instrumentation erection, testing and commissioning)
 - Engineering consultancy
 - Pre-operation expenses and overheads
 - Direct capitalisation Items
 - Contingencies
 - Interest during construction
 - Margin money

In a project, the work breakdown schedule (WBS) for the broad cost heads, as mentioned above, is prepared accordingly at the initial stage, before uploading the budget in a Systems Application and Products in Data Processing (SAP) or an Oracle-based control system. The budget is uploaded in the respective WBS for a project connecting to the plant code and profit centre code in the SAP project system (PS). All purchase requisitions (PR) and purchase orders (PO) are generated and modified in the SAP materials management (MM), as per the billing schedule, using the WBS available in the SAP-PS. They are linked to the lower level WBS so that costs are booked accordingly. Thus the system does not allow releasing a PO at a higher value than available in the budget in SAP-PS.

Cost Control

Cost Control is concerned with influencing the factors that cause the actual cash outflow to deviate from the cost baseline and to ensure that the changes are beneficial. Cost Control is an ongoing process throughout the project. It measures the changes from the cost baseline and manages them as and when they occur. So cost control involves monitoring cost performance to detect

A construction project team needs to be familiar with local building codes. Such knowledge is often readily available at almost no additional cost by using local engineers and foremen. However, if the local pool lacks the experience of unusual or specialised construction techniques to be used in the project

variances from plan. The project manager should actively monitor the project for variances to cost.

- In the cost control phase, when the team monitors the cost deviations, it should search out and understand the causes behind both the positive and negative changes.
 - It must be thoroughly integrated with the other control processes (scope change control, schedule control, quality control and others). For example inappropriate responses to cost variances can cause quality or schedule problems or produce an unacceptable level of risk later in the project.
 - The concerned team members (planning/billing engineer, project manager, accountant, finance manager, and others) should record all appropriate changes accurately to update the cost baseline.
 - The project manager and his team should work with the stakeholders to prevent unnecessary changes to the baseline and also check that incorrect/inappropriate or unauthorised changes are excluded from the cost baseline.
 - The team has to communicate to the appropriate stakeholders about the authorised cost changes as they occur.
 - Finally, the team has to maintain the actual costs within the authorised/agreed range.

Revision of the cost estimate

As the project progresses and more details become available, there may be a need to update the cost estimates. A revision to the cost estimates may often have a ripple effect on other parts of the project and there may be a need to adjust the changes in cost. The sequences of events may have to be reordered, and allocation of resources may need to be changed. Hence, it is important that all the stakeholders are aware of the revision and the reasons behind them. In some instances, like long-term projects, the revision in estimates may be expected, and the budget for various heads in the WBS can be reallocated without changing the total budget.

Revision of the cost budget

Revising the budget is slightly different than revising a cost estimate. Budget revision allows the cost baseline to be changed. Once the cost-to-complete (CTC) of various packages is estimated and the savings or cost overruns are verified, the total budget (without any change) can be redistributed again among the packages. The budget reallocation is allowed if the following two conditions are met.

- The overall/total budget should not exceed the approved amount.
- Contingency cannot be consumed without approval from the top management.

However, if a project undergoes major changes as that in the scope of works, it is necessary to revise the baseline project cost. Budget re-estimation is done with respect to the following.

- Change in the project scope of works.
- Escalation in the prices of inputs.
- Change in the engineering bill of quantity (BOQ) as compared to the estimate at the budget preparation stage.
- Exchange rate fluctuation for certain inputs, if imported.
- Changes in prevailing taxes and duties.

Applying corrective actions

Throughout a project, the project manager needs to apply corrective actions. These are applied to project performance to realign it back to the approved plan. Corrective actions can be scheduling changes, a shift in resources, or a different approach to complete the project work. It could also be the optimization of the scope without impacting the deliverables, re-engineering to do cost optimisation, and similar actions, to bring the project back to its expected level of performance with respect to time and cost.

Preparing for the CTC

CTC is also known as estimate at completion (EAC). It is a hypothesis of what the cost of the project shall be till the end. As the project progresses, some variances are often found between what the cost estimate was and

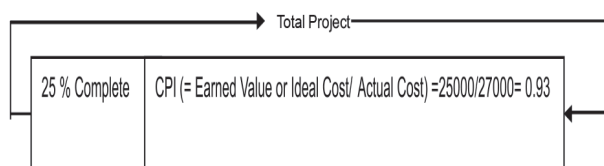
what the actual cost is. The difference between these estimates is the variance for the deliverable. CTC is based on the following inputs.

- The engineer's estimate of the BOQ after detailed engineering for civil construction, mechanical, fabrication and erection, electrical and instrumentation jobs.
- Revising the scope and budget estimate.
- Changes in the rates of construction materials.
- Currency fluctuations.
- Changes in tax rates.
- Comparison of budget versus the ordered values of the packages (turnkey).
- Changes in interest rates.
- Changes in the project schedule.

Calculating the CPI

Cost performance index (CPI) is a value that shows how the project costs are performing to the plan. It reveals how much money the project is losing (or saving). It relates the amount of money expended by the project team to the proportion of the scope of work that it has accomplished. For instance, if the project has a CPI of 0.93, it means that the team is spending ₹1.00 for every 0.93 worth of work executed. The project has an eight percent cost overrun. A CPI below 1.00 indicates that the project is performing poorly against the plan. However, a CPI over 1.00 does not necessarily mean the contrary. It could mean that estimates were inflated or that expenditure for equipment is late or sitting in accounts payable and has not been entered into the project accounting cycle.

Budget at completion (BAC) = ₹ 100000



Where, Earned Value (EV) = % completed X BAC;
Actual Cost (the amount spent in reality) = ₹ 27,000.

Calculating the CTC

The project manager and his associates, having known the CPI, compute the EAC (or CTC). There are different ways to calculate the EAC. The project

manager should choose the approach that best matches what has been experienced in the project. If the project is going as planned with little variances, the project manager can use the most basic formula to calculate the CTC, where $CTC \text{ or } EAC = BAC / CPI$.

Concluding observations

A project organisation can be basically thought to consist of three hierarchical levels. The first one is where the action lies (where cost overrun, if any, is first observed). The second is the level of project managers who are responsible for the overall performance. They need to know about the rise in costs very quickly. The top management of the organisation is the third and final tier. They have oversight and responsibility for the project, and are responsible to guide the project manager when needed. For a CTC reporting system to work effectively, the professionals in the first two levels must be honest and transparent in disclosing all that they know about the probable cost rise, without which the top management shall have no clue. To promote this kind of behaviour among project team members, the project managers and the seniors have to create an environment where speaking out is encouraged, and messengers with bad news are not harassed. Furthermore, the CTC reporting through management information systems and enterprise resource planning is expected to bring in some amount of discipline and rigour with regard to the frequency and accuracy of the reports. But the software will nonetheless need human inputs from engineers, purchasers, accountants, and similar professionals who have their ears on the grounds to pick up the early storms.

In the end, cost estimation and cost budgeting are two very important sub-processes of project cost management. The first one is 'what we want' and the other one is 'what we get'. The tussle begins there. It is very difficult to always get what one wants. So to bind the actual cost incurred within the budget, a project manager has to use his resources very intelligently. Cost estimation and cost budgeting bridge the transition between the planning and execution phases of the project. The PM and the project team can measure systemically whether the actual expenditure is equivalent to the scope of works delivered by employing an analytical framework that considers the earned value analysis (EVA), CCPI and CTC. MA

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A Comparative Study on Financial Strength of Tata Steel Ltd and SAIL

SAIL and Tata Steel are two major steel producers of India. Both were hit by the 2008 global financial crisis. While SAIL has emerged out of the situation, Tata Steel has not managed to follow suit. Sale of outperforming assets may unlock value for the latter



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The annual per capita steel consumption of India is 59.2kg, which is lower than many smaller economies like Egypt (89kg) and Venezuela (93kg), and stands much lower than the global average of 217 kg. India, on the other hand, ranks fourth in steel production with 83.2MT per annum, only after China, Japan and the US that produces 823MT, 110.7MT and 88.3MT respectively. The global steel production, however, has declined year-on-year as consumption declined by seven percent since the global financial crisis struck (Sitaram Sharma, 2015). Chronic overcapacity, strong competition from substitutes, increased volatility in raw material prices, and high fragmentation, affected the steel industry badly in the recent past. Steel is thus in the red and considered as one of the least profitable industries in most countries.

The Indian steel industry faces fresh challenges related to trade barriers and high cost of commissioning of new projects. Moreover, the domestic demand has not

improved significantly, and remains globally competitive because of the slow growth in world economy. Problems associated with the steel industry are also usually more complex, characterised by high capital intensity, high dependence on bulk raw materials, cyclic growth trends, perpetual overcapacity and relatively low profitability. The opening up of international trade has made steel producers more cautious because they have to compete both with global and local peers. Almost all countries began steel production with state-owned companies because of its importance in nation building. Today, the industry is largely privatised and public owned, and government holding has steadily reduced over the years.

A recent report by FICCI and CRISIL, has pointed out that negative trends notwithstanding, there could be an exponential demand of steel in the long-term, because of infrastructure development and strong growth of the manufacturing sector. Gupta (2015) reported that the government's 'Make in India' policy may ensure

significant momentum in the demand of steel in the long run. The steel ministry expects domestic demand to grow at a compound annual growth rate (CAGR) of 10-12 percent between 2018-19 and 2024-25 and touch 160-180MT in 2024-25.

Steel makers, however, should be financially viable and strong enough to meet the opportunity and play a major role in nation building. In reality, it will take several years to harvest the benefit from infrastructure development and the 'Make in India' policy. Total demand for steel, in the next few years, is expected to rise at a CAGR of six per cent to 94MT by 2018-19. However, it is important to know the extent to which Indian steel companies are financially strong to sustain the unfavourable times and exploit the advantages in the near future.

Steel Authority of India Ltd (SAIL) and Tata Steel are the two biggest steel producers of the country. SAIL, a public sector enterprise, is one of the seven Maharatna companies, the second biggest producer of iron ore, and the second largest mine network in India with five integrated units. It has a well-equipped research and development centre, 37 sales office branches, 25 departmental warehouses, and 42 consignment agents for pan-India business development. Exports contribute a major part to the company's revenues.

Tata Steel is the fourth largest steel producer in the world with an annual crude steel capacity of nearly 30MT per annum (MTPA). The company has emerged as the second most geographically diversified steel producer in the world with a presence in 50 countries across five continents. It acquired Corus Steel for \$12 billion, in 2007, mostly funded by debt capital, which led the company into the fixed interest obligation trap.

It will be interesting to know whether both the public and privately owned steel companies are financially ready to grab the opportunity when the steel demand peaks in the near future.

Objective of the study

The main objective of the study is to predict the financial strength of SAIL and Tata steel for the period of ten financial years beginning 2004-05 to 2013-14. The study also examines the overall financial performance of the companies with various financial ratios.

Data and methodology

The study is based on financial data of the companies that were collected from their annual reports. The predictive model created by Edward Altman (1960) was then employed to determine the financial health of the

two companies. This model is popularly known as the Altman Z-score and was developed by using multiple discriminate analysis with a set of five financial ratios as $Z=1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$. Here, Z is the overall index value of the model, x_1 is the ratio of working capital to total assets, x_2 is the ratio of retained earnings to total assets, x_3 is the ratio of earnings before interest and taxes to total assets, x_4 is the ratio of market value of equity to book value of total debt, and x_5 is the ratio of sales to total assets.

Working capital/total assets (x_1)

Adequate liquid assets are necessary for a company to meet its short-term obligations. However, firms may down shutters when they fail to meet these obligations.

Working capital to total assets ratio (WC/TA) measures the net liquid assets of the firm in relation to its total assets. Shrinking of the operating profit or increasing in losses may erode the working capital. A decreasing trend in this ratio indicates that the company is either experiencing a consistent operating loss or a significant fall in profits. A higher ratio, on the other hand, sends a good signal about the short-term financial health of the company.

Retained earnings/total assets (x_2)

Retained earnings to total assets (RE/TA) ratio explain the cumulative earnings of the firm to its total assets. This ratio is usually biased against newly started firms because their retained earnings are low, when compared to a firm which has long been in business. Corporate reconstruction and stock dividend may manipulate the retained earnings in the balance sheet. A low RE/TA ratio implies that the firm failed to retain its profit to meet the uncertainty in future and is highly exposed to the risk.

Earnings before interest and taxes/total assets (x_3)

The existence of any firm largely depends on its revenues. Measuring the productivity of its assets is important while testing the financial ability of the firm. A firm, even in huge debts, can avoid bankruptcy if its assets yields high returns. Investors need not worry about debts if the EBIT/TA ratio is higher.

Market value of equity/book value of total liabilities (x_4)

The combined market value of both preferred and common shares is combined to calculate the market value of equities, whereas the book value of liabilities

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The steel industry in India faces fresh challenges related to trade barriers and high cost of commissioning of new projects. Domestic demand has not improved significantly and remains globally competitive because of the slow growth of the world economy

includes both current and long-term. This ratio helps to predict the financial position of the firm, before the liabilities exceed the assets, and the firm becomes insolvent. A higher ratio indicates strong financials, while a lower ratio indicates weakness.

Sales/total assets (x_3)

The sales to total assets ratio reveals how fast the assets of the firm generate sales. This ratio also helps to test the management's capacity to deal with competition. A fall in the ratio indicates the company's disability to stand up to competition.

Altman guidelines for Z-score

The Altman Z-score is the overall index that measures the financial health of a company. It segregates the company into three categories: healthy, grey and distress. A company with a Z-score of over 2.99 is considered financially strong and moderately strong if the score is between 1.8 and 2.99. The probability of bankruptcy is more when the score is less than 1.8 (table 1).

Table 1: Altman guidelines

Predictive status	Z-score
Bankruptcy	1.81 or less
Gray	1.81 to 2.99
Healthy	More than 2.99

Financial strength

The results of five financial ratios that were employed in the Altman Z-score model to evaluate the financial health of the two companies, SAIL and Tata Steel, revealed important numbers (table 2).

The WC/TA reveals that Tata Steel exhibited negative ratios in 2011-12, 2012-13 and 2013-14. This clearly indicates that the company is not in a good short-term position to meet its obligations. SAIL, on the other hand, registered a positive WC/TA ratio for the entire period with the minimum in 2013-14 and the

maximum in 2009-10. SAIL, however, also showed a declining trend since 2009-10. This clearly indicates that two companies' short-term solvency reduced because of the global financial crisis and falling demand.

SAIL's 2004-05 RE/TA ratio was much lower than Tata Steel. It, however, started to rise from 0.22 in that fiscal and ended at 0.718 in 2013-14. Tata Steel, during the same period, failed to accumulate profit and stood at a similar ratio at around 0.54 till the end of 2013-14.

The EBIT/TA ratio of SAIL and Tata Steel were floored, courtesy a sharp fall, from 0.37 and 0.16 in 2004-05 to 0.07 and 0.02 in 2013-14 respectively. The two companies became victims of slow economic growth and low demand. High capital intensity was also a major drawback to shift the production capacity according to the demand. But SAIL outperformed Tata Steel with a higher ratio.

Tata Steel, in 2004-05, registered the highest MVE/BVD ratio of 3.24 as against 2.60 of SAIL. But Tata Steel ended at 0.60 in 2013-14. SAIL, on the other hand, had a volatile MVE/BVD ratio and ended at 0.69 in 2013-14, marginally higher than its competitor.

Tata Steel's S/TA ratio has been decreasing year-on-year from the 1.19 in 2004-05 to 0.375 in 2013-14. SAIL, on its part, registered ups and downs in the same period and reached 0.86 in 2013-14. This clearly indicates that assets failed to accelerate sales during the period.

The situation started after the global financial crisis struck.

Tata Steel turned sick after the subprime triggered in 2008. It struggled in the distress zone from 2011-12 with the Z-score of less than 1.8. It indicates that Tata Steel started to melt down financially. The situation particularly started after the acquisition of Corus Steel. Besides, the financial crisis badly hit the company. It may sell off its unproductive assets to recover from the mess and pay off debts because the latter could swallow the century-old company.

SAIL, in contrast, enjoyed strong financial health during the entire period. The company has a low debt-equity ratio and large amounts of accumulated wealth in the form of retained earnings. After the financial crisis began, the Z-score of SAIL began falling and reached the grey zone in 2013-14.

Over the years, Indian steel makers have been facing slow growth and shrinking demand, in the face of rising competition from China and Japan. The government must hike the import duty for steel to secure the interests of domestic steelmakers and should also remove the hindrances in raw ore and iron mining in the country.

Conclusion

Steel is the one of the core industries in any economy. But manufacturers are passing through torrid times. Only financially strong companies can survive and wait for some more time to catch the big fish. The Altman bankruptcy prediction model was employed to predict the financial stability of the two companies. SAIL is performing well and has a strong financial health. Tata Steel is in the bankruptcy zone because of large debts. As already said, Tata Steel should sell unproductive assets to square off the debts. SAIL is a wealth accumulating company in the long-run whereas Tata Steel may lose investor confidence. **MA**

Table 2: Components of Altman Z-score

Year	WC/TA (x_1)		RE/TA (x_2)		EBIT/TA (x_3)		MVE/BVD (x_4)		S/TA (x_5)	
	SAIL	Tata	SAIL	Tata	SAIL	Tata	SAIL	Tata	SAIL	Tata
2004-05	0.2842	0.0009	0.2205	0.5358	0.374	0.1655	2.6012	3.2430	1.069	1.193
2005-06	0.3140	0.0114	0.2794	0.6295	0.209	0.1267	2.7717	3.1254	0.942	1.035
2006-07	0.4340	0.2783	0.4082	0.5223	0.305	0.0865	2.7163	1.8791	1.060	0.685
2007-08	0.4455	-0.0051	0.4981	0.4482	0.309	0.0692	3.3169	1.8291	1.042	0.418
2008-09	0.4768	-0.0057	0.5112	0.4081	0.206	0.0556	1.4163	0.5726	0.919	0.413
2009-10	0.5322	0.0015	0.5531	0.5616	0.200	0.0572	3.1295	1.4104	0.768	0.389
2010-11	0.4723	0.0137	0.6383	0.5831	0.146	0.0536	1.8952	1.1614	0.827	0.374
2011-12	0.3557	-0.0420	0.7832	0.5370	0.134	0.0329	0.9756	0.8296	1.002	0.352
2012-13	0.3290	-0.0487	0.8311	0.5324	0.095	0.0272	0.6279	0.5275	0.990	0.374
2013-14	0.2176	-0.0659	0.7181	0.5419	0.078	0.0297	0.6912	0.6027	0.860	0.375

Table 3: Altman Z-score

Year	SAIL		Tata Steel	
	Z- score	Zones of discrimination	Z- score	Zones of discrimination
2004-05	4.51	Healthy	4.44	Healthy
2005-06	4.06	Healthy	4.22	Healthy
2006-07	4.79	Healthy	3.16	Healthy
2007-08	5.29	Healthy	2.37	Grey
2008-09	3.74	Healthy	1.51	Distress
2009-10	4.72	Healthy	2.21	Grey
2010-11	3.91	Healthy	2.08	Grey
2011-12	3.55	Healthy	1.66	Distress
2012-13	3.24	Healthy	1.47	Distress
2013-14	2.80	Grey	1.52	Distress

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Innovative Approach of Financial Statement Analysis From Bankers' Perspectives – A Case Study



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Introduction

Truth has been rare and Gen-Y promoters desire to be billionaires overnight through short term game undermining the fact that 'Truth Alone Wins'. This disbelief has been root cause of insolvency, bank & company failures, corruption, bribery, frauds such as manipulation in accounts, forging letter of credit, documents of properties, banks receipts, invoices etc. and thus become the norms of present day business. Human mind has a great ability to deceive itself among numerous diseases prevailing in the globe; the disease of greed has grown beyond bounds. His Holiness Pope Benedict XVI (2009) had pointed out "Profit is useful if it serves as a means towards an end... once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty..." In the background of the covenant that lending business of banks in India is based on the financial statements of prospective entrepreneurs; it is difficult assignment for a bank officer to carry out appraisal of business proposal through a conventional method of analysis of financial statements. The author has, therefore, made an attempt to write on revolutionary and new approach of financial statement analysis through a case study emphasizing that balance sheet and profit & loss account should be analyzed spiritually beyond the figures shown therein to get reflections of corporate governance status being observed in borrowing company.

Financial Statement – Prerequisite for Lending

Banks give utmost importance to the financial statements from the angle of past performance, standing of the firm in industry, repaying capacity, risk appetite and related financial ratios. This article addresses the purpose of analysis from the lenders' perspectives under four broad dimensions.

Performance Appraisal -

The business entities set their goals and project the level of business before they start. It is mandatory for them to update on their performance to the stakeholders like banks, investors and suppliers by presenting true financial statements in the desired format. The financial statement analysis should be carried out line by line item. For example, if entity has lesser sales than planned, any costs are greater than projected, profit is fewer than targeted; the bankers should know and find out why it is so? Every amount of cash inflow & outflow shown in the financial statements should be necessarily in the way it was planned because this is important for bankers to prevent diversion and / or siphoning off cash flow for taking judicious credit decision and to counsel the clients for hand holding operations.

Trend Analysis -

The comparison of current to previous financial statements shows the areas of business changed, the reasons of changes occurred and their positive or

negative impact on the performance like – Are sales trending up? Are costs trending down (which ones aren't)? Are profits trending up? Is your cash flow improving? These are the example of analysis which a banker needs to look at in financial statement.

Industry Comparisons -

This analysis is not only a comparison of borrower's business performance but also to compare with the performance of peer competitor of the borrower and also others in industry. These comparisons are usually made in the form of financial ratios such as current ratio, leverage ratio, operating profit margin ratio, debt service coverage ratio, interest coverage ratio etc. Lenders should analyse attributing factors for performance above the industry benchmark and also to under causes of low performance than the peers.

Approval of Credit Limit -

Having satisfactory financial analysis the business projections for subsequent years shall be considered to assess the need based credit limit for its approval. Bankers are given autonomy to use their own method of assessment but the credit limit should be approved as per lending policy of the respective banks' Board.

Financial Statements – Read Beyond Figures

There is a human tendency to cover up and to assume that the future will be better and everything will come right. It is true, though unfortunate, that maintenance and financing of non-productive & non-performing assets, deliberately hidden in the financial statements has become an established practice that causing serious financial mismanagement, deliberate loan defaults and associated liquidity problems and wiping out net worth leading to bankruptcy. It is so because bankers normally confers the analysis of financial statement in form of re-classification of items to prepare CMA format and get satisfied on matching the figures of both assets & liabilities sides; which indeed not an analysis. It is therefore, imperative for bankers to apply common senses while analysing financial statements to get keys and / or answers of vital questions which must be satisfied by lenders before approval of credit limits. A few examples of such an important items are discussed in the case analysis.

Cash & Bank Balance -

This is major part of liquid current assets owned by

the borrowers that need to be enquired as an effective process due diligence to get answers of the followings.

- ✿ Why high level of cash & cash equivalents are continuously shown very high?
- ✿ If it holds true, what is need of finance from banks?
- ✿ Why Bank balance is maintained by borrowers with other banks?
- ✿ Is there any difference between balance as per balance sheet & bank statement?

If yes, reasons with its accounting to quantify impact on financials of the borrower.

Sudden increase in inventory/sales ratio -

This indicates the company may be inflating assets such as inventories and therefore, following questions to be addressed by bankers while appraising the credit-

- ✿ Causes of stock / inventory piled up in last quarter?
- ✿ Source of funding the inventory stocked, which could be either creditors or borrowings?
- ✿ If it is through creditors, whether they are business suppliers among the lot of major creditors envisaged during last appraisal.
- ✿ If it is by way of borrowing from other banks, the multiple banking arrangement guidelines of Reserve Bank of India vide circular RBI/2008-09/183 DBOD No. BC.46/08.12.001/2008-09 dated 19.09.2008 to be observed?
- ✿ If it is because of bank reconciliation, issuance of cheques without adequate funds arrangements then intending to be poor financial discipline and date of their payment or presentment should be carefully examined from bank accounts?

At times excess bank borrowings in balance sheet reported because of bank reconciliation found to be accommodated or related party transactions leading to inflate current assets, fabricate profit, inflate tangible net worth and better liquidity / solvency ratio.

Financial ratios -

It is a static measure of financial health and needs to be viewed in line with industry peers. Reasons of

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higher / lesser ratio as against industry benchmark should be properly examined because this may be due to inflated earnings, asset valuation or understating of expenses and liabilities

Frequent changes in policies -

Earnings and assets can be inflated by alternative accounting policies. If one sees frequent changes in these policies, there may be something fishy about the borrower's books.

Earnings higher than cash flow -

If cash flow from operating activities of a company is consistently less than the reported net income, it is a warning sign. Banks must therefore, ask why operating earnings are not turning into cash.

Lending to customers -

Sometimes companies lend money to customers to buy their goods. This way they can report high revenue in the income statement and high receivables in the balance sheet to build up strong current assets base.

Understating provisions -

Companies often allow credit sales on generous terms, sometimes even to customers with a poor credit history. Ideally, in such sales, the company should set aside a higher amount for bad debt provisioning. This amount is recorded as a liability. Understating such liabilities is another way of 'enhancing' the financial statement.

Spreading out expenses -

Pursuant to accounting norms, if an expense has been made for acquiring an asset whose benefits the company will avail of over a long term, the expense is to be reported in the books in a spread-out manner over that period. The process is called capitalizing. Companies often use this to delay recognition of short-term expenses

Corporate Misgovernance – A Case Study

Promoter -

Mr Amar, a Harvard Graduate jointly with his elder brother had formed a company M/s Amar Software Limited on 24th June 1993 converted into public in 1997. He had a very impressive disposition, a pleasing temperament and a respectable character in his circle and everybody had the utmost faith in him. The directors of the Board were of the view that he could be trusted with everything. The one of the former Presidents of India

was introduced in the board for his Medical Research Institute. The saga of Amar also exposes how vital the links of politics at state & national level are with business.

Rapid Growing graph -

The Company started business with 20 employees and grew rapidly as a global business rising-star and it had promoted four subsidiaries in 2002. The largest five customers, on the basis of revenue accounted for 60% of revenues. Company started providing services to World Bank and signed up a long term contract with it. The company demonstrated an annual compound growth rate of 35% over the period of last 5 years. Operating profits averaged 21%. Earnings per share similarly grew, at a compound annual growth rate of 40%. At that time, the world-wide software market estimated annual compound growth rate was of 6%. Consequently, share price of the company in January 2009 at Rs.150, peaked at Rs.550 an improvement (CAGR -31%) in share price after nearly five years.

Governance Excellence -

The company became world's first ISO 9001:2000 company in 2007 certified by BVQI. Global Institutional Investors had ranked 3rd in Corporate Governance Survey in 2011 In 2013, Ernst & Young awarded Mr. Amar with the 'Entrepreneur of the Year' award and on April 14, 2014, Amar won awards from MZ Consult's for being a 'leader in India in CG and accountability'. The World Council for Corporate Governance awarded with the 'Global Peacock Award' for global excellence in corporate accountability in September 2014.

4.4) Whistle Blowing -

A surprise move was announced on 16th December by Amar to bid for two companies i.e. Rama Infrastructure Ltd and Rama Properties Ltd saying that he wanted to deploy the cash available for the benefit of investors. The Board, including its five independent directors had approved the founder's proposal to buy the stake in these two companies, which were owned by family members of promoters without shareholder approval, the directors went ahead with the management's decision. The thumbs down given by investors and the market forced him to withdraw within 12 hours. Share prices plunges by 55% on concerns about Amar's corporate governance. The World Bank announced on 23rd December, 2014 that Amar has been barred from business with World Bank for eight years for providing Bank staff with "improper benefits" and charged with data theft, inability to

provide information sought on invoices, and bribing the staff. The lone independent director since 1997, US academician Mr A announced resignation followed by the resignation of three more Independent directors on 28th December 1997 i.e. Mr B (famously known as father of the Pentium and an ex Intel employee), Mr C (Dean of the renowned Indian School of Business) and Mr D (professor at Harvard Business School). Investment bank DSP, which was appointed by Amar to look for a partner or buyer for the company, ultimately blew the whistle and terminated its engagement with the company soon after it found financial irregularities.

Audited Accounts -

Mr. Amar disclosed in a letter to the Board of Directors and also to SEBI on 7th January, 2015, that he had been manipulating the company's accounting numbers for years and he overstated assets on the balance sheet. He confessed a fraud of Rs. 7,500 crore and also revealed in his letter that his attempt to buy Rama companies was his last attempt to fill fictitious assets with real ones. The statutory auditors (a globally renowned firm) also admitted that its audit report was wrong as it was based on wrong financial statements provided by the management. A part of financials audited and actual are depicted in table given herein the paper.

On 22nd January, 2015, the CFO Mr R confessed of having inflated the number of employees by 10,000 to draw around Rs 20 crore per month. The promoters had substantially reduced their holdings in company from 26% in March 2007 to 2% in December 2014. The company had booked false fixed deposits and interests in five banks. Also the 2 new generation private banks, 2 PSBs and one foreign bank granted aggregated loan of Rs.1200 crores. The company's global head of internal audit created fake customer identities and generated fake invoices against their names to inflate revenue. The global head of internal audit also forged board resolutions and illegally obtained loans for the company. The fraud took place to divert company funds into real-estate investment, keep high earnings per share, raise executive compensation, and make huge profits by selling stake at inflated price.

Governance Appraisal – Through Case Study

Bankers should adopt spiritual approach to analyse the financials instead merely doing reconstituting exercise of balance sheet in CMA format. Some of the important observations highlighted herein the analysis can be emerged relating to governance in the business using creating accounting in financial analysis.

Table: Abridged Versions of Accounts as on 30th September 2014 (Rs in Crores)

SOURCES OF FUNDS	Audited	Actual	APPLICATION OF FUNDS	Audited	Actual
Share Capital	100	100	Fixed Assets	1400	1400
Share application money	100	100	Deferred Tax Assets (net)	100	100
Reserves and surplus	8400	(400)	Current Assets -		
Secured loans	100	100	Sundry debtors	2700	600
Unsecured loans	200	1500	Cash and bank balances	5300	300
			Interest accrued on deposits	400	0
			Loans and advances	500	500
			Current liabilities		
			Liabilities	1700	1700
			Provisions	500	500
			Net Current Assets	6700	(800)
Total Sources	8900	1400	Total Uses	8900	1400
Operating Data					
Revenues (Q2 FY 2015)	2700	2000			
Operating Profits	600	100			

Prolonged Allotment –

Share application money is considered to be part of current liabilities till the subscribed amount is fully allotted. However, when borrower approaches banks he does not have trust whether bank shall grant him loan or not and at the same time bankers do not have faith on borrower whether he will bring the money or not. Thus, to come out from the situation borrower proves his credentials to bring into the money and he opts to keep it pending for allotment till loan approval is granted. Thus in this situation, bankers having faith in the borrower, consider this amount as an equity even during the pending allotment while appraising the proposal with an understanding that the money shall be allotted before disbursement of the loans. If the company fails to do so, it not only violates corporate law but at time found to refund the money to subscribers owing to poor credit monitoring by bankers that leads to diversion and / or siphoning of promoters contribution in business. Pending allotment of Rs.100 crores in the given case for a company which is over two decades old indicates dormant status with poor governance which was remained unnoticed by bankers, auditors and investors.

Secured Creditors not in loop–

Promoters had substantially reduced their holdings in company from 26% in March 2007 to 2% in December 2014. It was done so, to avail benefit of hike in share price owing to manipulation in accounts and therefore, promoters sold their shares to get its benefits. Company failed to seek prior permission of secured creditors / bankers to reduce their shareholding which is not in sync with good governance. This would have been avoided if the bankers should have pledged the shares of promoters as one of their covenants of lending.

5.3) Violating Related Party Transaction Rules –

Promoters had obtained loans from various private entities, by pledging their shares when company started feeling liquidity crunch. The money so raised by the

promoters and their relatives were brought to the company as a liability which was not recorded in the books of accounts. Banks should ask in such cases how cash flow is much higher than the income from operating activities of a company which is a warning sign. When valuation of shares dropped, the promoters had to additionally pledge the shares of associate firms Rama Infra Ltd to bridge the margin and therefore, Amar had made last attempt to make an acquisition of Rama Properties & Rama Infra Ltd to cover up the frauds, but it was unsuccessful.

Over the years, these fictitious debtors never paid their bills that led to a big hole in the balance sheet as only sales increased but money was not realised thus over statement of debtors by Rs.2100 Crores resulted manipulation in profit, current assets and net worth of the company.

Business by Non-Business Model -

Huge cash accruals reflected as reserve & surplus and also cash & bank balances, the bankers must enquire the need of short term loans as to why company require finance when it is supposedly cash rich company. The non-verification of bank balances in the given case not only inflated bank deposits by Rs.5000 Crores but also fabricated interest accrued to the tune of Rs.400 crores.

Round Tripping & Trade Stuffing

- Trade stuffing is used as filler by companies usually just before the end of a reporting period. They ship goods to customers even though the latter may not need them immediately. This increases sales ahead of the reporting period. While, Round-tripping is normally done for getting into fictitious transactions with related parties to inflate revenue. In round-tripping, a company sells unused assets to a party with the promise of buying back at a later date at the same price. Promoters in the given case were desirous to present rosy picture of the company to investors, employees and lenders so that it appeared much bigger enterprise than it was actually; they sewed up deals with fictitious clients. Over the years, these fictitious debtors never paid their bills that led to a big hole in the balance sheet as only sales increased but money was not realised thus over statement of debtors by Rs.2100 Crores resulted manipulation in profit, current assets and net worth of the company. Banks might had failed

to very genuine trade receivable among the lot of big buyers which company informed to its bankers and also realisation amount in bank account from such so called fictitious debtors. The lack of due diligence at part of bankers, observed in the case had obviously inflated total revenue by Rs.700 Crores and operating profit by Rs.500 Crores for the half year ended September 2014 and also balance sheet manipulated by Rs.7500 crores which is considered to be complete failure of corporate governance in appraisal.

Lessons from Case - Recommendations

The Institute of Company Secretaries of India defines the Corporate Governance as “the application of best management practices, compliances of law in letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.” The main objectives of Corporate Governance policies and practices should be wealth creation, wealth management and wealth sharing. The important learning’s emerged from the observations of the case study are discussed here under which can be experienced by bankers as best business practices for long term growth with ethics.

Perpetual Ownership Model (POM) –

Promoters share in the business should be of major dominance from the perspective of good corporate governance. The model of small ownership could overstate profits with the objective of influencing other shareholders because the manipulation in financials shall never cause loss to the owners as their share in real profits remains meagre. Lenders should keep close watch on the dilution of shareholdings of the promoters and this should be viewed from the angle of red flagging in financial accounts. Banker should encourage perpetual interest of promoters in running the business to ensure quick allotment of share application money by borrower and also the bankers should explore possibilities of making major stakeholders especially 10% and above shareholdings, guarantor in the proposed exposure or pledge their shares to ensure their perpetual interest in running the company.

Evidence & Confirmation of Transaction (ECT) –

Standard of Auditing (SA) issued by the Institute of Chartered Accountants of India encourages the audit evidence in the form of external confirmations from the 3rd parties which are considered to be more reliable

than evidence generated internally by the entity. SA 500 ensures that corroborating information obtained from a source independent of the entity, such as external confirmations, increases the assurance the auditor obtains from evidence existing within the accounting records or from the representations made by the management. For instance, auditor can obtain balance confirmation certificates from the third party, may be debtors balance confirmation, creditors balance confirmation and other such evidence obtained from the third party without dealing with the client. On this line of standard of auditing, lenders should proactively adopt the best business practices to seek confirmation of the bank balances with respective bank branches directly instead merely obtaining copy of statement of accounts submitted by the borrower. This practice alone should have prevented manipulation of Rs.7100 crores in receivable and bank balance in the given case study.

Related Party Trading (RPT) –

It is new class in business which includes close family members, fellow group entities, joint ventures of same third party and combinations thereof; which should be dealt with the provisions of clause 49 of listing arrangements of SEBI and also section 188 of Companies Act 2013. These transactions are of conflicting nature in the interest of business and owners thus require shareholders’ approval. Pursuant to the provisions of section 188 a company, whose paid-up capital exceeds Rupees ten crore or is proposed to enter into transactions exceeding such sums as prescribed under Rule 15 of the Companies (Meetings of Board and its Powers) Rules 2014, cannot enter into the transactions, except with the previous approval of shareholders by way of Special resolution. Lenders are therefore, required to take prudent steps such as identification of related party entities at time of appraisal, verification of transactions disclosed in financial statements, keep close watch on the transactions with related parties for siphoning of cash flow of the borrower.

Directors Governance (DG) –

The roles and duties of the directors have attained great significance in the new regime of transparency and sound corporate governance for the benefits of the company and its all shareholders. Independent Directors are especially have obligations to conciliate and balance the conflicting interests of the stakeholders, to pay proper and adequate attention to related party transactions, to report concerns honestly and impartially about any

CASE STUDY

unethical behavior, violation of the code of conduct, or any suspected fraud in the company. Bankers should therefore, appraise the constitution of the Board of Directors in accordance to the new Companies Act wherein 1/3rd directors should be independent for listed companies and relationship of such directors should be established besides appointing terms like duration, remunerations & sitting fees etc. to verify whether it falls in line with the industry benchmark. For example, the Board in the case study found to be composed of 'chairman-friendly' directors who failed to question management's strategy and use of leverage in recasting the company. Also, the directors, had not even refer to the conflict of interest in buying companies in a completely unrelated business, floated by the chairman's relatives. Indeed, one of the independent directors, a professor at Harvard Business School, praised the merits of real estate investment on Amar's part. He was earlier an independent director on the Global Trust Bank, which collapsed in 2003. The lenders thus should not undermine the due diligence of independent directors and it would be in order if they can start consider 'Fit to Proper' test of directors before granting loan to companies.

Whistle Blowing Policy (WBP) -

A famous quote "the World suffers a lot not because of the violence of bad people but because of the silence of good people" considered to be relevant in corporate governance. Whistle Blowing is an act of reporting wrongdoing within an organization to internal and external parties. It is raising a concern about malpractices within an organization or through an independent structure associated with it. Lenders should observe such types of policies in the business of their prospective borrowers while appraising the credit proposals, making market enquiries on clients & dealing with the borrowers for making entry or exit point investment / exposure decision. For example, in the given case one of the ex-senior executives of the company, blew the whistle in December 2014 vide e-mail shared his findings to an independent director in the company, who then forwarded the mail to the chairman of the audit committee of the company and also forwarded the same to other members of the audit committee, the statutory auditor, bankers, suppliers, regulators but no action was taken on the whistle.

Peers Performance Appraisal (PPA) -

Business & economic environment of firms remains

common with prospects and constraints of the growth. Bankers should therefore, analyze and appraise the sales growth, profit margin, cost of production, realization period etc. of the prospective borrower in sync with the related industry benchmarks. For example in the give case, the company demonstrated an annual compound growth rate of 35% as compared to the world-wide market annual compound growth rate was of 6%. The reasons of such a huge variance of the firm vis-à-vis industry landmark should have diagnosed in time to avoid this mishap. Besides, the statutory auditors on whom the general public relied on for accurate information not only failed in their job but themselves played a part in perpetrating fraud by preparing a clean audit report for fudged, manipulated and cooked books because audit fee was increased three times from over the year 2009 to 2014 which was much higher in comparison to peer companies.

Source & End Use of Funds (SEUF) -

Money is brought into the business by promoters from their owned or borrowed route and necessary certification from Auditors are produced to the bankers in the support of having funds infused in the business. Bankers should go beyond this convention method of ensuring sources and uses of funds to verify that promoters & their relatives have adequate amount of liquid worth in form of cash, bank deposits, investment, gold & jewelry etc. for raising proposed money either as capital or unsecured loans. Also the money so proposed must be routed through banking channels and this should not be permitted to withdraw in their names but to be used for the purpose it was raised. The auditor certificate should be obtained not only for raising the money but for its end use too so that clients are not misled by financial consultant or auditors to bring the money only for book entry purposes.

Gratification to Statutory Auditors (GSA) -

To observe a practice of good governance, it is suggested for the bankers to seek confirmation from statutory auditors on having audited the account of the borrowing firm / company by sending a letter of gratification for giving the captioned business leads. This will not only help to ensure genuineness of financial statement audited by the auditor but also can assist to have feed back in confidence from the auditing firm about borrowers.

Due Diligence Certification (DDC) -

The role of company secretaries has been made more significant by considering them part of Key Managerial

Personnel (KMP) in new Companies Act 2013 who is empowered to report disfigurement and gross irregularities of norms directly to the Government. Bankers should therefore, obtain a Due Diligence Certificate in pursuant to the guidelines issued by Reserve Bank of India vide circular RBI/2008-09/183 DBOD No. BC.46/08.12.001/2008-09 dated 19.09.2008 to observe good corporate governance by the borrowing firm. Besides, the bankers should randomly analyze payment under key heads of expenses for their genuineness. For example, payment of salary should be in accordance to the manpower reported in the company and it corresponding payment of statutory dues like provident fund contribution or gratuity provisions. If this would have been exercised in the extant case the excessive payment for 53,000 employees on its payroll as against employees registered for provident fund payments, a little over 43,000. The fictitious number could be fabricated only because payment to the remaining 10,000 employees was faked year after year - an operation that evidently involved the creation of bogus companies with a large number of employees

Sum Up

Financial Statements are reflection of financial health of the business which is viewed from different perceptions of various stakeholders like investors, buyers, suppliers, employees and bankers. Bankers when become finance

partner of their borrower they should not only satisfy on repaying capacity but also to be fully conversant with the ethical value of the borrowers' business. Thus, analysis of financial statement for the bankers need to go beyond the figure appeared in the balance sheet and profit & loss account because any falsification and manipulation in figures do not only affect lenders but it has contagion effect to the society. The poor state of appraisal in banks is observed mainly because of over dependence on external agencies like TEV Consultants, credit rating agencies, chartered accountants etc. Due diligence is an activity which is to be done by self, no outsource and compromise in this exercise as bankers are imparting public money to the society for growth. There is need of revamping the conventional approach of financial analysis from merely ratio calculation to corporate governance through financial statements. Machines do better calculation than a human being, as a professional let us experience trust in novel motto of our great India "Satyameva Jayate - Truth alone Triumphs". Truth is information which is valid, and in the longer run, the marginal utility of a lie diminishes so much, that truth becomes the obvious choice to sustain it. Business that carries high ethical values considered to be fit for lending by bankers for sustainable growth of industry in general and country in particular. [MA](#)

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Notification

It is hereby notified vide Notification Nos. 18-CWR (5207 - 5235)/2014 dated 13th August 2014, 18-CWR (5236 - 5263)/2014 dated 19th August 2014, 18-CWR (5264 - 5294)/2014 dated 26th August 2014, 18-CWR (5295 - 5319)/2014 dated 30th August 2014, 18-CWR (5320 - 5371)/2014 dated 9th September 2014, 18-CWR (5372 - 5412)/2014 dated 18th September 2014, 18-CWR (5413 - 5454)/2014 dated 30th September 2014, 18-CWR (5455 - 5490)/2014 dated 30th September 2014, 18-CWR (5491 - 5514)/2014 dated 30th September 2014, 18-CWR (5515 - 5535)/2014 dated 23rd October 2014, 18-CWR (5536 - 5557)/2014 dated 23rd October 2014, 18-CWR (5558 - 5571)/2014 dated 25th November 2014, 18-CWR (5572 - 5592)/2014 dated 25th November 2014, 18-CWR (5593 - 5603)/2014 dated 1st December 2014, 18-CWR (5604 - 5662)/2014 dated 1st December 2014, 18-CWR (5663 - 5727)/2014 dated 1st December 2014, 18-CWR (5728 - 5784)/2014 dated 1st December 2014, 18-CWR (5785 - 5800)/2014 dated 24th December 2014, 18-CWR (5801 - 5821)/2015 dated 27th January 2015 and 18-CWR (5822 - 5836)/2015 dated 12th February 2015 in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959 that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of the members given in the Notification.

Effects of The Global Economic

MELTDOWN



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India, despite its robust industrial growth and burgeoning economy, could not entirely keep itself insulated from the 2007-08 global financial crisis. Several economists dubbed the crisis as the worst since the Great Depression. Economic activity in India declined by almost 15 percent, and that of the developed nations, by nearly 23 percent. India, in laymen's terms, was thus safe by 8 percent. This was also for the first time since World War II that the Indian GDP declined by 5 percent below its average growth. Over five lakh people in the export sector alone lost their jobs in just three months of 2008 (Pamecha and Sethi, 2011). In the US, Lehman Brothers went bankrupt on 13 September 2008, and two days later, sought protection from the Department of the Treasury. The company, at that time, was the fourth largest investment bank in the world. Two other major US banks—Merrill Lynch and Goldman Sachs—also filed for bankruptcy. Bank of America (BOA) bought Merrill Lynch for \$46 billion. BOA, today, is the of the world's biggest banks. While the turmoil was the fallout of exceptional credit boom and leveraging of the financial system, a continuous reading of the macroeconomic indicators like low interest rate, low volatility and high liquidity, helped manage risks and drawbacks of financial regulation. The slowdown in the US real estate market

engulfed the whole country's economy, which was already economically sluggish.

The mortgage sector was the single largest contributor to the US economic crisis. Loans were given after mortgaging properties as collateral securities. The mortgage papers, after ratings by agencies like Standard & Poor, Fitch, Moody's, and others, were converted to mortgaged-back securities and centralised debt obligations (CDOs). The securities were then sold to financial institutional investors, banks and pension funds. It was the largest fixed income market in the world worth \$8 trillion. There was no problem initially where the payment was low and the mortgagers fulfilled their commitment. But with the rising payment obligation, the subprime mortgagers ran for foreclosure. The interest rate was also low for these above-average risky subprime lenders. Return was minimal in the beginning and the loans remained unrecovered. The banks had to shoulder the liability, which in turn made them bankrupt.

The India effect

The US is the single largest economic power in the world. A slowdown of such an economy triggered a domino effect in other countries and also affected India to a considerable extent.

Major global financial crises since 1980

1980s	Latin American debt crisis beginning in Mexico
1989-91	The US savings and loan crisis
1990s	Bursting of the Japanese asset price bubble
1992-93	Speculative attack on currencies in the European exchange rate mechanism
1994-95	Mexico economic crisis, speculative attack and default on debts
1997-98	Asian financial crises, devaluation and banking crisis across the continent
1998	Russian financial crisis, devaluation of the rouble and default on debts
2001-02	Argentine economic crises (1999-2002), breakdown of banking system
2008	The US and Europe; spread of the subprime mortgage crisis

Source: nytimes.com

According to a 2007 Reserve Bank of India (RBI) study, none of the Indian banks or foreign banks operating in India were directly exposed to the US subprime crisis. Some Indian banks, however, had invested in CDOs. They incurred some losses because of market-to-market caused by the widening credit spread due to subprime activities. Only 14 of the 77 banks were affected due to Lehman Brothers' bankruptcy. The US Federal Reserve, in 2004, had curbed all types of accommodation because of increasing inflation. As the interest rates grew, mortgage payment also rose and borrower defaults increased. Though the loans were securitised, the losses were ultimately borne by the banks and the financial institutions. Home prices plummeted as the rate of interest increased. It led to high rates setting off the mortgage property, with owners missing payments and foreclosing their accounts. The financial institution holding the mortgage-backed securities incurred losses and had to sell their assets to meet the margin calls. Cost of borrowing increased from the 1950s, though the subprime crisis dates back to 2004. The cause of the crisis was not the expansionary and contradictory policy, only that it was backed by too much decentralised decision making. Coordination between the monetary policy and balance of payments also failed.

Banking crises are of two types. First, when a bank suffers a sudden rush of withdrawals, it is usually not in a position to repay its depositors immediately because the total deposits or a major part of it has already been lent out. Many depositors lose their savings if not backed by

deposit insurance. And second, the systematic crisis. It is a situation when all the banking capital of a country is wiped out because of a chain of bankruptcies. It results in a long-drawn economic recession. Major economic damages caused by the Great Depression were because of such a scenario. Asset liability mismatch is another factor believed to contribute to financial crisis. For instance, deposit accounts of banks that can be withdrawn anytime, are extended as long term loans to businesses and home owners. Mismatch between the bank's short-term liability and its long term assets is seen as one of the reasons of bank run.

The meltdown, this time round, took final shape in March 2007, when shares of New Century Financial (NCF), one of the largest subprime lenders in US, were suspended from trading on fears of bankruptcy. On 2 April, 2007, NCF was forced to purchase the bad loans which lead them to bankruptcy. Among others, Accredited Home Lenders Holding, a mortgage banking company, passed \$2.7 billion of its loans at a heavy discount, while General Electric also sold off its subprime lending arm, WMC Mortgage, bought in 2004.

The initial effect was not much felt, though there was a pressure jump in the inflow of capital when the US Fed Fund rate was lowered. The RBI had to apply the market stabilisation scheme (MSS) and increase the cash reserve ratio to neutralise the liquidity. The tightening measures continued until August, 2008, because of inflationary pressure at home and abroad.

As already said, Lehman Brothers' insolvency had no direct impact on Indian banks because of minimal exposure. Some changes in the external environment were nevertheless observed because the capital inflows of 2008-09 were lower than 2007-08, which reduced the reserves. Such loss of reserves during the April-December 2008 period created a valuation loss. Rapid credit growth in some sectors compelled RBI to impose stricter prudential norms to protect stability. The then RBI Governor D Subbarao's claim that the "Indian Banking System has had no direct exposure to the subprime mortgage assets or to the failed institutions. It has very limited off-balance sheet activities or scrutinized assets," was no exaggeration.

Subprime lending crisis

Easy credit conditions were encouraged by the US government and the competitive pressure groups. Major US banks and government-sponsored organisations, like Fannie Mae, played an important role in propagating the high risk lending process. The bubble burst, though

there was a track of subprime lending in the country. The value of the US subprime mortgage was estimated at \$1.3 trillion as on March 2007, with over 7.5 million first-lien subprime mortgages outstanding. Subprime mortgages jumped from 10 percent of all mortgages until 2004 to 20 percent in 2005-06 at the peak of the US housing bubble. Loans against mortgage-backed securities became easier because of the relaxation of the net capital rule in the country.

Recessions did not start immediately after the subprime failure. In fact, it could be a point of discussion whether the recession led to subprime failure. Questions could be raised whether the US government along with some major banks encouraged risky lending to increase the liquidity and strengthen the money supply to the economy. The pattern of long-term investment proved discouraging. The price of the real estate sector declined. Money lenders were not getting the opportunity to refinance the real estate and they had to increase the rate of interest to recover their loans that were failed by the subprime borrower. The lenders, meanwhile,

The mortgage sector was the single largest contributor to the US economic crisis. Loans were given after mortgaging properties as collateral securities. The mortgage papers, after ratings by agencies like Standard & Poor, Fitch, Moody's, and others, were converted to mortgaged back securities and centralised debt obligations

resold the loans to Wall Street firms that in turn bundled thousands in mortgage loans from different lenders into mortgage-back securities. These securities were used to develop CDOs, rated by agencies like Moody's, Standard & Poor, Fitch, and others.

Housing as a necessity, and as an investment, are entirely different. The real estate boom was seen in California, South-West Florida and other coastal markets in the Midwest that were suffering from job losses in the manufacturing sector. While foreclosure was rampant, it was also expected that the losses from CDOs were understated. Prices in these regions fell by 20-30 percent from their peak and wiped off \$4-6 thousand billion in household wealth. Falling prices increased the interest rates that made the default-making CDOs worthless and

investors lost their money because banks had nothing to compensate. Additional derivatives created out of subprime lending compounded to the crisis.

Impact on real estate

Indian real estate players were facing fund crisis because of the economic slowdown and correction of prices. There was extra pressure on housing bank companies because external finances stopped. Loans increased from \$11.89 billion in 2008 to \$70.55 billion in 2009, which was a normal growth of 10-15 percent year on year. A jolt in any particular year gives a clear indication of abnormal pressure because of shrinkage in finance from external sources (RBI, 2013). Lehman Brothers was bullish on the Indian realty sector and had pumped in excess of \$700 million. Its investments were already disbursed to major players like DLF, Unitech and Future Capital. RBI regulations on remittance process are effective in case of foreign investment. Stocks of Anant Raj Industries, Orbit Corporation, Ganesh Housing, DSK Real Estate, Ajmeera Realty, Ansal Housing, and Puravankara, were affected. Companies unlikely to face any difficulty to complete their respective projects, but could be bogged down by heavy selling, include Reliance Infrastructure, Prajay Engineers, Nagarjuna Construction, Unity Infraprojects, BSEL Infrastructure and Jyoti Structures.

Stock markets

The stock market risk was not appropriately calculated in the collateralised debt obligation and credit default swap market. Banks and investors neutralised the risk by extending enormous loans at low interests, which worked fine until the housing market continued to increase in value. Withdrawal of finances from emerging countries triggered a fall in equity value and interest paid by firms, for borrowing through the stock market, increased. By mid-October, 2008, gains from the equity market dried up and there was a shortage of IPOs. World trade volumes were also low in the latter half of 2008. Foreign direct investment too nosedived in this period, which reduced private flows from \$1 trillion in 2007 to \$250 billion in 2009 in developing countries. The problem of securitisation aggravated the meltdown. Loans were refinanced by securitisation through some illiquid, complex and uncertain assets. Their instability or complexities were not disclosed. Moreover, they were falsely rated by several top rating agencies. According to The Economist, financial assets exhibit a bubble when its price exceeds the present value of the future



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income. Participants will go on buying as long as the value is high. When there is a sell-off, the price hits the bottom because of the abnormal pressure on selling. It's often termed as a 'crash' or the 'bursting of the bubble'. Crashes are usually driven by panic as much as by underlining economic factors. It is also a social phenomenon where the external economic events are mixed with 'herd psychology'. Crashes are also often predictable.

This underlying causes of crashes included a prolonged period of rising stock prices, excessive optimism and extensive use of margin dates, and leveraging by market participants. Foreign institutional investors (FIIs) withdrew close to \$11 billion from India, dragging down the capital market (Lakshman, 2008). Sensex breached the 21,000 mark in January 2008 and plunged below 10,000 by October (Kundu, 2008). Stock prices fell by 60 percent. The primary market was also affected because of the FII pullout. The net FII inflow into India was \$20.3 billion in 2007-08. They pulled out \$11.1 billion during the first nine-and-a-half months of the 2008-09 fiscal. In 2007-08, when foreign (portfolio and

direct) investments increased to \$2,49,921 crore from \$1,35,080 in 2006-07, the Sensex also rose to 16,568.89 from 12,277.33 points the previous year (Bajwa, 2012). There is a direct relationship between the two. Portfolio reversal affected both inland liquidity and the Sensex. The decoupling theory, which says that an advanced economic crisis will not hit the emerging economy with a robust banking policy and sufficient foreign reserves, did not work well. All paths of finance were hit moderately.

Capital flow and exports

It is clear from the data in table 1 that there was an increase in foreign direct investment (FDI) during the April-August period in 2007-08 and 2008-09. But FII investments and external commercial borrowing decreased considerably. The reasons behind this are the policy measures to curb the excess flow and the turmoil in the developed countries. While India's equity market is integrated with the global market, its debt market is not. In the October-December quarter of 2008, Indian companies were able to raise \$4.5 billion, which gradually weakened leading to a decline in exports.

Table1: Trends in capital Flows (in \$ million)

Component	Period	2007-08	2008-09
FDI India	April-August	8,536	16,733
FII's (net)	April-26 September	15,508	-6,421
External commercial borrowing (net)	April-June	6,990	1,559
Short-term trade credits (net)	April-June	1,804	2,173
ECB approvals	April-August	13,375	8,127
Foreign exchange reserves (variation)	April-26 September	48,583	-17,904
Foreign exchange reserves (end period)	Sept,26,2008	2,47,762	2,91,819

Source: Economic survey, ministry of finance

Note: Data on FIIs presented in this table represents inflows into the country and may differ from data on net investment in stock exchanges by FIIs.

Change in the geographical pattern of exports (table 2), is an indication of the increased external vulnerability of the Indian economy, which is reflected in the depreciation of the rupee. To control the situation, India had to lower the foreign exchange reserve in the last quarter of 2008 and the first quarter of 2009. Exports to China, South Korea and ASEAN countries have increased, whose economy is in slow growth pattern, instead of the USA, UK, Japan and Russia that had a better growth. Total exports during this period were in ups and downs, exclusively because of the economic meltdown in the importing countries. The 20.17 percent growth in 2006-07 fell to 12.82 percent in 2007-08, which finally settled at 0.56 percent in 2009-10. The favourable \$3,697 billion balance of payment in 2007-08, ended in the red at \$971 billion in 2008-09. It, however, managed to recover to \$642 billion in 2009-10 (RBI, 2013)

Table 2: Geographical direction of Indian exports (%)

Region	1980-81	1990-91	2001-02	2007-08
EU	21.6	27.5	22.7	21.2
USA	11.1	14.7	20.9	12.7
Africa	5.2	2.1	3.2	7.1
South America	0.5	0.4	2.1	3.5
Asia (non-oil)	13.4	14.3	21.4	25.8
OPEC	11.1	5.6	10.9	16.4

Source: Economic survey, ministry of finance

Conclusion

India was spared from the meltdown because its growth was largely driven by domestic demand and it had comfortable forex reserves. Besides, India's credit derivative market is at an embryonic stage and the country has regulatory guidelines for securitization, which prohibits immediate profit recording. The conservative process of opening of its internal economy to outsiders is also a major factor to insulate India from the subprime effect.

But India will not be able to fully isolate itself from the crisis because its economy is integrated with the rest of the world. The global economic slowdown imposed a recessionary trend in India. The country's banks are well guarded to face the downtrend. The Committee of the Financial Sector Assessment, chaired by Rakesh Mohan, in a stress test at the end of September, 2008, showed that capital adequacy ratio is much above the regulatory norm. The main problem of India is the sell off by FIIs in the domestic equity market. The sharp decline in liquidity, as well as economic activity, lowers the demand in the external foreign exchange market. The difference in the foreign exchange market drained liquidity and created pressure on the rupee market. RBI's main challenge is to manage the rupee liquidity. Greed of some advanced countries to earn short-term windfall profits, led to the generation of some toxic assets that worked as a multiplier to ruin the overall scenario. India nonetheless got its dividend of being a conservative financial player in a well-regulated monetary field. It has to develop a more flexible monetary policy where it is necessary to strike a balance between financial reserves and market liquidity. **MA**

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Performance of Controlling (CO) Module of ERP System



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Introduction

Enterprise Resource Planning System (ERP)

Enterprise resource planning (ERP) is an integrated information system which is considered a backbone information system of the enterprise. As a cross functional enterprise system, it integrates and automates all the internal cross functional business processes such as production, order processing, logistics, sales, distribution, accounting, finance and human resource to derive benefits like agility, efficiency, and competitive advantage. Benefits of ERP modules that accrued to the firm increase with the implementation of modules and sub-modules of the ERP system. ERP can provide online timely information to the management to know the exact status of the business at a click and enable it to take timely business decisions. It further makes it possible to monitor performance and identify emerging opportunities faster and more accurately.

Controlling (CO) Module

Controlling (CO) module refers to “Managerial Accounting”. CO module of ERP system is concerned with the firm’s cost structure. It takes care of all the factors influencing cost. It focuses on cost control, product cost, cost of production, and profitability analysis. The Organizational Elements in CO are Operating Concern, Controlling Area, and Cost Centers. Hence, the CO Module helps management by providing reports on cost

centers, profit centers, contribution margins, profitability, etc. It focuses on internal users.

The Controlling (CO) Module’s Components include Cost Element Accounting; Cost Controlling; Cost Center Accounting; Internal Orders; Activity-Based Costing; Product Cost Controlling; Profitability Analysis; Profit Center Accounting and so on. The Control (CO) Module is integrated with financial accounting (FI), Sales & Distribution (SD), Production Planning (PP), and Human Resource (HR) module. While FI is the main source for data for CO, the others such as SD, HR and PP have many integration points with CO.

Various empirical studies on ERP (e.g. Sandoe et al.(2001), Majed Al-Mashari, et al. (2003) , Gable et.al (2003), Sedera et al. (2004), Ifinedo (2006), Shaio Yan Huang et al. (2009), Ifinedo P. &Nahar N. (2007) , Shang &Seddon (2007) , Madapusi (2008) show that implementation of ERP modules results in improvement in financial and non-financial performance of the organizations related to information availability, better resource management and improved business performance leading to competitive advantage.

Research problem

The present study makes an attempt to know improvement in various performances (financial and non-financial) of organization due to implementation of controlling module as a part of ERP system in select manufacturing firms in India.

Objectives of the study

The objectives of the study are:

1. Since how long CO module is implemented in select organizations?
2. Does the CO module improve various performances of the organizations?

Hypothesis Formulation

As mentioned above the empirical evidence on study of performance of ERP system implementation e.g. Sandoe et al., (2001), Majed Al-Mashari, et al. (2003), Gable et.al (2003), Sedera et al. (2004), Ifinedo (2006), Shaio Yan Huang et al. (2009), Ifinedo P. &Nahar N. (2007), Shang &Seddon (2007), and Madapusi (2008) show that the implementation of ERP modules / system results in improvement in number of non-financial and financial performances like information availability, standardization of information and quality of information, integration of processes, inventory management, on-time delivery, productivity, customer satisfaction, cost savings, accurate forecasts, better capacity utilization, inventory management as well better ROI and competitive advantage etc.

Based on the earlier studies the following hypothesis is formulated:

H1: The implementation of controlling modules does contribute to changes in performance.

Framework of the Study

Madapusi (2008) made literature review of 18 studies and identified 10 measures of performance due to implementation of ERP modules/ system. On the similar line the literature review of further studies was carried out and same 10 performance changes were identified.

The ten performance measures considered are information availability, information quality,

standardization, inventory management, standardization, information availability, on-time delivery, profitability, return on investment, user satisfaction, customer satisfaction and competitive advantage. In the present study Controllingmodule is independent variables and ten performance measures are dependent variables

Research Methodology

This is a descriptive study. The study explores the empirical evidence of performance of Controlling(CO) module in Indian manufacturing firms.

Data Collection and sample size

The study is based on primary data collected by way of survey questionnaire from Select Indian manufacturing firms belonging to various industries. These firms belong to various manufacturing zones from South Gujarat, Maharastra, Noida, Chandigarh, Punjab and Haryana. In all 122 completed Questionnaire forms the sample of the study. Convenient sampling method is used for the study.

Data Collection instrument

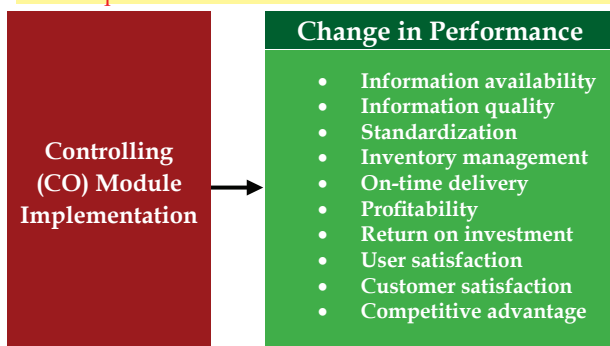
The data collection instrument, in the form of a survey questionnaire developed and used by Madapusi (2008), with few changes, has been used for data collection. Changes to the questionnaire are done on the basis of review of literature done from studies available from the year 2004 to 2011. The questionnaire aimed to study number of other research questions also. It included questions related to 14 modules, 10 performance measures and 16 critical success factors. For this study the questions relevant to Controlling module and change in performance are considered.

The modules implemented were measured on the basis of their mean values. The scores assigned to each scale were on basis of their midpoints. For status of NI - Not implemented score assigned was 0, for implementation status of 0 to less than 1 year score assigned was 0.5; for implementation status of more than 1 year but less than 3 years score assigned was 2; for implementation status of 3 years or more but less than 5 years score assigned was 4 and for the last criteria of implementation for 5 years or more score assigned was 6.

The measures of change in performance are considered to measure the ERP system performance. These changes were measured on 7 points Likert scale ranging from Agree to Disagree. The score given to each scale was as follows -Agree:7, Mostly Agree: 6, Somewhat Agree: 5, Neither Agree nor Disagree: 4, Somewhat Disagree: 3,

Figure 1

Conceptual Model of CO Module Performance



Mostly Disagree: 2 and Disagree: 1.

Data Analysis

The hypotheses are tested by applying multiple linear regression analysis. Cronbach's Alpha & Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity is used to measure the reliability of the data. Factor analysis technique is applied for performance measures (dependent variables). Principal Component Analysis with Varimax Rotation method is employed for extracting the factors. To address the problem of multicollinearity, correlations analysis is applied. For processing the data Statistical Package for the Social Sciences (SPSS) 16.0 is employed.

Findings of The study

Objective 1: Since how long CO modules are implemented in select organizations?

Table 1 show the mean value and standard deviation of the controlling module implemented. Controlling module had mean value of 4.11 and SD 2.16., meaning it is implemented for 3 years 5 years. It is found implemented by 95.08 % of sample companies.

Objective 2: Does the CO module improve various performances of the organizations?

Table 2 shows Mean & Standard Deviation (SD) scores of all performance measurements. Implementations of ERP system modules has given maximum benefit to firms in form of information availability (M: 6.57, SD: 0.67), closely followed by information quality (M: 6.30, SD: 0.79), inventory management (M: 6.28, SD: 0.82), user satisfaction and standardization with (M: 6.25, SD: 0.87 and M: 6.25, SD: 0.84) respectively. Competitive advantage was a performance measure with least score (M: 5.90, SD: 1.20).

Hypothesis Testing

To test the hypotheses separate regression models are developed for each 10 performance measures and standard linear regression analysis is conducted. The results of which are presented in Table3, showing the size of standardized regression coefficients (β), coefficients of determination (R^2), and the F ratio's (F) for the fitted models.

Table 1–Details of Controlling module implemented

Particulars	Mean	SD	No of years of implementation	No of companies implementing the module	% of companies employing the module
Controlling (CO)	4.11	2.16	3 to 5 years	116	95.08

Table 2–Descriptive Statistics of Improvement in Performance

Particulars	Mean	SD
Information Availability	6.57	0.67
Information Quality	6.30	0.79
Inventory Management	6.28	0.82
User Satisfaction	6.25	0.87
Standardization	6.25	0.84
On-time Delivery	6.04	0.92
Customer Satisfaction	5.99	0.96
Profitability	5.94	1.06
Return on Investment	5.96	1.13
Competitive Advantage	5.90	1.20

Table 3 - Significant relationship between Implementation Status of Controlling module and Change in Performance

Sr no	Variable	β	R ²	F
1	Inventory Management	.154	.026	5.245**
2	Information Quality	.164	.027	3.337***
3	On time delivery	.214	.046	5.753***
4	Standardization	.378	.143	20.058***
5	Profitability	.219	.048	6.067***
6	ROI	.300	.090	11.885***
7	Information availability	.206	.042	5.326***
8	User satisfaction	.064	.040	14.90***
9	Customer satisfaction	.177	.031	3.862***
10	Competitive Advantage	.197	.039	4.839***

Significance: * p < .001; ** p < .01; *** p < .05. All β values are standardized regression coefficients.

Controlling module was found to be significant on all the ten performance measures. This module is one of the early implemented modules by the firms belonging to intra-firm category. The high mean of implementation status of this module (M-4.11) as well as 95.08 per cent implementation rate (116/122) support these finding. This suggests deployment of this module facilitates proper tighter controls on all the functional activities, resulting into information availability (information availability, standardization, information quality), better resource management (inventory management), agility (on time delivery, user satisfaction, customer satisfaction), efficiency (profitability and ROI) and competitive advantage.

Discussion

The regression model so constructed show that controlling is significant for all the 10 performance measures. This suggests that as the implementation of controlling module results in improvement in performance of all 10 measures. This in turn improves management

control and thereby increases the business performance in terms of customer satisfaction, profitability, ROI and competitive advantage. As the findings show the implementation of CO module helps to achieve these.

Conclusion

The empirical findings of the study support that the Controlling which is one of the early implemented module of ERP system does help the organization to achieve not only short term benefits in terms of timely information but also results in medium term benefits in terms of better resource utilization as well as long term advantage in terms of improved business performance. **MA**

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How **INC-29** can enable Ease of Doing Business in India - An Analysis



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The Companies Act, 2013 was notified on 30th August 2013 and the Ministry of Corporate Affairs [MCA] had notified the majority of the provisions of the Companies Act, 2013 effective from 1st April, 2014 and also notified Rules for various chapters of the Act. The notified Rules included the eforms to be filed with RoCs/RDs and HQ towards incorporation of Companies and other event based filing of documents. The eforms under the CA, 2013 have gone live on 28th April, 2014.

How INC-29 (Integrated Incorporation Form) enable Ease of Doing Business in India?:

As part of the Government's drive to improve India's ranking on the globally tracked parameter of ease of doing business (assessed by World Bank¹), INC-29 form has been conceived. This effort has been driven from the PM Office and considered absolutely essential towards achieving the said goal. The Government is looking at ways to improve India's position to top-50 in terms of ease of doing business globally which is presently at 142nd place. The average time for incorporating a company would be reduced to 24 hours, by INC 29, since a single form would now be equivalent integrating services presently delivered through 5 eforms (viz. DIR-3/INC-1/INC-2 or INC-7 as the case may be and INC-22) providing following services to the user in a single step:-

- Allotment of Director Identification Number

Ease of doing business in the UK, ranking of UK on World Bank Doing Business Report-March 2015: The World Bank annually report on regulations that enhance or constrain business activity, using a number of quantitative indicators on business regulation and protection of property rights, to compare different economies over time. Surveys are issued to local experts (including business consultants, lawyers and government officials) and look at 10 aspects of business regulation including; starting a business, getting credit, and trading across borders. Data for the indicators are based on responses to a common template, which uses a simple example to ensure comparability across countries and over time (e.g. assumptions about the size of a business, its legal form and nature of its operations).

- Name reservation for the Company
- Incorporation of the Company

It is experienced that most of the companies incorporated (about 95%) private companies with only two persons as first directors and subscribers. To improve 'Ease of Doing Business' in India, the MCA wanted to reduce the number of processes for incorporating a company from the normal process of 3 steps to 1 step through this integrated eform.

Comparative Table of the normal process vis-à-vis integrated process for incorporation of Companies

Normal Process	Integrated process
<p>3 different applications and 3 steps i.e.,</p> <p>(i) Application for DIN(DIR-3);</p> <p>(ii) Application for reservation of name(INC-1) and</p> <p>(iii) Application for incorporation (INC-2 or INC-7) with lot of attachments.</p>	<p>One Single form for incorporating a company (as against 5 forms viz.DIR-3/INC-1/INC-2 or INC-7 as the case may be,INC-22/DIR-12) which will capture all the required information</p> <p>One integrated work item for all the processes resulting into drastic reduction of time taken in incorporation.</p> <p>Drastic reduction/optimization of attachments and processes.</p> <p>It is expected that the time for incorporating a company would get reduced 1 working day.</p>

Features of INC-29:

- ✿ One Single form for incorporating a company (as against 5 forms viz.DIR-3/INC-1/INC-2 or INC-7 as the case may be,INC-22/DIR-12) which will capture all the required information;
- ✿ Producer companies and New Company(others) are covered;
- ✿ Presently, section 8 Company and Part I (Ch. XXI-registration of Unregistered companies) are out of the scope of this form;
- ✿ Maximum of 3 applicants for allotment of DIN would be permissible under the form;
- ✿ DIN would be processed by the jurisdictional RoC (as against the DIN cell in the existing process);
- ✿ Only 'Single name' (as against 6 names) would be allowed;
- ✿ Articles of Association /Memorandum of Association the templates of which are available in the Companies(Amendment) Rules dated 1st May 2015, could be filled, physically signed, scanned and attached to the form;
- ✿ Entire fees including stamp duty becomes payable at the time of filing the form;
- ✿ A composite fee of Rs.2000/- shall become payable for the form;
- ✿ Stamp Duty as applicable shall become payable;

- ✿ Resubmission of the form shall be allowed twice(each time for a maximum period of 15 days as against once in the existing process);
- ✿ The form shall either be approved or rejected within 60 days from the date of its filing.
- ✿ In case stakeholder wants to avail any of these services separately/independently, he may have to use the existing eforms.
- ✿ In case any of the Director has no DIN, then details would be captured and validated while upload of the e-form.
- ✿ Upon approval of the e-form, DIN would be generated and sent to the applicant.

Conclusion:

The Companies (Incorporation) Amendment Rules, 2015 has also notified the Templates of Memorandum of Association (INC-30) and Articles of Association (INC-31) and the applicants can make use of these templates while filing the integrated incorporation form. It is expected that the eform INC-29 would be widely used for incorporating companies in India and enable to improve 'ease of doing business' rankings. **MA**

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Role of CMAs in Business Process Modeling

Benchmarking Analysis

Business Process Modeling aims to improve business performance by optimizing the efficiency of connecting activities in the provision of a product or service. The CMAs can play a significant role in the problem identification phase of this approach by comparing the business unit's performance with that of other internal groups or the competition by benchmarking

analysis. These types of analyses can help operational managers identify the underlying causes of performance problems and provide justification for process changes. Furthermore, documenting "best in industry" performance levels should help managers establish goals for the redesigned processes.

Performance Management

Business process modeling is defining the execution flow for a sequence of activities. To operationalize the activities, certain attributes are to be defined which will be the starting point for determining performance benchmarks. The CMAs can suggest Key Performance Indicators (KPIs) that properly measure progress toward improving operational efficiency. Additionally, the CMA with their professional expertise would generate analyses that accurately highlight the relevant workflows and the appropriate performance measures. Developing KPIs should be part of an overall strategic management process that connects the overall mission, vision and strategy of an organization, and its short and long-term goals, to specific strategic business objectives and their supporting projects or initiatives.

Business Process Management

It is a management approach used for describing, controlling, modeling, and optimizing business processes. The CMAs can apply Cost Management tools like Supply Chain Management (SCM), Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) for effective implementation of Business

Process Management. This would facilitate the management to improve the alignment of all aspects of an organization subject to customer requirements, amplify process transparency, promote business efficiency, maximally exploit employee potential, improve product quality and reduce costs to bring business sustainability.

Learning Curve

Under the engineering approach, cross-functional teams are assembled to design and integrate the proposed process improvements within the affected business unit. The intent is to maximize operational efficiency by identifying interdependencies and eliminating redundancies. In this regard, the CMAs can apply Learning Curve technique not only to labor cost but also to a wide variety of other costs, including material and purchased components. The power of the learning curve is so significant that it plays a major role in many strategic decisions related to employment levels, costs, capacity, and pricing.

Project Management

Business Process Modeling (BPM) is applied to increase process speed or reduce cycle time to increase quality or to reduce costs, such as labor, materials, scrap, or capital costs. Most development projects have very complex dependencies regarding the tasks to accomplish. Process models offer the chance to incorporate the knowledge of many project managers into active projects. Bridging

the gap between process models and project plans by defining such models precisely seems to be beneficial. The CMAs can apply Project Management tools to achieve the desired target, ensure efficient and best value use of resources and satisfy the differing needs of the project's stakeholders.

Taxation

CBEC unveils procedure for maintenance of electronic records and their authentication by digital signature

Central Board of Excise and Customs specifies the following conditions, safeguards and procedures for issue of invoices, preserving records in electronic form and authentication of records and invoices by digital signatures, namely:-

1. Every assessee proposing to use digital signature shall use Class 2 or Class 3 Digital Signature Certificate duly issued by the Certifying Authority in India.
2.
 - (i) Every assessee proposing to use digital signatures shall intimate the following details to the jurisdictional Deputy Commissioner or Assistant Commissioner of Central Excise, at least fifteen days in advance:-
 - a) name, e-mail id, office address and designation of the person authorized to use the digital signature certificate;
 - b) name of the Certifying Authority;
 - c) date of issue of digital certificate and validity of the digital signature with a copy of the certificate issued by the Certifying Authority along with the complete address of the said Authority:
 - (ii) Every assessee already using digital signature shall intimate to the jurisdictional Deputy Commissioner or Assistant Commissioner of Central Excise the above details within fifteen days of issue of this notification.
3. Every assessee who opts to maintain records in electronic form and who has more than one factory or service tax registration shall maintain separate electronic records for each factory or each service tax registration.
4. Every assessee who opts to maintain records in electronic form, shall on request by a Central Excise Officer, produce the specified records in electronic form and invoices through e-mail or on a specified storage device in an electronically readable format for verification of the authenticity of the document and the request for such records and invoices shall

be specified in the letter or e-mail by the Central Excise Officer.

5. A Central Excise Officer, during an enquiry, investigation or audit, in accordance with the provisions of section 14 of the Central Excise Act, 1944 and as made applicable to Service Tax as per the provisions contained in section 83 of the Finance Act, 1994, may direct an assessee to furnish printouts of the records in electronic form and invoices and may resume printouts of such records and invoices after verifying the correctness of the same in electronic format; and after the print outs of such records in electronic form have been signed by the assessee or any other person authorized by the assessee in this regard, if so requested by such Central Excise Officer.
6. Every assessee who opts to maintain records in electronic form shall ensure that appropriate backup of records in electronic form is maintained and preserved for a period of 5 years immediately after the financial year to which such records pertain.

Source: Notification No. 18/2015-Central Excise (N.T.) dated: 6th July, 2015

Section 10(15), Item (H) of Sub-Clause (IV) of the Income-tax Act, 1961 - Exemptions - Interest on Bonds/Debentures - Notified Bonds

In exercise of the powers conferred by item (h) of sub-clause (iv) of clause (15) of section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby authorizes the entities mentioned in column (2) of the Table given below, to issue, tax-free, secured, redeemable, non-convertible bonds during the financial year 2015-16, aggregating to amounts mentioned in column (3) of the said table, subject to the conditions, namely:-

Conditions:

1. **Eligibility** - The following shall be eligible to subscribe to the bonds:—
 - (i) Retail Individual Investors (RIIs);
 - (ii) Qualified Institutional Buyers (QIBs);

- (iii) Corporates (including statutory corporations), trusts, partnership firms, Limited Liability Partnerships, co-operative banks, regional rural banks and other legal entities, subject to compliance with their respective Acts; and

- (iv) High Net worth Individuals (HNIs)

2. Tenure of bonds -

The tenure of the bonds shall be for ten or fifteen or twenty years.

3. Permanent Account Number -

It shall be mandatory for the subscribers to furnish their Permanent Account Number to the issuer of the bonds.

4. Rate of interest—

- (i) there shall be a ceiling on the coupon rates based on the reference Government security (G-sec) rate;
- (ii) the reference G-sec rate shall be the average of the base yield of G-sec for equivalent maturity reported by Fixed Income Money Market and Derivative Association of India (FIMMDA) on a daily basis (working day) prevailing for two weeks ending on the Friday immediately preceding the filing of the final prospectus with the Exchange or Registrar of Companies (ROC) in case of public issue and the Issue opening date in case of private placement;
- (iii) the ceiling coupon rate for AAA rated issuers shall be the reference G-sec rate less fifty five basis points in case of RIIs and reference G-sec rate less eighty basis points in case of other investor segments referred to at (ii), (iii) & (iv) of paragraph 1 above;
- (iv) in case the rating of the issuer entity is AA+, the ceiling rate shall be ten basis points above the ceiling rate for AAA rated entities [as given in clause (iii)];
- (v) in case the rating of the issuer entity is AA or AA-, the ceiling rate shall be twenty basis points above the ceiling rate for AAA rated entities [as given in clause (iii)];
- (vi) these ceiling rates shall apply for annual payment of interest and in case the schedule of interest payments is altered to semi-annual, the interest rates shall be reduced by fifteen basis points;
- (vii) the higher rate of interest, applicable to RIIs,

shall not be available in case the bonds are transferred by RIIs to non retail investors.

5. Issue expense and brokerage —

- (i) In the case of private placement, the total issue expense shall not exceed 0.25 per cent of the issue size and in case of public issue it shall not exceed 0.65 per cent of the issue size;
- (ii) the issue expense would include all expenses relating to the issue like brokerage, advertisement, printing, registration etc.

6. Public issue —

- (i) At least seventy per cent of the aggregate amount of bonds issued by each entity shall be raised through public issue;
- (ii) forty per cent of such public issue shall be earmarked for RIIs.

7. Private placement —

- (i) While adopting the private placement route to issue the bonds, each entity shall adopt the book building approach as per regulation 11 of the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, wherein bids shall be sought on the coupon rate subject to a ceiling specified by the entity and the allotment shall be made at the price bid;
- (ii) the bonds shall be paid for and issued at a premium with a fixed coupon, to facilitate trading of the instrument under a single International Securities Identification Number (ISIN) and the yield shall be computed based on the price quoted and allotment shall be done for best price (lowest yield) thereof;
- (iii) the ceiling rate of the interest shall either be equal to or lower than the rate mentioned in paragraph 4 above;
- (iv) while calling for bids, there shall be no limit on the number of arrangers who can bid for the issue.

8. Repayment of bonds —

- (i) The issuer entity shall submit a financing plan to the Ministry of Finance to demonstrate its ability to repay the borrowed funds on the repayment becoming due;
- (ii) the financing plan referred in sub-paragraph (i) shall be submitted to the Infra-Finance

Section, Infrastructure Division, Department of Economic Affairs, Ministry of Finance, within three months of closure of the issue, duly supported by a resolution of the respective entity's Board of Directors.

9. Selection of merchant bankers —

- (i) Merchant bankers shall be selected through competitive bidding process with transparent pre-qualification criteria and the final selection shall be based on financial bids;
- (ii) the benefit under section 10 of the Income-tax Act, 1961(43 of 1961) shall be admissible only if the holder of such bonds registers his/ her or its name and the holding with the entity.
- (iii) the issue of bonds shall be made in compliance with the public issue requirements specified in the Companies Act, 2013 and Securities and Exchange Board of India (Issue and Listing of Debt Securities), Regulations, 2008, including inter-alia the filing of a prospectus with the Registrar of Companies, as applicable.

Source: Notification No. 59/ 2015 dated: 6th July, 2015

CBDT announces guidelines for NGOs seeking Sec. 11 exemption on providing relief to earthquake victims in Nepal

Many NGOs and Charitable Organizations in India have expressed desire to support relief and rehabilitation work for the benefit of earthquake affected people in Nepal. While participation of such NGOs and Charitable Organizations in relief operations is encouraged, it is also necessary to ensure that the funds utilized for the purpose are not misused and are channelized in the desirable manner only. These NGOs are also seeking approval from Central Board of Direct Taxes (CBDT) to exempt from tax the funds applied by them outside India (i.e., Nepal) u/s 11(1)(c) of the Income tax Act, 1961('Act'). In order to standardize the manner of seeking approval for tax exemption under the said section and to streamline the process of remittance of money or relief-articles to Nepal, following SOP has been outlined for the guidance of NGOs/Charitable Organizations. They are requested to adopt these procedures while participating in relief and rehabilitation operations at Nepal.

Read more at:

<http://www.incometaxindia.gov.in/news/sop-for-making->

[application-for-claim-of-tax-exemption-8-7-2015.pdf](#)

Anti-dumping duty -

Levy of definitive anti-dumping duty on imports of steel and fiber glass measuring tapes and their parts and components, originating in or exported from the People's Republic of China for a period of five years vide : Notification No. 31/2015-Customs (ADD) dated: 9th July, 2015.

Prepaid Payment Instrument (PPI) guidelines – Introduction of New Category of PPI for Mass Transit Systems (PPI-MTS)

In the process of moving from cash based payments to electronic payments, the migration of micro and small value cash payments can play a significant role in achieving the vision of less-cash society. One such area where a large number of small value cash payments take place relates to mass transit systems. Therefore, based on a review, a new category of semi-closed Prepaid Payment Instruments (PPI) is being introduced with the following features:

- (i) The semi-closed PPIs will be issued by the mass transit system operator (PPI-MTS) after authorization under the Payment and Settlement Systems Act, 2007 to issue and operate such semi-closed PPIs;
- (ii) The PPI-MTS will necessarily contain the Automated Fare Collection application related to the transit service to qualify as PPI-MTS;
- (iii) Apart from the mass transit system, such PPI-MTS can be used only at other merchants whose activities are allied to or are carried on within the premises of the transit system;
- (iv) The PPI-MTS issuer will ensure on-boarding of merchants (only those permissible as under (iii) above) following due procedure applicable to any other PPI issuer;
- (v) The PPI-MTS will have minimum validity of six months from the date of issue;
- (vi) The issuer may decide upon the desired level of KYC, if any, for such PPIs;
- (vii) The PPI-MTS issued may be reloadable in nature and at no point of time the value / balance in PPI can exceed the limit of Rs. 2,000/- (Rupees Two Thousand Only);
- (viii) No cash-out or refund will be permitted from these PPIs;

- (ix) Funds transfer under the Domestic Money Transfer (DMT) guidelines will also not be applicable to these PPIs;
- (x) All other extant guidelines for escrow arrangement, customer grievance redressal mechanism, agent / merchant due diligence, reporting and MIS requirements etc. applicable to issue of PPIs would continue to be applicable in respect of PPI-MTS

Source: Notification No. RBI/2015-16/123[DPSS.CO.PD.No. 58/02.14.006/2015-16] dated: July 09, 2015

Banking

Applicability of Credit Concentration Norms

RBI has decided that in determining Concentration of Credit/ Investment, the following shall be excluded:

(A) investments of NBFC in shares of

- (i) its subsidiaries;
- (ii) companies in the same group,

to the extent they have been reduced from Owned Funds for the calculation of NOF and

(B) the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with, -

- (i) subsidiaries of the NBFC; and
- (ii) companies in the same group,

to the extent they have been reduced from Owned Funds for the calculation of NOF.

Source: Notification No. RBI/2015-16/114 [DNBR (PD) CC. No. 064/03.10.001/2015-16] dated: July 02, 2015

Returns to be submitted by NBFCs (Asset Size below Rs. 500 crore)

In reference to the DNBR (PD) CC. No. 002/03.10.001/2014-15 dated November 10, 2014 on revised Regulatory Framework for NBFCs. As per the revised regulations, all non-deposit taking NBFCs (NBFCs-ND), with assets less than Rs. 500 crore are required to submit an Annual Return. Two new Return Formats have been created to capture important financial parameters of the respective category of NBFCs, i.e.

- i. NBS 8 for NBFCs-ND with assets size between Rs.100-500 crore, and
- ii. NBS 9 for NBFCs-ND with assets size below Rs. 100 crore.

The Annual Return should be submitted within 30 days of closing of the financial year, i.e. by 30th April of every year. Considering that most of these NBFCs will be filing such return for the first time, the Annual Return for the year ending March 31, 2015 may be filed by 30th September 2015. Further, Non-deposit taking NBFCs with assets of Rs. 50- 500 crore that have already submitted the prescribed returns for the quarter ending March 31, 2015 are not required to submit the annual return for the year ending March 2015 (to avoid duplication).

Source: Notification No. RBI/2015-16/119[DNBS (IT). CC.No. 01/24.01.191/2015-16] dated: July 09, 2015

Banks investing in commercial paper instead of lending directly

Investment in commercial paper of firms instead of lending to them directly is emerging as a prudent option for banks. Banks' subscription of commercial paper has grown at a much quicker pace than their core business of lending. This is helping them maintain the liquidity coverage ratio, or LCR - a prudential requirement prescribed by the Reserve Bank of India. Banks held commercial papers worth Rs 45,000 crore as of mid-April, a more than threefold increase compared with Rs 14,000 crore a year.

Read more at:

http://economictimes.indiatimes.com/articleshow/47899569.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Bucketing of excess SLR and MSF securities in Structural Liquidity Statement

As per the extant instructions, approved securities are required to be slotted under respective maturity buckets, excluding the amount required to be reinvested to maintain SLR corresponding to the DTL profile in various time buckets. Further, securities in the trading book are to be slotted under Day 1, 2-7 days, 8-14 days, 15-28 days and 29-90 days according to defeasance

periods. Whereas securities in excess of mandatory SLR as well as securities eligible for MSF were also required to be slotted as per the above instructions, these securities, in fact, exhibit the liquidity characteristics required for slotting in day-1 bucket in view of their ready access to liquidity by way of repo and MSF (presently upto 2% of NDTL). It has, therefore, been decided that banks can slot their excess SLR securities and MSF eligible securities under the Day-1 bucket vide Notification No. RBI No 2015-16/109 [DBR.No.BP.BC.26/21.04.098/2015-16] dated: July 2, 2015.

Opening of Current Accounts by Banks - Need for Discipline

Keeping in view the importance of credit discipline, especially for reduction in NPA level in banks, banks are advised to make use of the information available in CRILC and not limit their due diligence to seeking NOC from the bank with whom the customer is supposed to be enjoying the credit facilities as per his declaration. Banks should verify from the data available in CRILC database whether the customer is availing of credit facility from another bank. Further banks may also seek 'No Objection Certificate' from the drawee bank where the initial deposit to current account is made by way of a cheque vide Notification No. RBI/2015-16/112 [DBR. Leg.BC.25./09.07.005/2015-16] dated: July 02, 2015.

Requirement for obtaining prior approval of RBI in cases of acquisition/ transfer of control of Non-Banking Financial Companies (NBFCs)

The Reserve Bank has decided to review the above mentioned directions based on the representations received from the industry and the comments received on the Draft Directions issued on March 30, 2015. The revised directions are detailed below.

Requirement of prior approval of Reserve Bank:

- (i) Henceforth, prior written permission of the Reserve Bank shall be required for:
- any takeover or acquisition of control of an NBFC, which may or may not result in change of management;
 - any change in the shareholding of an NBFC, including progressive increases over time, which would result in acquisition/ transfer of

shareholding of 26 per cent or more of the paid up equity capital of the NBFC. Prior approval would, however, not be required in case of any shareholding going beyond 26% due to buyback of shares/ reduction in capital where it has approval of a competent Court. The same is however required to be reported to the Reserve Bank not later than one month from its occurrence;

- any change in the management of the NBFC which would result in change in more than 30 per cent of the directors, excluding independent directors. Prior approval would not be required for those directors who get re-elected on retirement by rotation.
- (ii) Notwithstanding clause (i), NBFCs shall continue to inform the Reserve Bank regarding any change in their directors/ management as required in Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 and Systemically Important Non-Banking Financial (Non-Deposit Accepting Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.

Application for prior approval:

- (i) NBFCs shall submit an application, in the company letter head, for obtaining prior approval of the Bank under paragraph 2, along with the following documents:
- Information about the proposed directors/ shareholders
 - Sources of funds of the proposed shareholders acquiring the shares in the NBFC;
 - Declaration by the proposed directors/ shareholders that they are not associated with any unincorporated body that is accepting deposits;
 - Declaration by the proposed directors/ shareholders that they are not associated with any company, the application for Certificate of Registration of which has been rejected by the Reserve Bank;
 - Declaration by the proposed directors/ shareholders that there is no criminal case, including for offence under section 138 of the

- Negotiable Instruments Act, against them; and
- f) Bankers' Report on the proposed directors/ shareholders.

(ii) Applications in this regard may be submitted to the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction the Registered Office of the NBFC is located.

Requirement of Prior Public Notice about change in control/ management:

i. A public notice of at least 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares. Such public notice shall be given by the NBFCs and also by the other party or jointly by the parties concerned, after obtaining the prior permission of the Reserve Bank.

ii. The public notice shall indicate the intention to sell or transfer ownership/ control, the particulars of transferee and the reasons for such sale or transfer of ownership/ control. The notice shall be published in at least one leading national and in one leading local (covering the place of registered office) vernacular newspaper.

Source: Notification No. RBI/2015-16/122 [DNBR (PD) CC.No. 065/03.10.001/2015-16] dated: July 09, 2015

SEBI

Review of minimum contract size in equity derivatives segment

At present, the minimum contract size in equity derivatives segment is Rs. 2 lakhs. The requirement was recently reviewed and it has been decided to increase the minimum contract size in equity derivatives segment to Rs. 5 lakhs.

Accordingly, the framework for determination of lot size for derivatives contracts specified vide SEBI circular dated January 08, 2010 is modified as under:

- (i) The lot size for derivatives contracts in equity derivatives segment shall be fixed in such a manner that the contract value of the derivative on the day of review is within Rs. 5 lakhs and Rs. 10 lakhs.

- (ii) For stock derivatives, the lot size (in units of underlying) shall be fixed as a multiple of 25, provided the lot size is not less than 50. However, if the contract value of the stock derivatives at the minimum lot size of 50 is greater than Rs. 10 lakhs, then lot size shall be fixed as a multiple of 5, provided the lot size is not less than 10.
- (iii) For index derivatives, the lot size (in units of underlying) shall be fixed as a multiple of 5, provided the lot size is not less than 10.

The stock exchanges shall jointly ensure that the lot size is same for an underlying traded across exchanges. The stock exchanges shall review the lot size once in every 6 months based on the average of the closing price of the underlying for last one month and wherever warranted, revise the lot size by giving an advance notice of at least 2 weeks to the market. If the revised lot size is higher than the existing one, it will be effective for only new contracts. In case of corporate action, the revision in lot size of existing contracts shall be carried out as per SEBI circular SMDRP/DC/CIR-15/02 dated December 18, 2002.

Source: Circular - CIR/MRD/DP/14/2015 dated: July 13, 2015 MA



A directory of some research papers on ‘Business Process Modelling’ th is presented below for the reference of read-ers. The articles are availab

Name of the topic	Author	Reference with date	Link
Value-oriented process modeling: integrating financial perspectives into business process re-design	Jan vom Brocke Jan Recker Jan Mendling	Business Process Management Journal, Vol. 16 Iss: 2, pp.333 - 356	http://www.emeraldinsight.com/doi/abs/10.1108/14637151011035633
Norm Compliance in Business Process Modeling	Guido Governatori, Antonino Rotolo	Lecture Notes in Computer Science Volume 6403, 2010, pp 194-209	http://link.springer.com/chapter/10.1007/978-3-642-16289-3_17
A systematic literature review of studies on business process modeling quality	Isel Moreno-Montes de Oca Monique Snoeck Hajo A. Reijers Abel Rodríguez-Morffi	Information and Software Technology Volume 58, February 2015, Pages 187–205	http://www.sciencedirect.com/science/article/pii/S0950584914001797
Service Blueprinting and Business Process Modeling Notation (BPMN): A Conceptual Comparison	Yahya Kazemzadeh, Simon K. Milton, Lester W. Johnson	Asian Social Science Vol 11, No 12 (2015)	http://www.ccsenet.org/journal/index.php/ass/article/view/48406
Process Chain Network (PCN) and Business Process Modeling Notation (BPMN): A Comparison of Concepts	Yahya Kazemzadeh, Simon K. Milton, Lester W. Johnson	Journal of Management and Strategy Vol 6, No 1 (2015)	http://www.sciedu.ca/journal/index.php/jms/article/view/6494
An Explication Of Three Service Business Process Modeling Approaches	Yahya Kazemzadeh Simon K. Milton Lester W. Johnson	Australian Journal of Business and Economic Studies Volume 1 No. 2 September 2015	https://www.aabss.org.au/system/files/published/001005-published-ajbes.pdf
Business Process Modeling as a Complex Adaptive System	Peter Belohlavek	The Unicist Research Institute May 8, 2015	http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2604242
Simulation as a Part of Business Process Modeling	Radko Popovi Peter Trebu a Marek Kliment Miriam Pekar iková	International Scientific Journal about Simulation Volume: 1 2015 Issue: 1 Pages: 13-16	http://www.actasimulatio.eu/issues/2015/L_2015_03_Popovic_Trebuna_Kliment_Pekarcikova.pdf
Raising the Enterprises' Environmental Performance by Taking Advantage of Business Process Modeling	Elena Fleaca Bogdan Fleaca Olivia Negoita Florin Danalache	Procedia Technology Volume 19, 2015, Pages 333–340	http://www.sciencedirect.com/science/article/pii/S2212017315000493

at appeared in various journals/periodicals/magazines across the world
le at the link provided next to them

Name of the topic	Author	Reference with date	Link
A New Paradigm Integrating Business Process Modeling and Use Case Modeling	BARCLAY R. BROWN	Spring Term 2015	http://etd.fcla.edu/CF/CFE0005583/Barclay_Brown_-_A_NEW_PARADIGM_INTEGRATING_BUSINESS_MODELING_AND_USE_CASE_MODELING_4-18-2015.pdf
Analysis Software for Business Process Modeling	Andrey Borisovich Nikolaev, Ilman Sharipovich Shazhaev, Nataliya Evgenievna Surkova	International Journal of Advance Studies Vol 4, No 3 (2014)	http://journal-s.org/index.php/ijas/article/view/4058
Requirements Catalog for Business Process Modeling Recommender Systems	Michael Fellmann Novica Zarvic Dirk Metzger Agnes Koschmider	Association for Information Systems AIS Electronic Library (AISeL) Wirtschaftsinformatik Proceedings 2015	http://aisel.aisnet.org/cgi/viewcontent.cgi?article=1026&context=wi2015
Business Process Modeling with Levels of Abstraction A Survey of Practitioners with Experience	Carlos Monsalve Alain April	IEEE COLCOM 2015	http://publicationslist.org/data/a.april/ref-488/PID3675307.pdf
Workaround Aware Business Process Modeling	Nina Röder, Manuel Wiesche, Michael Schermann, and Helmut Krömer	12th International Conference on Wirtschaftsinformatik, March 4-6 2015, Osnabrück, Germany	http://www.wi2015.uni-osnabrueck.de/Files/WI2015-D-14-00259.pdf
Business Process Modeling for Backward Supply Chain Management	Xinmin Liu	Bachelor Degree Project 2015	http://www.macs.hw.ac.uk/cs/project-system/projectdata/archive/2015/ugcse/xl3_full_text.pdf
Process Complexity Score: Method for Estimating Business Process Modeling Costs	Roquemar de Lima Baldam Rogério de Aragão Bastos do Valle Antônio Carlos de Francisco Thalmo de Paiva Coelho Junior Cristiano Fim	Business and Management Review SPECIAL ISSUE – VIII4INI121 May 2015	http://www.businessjournalz.org/Brazil%20Special%20Edition/SI%20May,%202015/BMR(00419)-V4-N12-May-2015-SI-VII-41.pdf
BPMN - A Notation for Representation of Variability in Business Process Towards Supporting Business Process Line Modeling	Marcelo F. Terenciani Debora M. B. Paiva Geraldo Landre Maria Istela Cagnin	DOI reference number: 10.18293/SEKE2015-055	http://ksiresearchorg.ipage.com/seke/seke15paper/seke15paper_55.pdf
Supporting Knowledge Elicitation and Analysis for Business Process Improvement through a Modeling Tool	Florian Johannsen Hans-Georg Fill	12th International Conference on Wirtschaftsinformatik, March 4-6 2015, Osnabrück, Germany	http://epub.uni-regensburg.de/31398/1/WI2015-D-14-00093.pdf

Eastern India Regional Council

Howrah Chapter of Cost Accountants

On June 20, 2015 the chapter organized CEP program on 'Service Taxes on Construction Sector & Draft rule



on GST and New Companies Act'13 and Directors Report' at its premises. CMA Mrityunjay Acharjee, Vice President, Balmer Lawrie India Limited explained the service tax implications on construction sector and Draft Rule on GST. CMA Sumit Binani, eminent CA Practitioner explained in details on Chapter IX of the Companies Act'13 and also deliberated the detailed report by the Board & disclosure in the Annual General Meeting by the Public Companies & Listed Companies, penalties for non compliances, role of the Directors & Auditors. CMA Pranab Chakrabarty, chairman of the chapter explained the recent activities and future plan of the chapter towards this profession. CMA Jyotirmoy Auddy, secretary of the chapter concluded both the sessions with the vote of thanks.

Rajpur Chapter of Cost Accountants

The Chapter organized a Budget Meet 2015 on March 7, 2015 at Barodaprasad Higher Secondary School, Garia for discussing the proposals made in the Union Budget 2015-16. Shri R. Shrinivasa Naik, Addl Director General, Central Excise, Custom & Service Tax mentioned about the percentage increase of revenue collection in current year due to which main credit goes to tax audit and emphasized more of such audits to tackle tax avoidance. CMA Mrityunjay Acharjee, Associate Vice President (FIN), Balmer Lawrie India Ltd. being the guest speaker dealt in detail the budget proposals both on direct and indirect taxation. Shri Subrata K. Ray, GM & Company Secretary of MSTC Ltd, the second guest speaker deliberated on the CSR activities of the companies and also mentioned some

deductions available and those proposed under Direct Tax in this regard.

Bhubaneswar Chapter of Cost Accountants

On June 21, 2015, the Chapter conducted a Students' Workshop on the theme 'Formation of Company under Companies Act, 2013' for its pursuing final students and practicing members. Shri Dharnidhar Saha, Practicing Chartered Accountant conducted the workshop as resource person and chairman of the chapter, CMA Bibhuti Bhusan Nayak coordinated the workshop and its modules. The chapter organized its campus interview held on June 24, 2015 for its inter & final qualified students conducted by the Indian Institute of production



Management. Dr. Niranjana Nayak, Director, iiPM, CMA Mans Ranjan Mishra, practicing cost accountant and CMA Damodar Mishra, chairman, Training, Placement and Publicity Committee of the chapter were in the interview board. The 54th session of oral coaching inaugural function of the chapter was held on June 28, 2015 at its conference hall. Shri Benudhar Mishra, Registrar of Companies, Odisha inaugurated the function as chief guest as well as inaugurated first



issue News Letter of the chapter. CMA Siba Prasad Kar, chairman, Coaching Committee of the chapter assured to provide best of the facilities to the sincere students. CMA Bibhuti Bhusan Nayak, chairman of the chapter highlighted the performance of the chapter and about various activities of the students and awards provided by the chapter apart from the course curriculum viz. workshops, soft skill communication training programme, students' seminar etc. A Work shop on 'Amended Companies (Cost Record & Audit) Rules, 2014' had been organized on June 28, 2015 at its conference hall for its practicing members. CMA Krushna Chandra Samal, Director (Finance) inaugurated the work shop and CMA Antryami Acharya, General Manager (Finance) graced the workshop as guest of honour. CMA Shyam Sunder Sonthalia, past chairman, EIRC of the Institute and CMA Niranjana Mishra, newly elected member of the central council were the resource person who delivered on Cost Audit and Reporting & Compliance Requirement to the Provisions of Companies Act, 2013 for Cost Audit, Cost Accounting Record and Standards respectively. CMA Bikram Keshari Das, chairman, PD Committee of the chapter delivered the welcome address. CMA B.B. Nayak, chairman of the chapter delivered his key note address and CMA Jagatjyoti Biswaranjan Nayak extended his formal vote of thanks.

Asansol Chapter of Cost Accountants

On June 3, 2015 the chapter organized a discussion session at its conference room on the awareness of



importance & scope of pursuing CMA course for the students pursuing higher secondary and graduation course. Eminent faculties of premier schools & colleges of Asansol & members of the Managing Committee of the chapter were the speakers for the session. The chapter organized a CEP on 'Scope of Cost Accountants in Companies Act, 2013' held on June 27, 2015 at its chapter. CS Ravi Verma, ITC Limited was the speaker of the programme.

Northern India Regional Council

Lucknow Chapter of Cost Accountants

The Chapter organized a seminar on 'Decoding The Amended Companies (Cost Records & Audit) Rules, 2014' in association with PHD Chamber of Commerce and Industry on June 28, 2015 at its CMA Bhawan. CMA Dr A S Durga Prasad, President of the Institute commenced the programme along with the graceful presence of Shri R K Sharan, Director General, PHD Chamber of Commerce and Industry, CMA J K Budhiraja, Director, Professional Development, CMA Kunal Banerjee & Chandra Wadhwa, Past Presidents of the Institute, CMA K L Prabhakar, Founder Member, CMA S C Gupta, Director, Admin, CMA Anjana



Chadha, Chairperson, CMA Pawan Kumar Tiwary, Vice Chairman, CMA Dharmender Singh Saluja, Secretary, CMA Neha Sharma, Joint Secretary & CMA Amit Yadav, Treasurer. CMA Dr. A S Durga Prasad and CMA P K Bhattad, President and Vice President of the Institute shared their views on importance of the role of CMA in the market economy. CMA Kunal Banerjee, Past President of the Institute expressed his views on practical aspects of maintenance of Cost Records & Cost Audit. Second Technical session had been addressed by CMA Chandra Wadhwa, Past President & Chairman Task Force on Amended Rules, 2014 and enlightened the professionals on clarifications with regard to new rules, 2014. CMA Pawan Tiwari, vice chairman of the chapter concluded the programme with the vote of thanks.

Jaipur Chapter of Cost Accountants

The Chapter organized a full day seminar on amended 'Companies (Cost Records & Audit) Rules 2014' on June 21, 2015 in association with PHD Chamber of Commerce & Industry inaugurated by President of the Institute, CMA (Dr.) A.S. Durga Prasad. In his inaugural

address he emphasised on the improvement of the quality of Audit. CMA R.K. Bhandari, chairman of the chapter welcomed the guests and explained the usefulness of the concerned theme of the above mentioned seminar. CMA P.R. Jat, secretary of the chapter addressed the gathering. CMA Kunal Banerjee, past president of the Institute and Member Task Force on amended Rules 2014 was the key



speaker of the first technical session and he explained in detail about the practical aspects of maintenance of Cost Records & Cost Audit. In the Second Technical session, Key Speaker was CMA Chandra Wadhwa, Past President of the Institute and Chairman, Task Force who explained in detail the practical aspects of Cost Audit Report including performance appraisal report and clarified the doubts & queries raised by the members. CMA Rakesh Singh, past president of the Institute and Member Task Force on amended Rules



2014 and CMA J.K. Budhiraja, Director, Professional Development of the Institute were also present and addressed the gathering. At the end of the seminar, CMA Alok Kumar Gupta, vice-chairman of the chapter thanked all the guests and participants. On the same day the chapter celebrated international day of yoga at its premises. CMA (Dr.) A.S. Durga Prasad, President of the Institute, CMA Chandra Wadhwa, Past President



of the Institute, CMA Rakesh Singh, Past President of the Institute, CMA J.K. Budhiraja, Director, Professional Development of the Institute were among the members who actively participated in the event.

Southern India Regional Council

Hyderabad Chapter of Cost Accountants

On April 3, 2015 the chapter organized a one day in house training programme in GMR Varalaxmi Foundation at Rajiv Gandhi International Airport, Shamshabad covering the following themes viz. Indirect Taxation & Service Tax by CA V S Sudhir, Practicing Chartered Accountant, Direct Taxation by CA Rama Murthy, Practicing Chartered Accountant and Corporate Social Responsibility and Implication to GMR group by CS V Ahalada Rao, Practicing Company Secretary. The programme was held for the employees of GMR Varalaxmi Foundation in Hyderabad and also through video conference in other place. All the three speakers had explained detailing the respective provisions on the concerned themes. A one day seminar had been held by the chapter on April 10, 2015 on Decoding of the latest Cost Accounting Record Rules which were released on December 31, 2014. CMA J.K. Budhiraja, Director, Professional Development, CMA Wadhwa, former president and member of the Special Committee formed for review of Cost Accounting Record Rules



and CMA Kunal Banerjee, former President cited the back ground under which the rules were framed and discussed the topics in detail.

Madurai Chapter of Cost Accountants

The Chapter organized a career guidance programme at Sri Ram Nallamani Yadhava Arts and Science college, Kodikurichi, Tenkasi and at JP College of Arts and Science, Ayikudi, Tenkasi on June 24, 2015 where CMA S. Kumararajan, chairman of the chapter addressed the students explaining the value of CMA course, the opportunities available, its contents, fee structure,



examination etc. On June 25, 2015 another career awareness programme was organized at Sri Kaliswari College, Sivakasi where CMA Dr. I. Ashok, CCM (Elect) in his presidential address briefed the students about the importance of obtaining additional qualification along with the degree course which according to him is the minimum requirement to meet the competition in the current global scenario. CMA S.Kumararajan, chairman of the chapter explained the salient features of the CMA course. On June 26, 2015, an orientation programme on professional courses had been organized by the post graduate & research department of commerce, Vivekananda College Tiruvedagam west, Madurai for the first year under graduate students.



Bangalore Chapter of Cost Accountants

The Chapter conducted a Professional Development Meet on the theme 'Budget Preparation in Auto Ancillaries' on June 20, 2015. CMA Mahesh Madhavan, Sr. Manager (Financial Controller), M/s. Autoliv India Pvt. Ltd delivered his lecture on the concerned theme. An international yoga day was celebrated on June 21, 2015 where Shri. K. Bharadwaja, Master of Yoga, delivered a brief on Yoga practices. On June 25, 2015 a Practitioners' Meet was held at the chapter on 'Techniques of Internal Audit – Challenges to CMAs'. Another Professional Development Meet had been conducted by the chapter on July 4, 2015 where CMA Shankara, K. General Manager – Commercial, M/s. TVS Motor Company Ltd deliberated on 'Supply Chain Commercial – Role of Cost Accountant'. A Practitioners' Meet on 'E-upload of Purchase and Sales' on the website of Commercial Tax Department, Govt. of Karnataka and Related Challenges & Issues had been organized by the chapter on July 10, 2015. CMA Vishwanath Bhat, Cost Accountant addressed the Meet. On July 11, 2015 a session on Health Care Cost Management had been organized on behalf of the CEP Directorate of the Chapter. CMA S. Geetha, chairperson of the



chapter gave an overview of the programme. CMA S. Natarajan, Advisor, Technical Directorate Extension Centre, Chennai, delivered a lecture on Health Care Cost Management and there was a live interaction with the members. CMA Abihijeet S.Jain, gave the vote of thanks.

Visakhapatnam Chapter of Cost Accountants

On June 28, 2015, the chapter organized a Professional Development programme on 'Recent Trends in Direct Taxation, a brief on Capital Gain' at its premises. The chairman of the Chapter, CMA P.V.N. Madhav welcomed the gathering for the programme. CA I Kama Sastry, a Practicing Chartered Accountant explained the brief on Capital Gain and emphasized the recent changes

in Capital Gains taxation and its implications on transfer of property of an individual tax payer. CMA V.J. Gupta proposed the vote of thanks. CMA U. Prakash, CMA T. Harinarayana, CMA S. Ramprasad, CMA C.S. Sundara Murthy, CMA U. Lakshmana Rao, and other members participated in the program. The Chapter conducted an ‘Academicians Meet’ on July 10, 2015 and CMA M.Ramakrishna , secretary of the chapter welcomed the gathering . Prof V.Uma Maheswara Rao, Registrar, Andhra University being the Chief Guest stressed the importance of CMA Course for the Engineering under graduate students to become a cost engineer. CMA Prof A.Narasimha Rao, Professor, Commerce & Management



Studies , Andhra University emphasized the need of the CMA Course in the present competitive world . CMA P.V.N.Madhav, chairman of the chapter requested the Principles & Head of Department of Degree colleges to spread the need and importance of CMA Profession to the students. Key note speaker, CMA Chiranjib Das, Jt. Director (Studies) of the Institute, Kolkata elaborated the facilities provided by the Institute to the CMA students and also explained E-learning facilities provided by the Institute. CMA K.Sanyasi Rao, SIRC Member proposed the vote of thanks.

Western India Regional Council



Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants

The Chapter organized a CEP seminar on ‘Practical issues in Income Computation and Disclosure Standards’ on June 27, 2015 at its CMA Bhawan. CMA Sandhya Nair delivered the welcome speech and the guest speaker, CA Sanjay Pandit, Practicing Chartered Accountant explained the ICDS standards in brief and discussed the practical issues involved in compliance with these standards. At the end of the seminar, CMA Ashish Deshmukh, chairman of the chapter gave vote of thanks.

Surat South Gujarat Chapter of Cost Accountants

The Chapter organized the inaugural function of



oral coaching classes on July 4, 2015 at its premises in the hands of Principal, Dr. U. T. Desai, Director, SASCMA College of Commerce, Surat. Dr. Desai encouraged the students to join this Professional Course in the era of global industrial competition and also advised the students to work hard with full

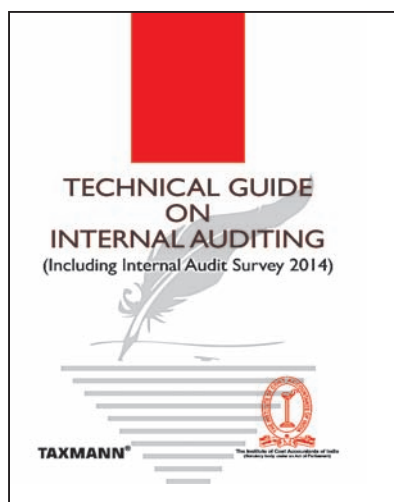
concentration. CMA Manubhai K. Desai, chairman of the chapter emphasized about the chapter’s achievement of entering in the silver jubilee year during March 2016. CMA Kenish Mehta coordinated the function and CMA P. G. Soni, Treasurer of the Chapter presented the vote of thanks. **MA**



The concept of Internal Audit has undergone a sweeping transformation in recent years. From the conventional approach of internal audit, identifying the business risks and to manage them and at the same time practising good corporate governance became the primary theme for internal audit. The activities involved in identifying and managing risks are playing the most essential role in maintaining a sound system of internal control. System based audit has got more focused as compared to age old traditional audit approach. With the introduction of new Companies Act and with the increased requirement under

other statutory regulations, internal audit function has changed its age old practice to a new dimension. The function of Internal Audit has been changed globally with the introduction of Sarbanes-Oxley Compliance norms, Enterprise Risk Management etc. and all these new dimensions have influenced internal audit function in our country too. Among this changing environment the book titled 'Technical Guide on Internal Auditing' has been published by ICAI and the members, audit professionals would be extremely benefitted by the said publication.

This Technical Guide on Internal Auditing is excellent work of Art and a comprehensive devise for practicing contemporary internal audit. It is a spectrum of contemporary concepts comprising various aspects of internal auditing. Commencing from evaluation of the internal audit process to framing strategies and planning for well defined internal audit system as well as the concept of risk based internal audit has been vividly covered in this publication. The concept of fraud identification and prevention through a detailed risk based audit is additionally encrypted in this book. The volume is segregated into 18 chapters under two parts on a well defined rational basis. While part I deals with technical guidance on internal auditing including risk based audit, part II deals with survey reports, fraud management, use of information technology etc, in the process of Internal Audit. The book elaborated with appropriate illustrations, the framing of audit strategies, risk management, application of information technology in internal audit, involvement of Audit Committee and



Prepared by Directorate of Advanced Studies, ICAI and published by Taxmann Publications Pvt. Ltd.

also comparing the trend in internal audit for better understanding the audit methodologies and approaches in contemporary economic environment.

In **Part I**, the author has very nicely placed an over view on evaluation of the internal auditing profession with suitable illustration, competency skills and qualities of internal auditor including framing of the internal audit policy for an organization. Formulating audit strategy and audit plan is an exhaustive exercise that an internal auditor has to undertake before actually performing the audit and the same has been adequately covered in chapter 4 of part I. The

author cited industry specific examples relating to internal audit frame work, audit plan, internal audit scope, which would be of immense help to all the professional in internal audit while commencing any internal audit programme.

In **chapter 5**, the author dealt with various audit tools and methods for audit sampling, documentation process including the audit test techniques which are of immense importance to carry out any internal audit assignment.

The most contemporary issue in internal audit i.e. 'Risk based Internal Audit' has been covered in **chapter 6**. The author here explained concept of risk classification, risk appetite, risk tolerance, ERM and enterprise risk management. An elaborated process of industry specific risk identification, risk assessment including procedure for risk assessment has been well covered in this chapter. Internal audit professionals would be immensely benefited from the methodologies and examples cited in this chapter.

Chapter 7 deals with social audit where the author explores and explains the different stages of social audit and the process of social audit with suitable examples from the industry.

Chapter 8 deals with internal audit report writing comprises principles of good reporting, procedure for finalization of report, making the internal audit report more informative and resourceful. The author here explained the process of writing internal audit report with industry oriented practical examples. Model Report format would be of immense help to all the audit professionals and executives.

This Technical Guide on Internal Auditing is excellent work of Art and a comprehensive devise for practicing contemporary internal audit. It is a spectrum of contemporary concepts comprising various aspects of internal auditing.

Part II of this book deals with the concept of audit independence, internal audit programme, risk management in organizations, use of information technology in internal audit and internal audit – comparing the trend. The significance of internal audit in view of CARO 2003, provisions of Companies Act 2013 and all other statutory mandates like SEBI etc. have been covered in this part.

In **section 'B'**, the author has discussed the very significant aspects of audit independence, constitution of the Audit Committee, and reporting relationship of the Chief Internal Auditor and explained with several examples the independences of internal audit functions. The requirement of Auditor's independence and effectiveness of the audit process in accordance with the provisions of Companies Act 2013 has also been vividly explained.

Section 'C' deals with capacity building of internal audit team, training programme for the audit team, rotation of internal audit staff etc. which would help every professionals in internal audit function in developing internal audit function in the organization.

Section 'D', the author dealt the concept of operations audit, financial audit, compliance audit, and management audit as a supplementary to internal audit function, effectiveness of such activities in framing best practiced internal audit.

Section 'E' deals with designing internal audit programme in line with the industry requirement, risk potential and nature of the business. The author here explained the methods for framing internal audit programme with suitable examples.

Section 'G' deals with fraud management where the author has discussed the strategic areas of framing internal control system for prevention of fraud, fraud detection and identification. This techniques could be used by the professionals in internal audit in laying a well defined fraud management policy.

Section 'I' deals with use of information technology in internal audit. The author explores and explains the tools techniques and advantages of IT based internal

audit with appropriate examples. In the present age of system based accounting, the internal audit ought to be carried out through application of different system based tools. Auditing professionals are sure to get benefit out of such tools and techniques.

Section 'J' exhibits the comprehensive trend in internal audit with reference to business risk compliance, risk management effectiveness etc. The author has presented in a nut shell the significant aspects of the different approaches of internal audit prevailing in India.

The book comprises a comprehensive questioner on internal audit survey which could be utilized by any professionals in internal audit for designing of audit plan, collection of samples, drafting of report and plotting trend analysis.

This extremely knowledge packed publication in internal audit shall be a ready reckoner for any professional in the area of internal audit and all relevant information, techniques and suitable case examples relating to internal audit could easily be retrieved therefrom. Industries, Internal Audit Professionals, all professionals in Accounts and Finance as well as other technical functions, management professionals, research scholars, faculties and Executives in Trade and Industry across the country as well as abroad would be immensely benefited by this book. **MA**



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INSTITUTE OF INTERNAL AUDITORS MANDATORY GUIDANCE – STANDARDS (PART – 1)

International Standards for the Professional Practice of Internal Auditing (Standards)

Standards are principle-focused and provide a framework for performing and promoting internal auditing. The *Standards* are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.
- Glossary terms.

It is necessary to consider both the statements and their interpretations to understand and apply the *Standards* correctly. The *Standards* employ terms that have been given specific meanings as noted in the Glossary, which is also part of the *Standards*.

Introduction to the Standards

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing*

(*Standards*) is essential in meeting the responsibilities of internal auditors and the internal audit activity.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, conformance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other *standards*, as appropriate. In such a case, if inconsistencies exist between the *Standards* and other standards, internal auditors and the internal audit activity must conform with the *Standards*, and may conform with the other standards if they are more restrictive.

The purpose of the *Standards* is to:

1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements.

The *Standards* employ terms that have been given specific meanings that are included in the Glossary. Specifically, the *Standards* use the word “must” to specify an unconditional requirement and the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

It is necessary to consider the Statements and their Interpretations as well as the specific meanings from the Glossary to understand and apply the *Standards* correctly.

The structure of the *Standards* is divided between Attribute and Performance *Standards*. Attribute *Standards* address the attributes of organizations and individuals performing internal auditing. The Performance *Standards* describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance *Standards* are also provided to apply to all internal audit services.

Implementation *Standards* are also provided to expand upon the Attribute and Performance *Standards*, by providing the requirements applicable to assurance (A) or consulting (C) activities.

Assurance services involve the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services:

- (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter - the process owner,
- 2) the person or group making the assessment - the internal auditor, and
- (3) the person or group using the assessment - the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties:

- (1) the person or group offering the advice - the internal auditor, and
- 2) the person or group seeking and receiving the advice - the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The *Standards* apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming with the *Standards* related to individual objectivity, proficiency, and due professional care. In addition, internal auditors are accountable for conforming with the *Standards*, which are relevant to the performance of their job responsibilities. Chief audit executives are accountable for overall conformance with the *Standards*.

The review and development of the *Standards* is an ongoing process. The Internal Audit Standards Board engages in extensive consultation and discussion prior to issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA’s website as well as being distributed to all IIA Institutes.

Attribute Standards

Attribute *Standards* address the characteristics of organizations and parties performing internal audit activities.

Performance Standards

Performance *Standards* describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.

For further information on the IIA Standards, log on to: <https://na.theiaa.org/standards-guidance/mandatory-guidance/Pages/Standards-With-Introduction.aspx> **MA**

(To be continued)
Courtesy: Calcutta Chapter of IIA India

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – SEPTEMBER 2015

FOUNDATION COURSE EXAMINATION
(Multiple Choice Questions – Online Mode)

Day & Date	Foundation Course Examination	
	Syllabus-2012	
Saturday, 19 th September, 2015.	Paper – 1 & 2 (100 Marks) Time : 10 A.M. to 12.00 Noon	Paper – 3 & 4 (100 Marks) Time : 2 P.M. to 4.00 P.M.
	Paper 1 : Fundamentals of Economics and Management (50 Marks) Paper 2 : Fundamentals of Accounting (50 Marks)	Paper 3 : Fundamentals of Laws & Ethics (50 Marks) Paper 4 : Fundamentals of Business Mathematics and Statistics (50 Marks)

Examination Fees

Foundation Course Examination	Inland Centres	₹ 1200/-
	Overseas Centres	US \$ 60

1. The Foundation Examination under syllabus-2012 will be conducted in M. C. Q. Mode through Online only.
2. Total Questions: 100 (Multiple Choice Questions) in each session, Maximum Marks: 100 (Each Question will carry 1 Mark) in each session. There will be no negative marking for wrong answers.
3. Foundation Examination will be conducted under 2012 syllabus only.
4. Application Forms for Foundation Examination has to be filled up through online only and fees will be accepted through online mode only (including Payfee Module of IDBI Bank). No Offline form and DD payment will be accepted for domestic candidate.
5. STUDENTS OPTING FOR OVERSEAS CENTRES HAVE TO APPLY OFFLINE AND SEND DD ALONGWITH THE FORM.
6. (a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.
(b) Students can also pay their requisite fee through payfee module of IDBI Bank.
7. Last date for applying for Foundation Examination of September 2015 term is 4 th August, 2015.
8. **Examination Centres:** Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Erode, Faridabad, Gandhidham, Ghaziabad, Guwahati, Hardwar, Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, 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, Rajahmundry, 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)
9. A candidate who is completing all conditions for appearing the examination as per Regulation will only be allowed to appear for examination.
10. Probable date of publication of result : 22nd September, 2015.

A. Das
Director (Examination)

* For any examination related query, please contact exam.helpdesk@icmai.in

Awardees of CMA-CFO Award-2014

The awards were presented by Dr. Jitendra Singh, Hon'ble Union Minister of State (I/C), Prime Minister Office, MoS for DoNER, Department of Personnel and Training, Department of Space and Atomic Energy in a glittering ceremony held on 7th July, 2015 at New Delhi

CMA Sanjeev Churiwala
Ambuja Cements Limited

PRIVATE-MANUFACTURING - MALE



Best CMA CFO

CMA Varadaraj Subramanian
Godrej Agrovet Limited

PRIVATE-MANUFACTURING - MALE



Certificate of Merit

CMA A. Velliangiri
Tamilnadu Newsprint and Papers Limited

PRIVATE-MANUFACTURING - MALE



Certificate of Merit

CMA Amurthavalli Ravikumar
Spincotech Private Limited

PRIVATE-MANUFACTURING-FEMALE



Certificate of Merit

CMA Anil Kumar Chaudhary
Steel Authority of India Limited

PUBLIC MANUFACTURING-MALE



Best CMA CFO

CMA Milind Choudhari
Bajaj Allianz General Insurance Co. Ltd.

PRIVATE -SERVICE SECTOR -MALE



Best CMA CFO

CMA Rashmikant B. Kothari
Uttar Gujarat Vij Company Ltd

PUBLIC -SERVICE SECTOR -MALE



Best CMA CFO

CMA Harjeet K Joshi
The Shipping Corporation of India Limited

PUBLIC -SERVICE SECTOR-FEMALE



Certificate of Merit

Awardees of CMA-CFO Award-2014

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CMA Pallavi Desai Ogale
Mahindra Automobile Distributor Pvt. Ltd.
PRIVATE-MANUFACTURING-FEMALE



CMA Young Achiever Award

CMA Rakesh Dhoundiyal
Steel Authority of India Limited
PUBLIC-MANUFACTURING (LARGE)-MALE



CMA Young Achiever Award

CMA Bharat Bhushan Gupta
Haryana Power Generation Corp. Ltd
PUBLIC-MANUFACTURING (MEDIUM)-MALE



CMA Young Achiever Award

CMA Pawan Bhootra
Gujarat Mineral Development Corp. Ltd.
PUBLIC-MANUFACTURING (MEDIUM)-MALE



Certificate of Merit

CMA Bipul Thakuria
Numaligarh Refinery Limited
PUBLIC-MANUFACTURING (MEDIUM)-MALE



Certificate of Merit

CMA Arun Garg
Rajasthan State Ganganagar Sugar
PUBLIC-MANUFACTURING (SMALL)-MALE



CMA Young Achiever Award

CMA Mrudula Atul Godbole
Rashtriya Chemicals & Fertilizers Ltd.
PUBLIC-MANUFACTURING-FEMALE



CMA Young Achiever Award

CMA Ramesh Kailasam
Apco Worldwide
PRIVATE-SERVICE SECTOR (LARGE) -MALE



CMA Young Achiever Award

Awardees of CMA-CFO Award-2014

The awards were presented by Dr. Jitendra Singh, Hon'ble Union Minister of State (I/C), Prime Minister Office, MoS for DoNER, Department of Personnel and Training, Department of Space and Atomic Energy in a glittering ceremony held on 7th July, 2015 at New Delhi

CMA Dr. Ashish Kumar Maheshwari
Tata Teleservices Limited
PRIVATE-SERVICE SECTOR (LARGE) -MALE



Certificate of Merit

CMA Akshaya Kumar Sahoo
IBM India Pvt Ltd.
PRIVATE-SERVICE SECTOR (LARGE) -MALE



Certificate of Merit

CMA Dr. Amarendra Kumar
Pyramid Consulting Inc.
PRIVATE-SERVICE SECTOR (SMALL) -MALE



CMA Young Achiever Award

CMA Kamal Varandani
InterContinental Hotels Group
PRIVATE-SERVICE SECTOR (SMALL) -MALE



Certificate of Merit

CMA Rajesh Bhupendra Kothari
Alf Accurate Advisors
PRIVATE-SERVICE SECTOR (SMALL) -MALE



Certificate of Merit

CMA Yamini Gogia
Tata Power Delhi Distribution Ltd
PRIVATE-SERVICE SECTOR-FEMALE



CMA Young Achiever Award (Joint)

CMA Ramya Kannan
Hexaware Technologies Ltd (BPS)
PRIVATE-SERVICE SECTOR-FEMALE



CMA Young Achiever Award (Joint)

CMA Ulka Ganesh Kalaskar
Pune Municipal Corporation
PUBLIC -SERVICE SECTOR-FEMALE



CMA Young Achiever Award



The Directorate of Advanced Studies of 'The Institute of Cost Accountants of India' has announced the 2nd batch for the following Advanced Diploma Courses:

- (i) Diploma in Business Valuation
- (ii) Diploma in Internal Audit
- (iii) Diploma in IS Audit and Control

The Last date for receipt of the filled in applications is 21st August, 2015

For the detailed brochure of the course and the registration to the programme, access the weblink: http://icmai.in/icmai/adv_studies/



The Institute of Cost Accountants of India (Statutory Body under an Act of Parliament)

www.icmai.in

Research Bulletin, Vol. 41, No. III (ISSN 2230 9241)

Call for Research Papers/Articles :

We invite you to contribute research paper/ article for "Research Bulletin", a peer-reviewed Quarterly 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 managements, 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.

Research Bulletin is now a Quarterly Publication of the Institute. The next issue will be published in October, 2015.

Guidelines to submit full Paper :

- ◆ Soft Copy of the full paper should be submitted in double space, 12 font size, 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 are invited on the following topics, but not limited to :

- ◆ Urbanization: Issues & Challenges
- ◆ Economic Empowerment of Women in India
- ◆ Emerging Trends in Information Technology in Management
- ◆ Corporate Social Responsibility & Swachh Bharat Abhiyan
- ◆ Investment Scenario of Manufacturing Industries in India
- ◆ Health Insurance among Rural Population
- ◆ Impact of Social Media in Indian socio-economic perspective

Papers must be received **within 1st September, 2015** in the following email id:

research.bulletin@icmai.in

PD Publications

Sl.No.	Name of the Publication	Edition	Abstract	Cost of Publication
1.	Guidance Note on Maintenance of Cost Records & Cost Audit of Construction Industry	First Edition: July 2015	A comprehensive Guidance Note that provides guidance not only for maintenance of cost records and cost audit operations of construction industry but also includes how to recognize its revenues and expenses. It also provides audit checks for each and every element of Costs included in Abridged Cost Statement as given in Companies (Cost Records & Audit) Rules, 2014.	Rs. 250/- per copy. To get book by courier Rs. 350/- (Rs.250/-Cost of publication + Rs. 100/- towards courier charges)
2.	Guidance Note on Internal Audit of Telecommunication Industry	First Edition: July 2015	A comprehensive and concise reference book for the professionals preparing the Internal Audit Report of a Telecom Company. It Provides internal audit guidance specific to telecom sector regulated by TRAI established under the provisions of Telecom Regulatory Authority of India Act 1997. It Also provides insight of general framework of the internal audit mechanism vis-à-vis sector specific issues which are peculiar to telecommunication industry, Audit of Operational Activities, Audit of Functional Areas etc.	Rs. 250/- per copy. To get book by courier Rs. 325/- (Rs.250/-Cost of publication + Rs. 75/- towards courier charges)
3.	Guidance Note on Internal Audit of Power Industry	First Edition: July 2015	Provides guidance on internal audit techniques and tools relating to Power Generation, Power Transmission and Distribution of Electricity and Audit Check Lists for each of these activities with respect to specific nature of various production utility / service units, their input output norms, consumption norms including auxiliary power consumption, losses / wastages in each process / unit, efficiency norms, comparison etc. It also provides insight of general framework of the internal audit mechanism vis-à-vis sector specific issues which are peculiar to power industry, Audit of Operational Activities, Audit of Functional Areas etc.	Rs. 250/- per copy. To get book by courier Rs. 325/- (Rs.250/-Cost of publication + Rs. 75/- towards courier charges)
4.	Guidance Note on Internal Audit of Stock Brokers and Depository Participants	First Edition December-2014	A snapshot of the operations of the stock markets and a technical guide for the internal audit of SEBI, Stock Brokers & Depository Participants: National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Limited (CDSL). A comprehensive and concise reference book for the professionals preparing the Internal Audit Report of a Stock Brokers and Depository Participants. SEBI mandates Cost Accountants for conducting the internal audit on half yearly basis for bringing more transparency and efficiency in the governance of listed companies. NSDL and CDSL also mandate Cost Accountants for conducting the internal / concurrent audit of the operations of Depository Participants (DPs). It includes technicality of the sector, special areas and transactions relating to sector, accounting etc.	Rs. 250/- To get Guidance Note by courier Rs. 300/- (Rs. 250/- Cost of publication + Rs. 50/- towards courier charges)
5.	Guidance Note on Internal Audit of Pharmaceutical Industry	First Edition November-2014	A comprehensive and concise reference book for the Cost Accountants preparing the Internal Audit Report for the Pharmaceutical Companies. A must read since the Companies Act 2013 vide section 138(1) has mandated Cost Accountants to conduct Internal Audit of the companies. Also include technicality, special transactions, manufacturing operations, accounting, and special areas of the Pharmaceutical Industry, where an internal auditor is required to focus more as compared to other areas, maintenance of cost records and cost audit etc.	Rs. 250/- To get Guidance Note by courier Rs. 300/- (Rs. 250/- Cost of publication + Rs. 50/- towards courier charges)
6.	Guidance Note on Compliance Report	First Edition September-2013	A comprehensive and concise reference book for the Cost Accountants preparing the Compliance Report for the Companies responsible to file it with the Central Government in XBRL Format in terms of Companies (Cost Accounting Records) Rules (CARR), 2011 & Industry Specific CARR 2011. Provides step wise step guidance to cost accountant in preparing the compliance report and its annexure in XBRL format. Also provides relevant statutory provisions applicable in respect of filing of compliance report in electronic mode with the central government.	Rs. 200/- per copy. To get book by courier Rs. 225/- (Rs.200/-Cost of publication + Rs. 25/- towards courier charges)

Sl.No.	Name of the Publication	Edition	Abstract	Cost of Publication
7.	Guidance Note on Performance Appraisal Report (Form-III)	First Edition : January 2013	Provides a general framework for reporting under Performance Appraisal Report (PAR) as mandated by the Companies (Cost Audit Report) Rules, 2011. Equip the users with recommended approach for submission of PAR to Board of Directors. Also guide in preparing the effective PAR and tools and techniques which are best suited to a Company.	Rs. 200/- per copy. To get book by courier Rs. 225/- (Rs.200/-Cost of publication + Rs. 25/- towards courier charges)
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