

# **Professional Opportunities for Members**

## **An Appraisal**



**Professional Development Committee**  
**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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## **FOREWORD**

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I have the pleasure to note that Professional Development Committee has revised the publication 'Professional Opportunities for Members-An Appraisal' as per the changes in economic and technological environment in the country.

Chartered Accountants are the active members who play a key role in the development of the economy. Thus their presence is felt in each kind of business whether it is service or manufacturing.

With the widened scope of business due to the changed attitude of entrepreneur, government and service providers, the role and responsibilities of the CAs has also increased manifold. Now we can see that business do not hesitate to go in for any type of diversification or retrenchment if there is any scope for the same.

I congratulate CA. Rajkumar Adukia, Chairman, Professional Development Committee for revising this publication and making it a bible for CAs who are seeking professional opportunities in the industry or service sector.

I hope this publication would serve as a guideline and support to all the members specially newly qualified, in choosing their career.

February 2, 2009  
New Delhi

**CA. Ved Jain**  
*President, ICAI*

## PREFACE

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Since the initiation of the economic liberalisation process in 1991, business boundaries are disappearing very fast and the world, becoming one market place, professional avenues have opened up both for domestic and overseas clients. Today, in the changing investment climate, India offers exciting business opportunities in virtually every sector of the economy.

Thus, there are plenty of opportunities in the Indian industry. After completing CA course, a member has to take decision whether to go in for practice or service in industry. Many a times we are able to do a certain work but due to lack of proper guidance and knowledge we lose that opportunity or fail to use it to the maximum extent possible. We have to be very careful while choosing a particular field as our career because skills required to do that work should match with the skills and experience we have. Keeping the same in mind, we have incorporated a chapter in the book on 'Problem of the new entrants – practice or service'.

The publication 'Professional Opportunities for Members-an Appraisal' has been revised keeping in mind all the above facts. We have tried to give a brief introduction of majority of areas which are still untapped and where a CA can utilize his experience, knowledge and skills. Names of relevant websites and reference books have been mentioned as per the topic covered in the book so that reader could gain comprehensive insight on the topic.

In this new arena, CAs can use their services not only in the traditional areas like auditing of accounts but also in the non-traditional areas like validation and verification of projects laid down under CDM.

I am thankful to Mr. Anis Chakravarty, Senior Manager, Deloitte, Haskin & Sells for his valuable contribution by providing insight in terms of professional opportunities for CAs in Transfer pricing.

We have merged our publication 'Government Consulting Taking the First Steps' and 'Key Aspects for Managing the Practice' with the revised publication on 'Professional Opportunities for members—an appraisal' in order to make it more comprehensive.

I am thankful to Dr. Bappaditya Chakravarty, consultant, World Bank for his valuable contribution on the section related to the Government Consulting, which has been written, based on his experience shared with ICAI-ARF team members who worked on the various projects, as well as his ongoing experience as a Consultant with the World Bank in Afghanistan.

I am thankful to M/s Brahmaya & Co. for reproducing the speech of the past President of The Institute of Chartered Accountants of India, Late Shri. P. Brahmaya.

I am thankful to CA. Vinod Jain, Member of Central Council, ICAI and Yashi Ji for their valuable contribution in implementation of Enterprise Resource Planning (ERP).

I am thankful to CA. Ved Jain President ICAI and CA. Uttam Prakash Agarwal for their valuable suggestions in preparing this publication. I am also thankful to the following members of Professional Development Committee for their valuable contribution in developing this exhaustive publication :

CA. Abhijit Bandyopadhyay, Vice Chairman, PDC, CA. Bhavana G. Doshi, CA. Jayant Gokhale, CA. Jaydeep Narendra Shah, CA. Shanti Lal Daga, CA. V. Murali, CA. K. Raghu, CA. James V.C, CA. K. P. Khandelwal, CA. Anuj Goyal, CA. Vijay Garg, CA. Vijay Kumar Gupta, CA.. Shabbeer Pasha S, CA. Gandhi Gaurang Vinod Chandra, CA. Bansal Mukul, CA. Bansal Rattan, CA. Gupta Sunil Kumar, CA. K.K. Soni, CA. Amrit Lal Batra, ,CA. (Dr.) Suneel Maggo, CA. B. M. Sharma and CA. Sanjay Narang

I am thankful to the secretaries to the Committee on accounting standards for local bodies, Committees on Trade Laws and WTO and Committee on Insurance and Pension for their valuable contribution in making this publication comprehensive. I am equally thankful to the PDC secretariat also for its valuable contribution in developing the same.

I hope this material would prove to be very helpful for newly qualified and as well as experienced Chartered Accountant.

February 2, 2009  
Delhi

**(CA. Rajkumar Adukia)**  
*Chairman Professional Development Committee*

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## ***Chapter 1***

# **INTRODUCTION**

---

In the last two decades, our country has witnessed lots of activities on the accounting and economic front, more so during the latter part. The Government of India has displayed tremendous courage in carrying forward the process of economic reforms. As a result of these reforms our foreign exchange reserves have crossed the \$100 bn mark, it is indeed a big achievement for a country, which was down to its last billion in 1991. Some of the major areas where the Government of India has set in motion the process of economic reforms include public sector reforms, industrial policy reforms, trade policy reforms, financial sector reforms and the like. Particularly, the Government of India has initiated the process for infrastructure development, enhancing the industrial sector efficiency, including promotion of exports as well as steps to ensure fiscal consolidation. The initiatives of the Government of India have started yielding results. The Country's current GDP growth rate boosted by the information and the communication technology sector, is comparable with the best performances amongst Asia's developing countries. In fact, not only has the domestic sector been performing well, the international community is also looking towards India with a positive sentiment as reflected in the increasing FIIs inflows into the country. The Rupee is also strengthening and the forex reserves are at an all-time high.

Also at present the Indian economy is passing through a phase of outsourcing. India has a valuable and cost effective resource of an abundant skilled work force. It also ranks high in areas such as qualifications, capabilities, quality of work, linguistic capabilities and work ethics, and thus is far ahead of its competitors. This has made it a target destination for multinationals to back end their operations in India. The information technology companies have leveraged this opportunity and made a mark for themselves in the past few decades. Business Process Outsourcing can be also extended in other areas like Logistics, HR, Procurement and Finance and Accounting amongst others.

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Against this backdrop, it needs to be remembered that the design of accounting framework necessarily depends upon the needs of the society. The last decade has witnessed the requirement of more robust accounting framework surging due to the overall change in the economic scheme and expectations of the society at large. Modern accounting needs to reflect the nature of the economy and also to recognise that today, intellectual capital is a major driver of corporate wealth. The fast evolving technological changes and economic changes have meant that the Chartered Accountants have been required to display their versatile skills and enter new domains, hitherto, uncharted. For instance, the Internet and the new economy are rapidly transitioning businesses into real time. Consequently, it is important for Chartered Accountants to know what will happen tomorrow besides of course they have to be aware as to what happened yesterday. Technological advances have enabled computers to crunch numbers. This is indeed a blessing in disguise. It has provided an opportunity to Chartered Accountants to provide assistance to organisations in deciding where they are headed and how best to get there. The role of Chartered Accountants evolves as an answer to the problems/situations presented in a particular case. It may involve simple recording of data and may range to areas of Consultancy requiring wealth of knowledge.

Today accountants are asked to consider past performance alongside the continuous changes of the economy to strategically position the company for tomorrow's success. As the demands for the global economy accelerate, the roles of corporate accounting and finance professionals continue to evolve. With the responsibility for assessing the bottom-line productivity of business, the accounting function has assumed new importance.

To render world class service, the Chartered Accountants must be forward-looking, shifting their priorities from merely analyzing past events to acting as strategic partners, advisors and information providers. Already, accounting and finance professionals are mining data, processing information into knowledge and communicating what they are learning, to all levels of the organisation. As the focus of corporate accounting shifts, so does the career landscape. With the unprecedented reliance on technology, the role of consultants is expanding, and people's



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skills have become indispensable. Amid all these changes, however, the core competencies of the corporate accounting professional remain unchanged.

Of course, the core competency of a professional accountant is in the area of financial accounting and corporate reporting. In this context it needs to be considered that financial accounting in India is at the centre-stage of reform. The primary reasons are a renewed interest evinced by foreign investors in our country and the domestic enterprises looking towards global financial markets. At the same time, blue chip companies in India are raising funds abroad. Moreover, the developments of the recent past on the international financial scene have compelled us to have a thorough re-look at the prevailing financial architecture. All the significant sectors and major players in business have expressed the need for evolving sound standards based on the best international practices in financial and accounting areas. The users of the financial statements are expecting the financial professionals to come up with the level of information which is at par with the international standards. The fundamental requirement is a comparable set of financial statements to the present and prospective users of such published information. This enables informed business decisions to be taken by the investors, lenders and other users who are interested in the organisation concerned.

As mentioned earlier, the environment in which professional accountant's work is changing very fast, the complexity of arrangements and transactions between organisations is increasing. Information technology is advancing at a rapid pace. Globalisation is resulting into cross-border investments and operations. Mergers & Acquisitions are the natural corollary of the process of globalisation. All these changes offer challenges as well as threats to professional accountants. Challenges to make great contributions to society than ever before, and threats of obsolescence. Consultancy is one such area, which can be tapped effectively by Chartered Accountants. For this they would need to adapt the new technological changes, invest in infrastructure, keep themselves abreast with the latest laws and regulations etc. This of course requires efforts but given the huge prospects of the consultancy business, it is a very small price to pay.

Now, not only various multinational organisations are setting up

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their base in India, the new technology has ensured that Indian companies are also making their presence felt globally. This has again raised the expectations from the Chartered Accountants to comply with laws of not only our country but also of the various concerned foreign Countries. Chartered Accountants need to understand these subtle changes and utilise the opportunities offered by these changes.

The Chartered Accountants in India have already accepted the challenge and are making progress in their respective fields by leaps and bounds. As mentioned earlier, there is still a huge requirement of the professionals who are well versed with the laws and accounting of not only our country but also of various other countries. The Chartered Accountants by continuously upgrading their skills and through their sound accounting knowledge can fill this gap. Professional accountants, in order to meet the challenges, must develop and maintain an attitude of learning. The qualification, education and experience of professional accountants provides a foundation of knowledge, skills and professional values that enables them to continue to learn and adapt to changes throughout their professional lives.

It is the responsibility of the professional bodies to provide members with adequate facilities and opportunities for continuously enhancing their knowledge, skills and professional values to enable them to meet both the challenge and the threat thrown by the dynamic environment.

The Institute is conscious of its responsibility to maintain the existing opportunities of employment and to try and increase these opportunities by sustained and well-planned efforts. Conscious efforts are also necessary on a continuing basis to improve the quality of services rendered by the members in view of the rapid changes taking place in the environment. Keeping in mind the objective to churn out the Chartered Accountants who are at par with their counterparts in the developed nations, the Institute is taking both micro and macro level aggradations. For example the Institute is continuously upgrading its accounting standards to make Indian GAAP at par with the international GAAPs. In addition to this, to further improve the quality of the work of the future members, the Institute has recently revised its training and course scheme. The new scheme also covers contemporary

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developments and latest topics in the fields of Accounting, Auditing, Financial Management, Cost Management, Corporate and Other Laws, Direct and Indirect Taxes.

The Institute, with a view to enable its members to maintain high standards in the professional services that they render, had identified CPE as a major area of focus more than a decade and a half ago and had set up a distinct infrastructure to address the tasks of continuously providing CPE to its members. The Institute has been providing continual inputs to its members through seminars, lectures, workshops, teleconferencing, in-company executive development programmes, background material etc., with the infrastructure at its Headquarters but also through all its Branches and Regional Councils.

Keeping in view the growing importance of CPE and the increasing level of intensity of CPE activities made imperative by the changes in the environment within which professional Chartered Accountants operate and engage themselves in various capacities, the Council of the Institute of Chartered Accountants of India has issued a 'Statement on Continuing Professional Education' for its members which prescribes the norms of implementation of CPE activities by the Institute of Chartered Accountants of India and its various organs.

The need to widen the scope of opportunities available to the members is a matter of prime concern for the Institute. The Institute is making all efforts to explore and exploit all available and potential opportunities whereby newer avenues for professional development and growth may be assured for the Institute's members and also ensure that existing opportunities of professional developments are fully utilised and maintained at equitable and growth-oriented levels.

This publication lists out various avenues of work available to Chartered Accountants. Though it is difficult to compartmentalise the avenues of work available to Chartered Accountants, for the sake of simplicity and as a matter of convention, the avenues of work for Chartered Accountants can be broadly categorised into two main heads - service and practice. There are, of course, members who are in service as well as in practice, but their problems are not dissimilar to those solely in service or solely in

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practice.

### **Problem of new entrants-Practice or Service:**

*A person who qualifies, as a Chartered accountant has to take a decision, a difficult one at that, whether he would be best suited for practice or employment. The factors that weigh in his decision making include aptitude, financial stability etc.*

*We are reproducing here the speech of our revered past President of The Institute of Chartered Accountants of India, Late Shri. P. Brahmaya, a doyen among members of our profession delivered to the members of the Southern India Regional Council at Madras on 25<sup>th</sup> February 1976. The newly qualified Chartered Accountants will be immensely benefited in their decision making whether to enter practice or to take employment.*

*“Before we start reciting the general guidelines, we must consider the personality and the state of mind of the new entrant. What, then, are they? He has become an Associate after having spent the preceding three or four years of his life in a fairly strenuous manner in doing his articles and passing exams. He is quite young-say 24 or 25 years of age and somewhat doctrinaire in his outlook on life. He has his own ideas and ideals for a fruitful career but is inexperienced and does not have clear-cut views about his future nor could he be expected to have them. His vacillation and worry get hold of him. He is conscious of the fact that he has been depending on his parents for years and years for his upbringing. He must, therefore, do something right here and now to support himself. He is anxious to acquire a new status for himself and also bring some financial relief to his parents. This obsession leads to an in-built tension in his mind.*

*I hope I have given a faithful portrayal of the picture of a new entrant.*

*The new entrant should be able to take an objective view of the comparative prospects of practice and industry. But, how should he proceed in his quest for the right answer? It is at this point of time he may follow the guidelines that I would be suggesting shortly, for his consideration.*

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*As I have indicated above, the choice of practice or industry is a highly personal one. There is no uniform formula for solving this problem. Let us take for example the respective behaviors of one entrant with a strong financial backing and another without it. To start with, they would both consider their respective future careers from totally different angles. The former is a bit cocky in his outlook and prepared to take a chance in life, while the latter is understandably timid and uncertain and anxious to start earning something forthwith to stand by his family. That is why one should not be tempted to lay down a hard and fast rule on this subject to the new entrants whose backgrounds are diverse.*

*At best we can only take stock of the general considerations one should bear in mind before coming to the crucial decision.*

*Now let us start our enquiry by taking the question of practice. The new entrant will have to ask himself several questions in this connection and his final decision would depend on the assessment of the totality of the answers he would get to his self-questioning.*

*The first question is : “Do I have the temperament to withstand the rigours of a highly competitive profession” ?*

*You know, gentlemen, in our profession, as in all other professions, there is what is called ‘a waiting period’, which consumes the financial resources of new practitioners with uncertain results and creates a state of animated suspension. This could be most agonizing to the new entrant, as every one of the old practitioners could recall to his mind, faithfully, his own traumatic experience in the early stages of his practice. Most of us could reel out incidents from our early careers, which used to make our daily lives at times thoroughly miserable and cause us pangs of regret for having set up practice. To the lucky ones such occasional painful experiences may turn out to be merely passing clouds on an otherwise bright day, while to the unlucky ones a permanent feature of their professional careers. It is, therefore, to be borne in mind that a practitioner’s daily life would not be an even flow of milk and honey but a mixture of the bright and the gloomy side of a competitive life. It follows that one should have a stable temperament, not to be elated at success today and cowed down by failure tomorrow. A practitioner must be endowed with*

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*evenness of temperament and uniformity of behaviour. I would not like him to allow his mind to be shuttling always between optimism and pessimism. It will not do him any good in decision making. He would do well to realize that there cannot be an unbroken sunshine every day in his career. As in his private life there are bound to be both appointments and disappointments in his public life too. He must have the capacity to take the rough and the smooth with a smiling face.*

*We next go to item no. 2 of his self-questioning. “Do I want to build up a good audit work with particular reference to the Corporate Sector, or tax practice of both?” You know, gentlemen, gathering audit work, particularly in the corporate sector, is a back breaking experience. Audits come in rather slowly. Therefore, one must judge his success or failure over a period. Also, don’t forget that your real troubles begin only when you start getting work. You must have a good organization to service audits. Corporate Sector audits need collective efforts. You are one of the many in your organization needed to put through an audit unlike a tax engagement which you may handle practically the whole thing yourself. It is, therefore, essential that you must build up an efficient and vigilant staff, partly in advance of work and partly simultaneously with it, which would mean your spending quite a good bit of money with dividends not guaranteed. You may also remember in this connection that certifying accounts would entail permanent responsibility. Even after say twenty years you may be pulled up on the credibility of statements you had signed in good faith in the past and in case your report to the shareholders transpires to be inadequate or incorrect, or both, your whole future may be threatened and attacked for mistakes you had unwittingly committed years and years ago. Let me assure you I am not trying to scare you away from attempting to develop a first class audit office. Far from it, I am only suggesting that you may aspire for this type of work with your eyes wide open. You also know that you must maintain a fairly costly office and have a durable records filing arrangement. In the Corporate Sector there is no statute of limitation under the civil law to operate in your favor. It is, however, a matter of some consolation that our Institute should have abridged our period of responsibility to a period of eight years or so but this has nothing to do with the timeless responsibility under the civil law. To repeat the question: if you have a fancy to develop*

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*audit work, with an emphasis on corporate sector practice, are you in a position to build up the necessary infrastructure of your organization? This is part of question No. 2 of your introduction.*

*If you want to set up practice with an accent on tax work and not bother yourself with company audits, having regard to the complexities of the Companies Act, by all means, do so. But bear in mind the problems of an average tax practitioner. He cannot expect big assignments to start with. He has to prove his mettle before he may hope to be entrusted with them. So for a few years to come, he has to be content with what is called medium and small 'representation work'. Under this arrangement he does not do any audit work as ordinarily understood. He gathers information from the accounts produced before him for additions to and subtractions from the disclosed income, in order to arrive at the adjusted income tax. He assumes very little responsibility when he appears before the Tax Officer for the finalization of his client's tax liability. It is my personal opinion that this type of work does not very much enhance the respect and prestige of the Chartered Accountant. His personality may also possibly get stunted in course of time. Moreover, the Income-Tax Practitioner who is not subjected to our Code of Conduct is a formidable rival. I must make it clear that I am not belittling this type of practice. Far from it, all that I am suggesting is that you must take into account the type of professional personality you would be building over the years and you would have to be content with a second class tax practice. It is not suggested that there is no money in this. There can be plenty of it to the lucky few. However, if you are inclined to specialize in tax work at the lower strata, you would have to stay put in that position for several years.*

*Question No. 3, Which is really a continuation of question No. 2, is "Would I be content with this type of practice for years and years in case I am not able to reach the higher strata of tax practice? "Make up your mind positively about this and develop a sense of contentment. Don't ruminate in later years over the limited results you may have achieved in your profession.*

*For a practitioner, the ideal type of practice is a combination of audit and tax work. In case you decide to set up practice, you aim at this desirable composition of work. You can acquire a later broader knowledge and experience in your work. Do not be scared*

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*away by the size and complexities of the Companies Act. After all, the other auditors who are handling a large number of Company audits are just as human and fallible as you are. Once upon a time they were what you are today and if our profession is a dynamic organism, as I believe it is, you are destined to be in due course what they are today. I have abundant faith and confidence in your future. As you are all aware, success in life is the reward for honesty of purpose and consecrated hard work. It must be understood that that it is not the monopoly of a particular generation of human beings, in the instant case, the existing practitioners. In this view of your future, start your practice with audits of private limited companies and proceed step by step. In course of time you will have lost all terrors of the octopus, to wit, the Companies Act. I want to make a suggestion here, which is somewhat sensitive in nature. In the certainty that you would not mistake me for doing so, I would like to be quite frank about it. I sometimes come across young practitioners, who are overconfident of handling even the most complex problems themselves, when their professional stature does not warrant it. They are too presumptuous to consult their colleagues in the profession on their problems. This can lead to very undesirable situations. It would be expedient on their part to consult a senior as juniors do in the legal and medical professions They have everything to gain thereby and nothing to lose. I for my part would love to consult others when I do not know the solution to a problem myself. There is nothing wrong in it. On the other hand, I owe that much of duty to my client as part of the service I am expected to give him.*

*The fourth consideration is : “Have I the capacity to start a good office in a nice premises, furnish it well, stock it with a good library when I set up practice and wait for the results?”*

*I have already touched upon this aspect in another form. There is certain amount of inevitable repetition of ideas in what I am going to say. There is nothing like a well maintained office to attract clients, apart from giving quality service. It may cost you a lot of money to do that but if you want to create a good environment, which is bound to be liked by your clients, you must invest money in your office equipment, library, establishment etc. you cannot get away from it. You would do well to remember that a prospective*



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*client has his own ways of making a silent study of your organization and forming his own impressions. See that these impressions would be favorable to you. Otherwise, you would never get his work.*

*About staff requirements, I would place one aspect of it before you for your consideration. I would do it in the form of a question. Should you appoint your staff ahead of getting work with an element of speculation involved in it or wait for work and appoint the staff after getting it ? The first alternative may be costly because of the idle time involved in it but in the long run it would create an excellent and rewarding impression on your prospective clients. The second alternative is in my opinion prejudicial and even detrimental to the formative period of a practitioner. However, please bear in mind these two opposite considerations for what they are worth.*

*Now about the last part of the question, namely, the waiting period and the financial implications thereof. Every practitioner has to face the waiting period. It is tantalizing, it could even be excruciating, driving the new entrant to despair and despondency. Whatever it is, it is always safe for him to overestimate the deficit he will have to meet from his resources during this formative and trying period. He must be prepared to go through this phase of tears, if I may put it somewhat drastically that way. By way of parenthesis, I may add that it will do us good to suffer for some time because moderate suffering is the best educator in life. Then only we understand with sympathy the problems of the unsuccessful practitioners, if any. If you believe in this philosophy, then you would be able to withstand the stress and strains of costly inactivity in the early stages. However, you cannot dispense with providing yourself with ample funds and equipment before you start navigating the uncharted seas.*

*Before I take up the prospects in industry for consideration, I would like to summarise the salient points to be borne in mind in connection with setting up practice:*

- 1. It is essentially an individual problem to be considered in the totality of circumstances forming the new entrant's background.*

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2. *He would do well to do some introspection with the following guidelines:*
- a) *Do I have the necessary temperament to face the problems of a self-employed person with courage and confidence?*
  - b) *Do I want to build up audit work with particular reference to Corporate Sector audit, tax practice or a combination of both? Since each type of practice requires certain concomitants of a complex nature, would I be in a position to provide them to myself?*
  - c) *Have I the necessary financial resources for initial investment and for maintaining myself during the early idle period? Even after expending my material resources, no doubt compulsively, I may not be an assured success. In such a catastrophic contingency, would I be on the roads or would I still have some capacity to switch over to other spheres of activity?*

*I submit, that in case you are considering setting up practice, you must ponder over these issues deliberately and satisfy yourselves that you have prudently considered all the relevant aspects before coming to the right decision.*

*I would now take up the postulates for industry. It is a matter for gratification that industry holds out good prospects now-a-days to Chartered Accountants. But don't forget: it takes from you more than what it gives you back. It certainly pays you a handsome salary and gives you security to a reasonable extent, subject to service rules. But it extracts from you a versatile expertise. There was a time when an accountant was synonymous with books keeper. But this synonymity has now become archaic and outmoded. The accountant of today has become a pivot of the Finance and Accounts Department of Industry. He may also be described as the heart of the anatomy of this Department. His duties extract every ounce of mental energy from him. The Directors of a Company look to him as the arbiter of the several complex problems that arise from day to day. Before a newly qualified accountant considers joining industry, he must make himself fully conversant with the problems that he would beset with. I*

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*am not suggesting for a moment that right from the first day of his joining industry, he would have to carry this load on his shoulders. It does not work out in that precipitous manner. As thing, happen, he joins as an assistant accountant on a four figure salary and, if all goes well, the mantle of Chief Accountant would fall on him in due course. But if he is conversant with the duties of the Chief Accountant even at the outset, he will have sufficient time and opportunity to pick up experience before he reaches the exalted designation.*

*With this general background we shall take up industry as an alternative career. A little while ago we laid down certain postulates for practice. We shall now consider their counter-parts for industry. We shall start with a different aspect of introspection. You know in industry you will be one of the many in your department. Very likely you will start at the lowest rung of the highly paid executives. This implies that you will be expected to take orders from your superior officers on certain vital matters. You will, this, be a junior in a team of executives. Many a time you will be directed to do things in manner not always to your liking or at times even obnoxious to you. But you must pocket your personal beliefs and convictions and learn to obey your superior officers without any unseemly behaviour on your part. Is your sense of organizational discipline such that it enables you to forget your ideas and obey the dictates of your superior Officers? Or temperamentally would you nurse the grievance of your views being ignored always, feel pretty cut up and miserable about it and become a chronic conscientious objector or, to put it in the colloquial language, a fighting cock ? If you become a victim to this condition, then you would go on changing places and in due course become a rolling stone with its proverbial limitation. I have known a few cases of able accountants who never learn the art of playing the second fiddle for a while, and in course of time, became bad failures in life.*

*So the first question you have to ask yourself: "Have I the temperament to fit into a team of workers and take orders from my superiors with alacrity before I reach the pinnacle when I would be giving orders to others?" This is an*

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*important and weighty question you have to ask yourself. After all, you should go to your employer every morning with pleasure, give your honest best to him for the day and come back home with job satisfaction and pleasant memories of the day's association and collective performance. You should not go there to inflict your unwanted views on others and make yourself a perpetual nuisance to your employer, thereby bargaining for the discharge notice.*

*The next question you have to ask yourself is whether you possess the requisite knowledge and experience to occupy the post that is assigned to you. Please remember that the scope and content of the knowledge that are expected of you have become somewhat sprawling in volume. Thus, today you are expected to know something of industrial finance, accounts, Companies Act, Income-tax Act, Sales Tax, Labour legislation and God only knows what other subjects are there in store for you. You would, therefore, realize that the knowledge expected of you has an aura of versatility about it.*

*You would have to ask yourself whether you are competent to join industry at a given moment. If objectively you feel you do not have the requisite knowledge and experience, then don't take the risk of doing the right thing at the wrong time. Join a good firm of practicing Chartered Accountants, work with them for a year or two on salary basis, acquire varied disciplines, inspire confidence in your principals and then join industry under their sponsorship. This is the safest course for you to adopt. Don't take the risk of joining industry when you are not quite ready for it.*

*The next consideration is your adaptability to any environment. The mention of this point may sound somewhat banal and trivial to you. But, as I look at it, it is more crucial than what some of you may think of it. Quite frankly, my anxiety is this. We have yet to get over our tribal instincts and affinities in spite of what we proclaim to the contrary in the Press and on the platform. We continue to be victims of communalism, casteism, regional ingoism, and other aberrations of mind and outlook. 'Sons of the soil'*

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*theory is the latest addition to our prejudices. While so, are you sure you have the catholicity of mind not to become a victim yourself to these prejudices and predilections? Can you manage to work in an environment saturated with these extra-territorial considerations, as it were, and yet develop your faculties to their fullest extent? You must be sure that you have the capacity to make out the best of a bad environment.*

*The final consideration is a comparative study of the financial prospects. Theoretically speaking, as a practitioner the sky is the limit to you for practice. Or you may draw blank. Other things remaining the same, it depends on your luck also. On the contra side, in industry you are assured of a decent salary and perquisites to start with. You would, of course, be gradually receiving your increments. So far so good. No doubt there is some security to your career in industry which is not available to you in the profession.*

*The postulates for an industrial career are summarised below :*

- 1. Before you decide to join industry for a good career, ask yourself whether you have the aptitude for it.*
- 2. For this evening's talk, I have used the word 'aptitude' in an all embracing sense. Thus, your capacity to become a perfect teammate even at the lowest level, your versatile knowledge and experience and your capacity to attune yourself to any kind of environment; all these attributes are collectively included in the aptitude. You ask yourself whether you satisfy all these criteria.*
- 3. Lastly, you have your own assessment of the financial prospects in Practice and Industry. Which would be more potentially remunerative to you, bearing in mind also the limited quantum of security available to you in Industry?*

*I believe that if you consider the future of your career on these lines objectively, dispassionately and with integrity,*

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*you will get the right answer in most cases. You will have no regrets now or later for your decision.*

*Friends, for want of time I have not gone into full details of certain aspects but I think I have placed all the important points before you for a profitable debate.*

### **GROWING DEMAND vs CHALLENGES**

The number of chartered accountants in the country [presently around 1.5 lakhs] has gone up by 25 to 30% in the last three years. Yet, there is an unmet demand of around 50,000 chartered accountants, say around 40%. It is predicted that the demand for chartered accountants will grow at a faster rate than India's GDP.

Now, not only various multinational organisations are setting up their base in India, the new technology has ensured that Indian companies are also making their presence felt globally. This has again raised the expectations from the Chartered Accountants to comply with laws of not only our country but also of the various concerned foreign countries.

Chartered Accountants in India have already accepted the challenge and are making progress in their respective fields by leaps and bounds. As mentioned earlier, there is still a huge requirement of the professionals who are well versed with laws and accounting of not only our Country but also of various other Countries. Chartered Accountants by continuously upgrading their skills and through their sound accounting knowledge can fill this gap. In order to meet the challenges, they must develop and maintain an attitude of learning. Their qualification, education and experience provides a foundation of knowledge, skills and professional values that enables them to continue to learn and adapt to changes throughout their professional lives.

With the country liberalizing its policies and approach, opportunities are expected to grow further and the profession is likely to be more challenging and demanding. The Chartered Accountant is being reinvented and is assuming a comprehensive portfolio with dash of glamour as in tomorrow's world, knowledge will be power.

## **Chapter 2**

# **DEVELOPMENT OF SOFT SKILLS**

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As professionals, Chartered Accountants need to be equipped with soft skills as they often need to convey ideas; negotiate business deals; get things done by the team members; train and groom the next generation of professionals; represent clientele before statutory authorities and many times impress upon the nature, need and value of services rendered. All these facets of profession call for effective soft skills such as :

- Good communication skills
- Inter-personal skills
- Managerial Expertise
- Ability to be a good team player
- Ability to manage others effectively
- Ability to manage time efficiently
- Analytical mind
- Techno- savvy
- Behavioral traits such as attitude, motivation

In the initial years of a Chartered Accountant's career, his technical abilities are important to get good assignments. However, when it comes to growing in an organization, it is his personality that matters. Knowledge is power and when coupled with ability to communicate, it gives greater empowerment. Communication skill can be nurtured if there is inclination and dedication. Those who possess this skill are able to persuade, motivate, convince and inspire others.

Members can constantly update their knowledge through various seminars, workshops and post-qualification courses offered by the Institute besides reading various publications issued by the Institute from time to time.

## *Chapter 3*

# **AVENUES OF WORK FOR CHARTERED ACCOUNTANTS IN SERVICE-BOTH IN INDIA AND ABROAD**

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Various opportunities available for Chartered Accountants in service are as follows:

### **1. Private Sector**

In the private sector Chartered Accountants can render their services in companies, banks including foreign banks and multi-national banks, non-banking finance companies, insurance companies, broking houses, investment banking, non-corporate business houses, as well as companies in the service industry.

### **2. Public Sector**

In the public sector, the opportunities envisaged for employment are considerable. Banks, financial institutions and insurance companies have a large intake of members.

### **3. Government Departments**

Government departments (in both Central and State Governments) provide an important area of employment to the members. They can be employed or engaged as a consultant to assist in accounting, budget planning, drafting and implementing various schemes, computerization of records, etc.

### **4. Not-For-Profit Organization (NPO)**

A **not-for-profit organization** (NPO) is an organization whose primary objective is to support an issue or matter of private interest or public concern, without concern for monetary profit. It may be involved in areas relating to arts, social concerns, charity, education, healthcare, politics, religion, research, sports or some



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other endeavour.

Right from conceptualising the NPO, Chartered Accountants have several opportunities in this sector. They range to

- (a) Proposal formulation
- (b) Execution of the project
- (c) Monitoring of the project
- (d) Assessing the capacity building needs
- (e) Compliances of various regulations
- (f) Governance

Reference can also be taken from the Institute's publication titled "Technical Guide on Accounting and Auditing in Not-for-Profit Organisations (NPOs)/Non-Governmental Organisations (NGOs)"

### **5. Co-Operative Sector**

Within the economic framework of the country, co-operative movement plays a very important role. The co-operative sector in the country has, since the initial co-operative movement, grown in size and expanse.

As far as the banking industry is concerned, co-operative banks have played and are continuing to play a seminal role in reaching out to villages and the poorer sections of the population, through micro-financing of tiny and cottage industry sector projects.

Chartered Accountants can be appointed in the top / middle level management in the co-operative banks, regional rural banks, multi state co-operative societies and state co-operative societies and can serve the co-operative sector.

### **6. University/Research Bodies**

Chartered Accountants can serve as professors / readers / lecturers in university/colleges. They can also be appointed as research associates in accountancy / financial / research bodies.

### **7. Global Organizations**

With the growth in international trade, several global organizations like ADB, World Bank, IMF, DFID will look for professionals who understand the nuances of international finance, international

capital markets and risk management.

## **8. Large Accounting Firms And Consulting Services**

The Council at its 245th Meeting approved the Report of the Study Group on Capacity Building Measures of CA Firms and accepted it with certain modifications. The report as accepted has been hosted on the website of the Institute at the link [http://icai.org/post.html?post\\_id=2962](http://icai.org/post.html?post_id=2962).

To avail the emerging opportunities in the globalized world, the following are the Capacity Building Measures for the Indian Chartered Accountant firms, discussed in the said report :

- Networking
- Mergers & Demergers
- Multi-Disciplinary Firms & Other Measures

The Council at its 247th Meeting approved the rules of network amongst the firms registered with ICAI. The said rules are hosted on the website of the Institute at the link [http://www.icai.org/post.html?post\\_id=1814](http://www.icai.org/post.html?post_id=1814). In the matter relating to networking of firms registered with ICAI and entities outside India, the Council decided that in addition to the compliance with the Rules of Network amongst the firms registered with ICAI, the entities outside India willing to form network with Indian Chartered Accountant firms would give a declaration in Form 'D' provided in the above mentioned rules.

## Chapter 4

# TIPS FOR GETTING THE JOB YOU WANT

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A well drafted resume not only helps in getting short-listed for the interview, but also provides information systematically to the interview panel to conduct a structured interview which may work in your favour. Resume is the first contact point of the candidates with the prospective employers. Hence, it is very important to craft your resume so well as to bring out the best in you.

### ***General Tips include:***

- (a) You can use resume samples but don't blindly copy them. It should be your own, personal, and a little bit different
- (b) Resume should be easy to read, short and attractive.
- (c) Ensure that spellings are correct,
- (d) Always add a cover letter to your resume.
- (e) Use plenty of white space .It should not look cluttered.
- (f) Use a word processor or have it typed.
- (g) Use bold face or underline for headings
- (h) Use good quality paper and printer
- (i) Use single font.
- (j) Use bullets for lists etc.
- (k) Keep it simple.
- (l) Use same style of numbers and bullets through out the resume
- (m) Use short sentences and avoid lengthy paragraphs
- (n) Make an honest presentation
- (o) Rewrite a resume for specific company

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### ***Details to include in resume***

- (a) Personal details–Name ,address, contact details
- (b) Education–Most recent education first. Include any special project, thesis etc
- (c) Interests–Activities where you exhibited leadership or responsibility or useful skills like publishing articles, volunteer work etc
- (d) Work Experience–Most recent experience first name of employer, job title, what you actually did and achievements
- (e) Skills–Languages, IT experience etc
- (f) References

### ***Tips for preparing for the Interview***

- (a) The first and the foremost essential thing for an interview is confidence.
- (b) Find out about the organization
- (c) Answer the questions calmly, correctly and positively. Do not negate the interviewer's views.
- (d) Do not guess when you do not know the answer. It is always better to admit one's inability to answer than to attempt a guess
- (e) Know your strengths and weaknesses
- (f) Have a smile on your face constantly
- (g) Check your body language while answering the questions.
- (h) Answer briefly
- (i) Be polite
- (j) Dress formally
- (k) Present yourself efficiently and impressively as, "first impression is the last impression."
- (l) Know the range of compensation for the job you are seeking and know your worth
- (m) Always have an eye contact with the interviewer as loss of

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it shows your shyness and lack of confidence

- (n) At last, do not forget to thank the interviewer with the right salutation and a firm hand shake

### ***Judging Factors in an Interview***

- (a) Well drafted resume
- (b) Communication skills
- (c) Body language
- (d) Confidence in answering the questions
- (e) Knowledge on the subject
- (f) Technical proficiency
- (g) Etiquettes
- (h) Dressing style
- (i) Attitude towards the job and the company, etc.
- (j) General awareness of the business environment and its impact on the organization

Finally, in the words of Henry Ford, “If you think you can or you think you can’t you are probably right.”

During the Interview, avoid the following :

- Frequently shifting your positions in the chair
- Scratching
- Yawning/burping
- Giggling
- Cracking knuckles
- Answering in tense under tones or in shrill voice
- Avoid asking pointed questions on salary.

### ***Frequently asked questions***

1. Why do you think you deserve this job?
2. Where do you see yourself in 5 to 10 years time?

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3. What are your strengths and weaknesses?
4. What is your most significant achievement?
5. What can you tell about yourself?
6. What is your family background?
7. Are you prepared to travel?
8. Why are you interested in this position?
9. Can you work for long hours?
10. What skills do you have that would benefit our company?
11. Do you have any questions about our company?
12. Describe how you schedule your time on an unusually hectic day. Give a specific example.
13. What important goals have you set in the past, and how successful have you been in working toward their accomplishment?
14. Do you do personal planning? If so, what are your goals?
15. Which things give you the greatest satisfaction?
16. What traits or qualities do you feel could be strengthened or improved?
17. What motivates you to put forth your best effort?
18. What does success mean to you? How do you judge it?
19. Which things you would like to avoid in a job? Why?
20. Do you prefer working alone or in groups?
21. How would you rate your communication skills and what have you done to improve them?
22. What kind of work environment do you prefer?
23. Can you describe a time when you have had to manage a heavy workload or a number of conflicting priorities?
24. Can you give me an example of a time when you have had to work with somebody you did not know well to accomplish a task?

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25. Can you give me an example of a time when you have had to co-operate with a group of people in order to achieve an aim?
26. Can you give me an example of a time when you have had to devise an innovative solution to a problem?
27. Can you give me an example of a time when you have succeeded in a challenging task in difficult circumstances?

# **AVENUES OF WORK FOR CHARTERED ACCOUNTANTS IN PRACTICE**

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## **5.1 Accounting**

Apart from financial accounting involving maintaining financial records of an organization, Chartered accountants can provide the following services in accounting.

### **5.1.1 Cost accounting**

Chartered Accountants can assist clients in

1. Monitoring expenditure,
2. Minimizing costs,
3. Establishing appropriate selling prices,
4. Forecasting future needs,
5. Drawing comparisons,
6. Analysing costs and
7. Providing reports for management accounting

### **5.1.2 Convergence with IFRS**

With the liberalisation and globalisation of the economy and expansion of businesses across the globe, the users of the financial statements of an enterprise are no longer limited to a single country and they may not be able to appreciate the differences in GAAP requirements of various countries. Therefore, need for a single set of high quality accounting standards has been recognised. Accordingly for India, the Institute has declared convergence with IFRSs for the public interest entities such as listed entities, banks and insurance entities and large-sized entities from the accounting periods beginning on or after 1st April, 2011, subject to its confirmation by the government and other regulatory bodies. Convergence with IFRSs would benefit the Chartered



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Accountants, as now they would get global recognition. They will be able to sell their services as experts in different parts of the world. It will offer them more opportunities everywhere in the world as the same accounting practices will prevail throughout the world. With convergence with IFRSs, mobility to work in different parts of the world would increase for members in industry as well as in practice. Also the members in practice would have the professional opportunities to advise their clients with regard to changes required in accounting systems, procedures, practices and policies in accordance with the requirements of IFRSs issued as Indian Accounting Standards.

Convergence with International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) (collectively referred to as IFRSs), issued by the International Accounting Standards Board (IASB) has gained momentum in recent years all over the world. More than 100 countries currently require or permit the use of or have a policy of convergence with IFRSs. Certain other countries have announced their intention to adopt IFRSs from a future date, e.g., Canada from the year 2011, and China from the year 2008.

Financial Accounting Standards Board (FASB) of USA and IASB are also working towards the convergence of the US GAAPs and the IFRSs. The Securities & Exchange Commission (SEC) has mooted a proposal to permit filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRSs in near future. In this scenario, India being an important emerging economy in the World, is yet to adopt the IFRSs. Internationally, insofar as cross-border investments are concerned, a non-IFRSs compliant country is perceived as an additional risk factor. Within India also, in recent times, the issue of convergence with IFRSs has been raised time and again at various forums. Recognising the above scenario, the Council of the Institute of Chartered Accountants of India (ICAI), at its 259th meeting, held on May 2-4, 2006, expressed the view that the IFRSs may be adopted in toto at least for listed and large entities, also keeping in view the expected advantages such as saving in cost of capital for Indian entities raising capital abroad, saving in cost for such entities for not preparing separate set of financial statements, expected improvement in the image of Indian

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industry and the accounting profession in the eyes of the world, and increasing opportunities for Indian professionals abroad. In this context, the Council also noted that in respect of the recently issued Accounting Standards, there are hardly any divergence from the corresponding IFRSs and, accordingly, India is already progressing on the path of full convergence with IFRSs. To consider various issues involved in detail, the Council referred the matter to the Accounting Standards Board.

For Concept Paper on Convergence with IFRSs in India please visit [http://www.icai.org/post.html?post\\_id=847](http://www.icai.org/post.html?post_id=847)

The International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) are gaining recognition as Global Reporting Standards. The Council of the Institute of Chartered Accountants of India, while appreciating the emerging diversities and complexities in the world of accounting and the need for knowledge of IFRS in relation to the convergence of the Indian Accounting Standards with IFRS, has launched a Certificate Course on International Financial Reporting Standards for its members. The objective of this Course is to enhance the knowledge as well as to provide benefit to the members in the global service market.

The Course aims at providing :

- Introduction of the concepts of IFRS;
- Dissemination of knowledge on IFRS;
- Comparison of IFRS with existing Indian Accounting Standards;
- Issues in relation to IFRS;
- Conversion of Financial Statements prepared on the basis of Indian GAAP to IFRS based financial statements.

For more information on Certificate Course on International Financial Reporting Standards please visit [http://www.icai.org/post.html?post\\_id=3562&c\\_id=266](http://www.icai.org/post.html?post_id=3562&c_id=266)

## **5.2 Assistance to Central and State Government**

Some of the areas wherein Chartered Accountants can assist the

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Governments are :

### **5.2.1 Legal Assistance**

1. Helping the Central and State Governments in their Budget preparation jobs.
2. Consultancy in Public finance [concerned with paying for collective or governmental activities], and with the administration and design of those activities. State governments have also started swapping their high cost loans into lower cost loans. Therefore, members can adopt this area and do certain work for this area, which has remained unexploited for years.
3. Chartered accountants can play a crucial role in shoring up Government finances with their expertise and also act as a bridge between the people and the Government to convey details of the schemes drawn up for their benefit.
4. Drafting & Vetting of Free Trade Agreements.
5. Conducting Impact Study of FTAs on behalf of industries, political parties and Governments.
6. Representation before statutory authorities for seeking relief under the Rules of Origin [ROO] / Settlement of Disputes / Safeguard Measure clauses of the relevant FTAs on behalf of either Domestic Industries or Exporters of the foreign countries.
7. Representation works for National Governments at WTO Dispute Settlement Forum.
8. Investigations for various parameters specified under the Rules of Origin Agreement on behalf of Domestic or Foreign Governments.

### **5.2.2 Role in Forestry Related Activities**

Forestry remains one of the most closely monitored and reasonably effectively administered areas under complete Government control. The major reason for the above is that all officers involved in this department are specialists and they have, to a very large extent, common experience to share. Such experience is both in terms of operational field experience and systems and procedures. However, there are areas in the

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development, maintenance and administration of forests and forestry related activities, which have substantial audit implications. These audit implications are both in terms of physical operational audit as well as financial audit. The areas in which the Chartered Accountants can assist the Government are:-

1. Preparation of forest code & manual
2. Performance monitoring of Government saw mills/ eco-tourism projects/forest-based industries
3. Plantation performance monitoring by reviewing: -
  - (a) End use of funds
  - (b) Survival rate variance analysis
  - (c) Forest protection work
  - (d) Forest road creations
  - (e) Flora and fauna management
  - (f) Forest cover accretion
  - (g) Thinning operations
4. Quantitative control and reconciliation of: -
  - (a) Standing timber
  - (b) Felling/logging operations
  - (c) Minor forest produce
  - (d) Sawn timber and other processed products
5. Designing MIS with special attention to stock control and working plan adherence
6. Designing internal control system with special attention to control over movement of produce
7. Environment audit

### **5.2.3 Role in Mining Related Activities**

The Chartered Accountants can add value to the work, which is already being done by the Mines and Minerals Department. Possible areas of involvement of Chartered Accountants in the mining sector are: -

1. Comparative study and monitoring EMS (earning per man shift) and OMS (output per man shift) of different district, places and projects

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2. Monitoring project performance
3. Overburden accounting
4. Monitoring stripping ratio
5. Reviewing blasting and explosive usage efficiency from comparative studies of power factor, detonator factor and secondary blasting to primary blasting ratio
6. Heavy earthmoving machinery utilisation studies
7. Drilling performance studies
8. Metal accounting (important for minerals/metals with elaborate post-mining processing like copper, gold, silver etc.)
9. Intermediaries and reverts stock control
10. Refractories inventory control
11. Underground materials reclamation control
12. Survey audit
13. Valuation of assets and examination and evaluation of mining leases

#### **5.2.4 Role in Power Sector Reforms and Restructuring of Distribution Sector**

Various State Electricity Boards are engaged in the process of reforms and restructuring of distribution sector. Chartered Accountants can assist the State Electricity Boards for smooth and effective implementation of accounting system and process flow. Chartered Accountants can be utilised in areas of preparation of accounting manual and training of accounting personnel.

Chartered Accountants are providing services in case of billing audits, covering the bills generated and timeliness in the collection of the bills, energy audit covering the energy consumed and the comparison of the input output ratio. Besides above, Chartered Accountants can provide services in the following areas:-

1. Billing and recovery (including revenue leakage audit)
2. Coal management, inventory management, planning, quality monitoring for thermal power stations
3. Project monitoring (including reconstruction/marginal schemes)

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4. Budgetary control and variance analysis
5. Capacity utilisation and plant load factor (PLF) achievement studies
6. Inventory control
7. Technical audit
8. Output costing and pricing studies
9. Plant wise periodical financial and physical performance reporting

The Research Committee of the Institute has published a “Study on Accounting in Power Sector”, which deals in detail with the accounting in power sector.

#### **5.2.5 Transport & Civil Aviation**

1. Fleet performance monitoring
2. Stores & spares management
3. Workshop performance audit
4. Fleet availability studies
5. Float management
6. Cannibalisation control
7. Route rationalisation and rate fixation studies
8. Manual preparation
9. Computerised reservation system installation/monitoring
10. Idle machine hour control
11. Inventory management
12. Preventive/breakdown maintenance review

#### **5.2.6. Tourism**

1. Formulation of tourism policy/master plan
2. Food/bar / occupancy performance monitoring unit/project wise
3. Project performance
4. Valuation of assets
5. Inventory / fixed assets control and management
6. Installation and monitoring of centralised reservation system

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7. Joint sector participation - viability studies
8. Formulating niche tourism schemes (like eco-tourism, religious tourism, heritage tourism etc.)
9. Rate fixation
10. Portion control verification
11. Night audit (at hotels and restaurants)

#### **5.2.7 Railways**

1. Sector wise performance analysis
2. Inventory management
3. Rolling stock utilisation studies
4. Idle assets utilisation studies
5. Cost reduction exercises

#### **5.2.8 Steel**

1. Cost centre-wise performance monitoring
2. Techno-financial audit
3. Output quality control audit

#### **5.2.9 Health**

1. Audit of all health centres/hospitals etc
2. Utilisation of plant & machinery

#### **5.2.10 Civil Supplies & Public Distribution**

1. Audit of PDS system and outlets
2. Procurement audit
3. Food stock control/reconciliation and wastage reporting
4. Essential commodities stock control

#### **5.2.11 Programme Implementation**

1. Project-wise implementation, variance reports along with financial impact
2. Fund diversion analysis
3. Budget variance analysis
4. Project deviation variance

5. Non-implementation variance
6. Time over-run variance etc.

#### **5.2.12 Communication (Including Post & Telegraph)**

1. Audit of postal banking (including revenue leakage audit)
2. Audit of public provident funds
3. Audit of post offices
4. Telephone exchange revenue audit and billing reconciliation
5. Propriety audit of P & T

#### **5.2.13 Personnel/HRD**

1. Manpower budgeting studies
2. Conducting training in finance, costing, internal control and related areas
3. Review/preparation of manpower budgets
4. Training programme review

#### **5.2.14 Animal Resource Development (Including Fisheries)**

1. Accounting for livestock/poultry/fisheries.
2. Fishery/diary performance reporting/ costing.
3. Retail outlet monitoring.

#### **5.2.15 Finance Department**

1. Budget/ variance analysis
2. Deposit account audit (including audit of whether PSUs/ Government departments are depositing their surplus funds regularly in designated accounts).
3. Sales tax audit.
4. Audit of pay & accounts offices and reconciliation of Government accounts.

#### **5.2.16 Water Resources Management**

1. Project performance and implementation monitoring of all



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minor and major irrigation projects.

2. Reviewing, availability, demand and future planning of water resources and related projects.

### **5.3 Audit, Assurance and Related Services**

Chartered Accountants are recognised by various statutes to conduct statutory audits and other audits and to issue reports/ certificates for various purposes.

The important areas, where the services of Chartered Accountants are being/can be utilised are detailed below:

#### **5.3.1 Statutory Audit of Branches of Public Sector Banks/ Regional Rural Banks**

Banks utilize the services of chartered accountants for statutory audits. In order to facilitate its members and the bank authorities, the Institute prepares a panel of auditors every year for Statutory Audits of Branches of Public Sector Banks(PSBs)/ Central and Branch Audit of Regional Rural Banks and submits it to Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD). RBI allocates statutory audit of branches of public sector banks, while NABARD allocates statutory audits (both central and branch )of regional rural banks. For this purpose, an announcement seeking necessary information from the members who wish to have their names included in the panel is published in the Journal of the Institute/hosted on the Institute website. The panel so prepared is submitted to the authorities. The banks, do the allotment of audit among those whose names are there on the list forwarded by RBI. The Institute is in no way connected with the allotment of audits.

The Council of the Institute at its 235<sup>th</sup> meeting decided that the requirement for annexing the financial statements and Income Tax Returns of the applicant and Income Tax Returns of the partner/proprietor to the form at the time of submission would be done away with and the applications would be invited online from the year 2004-2005 onwards. Upto 10 per cent of the applicants, selected randomly by the computer from the total online applications received, only shall have to submit their financial statements for detailed review.

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The Institute hosts every year the information in respect of the panel and allocation list of auditors of branches of PSBs on its website. For the first time, allocation list auditors of RRBs was also hosted on the Institute's website in the year 2007-08.

The Reserve Bank of India had accepted the recommendations of the Working Group constituted by RBI for revision of norms for empanelment of audit firms for being considered for appointment as statutory auditors of public sector banks/select all-India Financial Institutions and RBI with certain minor changes. The contents of letter No DBS.ARS.No.393/08.91.008/2003-04 dated 8<sup>th</sup> December, 2003 received from Reserve Bank of India regarding implementation of revised empanelment norms for appointment of statutory auditors (both central and branch) of public sector banks, select all-India Financial Institutions and RBI can be referred at the link [http://icai.org/post.html?post\\_id=725&c\\_id=91](http://icai.org/post.html?post_id=725&c_id=91) and the same are enclosed as Annexure A.

As per the letter no. DD No. 7/48/2004-BOA dated 15<sup>th</sup> December, 2005 received from Ministry of Finance it has been decided to give the following options to the Boards of PSBs :

- (i) PSBs may obtain the names of Statutory Central Auditors (SCAs) and Branch Auditors directly from the Comptroller and Auditor General of India (C&AG) and Institute of Chartered Accountants of India (ICAI) respectively and appoint them with the prior approval of Reserve Bank of India. OR
- (ii) The present practice may be followed and the RBI may appoint the SCAs in consultation with the Government of India.

However, the norms of remuneration of SCAs and Branch Auditors shall continue to be prescribed by the RBI. RBI will also continue prescribing the norms for empanelment of SCAs and Branch Auditors in respect of PSBs.

### **5.3.2 Statutory Audit of Public Sector Undertakings (PSUs)**

The appointment of statutory auditors in respect of public sector

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undertakings are made by the office of Comptroller & Auditor General of India (C&AG). The office of C&AG prepares a panel of auditors. The notification inviting online applications for empanelment of Chartered Accountants for allotment of audit of Public Sector Undertaking is published every year in the Journal of the Institute. Interested members are advised to upload their applications online and submit requisite documents to the office of C&AG, 10 Bahadur Shah Zafar Marg, New Delhi -110002, The application form along with the detailed instructions regarding the documents to be furnished would be available on the website of C&AG at [www.cag.gov.in](http://www.cag.gov.in). The C&AG has prescribed the following norms for the appointment of auditors for audit of PSUs.

The Chartered Accountant firms in the country having at least one full time FCA (Partner/Sole Proprietor) as on 1st January 2009 can apply for empanelment with this office for allotment of audit of Public Sector Undertakings/Statutory Corporations for the year 2009-2010.

The term full time for partner/sole proprietor /CA employee does not include:

- i. Partner in other firms.
- ii. Employed part time/full time elsewhere, practicing in his own name or engaged in practice otherwise or engaged in any other business/activity which would be deemed to be in practice under section 2(2) of the Chartered Accountants Act, 1949.
- iii. Partner whose compensation from the firm is not commensurate with the total compensation (share of profit, remuneration and interest on capital etc) paid/payable to the partners during the assessment year 2008-2009.

Statutory audits are provided for under the Companies Act, 1956 both in respect of the private sector and the public sector. In respect of the private sector, shareholders of the company at the annual general meeting make appointment of statutory auditors.

#### **5.3.3 Statutory Audit of Non Banking Financial Company (NBFC)**

Under the provisions Section 227 (2) of the Companies Act, 1956,

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the Statutory Auditor of a company is required to make a report to the members of the company on the accounts examined by him and certify that these accounts present a true and fair picture of the company. Under Section 45MA(2) of the RBI Act, 1934, the Statutory Auditor would also be making a report to the RBI regarding any contravention by an NBFC in respect of compliance with provisions of the RBI Act, 1934 and directions issued there under. Section 45MA (2) also requires that such contravention should form part of the report under Section 227(2) of the Companies Act, 1956. Hence contravention of RBI Act / Directions should also form part of the reports submitted by the auditors to the shareholders of the company under Section 227(2) of the Companies Act, 1956, besides directly reporting such contraventions to RBI. Such a measure is expected to improve the accountability of the management to the company shareholders.

RBI vide RBI/2005-06/ 232 DNBS (PD).CC. No. 61 / 02.82 / 2005-06 dated December 12, 2005 has stated that it would be desirable if NBFCs (including RNBCs) with public deposits/deposits of Rs 50 crore and above, stipulate rotation of partners of audit firms appointed for auditing the company. The partner/s of the Chartered Accountant firm conducting the audit could be rotated every three years so that the same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the NBFC/RNBC after an interval of three years, if the NBFC/RNBC, so decides. Companies may incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Please visit: [http://www.icaai.org/resource\\_file/742078338.pdf](http://www.icaai.org/resource_file/742078338.pdf)

#### **5.3.4 Statutory Audit of Insurance Companies**

Section 12 of the Insurance Act, 1938 provides that the financial statements of every insurer are required to be audited annually by an auditor unless they are subject to audit under the Companies Act, 1956.

Among the public sector insurance companies, Section 25 of the Life Insurance Corporation Act, 1956, dealing with 'Audit' is specific about appointment of auditors by the Corporation with the

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previous approval of the Central Government. The General Insurance Business (Nationalisation) Act has no specific mention and hence Section 619 of the Companies Act, 1956 which prescribes appointment of statutory auditors by C&AG becomes applicable.

In the current scenario, with the private insurance companies operating in the market, the appointment of statutory auditors has come within the ambit of functions of the Insurance Regulatory and Development Authority (IRDA).

IRDA, issued revised guidelines vide Circular No.36/7/F&A/EMPL/74/July/05 dated 25th July 2005 (attached as Annexure B ) on the eligibility norms for Statutory Auditors of insurance companies and dispensed with the requirement of maintaining a panel of Auditors with the Authority. The revised guidelines came into effect from 1st April 2006.

A panel of Chartered Accountants firms is maintained by Life Insurance Corporation of India (LIC) for audit of various Divisional Offices. Eligible firms may send their particulars on a set application format to the Central Office, Life Insurance Corporation of India, Mumbai.

Members may refer the “Guidance Note on Audit of Companies Carrying on General Insurance Business” and “Guidance Note on Audit of Companies Carrying on Life Insurance Business” for details relating to special features of audit pertaining to general and life insurance companies.

The Committee on Insurance & Pension has also developed a post- qualification Course on Insurance and Risk Management (IRM) to arm the Chartered Accountants with insurance industry specific knowledge and to provide Chartered Accountants a competitive edge in the insurance industry.

#### **5.3.5. Internal Audit**

Internal auditing has moved from those who bayonet the wounded after the battle is over to those who can either prevent the battle, or who can during the battle, become an integral part of the company's competitive armoury. Internal audit provides the management with a dynamic, value-adding tool, which makes a

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positive contribution to the achievement of the organisation's objective. With a changing and more cost competitive environment, expectations from internal auditors are growing day by day. It is felt that internal audit will become much more important within large organizations. Internal auditors will, in effect, become risk and control consultants working on the development and enhancement of new systems, products and processes. They will also be involved in due diligence work, which will be seen as providing a credible starting point for a successful career in business. The Institute has taken several steps to educate the members on the scope and functions of internal audit. The Research Committee of the Institute has issued "General Guidelines on Internal Auditing" which deals with the modern concept of internal audit. The Research Committee has also issued industry-wise guidelines discussing the specific issues of internal auditing in each industry. Some of the industry specific Internal Audit Guidelines of the Research Committee are as follows: -

- Guidelines on Internal Audit-Jute Industry
- Guidelines on Internal Audit-Tea Industry
- Guidelines on Internal Audit-Construction Industry
- Guidelines on Internal Audit-Cement Industry
- Guidelines on Internal Audit of Enterprises carrying on Advertising and Publicity business
- Guidelines on Internal Audit-Tyre Industry
- Guidelines on Internal Audit - Tours and Travel Services

The Council at its 282nd meeting has renamed the Committee on Internal Audit as INTERNAL AUDIT STANDARDS BOARD (IASB).

The primary objective of the Board is to review existing internal audit practices in India and to formulate Standards on Internal Audit, which would be issued under the authority of the Council.

Following is the list of Standards on Internal Audit (SIAs) issued till date by ICAI:

SIA 1 - Planning an Internal Audit

SIA 2 - Basic Principles Governing Internal Audit

SIA 3 - Documentation

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SIA 4 - Reporting

SIA 5 - Sampling

SIA 6 - Analytical Procedures

SIA 7 - Quality Assurance in Internal Audit

SIA 8 - Terms of Internal Audit Engagement

SIA 9 - Communication with Management

SIA 10 - Internal Audit Evidence

SIA 11 - Consideration of Fraud in an Internal Audit

*The following Standards on Internal Audit are in the pipeline:*

- Coordination with External Auditor
- Enterprise Risk Management
- Internal Control Evaluation
- Internal Audit in an Information Technology Environment
- Using the work of a Technical Expert

The Companies (Auditor's Report) Order, 2003 issued by the Central Government in pursuance of the powers conferred by sub-section (4A) of Section 227 of the Companies Act, 1956, requires that the auditor's report on the account of a company to which this order applies shall include a statement on various matters one of which is "in the case of listed companies and/or other companies having a paid-up capital and reserves exceeding Rs.50 lakhs as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business."

This requirement has also created a greater awareness of the need for having proper internal audit systems. On its part, the Council of the Institute is making determined efforts to widen the scope of this area of professional opportunities and to drive home the point to the managements that internal audits are in the interest of the managements themselves. What is equally important is that the members develop special skill and take up the challenge of this new area of work and make positive contribution to the effective management through this service.

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Specific Internal audit activities include:

- Internal audit requirements under Companies (Auditor's Report) Order, 2003 (CARO, 2003)
- Internal audit of Enterprise Risk Management process
- Internal audit of Corporate Governance
- Internal audit of Transactions of Depository Participants
- Internal audit in Banks
- Internal audit of Treasury Operations
- Internal audit of plastic money operations
- Internal audit of Mutual Funds
- Internal audit of compliance with KYC requirements/Anti-money Laundering policy
- Internal audit in Infrastructure Enterprises
- Internal audit of a Not –for- Profit Organisation
- Risk based Internal Audit
- Internal Audit of Intellectual property
- Internal audit of Stock and Inventories
- Internal audit of adherence to Competition Law
- Internal Audit - Controls due Diligence Reviews
- Internal Audit of ESOP Transactions
- Internal Audit of NBFCs
- Internal Audit of compliance with FEMA laws
- Internal Audit of compliance with Labour Law
- Internal Audit of Financial Instruments

### **5.3.6 Revenue (Income and Expenditure) Audit**

Revenue audit is the audit of income and expenditure of the banks. This exercise is undertaken on monthly / quarterly /yearly basis to ensure that the income and expenditure account of the branch depicts the true and correct position and there is no leakage of revenue or overcharging of expenditure. Detection of revenue leakage being an important part of revenue audit is not the sole purpose of this audit. Auditors are also required to examine the reasons for any leakage of revenue and to suggest measures to avoid its recurrence.



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Besides, they should also see whether the mistakes are intentional and if so, must specify the names of the erring officials, so that the management of the bank may take appropriate action to avoid recurrence of such irregularities.

### **5.3.7 Non Performing Asset (NPA) Audit**

Non Performing Asset (NPA) is a widely used phrase in the banking industry. Since, at present NPA problem is the biggest problem before the banking sector, banks are taking more and more precautions & controls in this regard. With regard to these controls, banks have started taking the services of Chartered Accountants for NPA audits of their accounts at half-yearly or quarterly intervals.

In NPA audits, Chartered Accountants are required to verify all the advance accounts above a certain limit fixed by the controlling authority and to test check the rest. In this verification, a deep scrutiny of classification of advances, statements, papers, security etc. is required.

Not only nationalised banks but various private banks are also taking services of Chartered Accountants for NPA audits. This is a special type of assignment that is normally allotted for those branches only, where big borrower accounts are available.

### **5.3.8 Audit of Inventories/Receivables/Securities**

Usually stock audits/ godown inspection assignments are allotted by local controlling offices of various banks. To control the conversion of big borrowal accounts into NPA in banks, to get the stocks of various big borrowers, audited by Chartered Accountants. Members interested in such audits/ assignments may approach the banks concerned for inclusion of their names in the panel maintained by the respective banks.

The main purpose of conducting the inventory audit in banks is to get an assurance that the security against which the loan is sanctioned/disbursed represents the quality and quantity it claims to possess. With this assurance, the purpose of the inventory audit as required by the bank is served. The examination of the securities against which the loan has been sanctioned consists of not only physical verification of the securities but also includes

verification of various aspects such as ownership, valuation and proper storage. The auditor's role assumes great significance in this regard as his report is considered as veritable and neutral. He is, therefore, expected to be objective and unbiased while undertaking the inventory audit.

### **5.3.9 Certification of Accounts of Non – Corporate Borrowers by Chartered Accountants**

Non-corporate entities have been brought within the purview of audit discipline and this speaks highly of the society's confidence in the integrity and capability of our profession.

As per the Income Tax Act, 1961, filing of audited balance sheet and profit & loss account is mandatory for certain types of non-corporate entities. Therefore, RBI has advised banks to insist on the audited financial statements from the borrowers enjoying large limits; since such borrowers would, in any case, be submitting audit certificate to the income-tax authorities, based on audit of their books of accounts by a Chartered Accountant [RBI Master Circular on Management of advances - **RBI/2008/50** UBD.BPD (PCB) MC. No.5 /13.05.000/2008-09 dated July 01, 2008]

### **5.3.10 Long Form Audit Report (LFAR)**

As part of Statutory Audit of Bank Branches, an Auditor is required to answer a detailed questionnaire prepared by Reserve Bank of India (RBI). This report is generally known as "Long Form Audit Report (LFAR)". LFAR is of two types

- (i) LFAR in respect of a branch
- (ii) LFAR by Central Statutory auditors of bank

### **5.3.11 Credit Audit**

Credit Audit aims at achieving continuous improvement in the quality of the Commercial Credit portfolio. Duly aligned with Risk Focused Internal Audit, it examines the probability of default, identifies risks and suggests risk mitigation measures.

### **5.3.12 Information Systems Audit**

An information technology audit, or information systems audit, is an examination of the controls within an Information technology (IT) infrastructure. These reviews may be performed in conjunction with a financial statement audit, internal audit, or other forms of attestation engagement. Formerly called an Electronic data Processing (EDP) audit, an IT audit is the process of collecting and evaluating evidence of an organization's information systems, practices, and operations. The evaluation of obtained evidence determines if the information systems are safeguarding assets, maintaining data integrity, and operating effectively and efficiently to achieve the organization's goals or objectives.

### **5.3.13 Propriety Audit**

Propriety audit refers to an audit in which the various actions and decisions are examined to find out whether they are in public interest and whether they meet the standards of conduct. While undertaking a propriety audit, the auditor does not merely evaluate the evidence supporting a transaction. He attempts to examine the regularity, prudence and impact of the various actions and decisions of the authorities. Propriety audit is area where specialized knowledge and experience will be necessary. This can however be undertaken only at the request of the client. Propriety audit forms an indispensable part of the financial administration, and is one of the important organs necessary to ensure the sound functioning of a Parliamentary Democracy. It is the main instrument to secure accountability of the Executive to the Legislature. Audit assists Parliament/Legislature in exercising its financial control over the Executive, to ensure that funds voted by the Parliament/Legislature have been utilised for the purpose intended and the funds authorised to be raised through taxation and other measures have been assessed, collected and credited to the Government properly.

### **5.3.14 Tax Audit**

Section 44AB of the Income-tax Act, 1961, makes it compulsory for the following persons to get their accounts audited:

- (a) Where the assessee is carrying on business, if the total

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sales, turnover, or gross receipts in the previous year exceeds Rs. forty lakhs.

- (b) Where the assessee is carrying on profession, if his gross receipts in profession in the previous year exceeds Rs. ten lakhs.
- (c) Any assessee covered under the presumptive taxation schemes under Section 44AD/ 44AE/ 44AF/ 44BB/ 44BBB etc

Rule 6G of the Income Tax Rules, 1962 stipulates the Report of audit of accounts to be furnished under section 44AB. Accordingly, the report of audit of the accounts of a person required to be furnished under section 44AB shall,

- (a) in the case of a person who carries on business or profession and who is required by or under any other law to get his accounts audited, be in Form 3 CA
- (b) in the case of a person who carries on business or profession, but not being a person referred to in clause (a), be in Form 3CB(2).

The particulars which are required to be furnished under section 44AB shall be in Form 3CD]

### **5.3.15 Value Added Tax**

Under the Value Added Tax System a major thrust is laid on the 'self-assessment' meaning thereby that the tax liability is calculated and paid by the tax payers through their periodical returns. These returns will be accepted by and large and the taxpayers will not be called to substantiate the tax liability shown by them in the returns by producing books of accounts and other relevant material.

The Governments of many States have already included the professional accountants in their VAT Acts by specifying that the accounts of assesses above a certain turnover (e.g. Rs. 40 lac annually) should be compulsorily audited by a Chartered Accountant.

### **5.3.16 Audit of Financial Statements Prepared under US GAAP**

During the last few years several Indian companies have restated their financial statements to be in compliance with generally accepted accounting principles of the United States (US GAAP). Additionally, several of these companies have opted to get these financial statements audited under generally accepted auditing standards of the United States (US GAAS). Chartered Accountants can provide these services and serve the society in an efficient manner.

### **5.3.17 Audit of Educational Institutions**

The services of Chartered Accountants are now being utilised in the audit of educational institutions viz. Universities, Colleges and Schools. These educational institutions are getting a substantial amount of funds by way of grants from the Government. The Chartered Accountants are being called upon to render the services of statutory audit/ updation of accounts of all Government aided schools/ colleges/ institutions, monitoring end-use of funds for research & development activities, patenting valuation and commercial exploitation of intellectual property etc. Audit of accounts of SSA is being conducted regularly. For instance in Jharkhand, credit is conducted by the Chartered Accountant firms appointed from the office of the Comptroller and Auditor General of India.

### **5.3.18 Audit of Programme Funds**

There are a number of programmes, which are funded by multilateral agencies or by the Government relating to the basic functions and objectives of the Government. In most cases, such programme funds require a precise end-use accounting and auditing in order to assure continued access to the total committed funds. Chartered Accountants are being utilised for setting up systems for programme accounting and can also develop the necessary accounting manuals so that the envisaged systems can be implemented in line with the best practices worldwide. As programme auditors, they can also provide auditing and assurance services as may be required. Also, Chartered Accountants can

give a certificate for the end-use of funds.

### **5.3.19 Audit of Urban Local Bodies**

Another area in which the services of the Chartered Accountants can be gainfully utilised is the audit of urban local bodies, viz. municipal corporations, municipalities and town panchayats. During the last one decade or so, the Union Government as well as the State Governments have been placing an increasing emphasis on utilising the gram panchayats and panchayat samities as the basic agencies for local development. We may mention here that the Andhra Pradesh Government has already made it mandatory for the gram panchayats in the State to have their accounts audited every year by a Chartered Accountant. Many more States are in the process of making it mandatory for the gram panchayats to have their accounts audited.

Reference can also be made from the Institute publication titled "Preface to the Accounting Standards for Local Bodies"

### **5.3.20 Audit of Co-operative Departments (Including Co-operative Banks)**

With the growth of co-operative sector, the areas of professional work in the multi-state co-operative societies and state co-operative societies are expected to increase. While the central registrar appoints auditors for the national level societies, provisions relating to the appointment of auditors of state co-operative societies differ from state to state. Efforts are also being made by the Central Council of the Institute with the assistance of the various Regional Councils to take up the matter with the State Governments to ensure that the co-operative societies and banks, at least above a certain size, are audited by the members of the profession. Recently an order has been issued by the Commissioner and Registrar of Co-operative Societies, Maharashtra State, Pune by which Chartered Accountants are appointed as auditors of banks having deposits of more than Rs.100 crore.

Pursuant to the efforts made in a number of States, panels of auditors are maintained by the Commissioner/Registrar of Co-operative Societies, for the allotment of audit of co-operative

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societies. For information on panels maintained in various States, members may contact the Chairman of the respective Branch or Regional Council. Audit of national co-operative societies/ multi-state co-operative societies is being entrusted to Chartered Accountants and for this, members may contact the Central Registrar of Co- operative Societies, Government of India, Ministry of Agriculture, Department of Agriculture & Co-operation, Krishi Bhawan, New Delhi- 110001.

Chartered Accountants can also render services in the following areas: -

1. Social audit of specified large co-operatives.
2. Management/Internal audits.
3. Determination of Non Performing Assets (NPAs) [for co-operative banks] - [as per norms of Bank of International Settlements, Basle].
4. Recovery of NPAs.
5. Reconciliation of control and subsidiary accounts.
6. Appraisal of lending (for financing co-operatives/ co-operative banks).
7. End-use monitoring (for financing co-operatives/ co-operative banks).
8. Adequacy of documentation (for financing co-operative/ co-operative banks).
9. Manual preparation (accounts/documentation/materials management).
10. Revenue/Inspection audits (of co-operative banks).

#### **5.3.21 Audit of Charitable Trusts/Societies**

Trusts and charitable institutions constitute another area where Chartered Accountants can gainfully serve the society. In some of the States, there are Trust Acts, regarding the maintenance of accounts by trusts which are required to be audited by Chartered Accountants as statutory auditors.

The Institute has taken the initiative to impress upon the Central Government that an all-India legislation for regulating charitable trusts be enacted. Once this is done, the audit of trusts above a

certain size would naturally be made compulsory. This would directly result in an expansion of professional opportunities in this area.

### **5.3.22 Audit of Audit Bureau of Circulations (ABC Audit)**

Audit Bureau of Circulations is maintaining a panel of auditors for conducting circulation audit. Chartered Accountants who are interested in conducting circulation audit (ABC audit) may contact the Audit Bureau of Circulations.

The ABC founded in 1948 is a not-for-profit, voluntary organisation consisting of Publishers, Advertisers and Advertising Agencies. It has done pioneering work in developing audit procedures to verify the circulation data published by those newspapers and periodicals which have earned the right to display its emblem.

ABC is a founder member of the International Federation of Audit Bureaux of Circulations. The main function of ABC is to evolve, lay down a standard and uniform procedure by which a member publisher shall compute its net paid sales. The circulation figure so arrived at is checked and certified by a firm of Chartered Accountants which are approved by the Bureau. The Bureau issues ABC certificates every six months to those publishers whose circulation figures conform to the rules and regulations as set out by the Bureau.

The panel maintained by the Bureau for circulation audits as may be carried out by their member publications is appointed by the Council of Management (Board of Directors) of the Audit Bureau of Circulations (ABC). The Bureau normally follows a procedure of advertising in Institute's Journal as and when it desires to empanel firms of Chartered Accountants across the cities as per requirement. The remuneration/audit fees as may be payable by the Publisher is mutually decided between the auditor and the publisher. The minimum criteria for selection for empanelment as exercised by the Council in the earlier years was as under :

- (a) Firm should be a Partnership firm with at least two or more Partners one of whom should be a FCA.
- (b) Firm should be in operation for a minimum period of last 5



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years.

- (c) Firm should have at least three corporate audits i.e. statutory/ branch audits of public or private sector companies, branch audits of banks etc.
- (d) Firms having experience in ABC audits will have an added advantage.

#### **5.3.23 Audit of Members of Stock Exchanges**

As per the SEBI Circular no SMD/SED/0072/92 dated December 31, 1992 members of stock exchanges are required to get their annual accounts audited by Chartered Accountants within 6 months from the closing of books of accounts and submit a copy of the same to stock exchanges within 30 days of the receipt of the audit report. This requirement of conduct of annual audit of stock brokers emanates from GOI directive No. F.1/5/SE/83 dated May 31, 1984 which enjoins stock brokers to get their books of accounts audited by qualified Chartered Accountants. It is expected that compulsory audit of accounts of members of stock exchange would inculcate a sense of financial discipline in the members of stock exchanges would also lend creditability to their financial statements and would also result in expansion of professional opportunities in this area.

As per the SEBI circular No MRD/DMS/Cir-29/2008 dated October 21, 2008, it has been decided that stock brokers/trading members/clearing members shall carry out complete internal audit on a half-yearly basis by chartered accountants, company secretaries or cost and management accountants who are in practice and who do not have any conflict of interest.

#### **5.3.24 Quality Audit**

With the advent of globalisation and increased competition, companies find that total quality is an inherent customer expectation. In order to deliver consistent quality products/services supported with a responsive service at a reasonable cost, organisations need a well-designed system with a commitment to meeting customer requirements and continuous improvement achieved through an integrated measurement and information system. Chartered Accountants can play a very important role in

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quality audit. Quality audits are intended to determine to what extent the quality system achieves its objectives, conforms to its requirements, meets the customer's contractual requirements, complies with regulatory requirements etc. It also helps to improve the efficiency and to verify that the quality system continues to meet the requirements. The Chartered Accountants can provide the following services:-

1. Evaluate the quality system
2. See whether quality procedures are being followed
3. Find out if the quality objectives are being achieved
4. Determine whether quality policy is being achieved
5. Safeguard audit documents, records and reports

#### **5.3.25 Energy Audit**

Chartered Accountants can play a very important role as energy auditor. The function of an energy auditor could be compared with that of a financial auditor. At the moment, while energy auditor is not yet a mandatory requirement on an all-India basis, the financial auditor is a pre-requisite for any organisation. The energy auditor is normally expected to give recommendations on efficiency improvements leading to monetary benefits and also advise on energy management issues. Generally, energy auditor for the industry is an external party. Chartered Accountants as energy auditor can quantify energy costs and quantities, correlate trends of production or activity to energy costs, devise energy database formats to ensure they depict the correct picture-by production, department, consumer etc., advise and check the compliance of the organisation for policy and regulation aspects, highlight areas that need attention for detailed investigations, conduct preliminary and detailed energy audits which should normally include the following: -

1. Data collection and analysis
2. Measurements, mass and energy balances
3. Reviewing energy procurement practices
4. Identification of energy efficiency projects and techno-economic evaluation
5. Establishing action plan including energy saving targets, staffing requirements, implementation time requirements,

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procurement issues, details and cost estimates

6. Recommendations on goal setting for energy saving, record keeping, reporting and energy accounting, organisation requirements, communications and public relations

### **5.3.26 Environmental Accounting and Auditing**

#### ***Environmental Accounting***

Environmental accounting can be employed by firms large and small, in almost every industry in both the manufacturing and services sectors. It can be applied on a large scale or a small scale, systematically or on as needed basis. The form it takes can reflect the goals and needs of the company using it. However, in any business, top management support and cross-functional teams are likely to be essential for the successful implementation of environmental accounting because environmental accounting may entail a new way of looking at a company's environmental costs, performance, and decisions. Top management commitment can *set* a positive tone and articulate incentives for the organization to adopt environmental accounting. Companies will desire to assemble cross-functional teams to implement environmental accounting, bring together designers, chemists, engineers, production managers, operators, financial staff, environmental managers, purchasing personnel, and accountants who may not have worked together before. Chartered Accountants can provide their services in this area.

#### ***Environmental Audit***

Environmental auditing has three broad objectives:

- (a) Compliance with regulatory codes;
- (b) Assistance in acquisition and disposal valuations; and
- (c) Corporate development towards green missions

Depending on the requirements of the organization for which they conduct the audit, Chartered Accountants can play the following roles:

1. Ensuring compliance with the regulatory requirements both present and future

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2. Assisting organisations to formulate environmental policies to ensure their long term survival and development and monitoring adherence to such policies
3. Conducting – either on their own or along with other technical experts – other types of environmental audits such as waste audits, sites audits, activity audits
4. Systematic evaluation of the environmental protection options available to an organisation to ensure a holistic view of the environmental challenges being faced by the stakeholders
5. Through proper Environmental Audit Reporting, they can keep the stakeholders informed about the environmental impacts of the operations of the organization concerned, protective measures being taken by those organisations and more importantly the possible strategic impact of such impacts and protective measures.

### **5.3.27 Fraud Investigation and Forensic Accounting**

Forensic accounting is the application of a specialized knowledge and specific skills to stumble upon the evidence of economic transactions. The need for forensic accounting has risen with the growing cyber crimes, failure of regulators to track the security scams and a series of co-operative banks bursting.

Chartered Accountants can provide the following services: -

1. Fraud awareness workshops
2. Investigations
3. Fraud risk assessment
4. Background checks
5. Information security risk assessment

The Council of the Institute of Chartered Accountants of India, recognizing the need for Forensic Accounting and Fraud Detection, in the emerging economic scenario, has decided to launch “**Certificate Course on Forensic Accounting and Fraud Detection using IT and CAATs**”.

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Forensic Accounting and Fraud Detection specialisation is in increasing demand considering increasing incidents of cyber crimes and frauds detection. It is the practice of utilizing accounting, auditing, CAATs/ Data Mining Tools, and investigative Skills to detect fraud/ mistakes.

#### ***Learning Outcomes***

- Assessment of the damages
- Fact finding to see whether fraud/ embezzlement has taken place
- Collection of evidences
- Investigating and analyzing financial evidences

For more details please visit:  
<http://icai.org/resourcefile/14261FAFDCourseAnnouncement.pdf>

Reference can also be made from the Institute's Publication titled "Detection of Frauds".

### **5.3.28 Assurance on Sustainability Reporting**

Globally, there is no clear cut format yet prescribed for **sustainability** reports. Different formats are in existence and the selection of appropriate method depends on company's choice. A sustainability report could also be used as a type of financial report as investors may make economic decisions based on its contents.

A standalone report would normally include some disclosure indicators. It seems that user groups of financial and sustainability reports may be different with some members in common. Further different users may have different views as to the relevance and materiality of performance indicators. The GRI (Global Reporting Initiative) guidelines recommend the following to be included in sustainability reports:

- A statement from CEO of an organisation
- Brief profile of an organization
- An executive summary and key indicators
- Key indicators of **sustainability** may be the use of packaging material, employee retention rates, net profit earnings, consumption of resources per unit of product.

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- Vision and Strategy
- Policies, structure and management systems (the systems information may include management accounting, financial accounting, environmental management, health and safety, human resources related information)
- Performance (through environmental, economic, social and integrated indicators)
- The assurance reports may increase the credibility of sustainability reporting and increase the confidence of stake holders in an entity. Further the company may benefit from their expertise of assurance providers through formal advice or joint working. They may review companies' systems, processes and internal controls, reporting weaknesses to the company and offering insights having long term business implications.

#### **5.3.29 Due Diligence Reviews**

Due diligence involves investigation and evaluation of a management team's characteristics, investment philosophy, profile of assets and liabilities, legal, financial and business issues and terms and conditions pertaining to a business transaction, prior to committing capital. Due diligence is undertaken in order to determine the value of the subject matter of due diligence and unearth any issues or potential issues. It is expected to provide a realistic picture of how the business is performing now, and how it is likely to perform in future. Due Diligence can be sub-classified into discipline-wise exercises.

It may be mentioned here that these sub-classifications should not be seen as totally mutually exclusive to each other. If considered mutually exclusive, it might result into a under-effective evaluation of the entity. The sub-classification of due diligence exercise could be as follows:

- Commercial or Operational Due Diligence
- Financial Due Diligence
- Information Systems Due Diligence
- Legal Due Diligence
- Environmental Due Diligence

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- Personnel Due Diligence

Commercial due diligence is generally performed by the concerned acquirer enterprise (due diligence may also be commissioned by the enterprise for the sale of its business or part of a business), and involves an evaluation from a commercial, strategic or operational perspective. On other hand, financial due diligence review would be performed after the commercial valuation. Accordingly, while a preliminary review might be performed during initial stages of the restructuring exercise and may, in fact, be performed simultaneously with the commercial evaluation at a later stage, financial due diligence may be performed on the books of account and other information directly pertaining to the financial matters of the entity. In addition, a legal due diligence may be required where legal aspects of functioning of the entities are reviewed; for example, the legal aspects of property owned by the entity or compliance with various statutory requirements under various laws. Like other due diligence exercises, environmental and personnel due diligence are also carried out in order to establish whether various propositions with regard to environment and personnel of the enterprise under review are appropriate.

It may be noted that in the process of overall due diligence to be performed, in the case of an acquisition, a professional accountant can be called upon to render, *inter alia*; the following professional services:

- Advising the management from commercial perspective and assisting with the commercial review.
- Assisting management with negotiations.
- Identifying key risk factors from an operational perspective, for example, concentration of customers or suppliers, lack of proper internal control systems etc.
- Review of agreements/licenses/ other documents, as appropriate, from the commercial and regulatory perspective.

### **5.3.30 Certification**

Chartered Accountants can undertake certification work as required by income tax, sales tax, banks and other government

agencies.

## **5.4 Corporate Laws**

### **5.4.1 Members of Judicial Bodies**

1. As a Technical member of National Company Law Appellate Tribunal (NCLT).
2. As a member of Appellate tribunal (NCLAT).
3. As a legal representative before Tribunal.
4. Certificate from the auditor is required for reference to Tribunal in case of sickness.
5. Appointment as Official Liquidator

### **5.4.2 Limited Liability Partnership**

The increasing role of the services sector and growing number of professionals has given rise to the need for a new corporate form – limited liability partnerships to enable professional expertise (especially company secretaries, chartered accountants and advocates), to organise and provide a range of services to the corporate sector in a comprehensive and efficient manner and face global competition. Limited liability partnerships fill the gap between corporates and general partnerships. The bill was introduced in the Rajya Sabha on 15<sup>th</sup> December 2006 and is believed to be a path-breaking legislation.

A limited liability partnership (LLP), which is a separate legal provision, will be liable to the third parties independent of the other partners. Therefore it is viewed as an alternative corporate business vehicle that provides the benefits of limited liability but allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement.

The LLP form would enable entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operations, the LLP would also be a suitable vehicle for small enterprises and for investment by venture capital.



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Professional Opportunities in this area include:

1. Determining suitability of business for formation of LLP
2. Guidance in formation
3. Providing a statement that all requirements of the LLP Act & related rules have been complied in respect of incorporation & other related matters.
4. Drafting of LLP agreement
5. Advice on conversion from other forms to LLP
6. Maintenance of accounts
7. Audit of LLP

#### **5.4.3 Legal support and advisory services**

1. Advisory role on various aspects of corporate entity including formation, amalgamations, mergers, demerger, internal reconstruction etc.
2. Drafting of legal documents

### **5.5 Corporate Governance**

Corporate Governance can generally be understood to be a systematic process by which companies are directed and controlled to ensure that they are managed in the manner that meets stakeholders' aspirations and societal expectation. This leads to the corporate governance philosophies of: Trusteeship; Transparency; Empowerment & Accountability; Control and Ethical Corporate Behavior. It is hence a powerful engine for social and economic transformation. It is a system of making management accountable to the shareholders for effective management of the companies, in the interest of the company and also with adequate concern for ethics and values.

Some of the key roles that a chartered accountant can play include:

- (i) Specialized guidance in designing Code of Corporate Governance
- (ii) Specialized guidance in designing Risk Management Framework
- (iii) Specialized guidance in designing Internal control

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- framework
- (iv) Specialized guidance in designing whistle blower policy
  - (v) Internal Audit of Code of Corporate Governance, Risk Management Framework, Internal control framework, Whistle blower policy
  - (vi) Compliance of Internal Audit of clause 49
  - (vii) Statutory auditor's Certificate regarding compliance of conditions of corporate governance as stipulated in sub-clause VII(1) of clause 49
  - (viii) Management Audit pertaining to various regulatory, statutory or listing requirements (Item 15 of Annex. 1A of clause 49)
  - (ix) Effective role as chairman of audit committee
  - (x) Effective role as independent director [clause 49 I(A)(iii) meeting (a-f) criteria]
  - (xi) Assessment of internal control function under clause 49 V - CEO/CFO Certification
  - (xii) As a consultant giving specialized guidance to the management, regular and speedy updates on all applicable provisions, evaluating future growth potential and in taking proactive actions in the interests of the company

### ***Related Websites***

1. National Foundation for Corporate Governance - <http://www.nfcgindia.org/>
2. European Corporate Governance Institute - <http://www.ecgi.org/>
3. World Council for Corporate Governance - <http://www.wcfcg.net>
4. Independent Director Initiative - <http://www.independentdirector.co.uk/>
5. Securities and Exchange Board of India- <http://www.sebi.gov.in/>
6. Bombay Stock Exchange Limited- <http://www.bseindia.com/>
7. International Trade Administration-<http://www.ita.doc.gov/goodgovernance/>

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8. Organisation for Economic Co-operation and Development- <http://www.oecd.org/>
9. Corporate governance network- <http://www.corpgov.net/>

## **5.6 Direct Taxation**

Chartered Accountants are widely perceived to be the best equipped professionals to render all types of line and service functions in the area of taxation. They can actively contribute in tax-planning and tax management.

### **5.6.1 Audit report/certificate**

The Income Tax Act, 1961 provides for audit of accounts and/ or report/certificate of a Chartered accountant in the following cases:

#### **AUDIT REPORTS UNDER THE INCOME-TAX ACT (\*To be furnished along with the Return of Income)**

| <b>Section</b> | <b>Rule</b> | <b>For Whom</b>   | <b>In Form No.</b> |
|----------------|-------------|---|--------------------|
| 12A(b)         | 17B         | Public charitable or religious Trusts or Institutions whose income exceeds maximum amount which is not chargeable to income tax before exemption. | 10B                |
| 33ABA(2)       | 5AD         | Assessee claiming deduction in respect of Deposits under Site Restoration Fund Account/Scheme.  | 3AD                |
| 33AB(2)        | 5AC         | Assessee growing and manufacturing tea or coffee or rubber, claiming deduction in respect of special deposits made u/s. 35AB(1)                   | 3AC                |
| 35D(4)         | 6AB         | Assessee other than Cos. or Co-op. Societies claiming amortisation of certain preliminary expenses.   | 3AE                |

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|                |           |  |             |
|----------------|-----------|--|-------------|
| 35E(6)         | –do–      | Assesseees other than Cos. or Co-op. Societies claiming deduction for expenditure on prospecting etc. of certain minerals.   | 3AE         |
| 44AB           | 6G        | Assesseees carrying on business/profession whose Turnover/Gross Receipts exceeds Rs. 40 lakhs (Rs. 10 lakhs for profession) or profit & gains are deemed to be u/s. 44AD/44AE/44AF/44BB/44BBB and assessee has claimed lower profits than specified in those sections. | 3CA,3CB,3CD |
| 44DA(2)        | 6GA       | Special provisions for computing income by way of royalties, etc. in case of Non-residents   | 3CE         |
| 80I(7)/80IA(7) | 18B<br>BB | Assesseees having an industrial undertaking or an enterprise for Infrastructure Facility, Telecommunication Services, Industrial Park or Power.  | 10CCB       |
| 80-IC(7)       | 18B<br>BB | Special provision in respect of certain undertakings or enterprises in certain special category States.  | 10CCB       |
| 80-IB(7A)      | 18D<br>B  | Assesseees claiming deduction in respect of business of owning and operating a multiplex theatre   | 10CCBA      |
| 80-IB(7B)      | 18D<br>C  | Assesseees claiming deduction in respect of business of owning and operating a convention centre   | 10CCBB      |
| 80IB(11B)      | 18D<br>D  | Assesseees claiming deduction in respect of operating and maintaining hospital in rural area   | 10CCBC      |

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|           |           |  |         |
|-----------|-----------|--|---------|
| 80IB(11C) | 18D<br>DA | Assessee claiming deduction in respect of operating and maintaining hospital located anywhere in India                       | 10CCBD  |
| 80ID      | 18D<br>E  | Assessee claiming deduction in respect of profits and gains from business of hotels and convention centres in specified area | 10CCBBA |
| 142(2A)   | 14A       | Special audit at the instance of the Assessing Officer.  | 6B      |

| <b>Accountant's REPORTS UNDER THE INCOME-TAX ACT<br/>                     (*To be furnished along with the Return of Income)</b> |      |  |      |
|--|------|--|------|
| 10(23C)  | 16CC | Any fund or trust etc.whose income before exemption u/s 10(23C)(iv)/(v)/(vi) exceeds maximum amount which is not chargeable to income tax. | 10BB |
| 10A(5)   | 16D  | Assessee claiming deduction in respect of newly established undertakings in free trade zones EPZ, SEZ, STP, etc.                           | 56F  |
| 10B(5)   | 16E  | Assessee claiming deduction in respect of newly established EOUs   | 56G  |
| 10BA   | 16F  | Assessee engaged in export of hand made articles or things made of wood as the main raw material.  | 56H  |
| 32(1)(ia)  | 5A   | Assessee claiming additional depreciation in respect of new  | 3AA  |

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|              |             |   |       |
|--------------|-------------|---|-------|
|              |             | machinery or plant installed after 31-3-2002  |       |
| 35AC         | 11-O<br>(2) | Expenditure on eligible projects or schemes   | 58 B  |
| 50B(3)       | 6H          | In case of slump sale, for computation of Net Worth of the Undertaking/Division.  | 3CEA  |
| 72(A(2)(iii) | 9C          | Assessee being amalgamated company – regarding compliance with prescribed conditions.   | 62    |
| 80-IA(6)     | 18BBE       | Assessee claiming deduction in respect of profits of housing or other activity which is integral part of Highway project.                                     | 10CCC |
| 80JJAA(2)    | 19AB        | Assessee claiming deduction in respect of employment of new workmen.  | 10DA  |
| 80LA         | 19AE        | Income of off shore banking unit  | 10CCF |
| 92E          | 10E         | Relating to international transactions and particulars thereof.   | 3CEB  |
| 115JB        | 40B         | Company assessee to which provisions of section 115JB applies   | 29B   |
| 115R(3A)     | 12B         | Assessee being Unit Trust of India or any specified company which is liable to pay additional income-tax in respect of distributed income under section 115R. | 63    |
| 115(3A)      | 12B         | Assessee being a Mutual Fund  | 63A   |

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|         |     |  |    |
|---------|-----|--|----|
|         |     | which is liable to pay additional income-tax in respect of distributed income under section 115R.  |    |
| 115U(2) | 12C | Assessee being a venture capital company and venture capital fund which makes payment to any person on investments made by such person under section 115U. | 64 |
| 115VW   | 11T | Option for tonnage tax scheme by a tonnage tax co.   | 66 |

\*Rule 12 provides that the return of income shall not be accompanied by any document or copy of any account or form or report of audit required to be attached with return of income under any of the provisions of the Act.

### **5.6.2 Consultancy**

1. Tax planning and tax management
2. Chartered Accountants can render useful service in the matter of valuation of assets, assessment procedures and appeal matters relating to wealth tax.
3. Consultancy in House and Property Tax
4. Book-keeping and procedural aspects in Agricultural tax
5. Taxation of non-resident Indians
6. Transfer Pricing
7. Double taxation avoidance agreements

### **5.6.3 Income Tax Appellate Tribunal**

Under Section 252 of the Income Tax Act, 1961, Central Government is empowered to constitute an Appellate Tribunal consisting of sufficient number of judicial and accountant members.

Under sub-section 2A of Section 252 of Income Tax Act, 1961, Chartered Accountants have been recognised to be the accountant members of the said tribunal. Relevant extracts of this

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Section are as below: -

“(2A) An accountant member shall be a person who has for at least ten years been in the practice of accountancy as a Chartered Accountant under the Chartered Accountants Act,

1949 (38 of 1949), or as a registered accountant under any law formerly in force or partly as a registered accountant and partly as a Chartered Accountant, or who has been a member of the Indian Income Tax Service, Group A and has held the post of Additional Commissioner of Income Tax or any equivalent or higher post for at least 3 years.”

### **5.6.4 Tax Havens**

There are several countries, territories, dependencies or jurisdictions providing different types of incentives and benefits for attracting foreign investment. They may also provide for certain conditions or extra costs for availing such benefits. Some of the decisions that have to be taken could be:

1. Whether to move to the tax haven?
2. Whether to open a branch or a subsidiary?
3. Whether to become a resident of the tax haven?
4. Whether it is possible to negotiate the tax benefits available?
5. Whether there are any potential legal ramifications of the decision?

These and many more decisions can only be taken with the help of professional experience and expertise.

Services that can be rendered by professionals in this area are:

1. Any enterprise intending to expand and invest has to make a cost benefit analysis before selecting the location for expansion and investment. This requires knowledge of the incentives and laws and regulations of various countries. While tax havens may provide high incentives in the form of low taxes or no taxes, there could be other demotivating factors like political crisis, stringent disclosure requirements, levy of heavy fees, etc. Services of a Chartered accountant are pertinent for the overall analysis



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of the investment decision.

2. Following the law in a foreign land is all the more necessary to avoid any legal complications. Chartered accountants could be hired to ensure legal and other regulatory compliances.
3. The incentive of all business is maximization of profit. Using the tax incentives and avoidance of tax to the maximum extent possible legally would be one of the ways towards this goal. Chartered accountants, with their knowledge and experience can assist organizations in this respect.
4. Various treaties and agreements between various countries; the extra burden imposed by our country for investing abroad in tax havens; comparison of the local and foreign tax incentives/holidays available need to be analysed for the purpose of carrying on of business in a particular location.

Some of the tax havens and their websites are:

- 1 Andorra – a small country in Western Europe ([www.andorra.com](http://www.andorra.com), <http://www.govern.ad/>);
- 2 Anguilla – a group of islands in the Caribbean Sea, an overseas territory of the UK (<http://www.gov.ai/>);
- 3 Antigua and Barbuda – a group of islands in the Caribbean Sea ([www.ab.gov.ag](http://www.ab.gov.ag), [www.antigua.gov.ag](http://www.antigua.gov.ag), [www.antiguabarbuda.gov.ag](http://www.antiguabarbuda.gov.ag));
- 4 Aruba – a Caribbean island, part of the Kingdom of the Netherlands ([www.aruba.com](http://www.aruba.com));
- 5 The Bahamas – a group of islands off the coast of Florida ([www.bahamas.gov.bs/](http://www.bahamas.gov.bs/));
- 6 Bahrain – an group of islands off the coast of Saudi Arabia ([www.bahrain.gov.bh/](http://www.bahrain.gov.bh/));
- 7 Barbados – a Caribbean island ([www.barbados.org/govt.htm](http://www.barbados.org/govt.htm));
- 8 Belize – a small country in Central America ([www.belize.gov.bz/](http://www.belize.gov.bz/));
- 9 British Virgin Islands – a group of islands in the Caribbean Sea, an overseas territory of the UK ([www.bvi.org.uk](http://www.bvi.org.uk));

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- 10 Cyprus ([www.cyprus.gov.cy/](http://www.cyprus.gov.cy/))
- 11 Cook Islands – a group of islands in the South Pacific Ocean, self-governing but in free association with New Zealand ([www.cook-islands.gov.ck/](http://www.cook-islands.gov.ck/));
- 12 Delaware ([delaware.gov/](http://delaware.gov/))
- 13 Dominica – a Caribbean island ([www.avirtualdominica.com/government.cfm](http://www.avirtualdominica.com/government.cfm));
- 14 Gibraltar – a small country in Southwestern Europe, an overseas territory of the UK ([www.gibraltar.gov.gi/](http://www.gibraltar.gov.gi/));
- 15 Grenada – a group of islands in the Caribbean Sea ([www.gov.gd/](http://www.gov.gd/));
- 16 Guernsey/Sark/Alderney – a group of islands in the English Channel, a dependency of the British Crown ([www.gov.gg](http://www.gov.gg), [www.sark.gov.gg](http://www.sark.gov.gg), [www.alderney.gov.gg](http://www.alderney.gov.gg));
- 17 Isle of Man – an island in the Irish Sea, a dependency of the British Crown ([www.gov.im/](http://www.gov.im/));
- 18 Liberia – a West African country (<http://www.state.gov/r/pa/ei/bgn/6618.htm>);
- 19 Liechtenstein – a small country in Western Europe ([http://www.liechtenstein.li/en/liechtenstein\\_main\\_sites/portal\\_fuerstentum\\_liechtenstein/fl-staat-staat/fl-staat-regierung.htm](http://www.liechtenstein.li/en/liechtenstein_main_sites/portal_fuerstentum_liechtenstein/fl-staat-staat/fl-staat-regierung.htm));
- 20 Maldives – a group of islands in the Indian Ocean ([www.themaldives.com/government/](http://www.themaldives.com/government/));
- 21 Malta ([www.gov.mt/](http://www.gov.mt/))
- 22 Marshall Islands – a group of islands in the Pacific Ocean ([www.rmiembassyus.org/](http://www.rmiembassyus.org/));
- 23 Mauritius – a financial regime that has a number of the key characteristics of a tax haven ([www.gov.mu/](http://www.gov.mu/));
- 24 Monaco – a small country in Western Europe ([www.monaco.gouv.mc/](http://www.monaco.gouv.mc/));
- 25 Montserrat – a Caribbean island, an overseas territory of the UK ([www.gov.ms/](http://www.gov.ms/));
- 26 Nauru – a small South Pacific island ([www.dfat.gov.au/geo/nauru/nauru\\_brief.html](http://www.dfat.gov.au/geo/nauru/nauru_brief.html));
- 27 Netherlands Antilles – a group of islands in the Caribbean Sea, part of the Kingdom of the Netherlands

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- ([www.gov.an/](http://www.gov.an/));
- 28 Niue – a small South Pacific island, self-governing but in free association with New Zealand ([www.gov.nu/](http://www.gov.nu/));
- 29 Panama – a country in Central America ([www.presidencia.gob.pa/](http://www.presidencia.gob.pa/), [www.historycentral.com/NationbyNation/Panama/Gov.html](http://www.historycentral.com/NationbyNation/Panama/Gov.html));
- 30 Samoa – a group of islands in the South Pacific Ocean;
- 31 Seychelles – a group of islands in the Indian Ocean ([www.virtualseychelles.sc/gover/mfa.htm](http://www.virtualseychelles.sc/gover/mfa.htm));
- 32 St. Kitts and Nevis – a group of islands in the Caribbean Sea ([www.gov.kn/](http://www.gov.kn/));
- 33 St. Lucia – a Caribbean island ([www.stlucia.gov.lc/](http://www.stlucia.gov.lc/));
- 34 St. Vincent and the Grenadines – a group of islands in the Caribbean Sea ([www.gov.vc/](http://www.gov.vc/));
- 35 Switzerland (<http://www.swissworld.org/eng/swissworld.html?siteSect=700>, [www.historycentral.com/nationbynation/Switzerland/Gov.html](http://www.historycentral.com/nationbynation/Switzerland/Gov.html))
- 36 Tonga – a group of islands in the South Pacific Ocean ([www.pmo.gov.to/](http://www.pmo.gov.to/));
- 37 Turks and Caicos – a group of islands in the North Atlantic Ocean, an overseas territory of the UK ([www.turksandcaicosislands.gov.tc/](http://www.turksandcaicosislands.gov.tc/));
- 38 Uruguay ([www.presidencia.gub.uy/](http://www.presidencia.gub.uy/))
- 39 US Virgin Islands – a group of islands in the Caribbean Sea, an external territory of the US ([www.statelocalgov.net/other-vi.htm](http://www.statelocalgov.net/other-vi.htm));
- 40 Vanuatu – a group of islands in the South Pacific Ocean ([www.vanuatugovernment.gov.vu/](http://www.vanuatugovernment.gov.vu/))

## **5.7 Economic And Commercial Laws**

### **5.7.1 Competition Act 2002**

Services that can be rendered by professionals in the field of Competition law are:

- I. Advisory and Consultancy Services to enterprises
- II. Drafting of anti-competitive agreements

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- III. Compliance of competition law audit
- IV. To work as Expert for Commission under Section 17
- V. To appear before Commission under section 35
- VI. To appear before Competition Appellate Tribunal 53S Chapter VIII A (Section 53A to 53U)

### ***Related Websites***

- 1. The International Competition Network <http://www.internationalcompetitionnetwork.org/>
- 2. International Bar Association Global Competition Forum-  
<http://www.globalcompetitionforum.org>
- 3. Competition Commission of India <http://www.competitioncommission.gov.in/>
- 4. The Office of the Director General of Investigation and Registration <http://www.mca.gov.in/MinistryWebsite/dca/mcaoffices/dgir.html>
- 5. Monopolies and Restrictive Trade Practices <http://www.mca.gov.in/MinistryWebsite/dca/mcaoffices/mrtpc.html>

### ***International Organizations***

- 1. Andean Community, Andean Competition Portal <http://www.comunidadandina.org/competencia/>
- 2. Asia-Pacific Economic Cooperation (APEC) Competition Policy Database <http://www.apecsec.org.sg/loadall.htm?http://www.apecsec.org.sg/committee/competition.html>
- 3. Business and Industry Advisory Committee for the OECD (BIAC) <http://www.biac.org/>
- 4. Economic Commission for Latin America and the Caribbean (ELAC) <http://www.eclac.cl/default.asp?idioma=IN>
- 5. Free Trade Area of Americas (FTAA)- Competition Policy [http://www.ftaa-alca.org/ngroups/ngcomp\\_e.asp](http://www.ftaa-alca.org/ngroups/ngcomp_e.asp)
- 6. International Chamber of Commerce -<http://www.iccwbo.org/>
- 7. International Trade Centre UNCTAD/WTO - <http://www.intracen.org/>
- 8. The International Trade Forum- The Magazine of the

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- International Trade Centre <http://www.tradeforum.org/>
9. International Monetary Fund (IMF) - <http://www.imf.org/>
10. North Atlantic Treaty Organisation (NATO) <http://www.nato.int/>
11. OECD. Organisation For Economic Co-operation And Development, Competition Law And Policy -<http://www.oecd.org/daf/clp>
12. Organisation Of American States (OAS) Trade Unit - <http://www.oas.org/>
13. Trade and Development Centre -<http://www.itd.org/>
14. The World Bank Institute- <http://www.worldbank.org/wbi/regulation/index.html>
15. United Nation Conference on Trade and Development (UNCTAD) <http://www.unctad.org/competition>
16. United Nations Commission on International Trade Law (UNCITRAL) <http://www.uncitral.org/>
17. United Nations Economic and Social Development -<http://www.un.org/esa/>
18. United Nations Industrial Development Organization (UNIDO)- <http://www.unido.org/>
19. Western European Union (WEU) - <http://www.weu.int/>
20. World Trade Organization (WTO)- <http://www.wto.org/>
21. World Intellectual Property Organisation-<http://www.wipo.org/index.html.en>
22. World Trade Point Federation -<http://www.wtpfed.org/>

### **5.7.2 Arbitration and Conciliation**

Arbitration, by its very nature, is meant to be an alternative to courts and a speedier remedy for dispute resolution. Almost all disputes-Commercial, Civil, Labour and Family disputes can be settled through arbitration. Arbitration process has been proven to work in the business environment, especially in respect of disputes involving joint ventures, construction projects, partnership differences, intellectual property rights, and personal injury and product liabilities.

The Council of the Institute of Chartered Accountants of India,

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recognizing the role of alternate dispute resolution mechanism in the emerging economic scenario, has decided to launch Certificate course on Arbitration for its members. The objective of this Course is to familiarize the members with the relevant laws which impact the arbitration process and the practical procedural aspects and to buildup the competency level of the members of the Institute to position them as multidisciplinary consultants in the global service market. The course is targeted at members who are desirous of building their expertise and skills in the area. Apart from the comprehensive theoretical aspects, this course will also cover practical and procedural aspects of the arbitration process with case studies and mock arbitration proceedings.

For more details please visit:

[http://icai.org/post.html?post\\_id=3780&c\\_id=219](http://icai.org/post.html?post_id=3780&c_id=219)

Reference can also be made from the Institute's publication titled "Arbitration". S 2(2)(iv) of the Chartered Accountants' Act, 1949 read with Regulation 191 of the Chartered Accountants' Regulations, 1988 specifically provides that a Chartered Accountant in his professional capacity is allowed to act as an Arbitrator.

Chartered Accountants with their objective, independent and balanced in their approach to a problem can be ideally placed to act as arbitrators or conciliators and play a mediator's role in resolving conflict situations between partners, business associates, employers and employees etc.

#### ***Arbitral Organisations in India***

##### **(A) The International Centre for Alternative Disputes Resolution <http://www.icadr.org/>**

The ICADR is an autonomous organization working under the aegis of the Ministry of Law & Justice, Govt. of India with its headquarters at New Delhi and Regional Centres at Hyderabad and Bangalore. The Regional Centres of ICADR are fully funded and supported by the respective State Governments. It has on its panel

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|                         |   |        |
|-------------------------|---|--------|
| Total no of arbitrators | - | 374    |
| Chartered Accountants   | - | 46     |
| Percentage              | - | 12.30% |

**(B) Indian Council of arbitration <http://www.ficci.com/icanet/>**

Indian Council of arbitration was established in 1965 as a Society under the Societies Registration Act 1860

The main objective of the Council is to promote the amicable and quick settlement of industrial and trade disputes by arbitration. The Government of India, the Federation of Indian Chambers of Commerce and Industry, the other important Chambers of Commerce and trade associations in India as well as export promotion councils, public sector undertakings, companies and firms are in its membership. The Council has developed its infrastructure facilities and has its regional offices at Kolkata, Chennai and Mumbai and also state-level offices of Ahmedabad, Bangalore, Bhubaneshwar, Hyderabad, Pune, Kochi, Guwahati, and Jaipur in order to cater to the needs of users of arbitration in respective regions and to generate awareness about the advantages of arbitration in trade disputes

It has on its panel :

|                       |   |      |
|-----------------------|---|------|
| Advocates             | - | 336  |
| Businessmen           | - | 13   |
| Chartered Accountants | - | 101  |
| Engineers             | - | 994  |
| Executives            | - | 446  |
| Foreign Nationals     | - | 44   |
| Judges Retd.          | - | 229  |
| Total                 |   | 2163 |

The percentage of Chartered Accountants is 4.44%

- (C) **Indian Institute of Arbitration & Mediation**  
<http://www.arbitrationindia.com/>

Indian Institute of Arbitration & Mediation is a non-profit organization registered under the TC Literary Scientific and Charitable Societies Registration Act, 1955. The Institute was formed by a group of professionals and businessmen in the year 2001. Its Head office is in Kochi. IIAM provides facilities for international and domestic commercial arbitration, mediation and conciliation and maintain a panel of arbitrators and mediators for arbitration and mediation / conciliation.

***International Arbitration Institutions***

- (A) International Federation of Commercial Arbitration Institutions [IFCAI]
- (B) United Nations Commission on International Trade Law-  
[http://www.uncitral.org/uncitral/en/uncitral\\_texts/arbitration.html](http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration.html)

In 1976, the United Nations Commission on International Trade Law (UNCITRAL) promulgated rules for use in ad hoc international arbitrations. The rules are widely accepted. Some arbitration institutions have adopted the UNCITRAL Rules as their institutional rules and other institutions will administer arbitrations under the UNCITRAL Rules, if requested.

- (C) American Arbitration Association International Arbitration Rules - <http://www.adr.org>

The AAA is a not-for-profit-organization with offices throughout the U.S. and in Dublin, Ireland. The AAA headquarters is in New York, U.S.A. The AAA provides administrative services in the U.S., as well as abroad through its International Centre for Disputes Resolution (ICDR). The AAA's and ICDR's administrative services include assisting in the appointment of mediators and arbitrators, setting hearings, and providing users with information on dispute resolution options, including settlement through mediation. Ultimately, the AAA aims to



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move cases through arbitration or mediation in a fair and impartial manner until completion.

- (D) International Chamber of Commerce Rules of Conciliation and Arbitration - <http://www.iccwbo.org/>

The International Chamber of Commerce International Court of Arbitration's rules are widely recognized and can also be selected by parties for use in ad hoc arbitrations or in arbitrations conducted by other institutions.

- (E) Permanent Court of Arbitration <http://www.pca-cpa.org>

PCA was established by the Convention for the Pacific Settlement of International Disputes, concluded at The Hague in 1899 during the first Hague Peace Conference. The Conference was convened at the initiative of Czar Nicolas II of Russia "with the object of seeking the most objective means of ensuring to all peoples the benefits of a real and lasting peace, and above all, of limiting the progressive development of existing armaments." The most concrete achievement of the Conference was the establishment of the PCA: the first global mechanism for the settlement of disputes between states. The 1899 Convention was revised at the second Hague Peace Conference in 1907.

- (F) World Intellectual Property organization-393 panelists from 55 countries 7 are Indian <http://www.wipo.int/amc/en/domains/panel/panelists.html#80>

### ***Regional Institutions***

- (A) Asia Pacific Regional Arbitration Group-<http://www.aprag.org/index.html>
- (B) China International Economic and Trade Arbitration Commission - <http://www.cietac.org.cn/index>
- (C) Chicago International Dispute Resolution Association - <http://www.cidra.org/>
- (D) Hong Kong International Arbitration Centre - [http://www.hkiac.org/HKIAC/HKIAC\\_English/main.html](http://www.hkiac.org/HKIAC/HKIAC_English/main.html)
- (E) Vietnam International Arbitration Centre - <http://english.viac.org.vn/>

### **5.7.3 Prevention of Money Laundering Act, 2002**

The Prevention of Money Laundering Act, 2002 (PMLA 2002) and the Rules notified thereunder came into force with effect from July 1, 2005. Director, Financial Intelligence Unit-IND and Director (Enforcement) have been conferred with exclusive and concurrent powers under relevant sections of the Act to implement the provisions of the Act.

Section 4 provides that any person who commits the offence of money laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and also liable to fine which may extend to five lakh rupees. However, where the proceeds of crime involved in money laundering relates to any offence specified under the Narcotic Drugs and Psychotropic Substances Act, 1985 the punishment may extend to rigorous imprisonment for ten years. Professional opportunities in this area include:

1. As a consultant providing
  - (a) His vast expertise in handling huge quantitative data for verification of the exact nature of transactions.
  - (b) Building effective AML programs for the financial organisations to protect them from the potential threats.
2. As the trusted partner of the government,
  - (a) Ensuring implementation of the Act in letter and spirit.
  - (b) KYC AUDIT
3. KYC audit
  - (a) Customers due diligence procedures to confirm identity of Client from the records produced by him.
  - (b) Systems audit for checking identity from external database.
  - (c) formulating and implementing the programme of KYC which is to be forwarded to Director in PMLA [Rule 9 sub rule (7) of the PML maintenance of records of the nature and value... rules].

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- 4 Risk Advisory services (RAS), identifying the risk & its mitigating controls in the systems for proper internal control environment.
5. Management Advisory service (MAS), creating proper administrative and organisational structure to ensure the loop-free information flows.

|    |  |   |
|----|--|---|
| 1  | Financial Intelligence Unit-India                                    | <a href="http://www.fuindia.gov.in/">http://www.fuindia.gov.in/</a>                           |
| 2  | Ministry of Finance  | <a href="http://www.finmin.nic.in/">http://www.finmin.nic.in/</a>                             |
| 3  | Insurance Regulatory and Development Authority                       | <a href="http://www.irdaindia.org/">http://www.irdaindia.org/</a>                             |
| 4  | Reserve Bank of India  | <a href="http://www.rbi.org.in/">http://www.rbi.org.in/</a>                                   |
| 5  | Securities and Exchange Board of India                               | <a href="http://www.sebi.gov.in/">http://www.sebi.gov.in/</a>                                 |
| 6  | Asia/Pacific Group on Money Laundering (APG)                         | <a href="http://www.apgml.org/">http://www.apgml.org/</a>                                     |
| 7  | Bank for International Settlements                                   | <a href="http://www.bis.org/">http://www.bis.org/</a>   |
| 8  | Caribbean Financial Action Task Force on Money Laundering (CFATF)    | <a href="http://www.cfatf.org/eng/">http://www.cfatf.org/eng/</a>                             |
| 9  | Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)    | <a href="http://www.esaamlg.org/">http://www.esaamlg.org/</a>                                 |
| 10 | Egmont group   | <a href="http://www.egmontgroup.org/">http://www.egmontgroup.org/</a>                         |
| 11 | Eurasian Group on Combating Money Laundering and Financing Terrorism | <a href="http://www.eurasiangroup.org/">http://www.eurasiangroup.org/</a>                     |
| 12 | European Union   | <a href="http://europa.eu/pol/fraud/index_en.htm">http://europa.eu/pol/fraud/index_en.htm</a> |

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|    |   |   |
|----|---|---|
| 13 | Financial Action Task Force on Money Laundering (FATF)            | <a href="http://www.fatf-gafi.org">http://www.fatf-gafi.org</a>                               |
| 14 | International Monetary Fund                                       | <a href="http://www.imf.org/">http://www.imf.org/</a>   |
| 15 | International Money Laundering Information Network (IMoLIN)       | <a href="http://www.imolin.org/imolin/index.html">http://www.imolin.org/imolin/index.html</a> |
| 16 | Interpol - International Criminal Police Organisation             | <a href="http://www.interpol.com/">http://www.interpol.com/</a>                               |
| 17 | Middle East & North Africa Financial Action Task Force (MENAFATF) | <a href="http://www.menafatf.org/">http://www.menafatf.org/</a>                               |
| 18 | Organisation for Economic Co-operation and Development (OECD)     | <a href="http://www.oecd.org/">http://www.oecd.org/</a>                                       |
| 19 | United Nations International Drug Control Programme               | <a href="http://www.unodc.org/">http://www.unodc.org/</a>                                     |
| 20 | World Bank  | <a href="http://web.worldbank.org/">http://web.worldbank.org/</a>                             |

#### **5.7.4 Micro Small and Medium Enterprises Development Act 2006**

The Micro, Small and Medium Enterprises Development Bill 2005, having been passed by both the houses of Parliament, received the assent of the President on 16th June 2006. It came on the Statute Book as the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) and come into force from 02<sup>nd</sup> Oct, 2006. The MSMED Act, 2006 provides for facilitating the promotion and development and enhancing the competitiveness of Micro, Small and Medium Enterprises and for matters connected therewith. Chartered Accountants can explore opportunities in this area including formation, taxation and foreign direct investment.

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### ***Related Websites***

- <http://msme.gov.in/>
- <http://www.smenetwork.net/>
- <http://smetimes.tradeindia.com/smetimes/index.html>
- <http://www.fisme.org.in/>
- <http://www.laghu-udyog.com>
- <http://www.smera.in/> - rating agency
- <http://www.nmcc.nic.in/>-national manufacturing competitiveness council

### **5.7.5 Regulations applicable to NBFC**

Chartered Accountants can be engaged in conducting a compliance audit that would include detailed examination of applicability of various laws, regulations and directions, scrutiny of various records including financial statements, balance sheets etc. and issuance of report on compliance or non-compliance of laws by these establishments along with remedial action, wherever required. Examination of total compliance adherence would start from the top of the organizational hierarchy and go down into the core business processes of a company's operations.

#### **STATUTORY PROVISIONS RELATING TO NON- BANKING FINANCIAL COMPANIES**

##### ***I. General***

1. Chapters IIIB, IIIC and V of the Reserve Bank of India Act, 1934
2. Master Circular- Exemptions from the provisions of RBI Act, 1934-July 2, 2007
3. Sec 58A, 58AA, 58AAA and 58 B of the Companies Act, 1956
4. Companies (Acceptance of Deposit) Rules, 1975
5. Companies (Acceptance of Deposits Amendment) Rules, 1997
6. Companies (Application for Extension of time or Exemption under sub-section (8) of section 58A) Rules, 1979
7. Foreign Exchange Management (Deposit) Regulations,

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2000 [FEMA-5]

8. Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000] [FEMA 20]

### ***II. Non Banking Financial Companies***

1. Reserve Bank of India (Non Banking Financial Companies) Returns Specifications, 1997
2. Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
3. Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998.
4. Minimum Net Owned Fund (NOF) for commencement of business of a Non-Banking Financial Institution (NBFI)- April 20, 1999
5. 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards –[ all NBFC, MNBC, RNBC ]- February 21, 2005
6. KYC for persons authorised by NBFCs including brokers/ agents etc. to collect public deposit on behalf of NBFCs - October 11, 2005 [ excluding RNBC]
7. Financial Regulation of Systemically Important NBFCs and Banks Relationship with them-12.12.2006 [All Non-Banking Financial Companies (deposit taking and non-deposit taking)
8. Guidelines on Corporate Governance - May 8, 2007
9. Guidelines on Fair Practices Code for Non-Banking Financial Companies- October 10, 2007
10. FIMMDA Reporting Platform for Corporate Bond Transactions- July 31, 2007
11. Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007
12. Non-Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
13. Master circular- Bank Finance to Non-Banking Financial Companies (NBFCs)- July 2, 2007

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14. Draft Guidelines issued by RBI for NoC to open Offices or Undertaking Investment Abroad by NBFCs - January 24, 2008
15. Frauds – Future approach towards monitoring of frauds in NBFCs- March 5, 2008 [ all NBFC including RNBC]
16. Section 45-IA, 45K and 45L of the RBI Act – Grant of CoR– Requirement of minimum NOF of Rs. 200 lakh for all deposit taking NBFCs[ All deposit taking NBFCs - June 17, 2008]

### ***III. The Housing Finance Companies (NHB) Directions 2001***

#### ***IV. Mortgage Guarantee Companies***

1. Mortgage Guarantee Companies Prudential Norms (Reserve Bank) Directions, 2008
2. Regulatory Framework for Mortgage Guarantee Company- January 15, 2008
3. Mortgage Guarantee Company (Reserve Bank) Guidelines, 2008.- February 15, 2008

#### ***V. Securitisation Companies and Reconstruction Companies***

1. The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003
2. Schedule to The Securitisation Companies or Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003
3. Exemption to Securitisation or Reconstruction Companies from RBI Act- August 28, 2003
4. Quarterly Statement to be submitted by Securitisation Companies/Reconstruction Companies registered with the Reserve Bank of India under Section 3(4) of the SARFAESI Act - April 25, 2007
5. Guidelines on declaration of Net Asset Value of Security Receipts issued by Securitisation Company/ Reconstruction Company- May 28, 2007
6. Master Circular on directions/instructions issued to the Securitisation Companies and Reconstruction Companies - July 02, 2007

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7. Regulation of SCs/RCS-submission of returns and audited balance sheet by SCs/RCS - March 5, 2008

### ***VI. Miscellaneous Non-Banking Companies***

1. Non-banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977.
2. Miscellaneous Non Banking Companies (Reserve Bank) Directions, 1977
3. Chit Funds Act,1982

### ***VII. Residuary Non-Banking Companies (Reserve Bank) Directions, 1987***

### ***VIII. Micro Financial Sector (Development and Regulation) Bill, 2007***

### ***IX. Reports on Money Lending and Nidhis***

1. Report of the Technical Group to Review Legislations on Money Lending
2. Report Of The Expert Group On Nidhis
3. State laws on Money Lending

#### ***5.7.6 Foreign Exchange Management Act, 1999***

The Foreign Exchange Management Act, 1999 extends to the whole of India. The Act also applies to all branches, offices and agencies outside India owned or controlled by a person resident in India and also to any contravention thereunder committed outside India by any person to whom this Act applies.

With the advent of FEMA, the entire focus of the government of India and the Reserve Bank of India has suddenly shifted to control and management of foreign investments and flow of funds to suit the best interests of the country.

Though there is almost complete convertibility on Current Account Transactions except few prohibited/ restricted items under the Current Account Regulations, the Reserve Bank of India has been consciously regulating the flow of Capital Account Transactions (both inbound as well as outbound) *on real time basis* to meet the goals of canalizing investment towards desired sectors of the economy and simultaneously addressing issue of the national



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security.

Professional opportunities in this area include:

- (a) Consultancy on compliance with FEMA rules and regulations
- (b) Representation of party- Foreign Exchange Management (Adjudication Proceedings and Appeal) Rules, 2000-Any applicant who has filed an appeal before the Special Director (Appeals) under section 17 of the Act, may appoint a legal practitioner or a Chartered accountant to appear and plead and act on his behalf before the Special Director (Appeal) under the Act
- (c) Certification. A Chartered Accountants' certificate is required under the following Regulations
  - FEMA 3 - Borrowing and lending in Foreign Exchange
  - FEMA 5 - Deposits
  - FEMA 12 - Insurance
  - FEMA 13 - Remittance of Indian Assets by Non-residents
  - FEMA 22 - Establishment of branch etc. in India
  - FEMA 23 - Export of goods and services (including Project Exports)
  - FEMA 25 - Foreign exchange derivative contracts
  - FEMA 120 - Investment in Joint Ventures (Business Ventures) abroad by Residents
  - Current account rules
  - Import of goods and services
- (d) FEMA compliance Audit

### **5.7.7 Foreign Contribution (Regulation) Act, 1976**

The Foreign Contribution (Regulation) Act, 1976 was passed by the Indian Parliament and received the assent of the President of India on 31st March, 1976. The provisions of the Foreign Contribution Regulation Act, 1976 extend to the whole of India

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including the State of Jammu and Kashmir. The main purpose was to curb the use of foreign funds and hospitality for nefarious and anti-national purposes.

All public charitable institutions having a definite cultural, economic, educational, religious or social programme may accept foreign contributions only after being registered with, or after seeking the prior permission of the Central Government in accordance with the rules made under the Foreign Contribution (Regulation) Act, 1976.

As laid down in Rule 8 (1) of Foreign Contribution Regulation Rules 1976 - a separate set of accounts and records has been maintained, exclusively for foreign contribution received and utilised-

- (a) In Form FC-6, where the foreign contribution relates only to articles as referred to in item (1) of sub-clause (c) of clause (1) of section 2;
- (b) In the cash book and ledger account on double entry basis, where the foreign contribution relates to currency received and utilised, and a separate bank account maintained in respect of such contribution;
- (c) In Form FC-7, where the foreign contribution relates to foreign securities.

Every account so maintained shall be audited by a Chartered Accountant (Form FC-3) along with Balance Sheet and statement of receipt and payment the chartered accountant is required to certify the following:

- The brought forward balance of the foreign contribution at the beginning of the year.
- The foreign contribution received during the year.
- The unutilised balance of foreign contribution at the end of the year
- That the association has maintained the account of foreign contribution and records relating thereto in the manner specified in section 13 of the Foreign Contribution (Regulation) Act, 1976, read with sub-

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rule(1) of rule 8 of the Foreign Contribution (Regulation) Rules, 1976.

- The information furnished in the certificate and in the enclosed balance sheet and statement of receipt and payment is correct.

### **5.7.8 Labour Laws**

There are over 45 legislations on labour from the Central Government and the number of legislations enacted by the State Governments is close to four times that of the Central Government.

#### ***Laws related to Industrial Relations***

1. The Trade Unions Act, 1926
2. The Industrial Employment (Standing Orders) Act, 1946  
The Industrial Employment (Standing Orders) Rules, 1946
3. The Industrial Disputes Act, 1947

#### ***Laws related to Wages***

1. The Payment of Wages Act, 1936  
The Payment of Wages Rules, 1937
2. The Minimum Wages Act, 1948  
The Minimum Wages (Central) Rules, 1950
3. The Working Journalist (Fixation of Rates of Wages) Act, 1958  
Working Journalist (Conditions of service) and  
Miscellaneous Provisions Rules, 1957
4. The Payment of Bonus Act, 1965  
The Payment of Bonus Rules, 1975

#### ***Laws related to Specific Industries***

1. The Factories Act, 1948
2. The Dock Workers (Regulation of Employment) Act, 1948
3. The Plantation Labour Act, 1951
4. The Mines Act, 1952
5. The Working Journalists and other Newspaper Employees'

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- (Conditions of Service and Misc. Provisions) Act, 1955  
The Working Journalists and other Newspaper Employees' (Conditions of Service and Misc. Provisions) Rules, 1957
6. The Merchant Shipping Act, 1958
  7. The Motor Transport Workers Act, 1961
  8. The Beedi & Cigar Workers (Conditions of Employment) Act, 1966
  9. The Contract Labour (Regulation & Abolition) Act, 1970
  10. The Sales Promotion Employees (Conditions of Service) Act, 1976  
The Sales Promotion Employees (Conditions of Service) Rules, 1976
  11. The Inter -State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
  12. The Shops and Establishments Act
  13. The Cinema Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981  
The Cinema Workers and Cinema Theatre Workers (Regulation of Employment) Rules, 1984  
The Cine Workers' Welfare Fund Act, 1981.
  14. The Dock Workers (Safety, Health & Welfare) Act, 1986
  15. The Building & Other Construction Workers (Regulation of Employment & Conditions of Service) Act, 1996
  16. The Dock Workers (Regulation of Employment) (inapplicability to Major Ports) Act, 1997
  17. The Mica Mines Labour Welfare Fund Act, 1946
  18. The Limestone & Dolomite Mines Labour Welfare Fund Act, 1972
  19. The Beedi Workers Welfare Fund Act, 1976
  20. The Beedi Workers Welfare Cess Act, 1976
  21. The Beedi Workers Welfare Cess Act Rules, 1976
  22. The Iron Ore Mines, Manganese Ore Mines & Chrome Ore Mines Labour Welfare Fund Act, 1976
  23. The Iron Ore Mines, Manganese Ore Mines & Chrome Ore Mines Labour Welfare Cess Act, 1976

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24. The Cine Workers Welfare Fund Act, 1981
25. The Cine Workers Welfare Cess Act, 1981
26. The Employment of Manual Scavengers and Construction of Dry latrines Prohibition Act, 1993
27. The Coal Mines (Conservation and Development) Act, 1974

***Laws related to Equality and Empowerment of Women***

1. The Maternity Benefit Act, 1961
2. The Equal Remuneration Act, 1976

***Laws related to Deprived and Disadvantaged Sections of the Society***

1. The Bonded Labour System (Abolition) Act, 1976
2. The Child Labour (Prohibition & Regulation) Act, 1986

***Laws related to Social Security***

1. The Workmen's Compensation Act, 1923
2. The Employees' State Insurance Act, 1948
3. The Employees' Provident Fund & Miscellaneous Provisions Act, 1952
4. The Payment of Gratuity Act, 1972
5. The Payment of Gratuity Rules.

***Laws related to Employment & Training***

1. The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959  
The Employment Exchanges (Compulsory Notification of Vacancies) Rules, 1959
2. The Apprentices Act, 1961

***Others***

1. The Fatal Accidents Act, 1855
2. The War Injuries (Compensation Insurance) Act, 1943
3. The Weekly Holiday Act, 1942
4. The National and Festival Holidays Act
5. The War Injuries (Compensation Insurance) Act, 1943

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6. The Personal Injuries (Emergency) Provisions Act, 1962
7. The Personal Injuries (Compensation Insurance) Act, 1963
8. The Labour Laws (Exemption from Furnishing Returns and Maintaining Register by Certain Establishments) Act, 1988
9. The Public Liability Insurance Act, 1991

The objective of Labour Law Audit is to identify areas of non compliance and offer recommendations to facilitate continuous improvement and compliance. The purview of such audit will be as follows:

- To check compliance with the prevailing local Labour and Industrial Laws. This would cover a broad spectrum of workplace issues including child labour, contract labour, women's rights, harassment and abuse, wage and overtime violations and health and safety hazards.
- Examine compliance with the laid down policies and procedures of the Company

#### **5.7.9 Right to Information Act 2005**

The Right to information Act came into force on the 12th October, 2005 (120th Day of its enactment on 15th June, 2005). The Act gives right to access information held by "public authorities". Professional opportunities in this area include:

- Maintenance of records (Sec 4 (1)(a))
- Preparation of details of publication (Sec 4(1) (b))
- Audit on compliance of legal issues
- Establishing internal controls
- Monitoring and sending progress reports at regular intervals

#### **5.7.10 Consumer Protection Act, 1986,**

The Consumer Protection Act, 1986, applies to all goods and services, excluding goods for resale or for commercial purpose and services rendered free of charge and under a contract for personal service. The provisions of the Act are compensatory in nature. It covers public, private, joint and cooperative sectors. The Act enshrines the rights of the consumer such as right to safety,

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right to be informed, right to be heard, and right to choose, right to seek redressal and right to consumer education.

#### **5.7.11 Trade Remedy Measures (Anti-dumping, Anti- subsidy and safeguard duties)**

Application and imposition of these measures has a huge impact on the traders, exporters and importers operating in International market. The practice areas in this field are mainly related to advisory, consultancy, preparation and representation for and on behalf of individuals and bodies involved in International Trade.

#### ***Professional Opportunities***

##### ***A. Anti-Dumping Duties***

1. Preparation and execution of a well-organized business plan
2. Strategic planning, market research for domestic and international markets to avoid anti-dumping problems
3. Analysis of substantive injury to the industry
4. Analysis of various indices affecting the industry
5. Assistance in Dumping calculations, injury studies, verification, expert evidence at hearings etc
6. Preparing Price and Adjustment Data
7. Analyzing Cost of Production
8. Assisting at Verification and Public Hearings
9. Assessing the Strategic and Commercial Implication of Trade Actions
10. Providing detailed reviews of dumping calculation or injury analysis disclosures
11. Assistance in preparing defence strategies in anti-dumping investigation
12. Negotiations for price undertakings, cost records and financial implications etc. in the matter of initiation of the case or in the defence of a case initiated and on participating in the proceedings and minimizing the liabilities, both prior to and after the initiation of the formal proceedings.

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13. International pricing analysis
14. Detailed cost accounting analysis
15. Large-scale database analysis
16. Price monitoring analysis
17. Competitive industry analysis
18. Statistical analysis
19. Expert financial analysis and testimony before the Department of Commerce

### ***B. Anti-Subsidy Duties***

1. Analyzing the countervailability of a foreign Government's subsidising exports
2. Examining the legal and economic aspects of various subsidy programmes which are actionable under the W.T.O agreements on subsidies
3. Preparing comprehensive financial and substantive representations for the defence and/or initiation of a case

### ***C. Safeguard Duties***

1. Safeguard duties are temporary measures in defence of the domestic industry which is injured or has potential threat of injury due to sudden surge in imports.
2. To formulate a complete strategy, carry out market research and prepare a comprehensive report for initiation and/or defence of a Safeguard Duty case.

### ***D. W.T.O Dispute Settlement proceedings***

1. Assessing WTO consistency of trade barriers
2. Preparation of arguments and evidence for WTO dispute settlement proceedings
3. Advice and strategies for multilateral and bilateral trade negotiations
4. Providing expert analysis and opinions
5. Providing realistic assessments on whether measures can be challenged in the WTO.
6. Preparing and presenting evidence before anti-dumping administrations or in WTO disputes.



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### **Related websites**

Addresses and Websites of Authorities and Organisation related to Trade measures

|    |  |   |
|----|--|---|
| 1  | Govt. of India Directory   | <a href="http://goidirectory.nic.in/">http://goidirectory.nic.in/</a>   |
| 2  | Ministry of Finance  | <a href="http://finmin.nic.in/">http://finmin.nic.in/</a>   |
| 3  | Central Board of Excise & Customs  | <a href="http://www.cbec.gov.in/">http://www.cbec.gov.in/</a>   |
| 4  | Ministry of Commerce   | <a href="http://www.cbec.gov.in/">http://www.cbec.gov.in/</a>   |
| 5  | Directorate General of Anti-Dumping  | <a href="http://commerce.nic.in/ad_guide.htm">http://commerce.nic.in/ad_guide.htm</a>   |
| 6  | Director General of Safeguards   | <a href="http://dgsafeguards.gov.in/default.asp">http://dgsafeguards.gov.in/default.asp</a>                                   |
| 7  | Investment and Technology Promotion  | <a href="http://www.indiainbusiness.nic.in/">http://www.indiainbusiness.nic.in/</a>   |
| 8  | Ministry of External Affairs Government of India<br>Directorate General of CIS | <a href="http://www.dgciskol.nic.in/">http://www.dgciskol.nic.in/</a>   |
| 9  | Confederation of Indian Industry (CII)   | <a href="http://www.ciionline.org/">http://www.ciionline.org/</a>   |
| 10 | Federation of Indian Chambers of Commerce & Industry (FICCI)                   | <a href="http://www.ficci.com/ficci/index.htm">http://www.ficci.com/ficci/index.htm</a>                                       |
| 11 | The Associated Chambers of Commerce & Industry (ASOCHAM)                       | <a href="http://www.assochem.org/">http://www.assochem.org/</a>   |
| 12 | World Trade Organisation   | <a href="http://www.wto.org/">http://www.wto.org/</a>   |
| 13 | Safeguard Measures – World Trade Organisation                                  | <a href="http://www.wto.org/english/tratop_e/safeg_e/safeg_e.htm">http://www.wto.org/english/tratop_e/safeg_e/safeg_e.htm</a> |

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|                                 |   |
|---------------------------------|---|
| 14 United Nations               | <a href="http://www.un.org/">http://www.un.org/</a>                           |
| 15 Centre for Trade Development | <a href="http://www.centad.org/gwa_2.asp">http://www.centad.org/gwa_2.asp</a> |
| 16 The World Bank               | <a href="http://www.worldbank.org/">http://www.worldbank.org/</a>             |
| 17 Asian Development Bank       | <a href="http://www.adb.org">http://www.adb.org</a>                           |

#### **5.7.12 Export Import Trade/ Customs valuation**

Opportunities for professionals occur in the area of business advisory to their existing clients and new clients who are looking for international opportunities to effect the transition from domestic trade to foreign trade.

##### ***Some of the services have been enumerated as under:***

1. Advisory on Foreign Trade Policy and Procedures
2. Compliance with Foreign Trade Procedures
3. Setting up 100% EOU/STP/EHTP/BTP/SEZ units
4. Assistance in fulfilling the regulatory and licensing requirements
5. Obtaining government clearances
6. Liaisoning across related government agencies
7. Documentation
8. Risk assessment
9. Ensuring compliance of various national rules and regulations
10. Judicious management of finance, credit and security
11. Analysis of business operations and facilitation services
12. Formation of a company/subsidiary of a foreign company
13. Development of strategies and implementation plans according to the specific needs of the clients
14. Consulting, documentation and facilitation for
  - (a) Taxation
  - (b) Accounting and auditing services
  - (c) Exports and imports for Export-Import Policy

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- (d) Licences
  - (e) Incentives
  - (f) Logistics
  - (g) Export-Import Finance and benefits from Government Schemes and Programmes
  - (h) Export-Import legal matters
  - (i) Getting Foreign Investment and related matters like Setting up of Business Operations in India including Liaison Office, Branch Office, Subsidiary Company, Joint Ventures,
  - (j) Approval of Investments from RBI/FIPB/Ministries,
  - (k) Quality certification for Foreign Companies exporting to India (as required under BIS regulations),
  - (l) Domestic operations & Incorporations like formation of companies in India & related issues with RoC, RBI & other Government departments, Registrations with DGFT(IEC), EPC(RCMC), Industry Ministry (IEM), Income tax (PAN), Sales tax, Excise, Representation of Cases Before Central Excise Appellate Authorities, Customs Authorities, Fixation of /Brand Rates for Drawback, Rebate/ Refund of Central Excise Duties, Customs Duties etc.
15. Application and Issuance of DEPB, DFRC, Advance Licence, EPCG Licence, Duty Drawback, Deemed Export Benefits
16. Representation and Liaison
- (a) With DGFT, RBI and Ministries for import-export licenses & other matters,
  - (b) For Foreign companies/NRIs/OCBs in India, Indian Investments Abroad, OCBs etc
17. Technical Advisory to Government bodies and Policy makers on Policy Formulation
18. Planning, strategising and implementation for clearances of Project Imports, Plant Relocations, Restricted Items Imports

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### ***Agreements on Customs Valuation***

1. Representing the corporate and non-corporate clients before customs and subsequent statutory authorities.
2. Helping the Customs Department in correct assessment of valuation aspect of Imported goods

### ***Related Websites***

#### **Addresses of Websites of Authorities and Organisation**

##### **International and National relevant for foreign Trade**

| <b>Sl. No</b> | <b>Organisation</b>   | <b>Web-site</b>   |
|---------------|---|---|
| 1             | Directorate General of Foreign Trade-Ministry of Commerce                 | <a href="http://dgft.delhi.nic.in/">http://dgft.delhi.nic.in/</a>                                   |
| 2             | Ministry of Commerce  | <a href="http://commerce.nic.in/">http://commerce.nic.in/</a>                                       |
| 3             | Govt. of India Directory  | <a href="http://goidirectory.nic.in/">http://goidirectory.nic.in/</a>                               |
| 4             | Ministry of Finance   | <a href="http://finmin.nic.in/">http://finmin.nic.in/</a>   |
| 5             | Central Board of Excise & Customs   | <a href="http://www.cbec.gov.in/">http://www.cbec.gov.in/</a>                                       |
| 6             | Federation of Indian Export Organisations (FIEO)                          | <a href="http://www.fieo.org">www.fieo.org</a>  |
| 7             | Reserve Bank of India (RBI)   | <a href="http://www.rbi.org.in/">http://www.rbi.org.in/</a>   |
| 8             | Inland Container Depot (ICD) Delhi Customs                                | <a href="http://www.geocities.com/icddelhi/">http://www.geocities.com/icddelhi/</a>                 |
| 9             | Indian Missions & Posts, Ministry of External Affairs Government of India | <a href="http://meaindia.nic.in/onmouse/mission.htm">http://meaindia.nic.in/onmouse/mission.htm</a> |
| 10            | Directorate General of Anti-Dumping                                       | <a href="http://commerce.nic.in/ad_guide.htm">http://commerce.nic.in/ad_guide.htm</a>               |
| 11            | Director General of Safeguards  | <a href="http://dgsafeguards.gov.in/default.asp">http://dgsafeguards.gov.in/default.asp</a>         |
| 12            | Ministry of External Affairs  | <a href="http://meaindia.nic.in/">http://meaindia.nic.in/</a>                                       |

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|    |   |   |
|----|---|---|
|    | Government of India   |   |
| 13 | Office of Development Commissioner (MSME)   | <a href="http://www.smallindustryindia.com/">http://www.smallindustryindia.com/</a>   |
| 14 | Ministry of Textiles, Govt. of India - Office of the Textile Commissioner, Mumbai | <a href="http://www.txcindia.com/">http://www.txcindia.com/</a>   |
| 15 | Confederation of Indian Industry (CII)  | <a href="http://www.ciionline.org/">http://www.ciionline.org/</a>   |
| 16 | Federation of Indian Chambers of Commerce & Industry (FICCI)                      | <a href="http://www.ficci.com/ficci/index.htm">http://www.ficci.com/ficci/index.htm</a>                                       |
| 17 | The Associated Chambers of Commerce & Industry (ASOCHAM)                          | <a href="http://www.assochem.org/">http://www.assochem.org/</a>   |
| 18 | World Trade Organisation  | <a href="http://www.wto.org/">http://www.wto.org/</a>   |
| 19 | Safeguard Measures –World Trade Organisation                                      | <a href="http://www.wto.org/english/tratop_e/safeg_e/safeg_e.htm">http://www.wto.org/english/tratop_e/safeg_e/safeg_e.htm</a> |
| 20 | Centre for Trade Development  | <a href="http://www.centad.org/gwa_2.asp">http://www.centad.org/gwa_2.asp</a>   |
| 21 | The Cotton Textiles Export Promotion Council of India [TEXPROCIL]                 | <a href="http://www.texprocil.com/">http://www.texprocil.com/</a>   |
| 22 | World Customs Organisation  | <a href="http://www.wcoomd.org/ie/index.html">http://www.wcoomd.org/ie/index.html</a>   |
| 23 | World Bank, Washington,US   | <a href="http://www.worldbank.com/">http://www.worldbank.com/</a>   |
| 24 | Asia Trade Forum of the Irish Exporters Association                               | <a href="http://www.irishexporters.ie/asia">http://www.irishexporters.ie/asia</a>   |
| 25 | Australia India Chamber of Commerce   | <a href="http://www.aicc.com.au/">http://www.aicc.com.au/</a>   |
| 26 | China Council for the Promotion of International Trade                            | <a href="http://211.167.234.132/engVersion/indexEn.html">http://211.167.234.132/engVersion/indexEn.html</a>                   |
| 27 | Chinese Manufacturers'  | <a href="http://www.cma.org.hk/">http://www.cma.org.hk/</a>   |

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|    | Association   |   |
|----|---|---|
| 28 | Indian Business Chamber in Vietnam                                | <a href="http://www.inchamvietnam.org/">http://www.inchamvietnam.org/</a> |
| 29 | Kuala Lumpur and Selangor Indian Chamber of Commerce and Industry | <a href="http://www.klsicci.com.my/">http://www.klsicci.com.my/</a>       |
| 30 | Korea International Trade Association (KITA)                      | <a href="http://www.kita.org/">http://www.kita.org/</a>                   |

### **5.7.13 Special Economic Zones/100% Export Oriented Units (EOU)/Software Technology Parks (STP) / Electronic Hardware Technology Parks (EHTP)**

#### ***Special Economic Zones (SEZ)***

Special Economic Zone (SEZ) is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

W.e.f. 10th February, 2006 the activities relating to Special Economic Zones are guided by the provisions contained in the Special Economic Zones Act, 2005 and the Special Economic Zones Rules, 2006. Amendments were made in the Special Economic Zones Rules by way of:

1. The Special Economic Zones (Amendment) Rules, 2006 which came into force on 10.08.2006 (vide Notification NO G.S.R. 470(E), dated 10-8-2006)
2. The Special Economic Zones (Amendment) Rules, 2007 (vide Notification dated 16.03.2007)
3. The Special Economic Zones ( Second Amendment) Rules, 2007 (vide Notification dated 12.10.2007)

#### ***Foreign Trade Policy (FTP)***

Foreign Trade Policy means the Foreign Trade Policy notified from time to time by the Central Government under section 5 of the Foreign Trade (Development and Regulation) Act 1992 (22 of 1992);

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### ***Agri-Export Zones (AEZ)***

The Government of India (GOI) had announced the creation of Agri Export Zone (AEZ) in the EXIM POLICY 2001-02 with the objective of promoting greater exports of fresh and processed agricultural produce from the country. The scheme is implemented by the Ministry of Commerce, Gol, through APEDA (the Agriculture and Processed Food Export Development Authority), New Delhi which is the nodal agency for AEZ.

### ***Bio-Technology Parks (BTP)***

The Government of India first proposed to establish Biotechnology Parks in the country with all the facilities of 100% Export Oriented Unit in the foreign Trade Policy (2004-09)

Bio-technology encompasses any technique, which uses living organisms or parts thereof to make or modify products, improve plant or animal productivity or to develop micro organisms for specific use. BTP means Biotechnology Park as notified by Director General of Foreign Trade on the recommendation of the Department of Biotechnology (Ministry of Science and Technology)

### ***Electronic Hardware Technology Parks (EHTP)***

For encouraging exports of electronic hardware items including hard disk drives, computers, television, etc., such parks have been developed by the Ministry of Communications & Information Technology. An Electronic Hardware Technology Park (EHTP) may be an individual unit by itself or a unit located in an area designated as EHTP Complex. As in the case of STP Scheme, the EHTP Scheme is also administered by the Ministry of Communications & Information Technology. Incentive Package for Electronic Hardware was announced in the Foreign Trade Policy 2002-07. An EHTP can also be set up by the Central Government, State Government, public or private sector undertakings or any combination of them.

### ***100% Export Oriented Unit Scheme***

A 100 per cent export-oriented unit is an industrial unit offering for export its entire production, excluding the permitted levels of

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domestic tariff area sales for manufacture of goods, including repair, re-making, reconditioning, re-engineering and rendering of services. Trading units are not covered under this scheme

The EOU scheme was introduced in the year 1980 vide Ministry of Commerce resolution dated 31st December 1980. The purpose of the scheme was basically to boost exports by creating additional production capacity. The EOU scheme is complementary to the EPZ scheme, except that it is widely dispersed in location, unlike EPZs, which are set up at specific locations.

The Export Oriented Unit (EOU) Scheme, which had been introduced in the early 1980s remains in the forefront of country's export production schemes. The scheme has witnessed many changes over the last twenty-four years in the context of ever changing economic realities. However, the basic premise remains the same. The premise is that the exporters are treated as a special class and given the required tariff, non-tariff and policy support to facilitate their export efforts. Thus, today the EOU Scheme has emerged as a dynamic policy initiative facilitating the exporting community in the task of increased exports. Earlier, the scheme was basically for manufacturing sector with certain minimum value addition in terms of export earnings. The EOU scheme is presently governed by Chapter 6 of the Foreign Trade Policy 2004-09 and Chapter 6 of the Handbook of Procedures and Appendix 14 I A to Appendix 14 I N.

### ***Free Trade and Warehousing Zones***

The concept of Free Trade and Warehousing Zones was introduced by Chapter 7A of the Foreign Trade Policy 2004-09 on 31<sup>st</sup> August 2004. Chapter 7A has been deleted in the Foreign Trade Policy 2006-07. The Special Economic Zones Act 2005 and Special Economic Zones Rules 2006 now apply to FTWZs from 10<sup>th</sup> February 2006.

The scheme envisages creation of world-class infrastructure for warehousing of various products, state-of-the-art equipment, transportation and handling facilities, commercial office-space, water, power, communications and connectivity, with one-stop clearance of import and export formality, to support the integrated Zones as 'international trading hubs'. These Zones would be



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established in areas proximate to seaports, airports or dry ports so as to offer easy access by rail and road.

Though no manufacturing activity would be permitted, activities like repackaging would be permitted in these zones.

### ***International Financial Services Centre***

Financial Centers can be broadly categorized into two: International Financial Centres and Offshore Financial Centres.

The full potential of an IFC is demonstrated by centers such as New York, London and Singapore where offshore business is conducted alongside large domestic financial intermediation. In most cases, offshore activities are not ring-fenced from domestic operations and they usually operate in the same regulatory and fiscal environment. IFCs have a highly matured and developed economy and sophisticated, deep and liquid domestic markets.

An Offshore Centre commonly refers to a smaller and less mature jurisdiction that attracts capital through a simple regulatory framework, minimum legal requirements for incorporation and operation, favourable tax treatment and stringent confidentiality requirements.

The provisions for setting up IFSC are laid down in Sec 18 of The Special Economic Zones Act, 2005. Accordingly, the Central Government may, subject to such guidelines as may be framed by the Reserve Bank, the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority and such other concerned authorities, as deemed fit, prescribe the requirements for setting up and the terms and conditions of the operation of Units in an International Financial Services Centre. Till date no terms and conditions has been prescribed by Central Government for setting up of International Financial service centre.

### ***Offshore Banking Units (OBU)***

OBU are virtually foreign branches of Indian banks but located in India and would be exempt from cash reserve ratio (CRR) and statutory liquidity ratio (SLR). The Union Commerce Minister had first announced the setting up of OBUs in SEZ in the EXIM Policy 2002-07. The terms and conditions subject to which an Offshore

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Banking Unit may be set up and operated in a Special Economic Zone shall be as specified in the Notification number FEMA 71/2002-RB dated 7<sup>th</sup> September, 2002 by the Reserve Bank of India, as amended from time to time.

#### ***Software Technology Parks of India***

Software Technology Parks (STPs) are export-oriented projects catering to the needs of software development for exports. The present provisions of the STP scheme are contained in Chapter 6 of the Foreign Trade Policy 2004-09. The procedures are included in Chapter 6 of the Handbook of Procedures and Appendices to the Handbook of procedures issued under the Foreign Trade Policy 2004-09. Software Technology Parks of India is an autonomous organization under Ministry of Communications and Information Technology, Govt. of India. New fiscal incentives offered under this scheme, infrastructure created by STPI and the investor-friendly environment have contributed to a steep growth in the Software Exports from India.

The job opportunities for Chartered Accountants in the above entities are as follows:

- (a) Assistance in preparation of project report  
A project report outlining the economic and commercial viability of the project needs to be attached along with Form A i.e. Application for setting up a unit in Special Economic Zone.
- (b) Assistance in necessary applications, compliances etc. with the Board of Approval State Government, Development Commissioner, Approval Committee, etc.
- (c) Consultancy services for developing Special Economic Zones
- (d) Consultancy services for setting up units in Special Economic Zones,
- (e) Representation before Board of Approval on behalf of any person aggrieved by the order passed by the Approval Committee.

Rule 55 of Special Economic Zones Rules, 2006 states that any person aggrieved by an order passed by the Approval Committee under section 15 of the Special

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Economic Zones Act, 2005 or against cancellation of Letter of Permission under section 16, may prefer an appeal to the Board in the Form J.

Rule 61 of the Special Economic Zones Rules, 2006 states every appellant may appear before the Board in person or authorize one or more chartered accountants or company secretaries or cost accounts or legal practitioners or any of his or its officers to present his or its case before the Board.

- (f) Certification of reports – Form I (Annual performance reports for Units)

There is a requirement under Rule 22 of the Special Economic Zones Rules, 2006 that the grant of exemptions, drawbacks and concession to the entrepreneur or developer of a Special Economic Zone will be subject to the condition that the Unit submits an Annual Performance Report in Form I to the Development Commissioner who in turn will submit it to the Approval committee for his consideration. The information given in the form should be authenticated by the authorized signatory of the unit and certified by a Chartered Accountant.

- (g) Audit report under section 80-I(7)/80-IA(7)/80-IB/80-IC of the Income-tax Act, 1961 in Form 10CCB
- (h) Report under section 10A (5) and Section 10 B (5) of the Income-tax Act, 1961 in FORM NO. 56F and Form No. 56G respectively certifying that the deduction has been made in accordance with the corresponding section

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- (i) Report under section 80LA(3) of the Income-tax Act, 1961 in Form No. 10CCF
- (j) Report on Annual performance of units -The information given in the formats for APRs should be authenticated by the authorized signatory of the unit and should be certified for its correctness by a Chartered Accountant with reference to the account records and registers maintained by the unit (Appendix 14 –I-F Handbook of procedures of Foreign Trade Policy)
- (k) Certificate on production and exports- DTA sale of Gem &

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Jewellery items will be permitted on annual basis by the Development Commissioners up to 10% of FOB value of exports during the preceding year subject to certain conditions. One such condition is that the application by an EOU has to be submitted to DC concerned on yearly basis (licensing-year) giving the details of production and exports made during the preceding licensing year duly certified by a Chartered Accountant and endorsed by the jurisdictional Custom Authority. (Appendix 14-I-H Handbook of procedures of Foreign Trade Policy)

- (I) Certificate for CST reimbursements certifying receipt of the goods (Appendix 14- I-I Handbook of procedures of Foreign Trade Policy)- The Export Oriented Units (EOUs) and units in Electronic Hardware Technology Park (EHTP) and Software Technology Park (STP) will be entitled to full reimbursement of Central Sales Tax (CST) paid by them on purchases made from the Domestic Tariff Area (DTA), for production of goods and services as per EOU Scheme subject to certain conditions. The unit has to present its claim for reimbursement of CST in the prescribed form (Annexure - I) to the Development Commissioner of the SEZ concerned or the designated officer of the EHTP/STP.

#### ***Related Websites:***

The following are useful links to various websites from which the professionals can get more information on the above subjects:

|                                      |   |
|--------------------------------------|---|
| Directorate General of Foreign Trade | <a href="http://dgftcom.nic.in/">http://dgftcom.nic.in/</a>               |
| Export/ Import                       | <a href="http://www.eximkey.com/">http://www.eximkey.com/</a>             |
| Ministry of Finance                  | <a href="http://finmin.nic.in/">http://finmin.nic.in/</a>                 |
| Ministry of Commerce & Industry      | <a href="http://commerce.nic.in/">http://commerce.nic.in/</a>             |
| Ministry of Company Affairs          | <a href="http://www.mca.gov.in/">http://www.mca.gov.in/</a>               |
| Income Tax, India                    | <a href="http://incometaxindia.gov.in/">http://incometaxindia.gov.in/</a> |
| Reserve Bank of India                | <a href="http://www.rbi.org.in/">http://www.rbi.org.in/</a>               |
| Special Economic Zones in India      | <a href="http://www.sezindia.nic.in">http://www.sezindia.nic.in</a>       |

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|   |   |
|---|---|
| Software Technology Park of India/Electronic Hardware Technology Park         | <a href="http://www.stpi.in/">http://www.stpi.in/</a>     |
| Agri-Export Zones   |   |
| Agricultural and Processed Food Products Export Development Authority (APEDA) | <a href="http://www.apeda.com/">http://www.apeda.com/</a> |

### **Free Trade and Warehousing Zones**

Free Trade Warehousing Private Limited (FTWPL) <http://www.ftwpl.com/>

### **Bio Tech Parks In India**

Department of Biotechnology (DBT) under the Ministry of Science and Technology <http://dbtindia.nic.in/>

### **Special Economic zones in India**

|  |   |
|--|---|
| Santacruz Electronics Export Processing Zone | <a href="http://www.seepz.com/">http://www.seepz.com/</a>         |
| Kandla Special Economic Zone                 | <a href="http://www.kasez.com">http://www.kasez.com</a>           |
| Cochin Special Economic Zone                 | <a href="http://www.csez.com/">http://www.csez.com/</a>           |
| Madras Special Economic Zone                 | <a href="http://www.mepz.gov.in/">http://www.mepz.gov.in/</a>     |
| Visakhapatnam Special Economic Zone          | <a href="http://www.vsez.gov.in/">http://www.vsez.gov.in/</a>     |
| Falta Special Economic Zone                  | <a href="http://www.fepz.com/">http://www.fepz.com/</a>           |
| Noida Special Economic Zone                  | <a href="http://www.nsez.gov.in/">http://www.nsez.gov.in/</a>     |
| Surat Special Economic Zones                 | <a href="http://www.sursez.com/">http://www.sursez.com/</a>       |
| Indore Special Economic Zone                 | <a href="http://www.sezindore.com/">http://www.sezindore.com/</a> |

### **Export Promotion Council**

Export Promotion Council for EOUs—<http://www.eouindia.gov.in/> and SEZ Units

### **5.7.14 Trade Related Intellectual Property Rights (TRIPS)**

1. Registration Services - Registration of Patents, Trademarks, Copy rights & Geographical indications etc. at both national & international level
2. Representations before statutory authorities wherever permissible and possible.
3. Documentation - Drafting of Application for registration of the Intellectual property rights
4. Valuation of the Intellectual property rights and Strategic Advices related to Sale/Acquisitions of Intellectual property rights.
5. Advisory Services on Taxation of Intellectual property rights - Service Tax, Income Tax and Capital gains
6. Accounting of Intellectual property rights
7. Negotiating Royalty, Agency, Distribution, Franchise , Drafting licences, non-disclosure agreements and Licensing agreements
8. Joint venture and Foreign Collaborations
9. Intellectual Property Management & Audit
10. Preparation for contesting opposition against application for registration of Intellectual property rights (in case of Patents, Trade marks, Geographical Indicators)
11. Registration of copyright protected works i.e. literary, artistic, cinematographic work and computer programs.
12. Patent and trade mark litigation support including representation in hearings before the examiner, assistant, deputy, joint controller and controller of patents and assistant registrar and registrar of trademarks, filing oppositions and initiating infringement actions.
13. Function as an Arbitrator - resolve infringement matters - through Alternative Disputes Resolution when appropriate
14. Advisory on acquisition of intellectual property assets and a thorough due diligence review of complex ownership issues.
15. Advisory and assistance in negotiating and structuring intellectual property development agreements, including

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- joint development agreements
16. Analyzing and assisting in strategically positioning Intellectual property rights to achieve maximum valuation and growth
  17. Registration of Domain Names
  18. Infringement Analysis Opinions and certifications
  19. Advisory on assignments of Trademarks

#### **Related Web sites**

|   |   |
|---|---|
| Patents Office  | <a href="http://www.patentoffice.nic.in/ipr/patent/patents.htm">http://www.patentoffice.nic.in/ipr/patent/patents.htm</a> |
| Copy Right Authority under the Ministry of Human Resource and Development | <a href="http://copyright.gov.in/">http://copyright.gov.in/</a>   |
| Trade Mark registry   | <a href="http://www.patentoffice.nic.in/tmr_new/default.htm">http://www.patentoffice.nic.in/tmr_new/default.htm</a>       |
| Designs registration office   | <a href="http://www.patentoffice.nic.in/ipr/design/designs.htm">http://www.patentoffice.nic.in/ipr/design/designs.htm</a> |
| Information on Geographical Indicators                                    | <a href="http://www.patentoffice.nic.in/ipr/gi/">http://www.patentoffice.nic.in/ipr/gi/</a>                               |
| Indicators  | <a href="http://www.patentoffice.nic.in/ipr/gi/geo_ind.htm">geo_ind.htm</a>   |
| The Convention on Biological Diversity                                    | <a href="http://www.biodiv.org/default.shtml">http://www.biodiv.org/default.shtml</a>                                     |
| India's Clearing-House Mechanism site                                     | <a href="http://envfor.nic.in/envis/envis.html">http://envfor.nic.in/envis/envis.html</a>                                 |
| Ministry of Environment & Forests   | <a href="http://envfor.nic.in/">http://envfor.nic.in/</a>   |
| Information on protection of plant varieties and farmers rights           | <a href="http://www.plantauthority.in/">http://www.plantauthority.in/</a>   |
| About Intellectual Property Rights  | <a href="http://www.ipindia.nic.in/ipr/patent/pat_inaug.htm">http://www.ipindia.nic.in/ipr/patent/pat_inaug.htm</a>       |

### **5.7.15 Trade Related Investment Measures (TRIMS)**

The Trade Related Investment Measures Agreement came into effect on 1 January 1995 as part of the Uruguay Round negotiations. It addressed investment measures that were trade related and which violated Article III (National Treatment) or Article XI (general elimination of quantitative restrictions). Basically it prohibited member countries making the approval of investment conditional on compliance with laws, policies or administrative regulations that favoured domestic products.

#### ***Illustrative list of prohibited TRIMs***

TRIMs that are inconsistent with the obligation of national treatment provided for in paragraph 4 of Article III of GATT 1994 include those which are mandatory or enforceable under domestic law or under administrative rulings, or compliance with which is necessary to obtain an advantage, and which require:

- the purchase or use by an enterprise of products of domestic origin or from any domestic source, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production; or
- That an enterprise's purchase or use of imported products be limited to an amount related to the volume or value of local products that it exports.

TRIMs that are inconsistent with the obligation of general elimination of quantitative restrictions provided for in paragraph 1 of Article XI of GATT 1994 include those which are mandatory or enforceable under domestic law or under administrative rulings, or compliance with which is necessary to obtain an advantage, and which restrict:

- the importation by an enterprise of products used in or related to its local production, generally or to an amount related to the volume or value of local production that it exports;
- the importation by an enterprise of products used in or related to its local production by restricting its access to foreign exchange to an amount related to the foreign



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- exchange inflows attributable to the enterprise; or
- the exportation or sale for export by an enterprise of products, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production

#### ***Professional opportunities***

1. Vetting / Drafting of FDI agreements and field study works.
2. Vetting of Counter Guarantee Agreements signed by National & State Govts.
3. Advisory services related to Foreign Collaborations, Joint Ventures and Acquisitions.
4. Analysis of political and other factors affecting investment decisions of foreign parties
5. Representation before statutory authorities on behalf of either the domestic or foreign parties wherever permissible.
6. Acting as Arbitrators when dispute arises.
7. Valuation of Tangible and Intangible assets for settlement of trade disputes or initial / subsequent investments
8. Representation before WTO Disputes Settlement Forum when dispute goes to their Jurisdictions
9. Investigation Services when foreign parties require background verification of the Domestic parties and vice versa when joint ventures occurred.
10. Advising Corporates about Global FDI policies adopted in different countries and selection of suitable partners for joint ventures
11. Financial Evaluation of FDI proposals on behalf of industries and Government.

#### ***Related websites***

**WTO-** [http://www.wto.org/English/docs\\_e/legal\\_e/18-trims.pdf](http://www.wto.org/English/docs_e/legal_e/18-trims.pdf)

**Ministry of Commerce-** <http://commerce.nic.in/wtotrims.htm>

## **5.7.16 Cross border Mergers and Acquisitions**

### ***Introduction***

The phrase mergers and acquisitions (abbreviated M&A) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining different companies. Merger is a tool used by companies for the purpose of expanding their operations often aiming at an increase of their long term profitability.

Mergers and acquisitions (M&A) and corporate restructuring are a big part of the corporate finance world. Investment bankers arrange M&A transactions, which bring separate companies together to form larger ones. When they are not creating big companies from smaller ones, corporate finance deals do the reverse and break up companies through spin-offs, carve-outs or tracking stocks. International investment opportunities have increased while regulatory restrictions on capital markets have been eased and the market for corporate control has become more integrated.

Consequently, the international acquisition activity has increased in both absolute and relative terms over the last decades leading to a significant rise of the proportion of international to domestic merger activity, particularly at the end of the 1990s. As more and more companies consider international diversification as a strategic option for their further growth, the question arises which valuation consequences accompany cross-border acquisitions.

Furthermore, it is to be analysed whether these consequences differ systematically from domestic acquisitions and what could be possible value drivers in these cases.

### ***Professional opportunities***

1. Financial Due Diligence
2. Legal Due diligence
3. Valuation of Business
4. Advisory on Cash repatriation
5. Equity financing
6. Banking and Finance Regulatory Issues

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7. IPR Valuation
8. Advisory on Debt structuring
9. Advisory on Income flows and their taxability
10. Analysis and advisory on Financing options
11. Regulatory approvals and representations before concerned authorities:
  - (a) Competition authority
  - (b) Stock exchange
  - (c) Lenders
  - (d) Foreign investment authority
  - (e) Sector regulators
12. Advisory on FIPB approval
13. Advisory on RBI approval
14. Drafting of agreements which form a necessary part of M&A exercise
  - (a) Joint venture agreements
  - (b) Share transfer agreements
  - (c) Asset transfer agreements
15. Corporate reorganizations and restructurings
  - (a) Diagnosis
  - (b) Drafting of legal documentation
  - (c) Realization
  - (d) Formalization
16. Defining the scope of the transaction
17. Assistance with negotiations
18. Joint Ventures
  - (a) Structuring: definition of objectives and contributions of the partners
  - (b) Operations: management, operational and oversight structures, contractual relationships between the partners
  - (c) Exit alternatives: conflict resolution procedures, dissolution and liquidation of the joint venture
19. Competitive issues

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- (a) defining relevant product and geographic markets,
- (b) measuring market concentration,
- (c) evaluating conditions of entry and efficiencies, and
- (d) assessing the competitive impact of proposed transactions.

20. Measuring the effect of merger on prices

#### ***Related websites***

|    |   |   |
|----|---|---|
| 1. | Ministry of Corporate Affairs,<br>Government of India | <a href="http://www.mca.gov.in">http://www.mca.gov.in</a>     |
| 2. | Securities and Exchange Board of<br>India             | <a href="http://www.sebi.gov.in/">http://www.sebi.gov.in/</a> |
| 3. | Reserve Bank of India                                 | <a href="http://www.rbi.org.in/">http://www.rbi.org.in/</a>   |

### **5.7.17 Knowledge Process Outsourcing [KPO]**

An evolution of BPO (Business Process Outsourcing), Knowledge Process Outsourcing (KPO) involves offshoring of knowledge intensive business processes that require specialised domain expertise, thus delivering high value to organisations by providing business expertise rather than just process expertise. These processes demand advanced analytical and specialized skill of knowledge workers that have domain experience to their credit. The opportunities for professionals are available both as a KPO service provider as well as services to KPOs.

The requirements for rendering such services would be maintaining higher quality standards, investment in KPO infrastructure, lack of talent pool, requirement of higher level of control, confidentiality and enhanced risk management. Also it has reduced costs while maintaining the same level of quality or service. The nature of work requires advanced analytical and specialized skills.

There are no limitations on location when it comes to outsourcing, and it can be done in various countries around the world. When the practice of outsourcing is conducted between countries, this is referred to as being offshore outsourcing.

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While outsourcing has traditionally been connected to countries such as the United States and the United Kingdom, it is very likely that companies based in China and the European Union will begin outsourcing as well. It is very likely that these companies will begin placing tremendous demands on their governments to avoid any military conflicts that may weaken their ability to earn profits.

Given the large talent pool, friendly government policies, quality IT training and low labour costs, Indian professionals have an added advantage to form KPOs over the professionals in other countries. While KPO offers a number of powerful advantages that professionals will want to take advantage of, it is not without challenges.

Those who wish to invest in KPO will need to spend more money on building up the necessary infrastructure. In addition to this, they will need to deal with finding the right workers, and confidentiality is an issue that must be taken seriously as well. The implementation of KPO can be difficult, and it must be implemented in a professional services environment.

Any operation that is carried out for KPO must be high in quality, because the clients can afford to have less than the very best. Performance issues must be taken into consideration as well. Even if all these things have been accomplished successfully, continuous monitoring and feedback will be needed. Attrition is another important issue. It is critical for companies to be able to retain the employees they hire.

As the BPO and KPO industry has to deal on an international level, it is exposed to international laws and regulations characterised by intense litigation.

#### ***Skills required for Indian chartered accountants:***

1. Knowledge of accounting procedures followed by companies in other countries.
2. Knowledge of accounting related software like, Quick Books, MYOB, SAGE and other accounting solutions. These are some software used as per international standards.
3. Skills in using tax return software i.e. Ultra Tax or Irish used in preparing Tax Returns and annual accounts for

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individuals, corporations or private organizations.

4. Computer skills
5. High level of conceptualisation
6. Research skills
7. Comfortable with databases and mathematical orient action
8. Able to adapt to the latest technology and use of tools and software

As a KPO, professionals can render services in the following ways:

1. Finance and accounts – services can be rendered in areas similar to the following:
  - Accounting and data preparation
  - Maintenance of books and records
  - Accounts receivables
  - Debtors management
  - Accounts payables
  - Fixed assets accounting
  - Asset accounting management
  - Reconciliations
  - Expense analysis
  - General Ledger maintenance
  - Payroll management
  - Cash management
  - Internal Financial Reporting
  - Different types of reports on daily basis
2. Research & Development – Research could be through web-based market research solutions, secondary research methods, Government Publications, General Press, Industry Journals, Trade Associations, Public Company Filings, Investment Brokerages and Information Services, Newsgroups and UseNet. Other related services could be:
  - Data search and collection
  - Managing data
  - Business Analysis
  - Data Analysis

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- Network Management
  - Business & Market Research
  - Equity research
  - Research on fixed income markets
  - Intellectual Property (IP) Research
  - Legal research
  - Market Analysis
3. Financial Analysis
- Forecasting, Budgetary and decision support
  - Consolidation and analysis
  - MIS reporting
  - Financial planning and analysis
  - Credit rating analysis
  - Examination and interpretation of financial statements
  - Event analysis
  - Risk management
  - Treasury and investment management
  - Financial research and investigations
  - Investment analysis
4. Consulting services
- Financial modeling
  - Deal profiles
  - Verification
  - Assistance and guidance in transfer of operations
  - Contribution towards continuous improvement of processes
5. Services pertaining to legal matters –
- Advice on the formation of e-Contracts
  - Legal research,
  - Documentation, reviewing documents and agreements, litigation matters, reporting requirements (drafting and reviewing reports required under various laws)
  - Advice on existing and developing legal and regulatory requirements-domestic and international

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- Domain name registration
  - Advice on the risks and liabilities involved in electronic linkage to third party sites and the formation of third party alliances
  - Regulatory review of Website content
  - Agreements for the licensing of software and the provision of support services to a licensee in connection with software licensing
6. Education and related services – knowledge is power and is the only thing that increases with giving. Some of related services that professionals can contribute in are:
- Education
  - Training & Consultancy
7. Other services
- Valuation of companies
  - Evaluation of potential Mergers and acquisitions
  - Preparation of company profiles/reports
  - Transitioning financial information between accounting standards
  - Tracking of stock prices
  - Internal audit
  - Supporting internal activities
  - Transfer pricing

#### ***Related Websites***

1. National Association of Software and Service Companies - <http://www.nasscom.in/Default.aspx>
2. Department of Information Technology, Ministry of Communications and Information Technology - <http://www.mit.gov.in/>
3. KPO Asia- [www.kpoasia.com/](http://www.kpoasia.com/)
4. BPO India- <http://www.bpoindia.org>



### **5.7.18 The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI)**

1. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) empowers Banks / Financial Institutions to recover their non-performing assets without the intervention of the Court. The Act provides three alternative methods for recovery of non-performing assets, namely: -
  - (i) Securitisation
  - (ii) Asset Reconstruction
  - (iii) Enforcement of Security without the intervention of the Court
2. The provisions of this Act are applicable only for NPA loans with outstanding above Rs. 1.00 lac. NPA loan accounts where the amount is less than 20% of the principal and interest are not eligible to be dealt with under this Act.
3. Non-performing assets should be backed by securities charged to the Bank by way of hypothecation or mortgage or assignment. Security Interest by way of Lien, pledge, hire purchase and lease not liable for attachment under Section 60 of Civil Procedure code (CPC), are not covered under this Act
4. The Act empowers the Bank:
  - (i) To issue demand notice to the defaulting borrower and guarantor, calling upon them to discharge their dues in full within 60 days from the date of the notice.
  - (ii) To give notice to any person who has acquired any of the secured assets from the borrower to surrender the same to the Bank.
  - (iii) To ask any debtor of the borrower to pay any sum due or becoming due to the borrower.
  - (iv) Any Security Interest created over Agricultural Land cannot be proceeded with.

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5. If on receipt of demand notice, the borrower makes any representation or raises any objection, Authorised Officer shall consider such representation or objection carefully and if he comes to the conclusion that such representation or objection is not acceptable or tenable, he shall communicate the reasons for non acceptance WITHIN ONE WEEK of receipt of such representation or objection.
6. A borrower / guarantor aggrieved by the action of the Bank can file an appeal with Debts Recovery Tribunal (DRT) and then with Debts Recovery Appellate tribunal (DRAT), but not with any civil court. The borrower / guarantor have to deposit 50% of the dues before an appeal with DRAT.
7. If the borrower fails to comply with the notice, the Bank may take recourse to one or more of the following measures:
  - (i) Take possession of the security
  - (ii) Sale or lease or assign the right over the security
  - (iii) Manage the same or appoint any person to manage the same

### **5.7.19 Recovery of Debts due to Banks and Financial Institutions Act, 1993**

Banks and financial institutions have been experiencing considerable difficulties in recovering loans and enforcement of securities charged with them. The procedure for recovery of debts due to the banks and financial institutions, which is being followed, has resulted in a significant portion of the funds being blocked. The Committee on the Financial System has considered the setting up of the Special Tribunals with special powers for adjudication of such matters and speedy recovery which is critical to the successful implementation of the financial sector reforms. An urgent need was, therefore, felt to work out a suitable mechanism through which the dues to the banks and financial institutions could be realised. In 1981 a committee had examined the legal and other difficulties faced by banks and financial institutions and suggested remedial measures including changes in law. This committee also suggested setting up of Special Tribunals for recovery of dues of the banks and financial institutions by following

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a summary procedure. Keeping in view the recommendations of the above Committees, the Recovery of Debts due to Bank and Financial Institutions Bill, 1993 was introduced in the Parliament.

## **5.8 Financial Markets & Investor's Protection**

### ***Financial services***

Financial Services is concerned with design and delivery of advice and financial products to individuals and businesses. Economy has largely moved from capital intensive to knowledge driven spectrum. In a typical capital market scenario of the financial services sector, Intermediaries, Investors, Issuers, Corporate and Regulatory Authority relies largely on skills of the Chartered Accountants in discharging their respective obligations to the investors. The entire field of Financial Services has opened up new avenues for the Chartered Accountants to excel in. Financial analyst, media expert covering the capital markets, financial advertisement, investment advisor, financial services marketing are some of the emerging avenues for the Chartered Accountants to deploy their skills effectively.

### **5.8.1 Capital Market**

Keeping in view the complications and stiff pulls and pressures of burgeoning capital markets in India, the skills and expertise of trained Chartered Accountants are highly relied upon by the financial services sector, intermediaries, investors, issuers, corporates and even the Regulatory Authority concerned. And now more opportunities await the professionals in the area. Chartered Accountants play the following roles in the Capital Market:

- 1. Advisory role:** The advisory role has evolved from being an advisor on tax and related matters to positioning the company amongst the knowledgeable investors, advising the company on the value chain which they need to pursue etc, and continued feedback on the key acts which the Company must do to sustain its valuation, attract quality investors interest etc.
- 2. Audit role:** With the World Company, Dabhol, vanishing companies background, the audit role has become increasingly

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more demanding. Independent Directors on the Board of the Company demands a whole lot of quality inputs to discharge their responsibilities effectively. This has tremendously increased the focus on the quality of the audit, approach etc.

**3. Entrepreneurial Role:** Chartered Accountant from the traditional practice has moved into being intermediaries in the capital market themselves. New Investment banking firms, broking entities and the Regulatory environment has encouraged professionals to be an entrepreneur by themselves. With the better understanding of the financial products, Chartered Accountants have become an effective entrepreneurs in wealth distribution, wealth management etc.

**4. Supporting services:** More and more service providers like investment bankers; insurance agencies rely on the skills of the Chartered Accountant in discharging their obligations.

**5. Emerging employment role:** Equity sales, research, portfolio management, media tracker, career in financial advertising and televisions, global outsourcing partners are the emerging employment opportunities for a young chartered accountant along with their interest in taxation, audit, controls.

**6. Emerging practice role:** The whole approach towards risk managements, controls changed with the opening up of the economy. Managements are increasingly providing a better budget for risk management and Chartered Accountant plays an important role as Chief Risk Officer, or Chief Internal Control. Knowledge of accounts, accounting finance and financial analysis and law pertaining to issue of securities with regard to provisions of the Companies Act, Securities Contracts Act, SEBI and RBI also help in achieving excellence in execution. In addition, knowledge of the client or the Issuers business helps in profiling and positioning of the business to the outside world at large. This is the key ingredient to any fund raising plan. As an Advisor and Investment Banker, a Chartered Accountant also helps in formulating financial strategy to successfully tap the capital markets and ensure success for the fund raising plan. Putting together an efficient capital structure, creating financial model, profiling business promoters and management and advising on valuation are the other key ingredients for successful entry into capital market.

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Chartered Accountants can certainly help in all the above operations and can act as sounding boards to accomplish this. Chartered Accountants can work as a regulator either for Stock Exchange or SEBI. As a regulator, chartered accountants can be skillfully employed in policymaking, monitoring review, surveillance and investigation.

**7. Role in the IPO Process:** To comply with the public issue disclosure norms, SEBI specifies with the issuer company, states and restates financial statements for the last five years of the company going public and Chartered Accountant must certify all figures and give a comfort letter to the Lead Manager.

**8. Undertaking Due Diligence :** Initial public offerings (IPO) are often considered to be the ultimate goal for any entrepreneurial venture. An IPO is offering stock to the public on an open market for the first time. Once a company decides to go public, it needs to pick its IPO team, consisting of the lead investment bank, an accountant and a law firm. The IPO process officially begins with what is typically called a “kick-off” meeting. All the members of the IPO team plan a time table for going public and assign certain duties to each member. One of the most critical documents that need to be developed by this group is the prospectus. The prospectus is an offer document that is used to describe all aspects of the company - its financial data for the past five years, the management team, the target market, competitors and growth strategy. This document is all that the company can tell prospective investors about itself, so its accuracy and informativeness is a vital part of the IPO. The independent accountant’s role in the IPO process includes auditing the financial statements, restating them in compliance of SEBI requirements, resolving accounting issues. Increasing emphasis is being placed on the scope of “comfort letters” which a company’s auditor provides to the underwriters and the company’s board as part of their due diligence. Commentary on accounting policies and problems, improper revenue recognition, changes merely for the purpose of inflating profits are a few of the areas where the accountant’s insight is sought. In many instances, the financial statements must also be prepared in accordance with U.S. GAAP or a reconciliation between the Indian GAAP and U.S GAAP is required. In many cases, auditors are required to review and offer

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comments on consolidated accounts. Accountants can also leverage their experience during the planning phase to help ensure that the company's house is in order before the IPO process. Accountants play a key role in advising on/certifying the following:

- Compliance with the corporate governance.
- Promoter's contribution in a project.
- Amount deployed/spent on project.

**9. Requirements to capitalise:** With the expansion in the role, approach and accountability there is a tremendous responsibility cast on the Chartered Accountants to play their role effectively and stay ahead in the competition. Most of the emerging roles are not going to be a dominant field for chartered accountants alone similar to audit or taxation. It would be purely a market driven demand, which would move with the perceived value accretion with the person associated rather than the faculty, which he belongs to. While the degree and the training provides an entry into the financial service universe, how well one capitalises depends on how best he/she could capitalise the opportunity.

### ***Consultancy on Investor's Protection:***

The investors in India have witnessed vast developments in the capital markets since the last decade after experiences of scam and scandals, recurring bears and bull phases. Indian Capital Market having emerged as one of the most rewarding markets in the world is a culmination of reforms process initiated and implemented by the Government of India. The reforms process has put in place stringent legislation and regulations for compliance by corporate India and various intermediaries involved in the financial markets. The ever-increasing promulgation of various laws, rules regulations and guidelines by Government of India and regulatory bodies, along with technicalities involved in the capital market both for corporate and investors for raising funds by companies and choosing from various options of investments by investors, and growing need as well as greed of companies to exploit the market, misuse and diversion of funds by management of companies has necessitated the importance of financial literacy for investors especially retail investors to protect their investors and enable the investors understand the role of

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various agencies involved in protecting their interests and addressing their grievances in a simplified manner following investor-friendly procedure.

Chartered Accountants can provide the following services:

- Corporate Investors – Due Diligence of Investee Companies
- Individual Investors – Advise Investment options
- Advising on selection of broker/sub-broker
- Consultancy on Investment in Primary Market – especially Issue Price/price band in IPOs, quality of financial statements .
- Consultancy on Investment in Secondary markets, various financial instruments namely derivatives
- Risk factors in investment options
- Legal rights and obligations as investors towards regulators and brokers
- Redressal of Grievances
- Resolution in case of disputes as Arbitrator

### **5.8.2 Securities and Exchange Board of India**

The Securities and Exchange Board of India has introduced a provision for half-yearly review of accounts for listed companies to ensure better compliance and transparency. SEBI has also, by an amendment to Clause 41 of the Listing Agreement, made it mandatory, effective from the quarter ending on June 30, 2003, for all listed companies (including commercial banks) to get their quarterly results subjected to “limited review” by the auditors of the company (or by a Chartered Accountant in the case of public sector undertakings) and a copy of Review Report is required to be submitted to the Stock Exchange within two months after the close of the quarter.

### **5.8.3 Private Equity Funding**

Today, the Indian venture capital/private equity industry has developed even further. From funding small start-up ventures with emphasis only on new age companies, the industry has now matured to cover the entire spectrum of private equity products –

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seed funding, expansion capital, buy-out financing, financing restructuring of companies and providing mezzanine capital across a variety of sectors. Deal sizes have also reached new heights, from sub USD 5 mn in the early days to USD 50 mn and more. A Chartered Accountant may assist in private equity funding in a number of ways including:

- (a) Undertaking an Initial appraisal of Management's financing proposition
- (b) Preparation and advising on Business Plan
- (c) Business Valuation
- (d) Preparing financial model
- (e) Planning the capital/ funding structure
- (f) Review and appraisal of the terms of deal
- (g) Negotiation on terms of deal
- (h) Project management of transaction
- (i) Advising on the future plans/ exit route etc

### **5.8.4 Project Financing**

A large number of Chartered Accountants in practice are involved in project financing consultancy to their clients and liaising with different financial institutions. Chartered Accountants are playing a leading role in the society and are considered as finance advisors, who assist their clients in every field relating to finance, tax, accounts and banking. Chartered Accountants, who desire to deal in such line of activity, should know all the financial institutions, which provide finances.

## **5.9 Government Accounting And Consultancy**

Government accounting as a discipline has always been seen as distinct and separate from Commercial Accounting. This is so not only in India but in other countries also. In the second half of the 20th century and especially in the last two decades however, the basic presumptions of Governmental Accounting have been challenged not only in terms of its conceptual underpinnings, but also in terms of its economic relevance.



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This situation which has forced many Governments to comprehensively revisit their accounting systems and procedures has arisen more out of the manifest needs for public accountability of Governmental finances. It has become necessary for all Governments to take a look at the actual state of their assets and liabilities and convert their accounts from cash to those on accrual basis. This results in an opportunity for members as being professional, they can provide assistance to the Governments in this regard Professional opportunities exist in

1. Conversion of Single Entry Cash Based Accounting into Accrual Based Double Entry Accounting System for the Municipal Corporation

This would include responsibility for conceptualizing the new accounting codes, review of existing accounting practices, design of financial and accounting formats for converting from existing cash-based single entry accounting system into accrual-based double entry accounting system for the local body using the newly developed formats of commercial accounting. The ambit of this assignment includes identification, collection, collation and valuation of data for the preparation of Opening Balance Sheet, introducing systems for accrual accounting by adoption of 'best practices', preparation of an Accounting Manual and preparation of a Balance Sheet and Operating Statement on accrual basis for the financial year

2. New project development from idea to completion,
3. Coordination of the project process and suggestion of technology, funding and contractors
4. Ensuring Legal compliances
5. Financial Management
6. Audit of projects financed by World Bank, Asian Development Bank etc.

## **5.10 Indirect Taxation**

### **5.10.1 Sales Tax/VAT**

- (i) Registration with VAT / Sales Tax Authorities

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- (ii) Filing of Periodical Returns and calculation of tax liability
- (iii) Assisting with other VAT / Sales Tax compliances
- (iv) Procurement of Statutory Forms
- (v) Representation for Assessment, Appeals, References etc.

### **5.10.2 Service Tax**

- (i) Advisory services with regard to applicability of the tax, as well as procedural compliance such as registration, assessments etc.
- (ii) Review of contracts and agreements to help mitigate the overall incidence of service tax.
- (iii) Preparation and filing of service tax returns
- (iv) Representation for Assessments and other proceedings
- (v) Registration

### **5.10.3 Customs**

- (i) Rendering advice on a wide range of custom procedures and documentation requirements, including those relating to import and export of goods, clearance of imports, warehousing, duty entitlements, to name a few.
- (ii) Assisting clients on the policies and procedures set down under the Export-import Policy, such as licensing requirements.
- (iii) Providing the right guidance to enable the clients to make the most of various benefits available to specific entities/ projects or to units in specified areas, as well as concessions available under various export promotion schemes.

### **5.10.4 Excise**

- (i) Consultancy on a wide range of issues relating to excise duty implications and provide right guidance to enable clients to make the most of excise duty concessions and relief.
- (ii) Assistance in valuation
- (iii) CENVAT audit
- (iv) Assistance in Modvat procedures and
- (v) Departmental excise audit.

### **5.10.5 Value Added Tax**

- (i) Advice on a wide range of issues relating to VAT
- (ii) Implications on cross-border transactions,
- (iii) Assisting in claiming VAT input credits,
- (iv) Suggestions on the right strategy to minimise the global VAT incidence etc.

## **5.11 Information Technology And Computer Software Related Services**

Information Technology is one of the fastest growing sectors today. The changing environment, change in business processes and easy access to information, has thrown new challenges *for* Chartered Accountants in this area. Hence the members need *to* adapt to these changes to maintain and improve their position in the society.

The e-commerce will also, offer plenty of opportunities. A Chartered Accountant can help the client transit into e-economy with ease. He can help identify profitable and realistic e-commerce opportunities and help achieve them. He can be the catalyst, the agent of transition that most businesses will need. This will be the one big service that a Chartered Accountant can offer as a consultant, advisor and guide to his client and occupy prime space in the client's mind. This he can do because, of all disciplines, his is the most equipped except say perhaps in technology.

At an individual level, there is an urgent need that every Chartered Accountant equips himself with a certain level of expertise in information technology to enable him to face the intrusion of electronics in his domain with confidence. When the clients take refuge in the computers to solve their problems, the visual audit trails start vanishing and the auditors' task becomes more and more complicated. A few areas in which Chartered Accountants can fruitfully serve the society have been enumerated in the subsequent paragraphs.

The primary concerns of an auditor operating in a technology environment are:

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- **Security:** Ensuring that the systems are protected against unauthorised access i.e. physical and logical security
- **Availability:** The data, information and systems are available as planned for operations
- **Confidentiality:** The critical information of the organization is confidential and appropriately protected
- **Integrity:** Ascertain that information, data and process are accurate, complete, timely and authorised

The areas where a Chartered Accountant can practice and specialize in are:

- System Development Life Cycle
- Information Security
- Performance measurements and monitoring
- Emerging standards
- E-Governance

#### **5.11.1 System development life cycle**

In the system development life cycle, the auditors can play a significant role by helping the management in the process of:

- **Requirement definition :** Analysing and determining the requirements
- **System selection :** Whether the proposed system will suit the requirement of the company
- **System development and implementation :** Facilitating the development and implementation of the designed system
- **Functional testing :** Testing the developed system to ensure that it is working as desired and able to sustain the actual workload when implemented in production
- **Environment system / data migration :** To ensure that no data is lost in the migration process when the company wants to move from one application to another.
- **Post-implementation review :** To ensure that the process is working as envisaged

Last but not the least is the systems control assessment where the auditor needs to ensure that all the controls are implemented in

the system.

**Practice Categories :** Proprietary concerns can provide services in selection of packaged software. Small and medium-sized firms can provide services in requirement definition, system selection and data migration. Large firms can provide packaged services besides functional testing.

### **5.11.2 Information Security**

According to the survey conducted by Confederation of Indian Industry (CII) in 2002, information security breaches are increasing in the country. This is on the basis of 80% of the industries surveyed by them. Of these 47% of the industries operate without any formal security policy. When a security is breached, the company cannot ensure security, confidentiality, availability, and integrity of information. Such situation can lead a company to a very disastrous position and ultimately to its close-down.

The areas where the auditors can play a pivotal role in information security are:

- **Risk assessment :** Determining the risk that the company is exposed to, doing a cost benefit analysis and advising the management on the levels of risk it faces by not implementing a security measure.
- **Review of application controls :** This can be done while the system is being developed, post-implementation review or as a regular audit of the application. The auditor provides an assurance that the application provides the required control when the data is being processed. The controls may be in the form of input controls, processing controls, output controls and the like.

**Disaster recovery and business continuity** is another area where the auditors can provide services.

**Practice Categories :** Large and medium-sized firms may usually provide information security services. These services may usually require complementary skills of other professionals. Proprietary concerns and other small firms can specialise in evaluation of disaster recovery plans and its testing in computer fraud detection and the like.

### **5.11.3 Performance measurement and monitoring**

As discussed earlier, companies today are measuring their performance in terms of customer satisfaction, technological growth and advancement. Such measurement does not just depend on the correctness and timeliness of data and information generated by the companies but also on other parameters like security, response time, downtime, cost, service.

The auditor can provide the performance measurement and monitoring services by performing the task of ROI assessment, performance management services for software development, system development for time measurements and benchmarking. Softwares are now available which help in improving the productivity and profitability of the company. These products aim to lower the cost of developing new products, introduce the products in the market as soon as possible, cut down the cost of managing supplies, reduce project overruns and the like. One such product that is available is product life cycle management (PLM) systems. They combine the advances of supply chain management with the traditional R&D and marketing concerns. There are other products that help in budgeting and planning like those offered by Hperion, Comshare, Adaytum, Sytems Dion and SAS Institute. These products add a lot of value especially in case of big companies.

### **5.11.4 Emerging standards**

Many standards have been developed for information technology and its implementation. Though they are not mandatory, compliance with them provides an assurance to the management that the assets are safeguarded and proper control and security measures implemented. It also helps in effectively communicating security and control requirements across different levels and different departments within the organisation. Some of the standards are COBIT, BS7799, ISO, SET guidelines and the like.

***Practice Categories*** : These can be niche areas for small and medium sized firms. Individuals can shine by associating with standards setting body, presentation in seminars, training employees to adhere to standards and the like.

### **5.11.5 E-governance**

E-governance is the use of tools of Information and Communication Technology to enable the citizens and other bodies to participate in the process of democracy. The Central and State Governments are keen on implementation of such projects. The services which can be delivered can be system selection, feasibility and viability studies, RFP for BOT model services, control assessment, implementation support for roll-out, BOT assurance and the like.

In e-governance interfaces are many: bureaucrats, employees, service providers, vendors and the general public. Their needs to be a person who can interface and intermediate with them. The Chartered Accountants can be the best person who can provide consultancy service as he has knowledge of finance, technology etc. Chartered Accountants can provide services as under:

- **Risk analysis** : This will involve assessment of operational risk, financial risk, technological obsolescence and the like.
- **Training** : Training of employees in basic IT, operations involved, using the software, handling disaster and the like.
- **Preparation of documents** : This will involve preparing the manuals and technical documents. He could even review operation reports and also identify areas of difference and improvement.

**Practice Categories** : In this sphere there is a wide variety of opportunities for large and small firms. Small firms can also provide local implementation support.

### **5.11.6 Other areas**

Besides those mentioned above, there are a few related areas where the Chartered Accountant can play a significant role. These include:

- **Preparation of Policies** : Organisational policies provide the basis for functioning of the organisation and the use of its resources. The policies relate to network, security, email, LAN and the like.
- **Review of IT Organisational Structure** : The role in this case would include appropriately establishing

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organisational structure with inbuilt control and security system like segregation of duties, designing of preventive, detective and corrective controls including compensating controls.

- **Risk Analysis** : It involves various areas viz., software risk, hardware risk, financial risk, technological risk and the like. The service that can be provided will include a risk assessment of various areas that exist in the organisation and a corresponding review of control and security measures that are implemented.
- **Framing of Long Term and Short Term Plans** : The IT plans of the organisation both long term and short term should be in alignment with the overall organisational goals and strategies. The service could include both preparation and review of such plans.
- **Internal Control Assessment** : As in manual environment, internal controls are important in computerised environment. The latter controls are completely different from the former since they are inbuilt. The CA's role could be that of initial implementation of the controls, their periodical review and recommendation of the measures where internal controls can be implemented using the IT.
- **Continuous and Concurrent Auditing** : Continuous and concurrent auditing will help the management in identifying the areas where controls are weak, implementation of appropriate measures, identification of areas where errors and fraud have been committed and the like.
- **External Assurance** : The information system will help the management in obtaining an assurance from the third party that all controls and security are effective and functioning as desired by them. External assurance will also serve the purpose when the company is associating itself with a third party.
- **Contractual Agreements** : Many contractual agreements are drafted in the organisation such as service level agreements, vendor agreements, escrow agreements and the like. Here services like drafting and review can be extended. Besides request for proposal can also be



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reviewed.

- **Selection of Software Tools** : Many software tools are required in the company where the auditor could help the management in analysing the areas, which can be automated, analysing of the off-shelf tools, identification of the vendors, purchase negotiation and implementation of the software. Examples of the software tools are access control software, antivirus software etc.
- **Outsourcing** : This will include identification of appropriate areas where the development of software or operations can be outsourced cost effectively along with the required security and control measures.
- **Incident Identification and Intrusion Detection System** : The Information System Audit will help the management in identification of computer incidents and analysing the effectiveness of intrusion detection systems. An information system auditor can effectively perform this function.
- **Disaster Recovery Planning** : Disaster recovery plans are essential for every organisation as the computerised environment is more prone to security lapses than the manual systems. This does not mean that we should avoid technology. In fact proper implementation can make technology truly a boon. The service that can be rendered will be providing guidance in framing of plans, evaluation of disaster recovery plans and evaluation of the result of testing of such plans.
- **Document Retention Plans** : A company generates lot of information and data. The entire data cannot be stored for years together. There needs to be a document retention policy that states as to the period for which the data should be retained. The auditor can help the management in deciding the time frame for retention of policy, guidance in framing the policy and its implementation.
- **Audit of Quality Check** : This will include providing an assurance to the management on the quality of the information generated by the organisation, functioning of the system and the like.
- **Audit of Application Controls** : Companies today implement many application controls in the organisation.

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Some may be developed while others may be purchased off the shelf. The auditor can review them and assure that the controls and processes are functioning effectively.

- **Audit of Emerging Technologies** : Emerging technologies are the PKI, digital signatures, SSL (Secure Socket Layer), EDI and the like. The Chartered Accountant can review the systems and evaluate the functioning of the technologies.

- **Physical, Logical and Environment Controls** : The computerised environment requires the implementation of physical, logical and environmental controls for its smooth functioning. The auditor with his knowledge in this area can effectively perform these services.

- **Micro Finance Institutions (MFIs)**:In order to serve the poor who have little or virtually no access to financial services, the concept of microfinance came into being. Microfinance Institutions provide financial services such as thrift, credit etc., of very small amounts to the poor in order to enable them to raise their income levels. These Microfinance Institutions exist generally in forms of section 25 companies, societies, trusts, Non-Banking Financial Companies, Locals Area Banks, co-operative societies, etc.

Since MFIs serve the vulnerable section of society and also receive grants and loans for their functioning, there is a need for greater transparency of its operations by way of sound accounting and reporting by MFIs. Further, due to varied forms of MFIs following diverse accounting practices, need has been felt to provide some sort of accounting guidance for the microfinance sector. To address this need the Research Committee is coming out with a Technical Guide on Accounting for Microfinance Institutions. The Technical Guide will provide required guidance to MFIs and the members to improve accounting and reporting by this sector. This will widen the area of operations for Chartered Accountants in this sector.

- **IT Budgeting** : Many new software and hardware products are available in the market today. These make the

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technology obsolete very soon. In such scenario management needs to effectively plan its resources for IT expenditure. Role of a Chartered Accountant will be to help the management in framing such budgets and their review.

- **Web Trust Assurance** : With so many companies going online, the public at large needs an assurance that the business is legitimate which an auditor can assure. The list is endless. It is for the individuals to identify more opportunities by taking on an active role as a partner to his client.

The Information Technology Committee of the Institute has started a course on Information Systems Audit (ISA), which has been duly recognised by the Government of India. The thrust of ISA course is on information system based security, control and assurance services. The Institute has also introduced another course on Computerised Accounting and Auditing Techniques (CAAT) through which members are made comfortable not only in normal computer applications but also in specialised applications like ERP, Networking etc. This course aims to provide skills on system audit control and security practices. This course opens up new and unexploited avenue of opportunities for Chartered Accountants.

## **5.12 Insurance & Pension**

### **5.12.1 Role of Chartered Accountants in the Insurance Sector**

#### ***Introduction***

In India, liberalisation, globalization and information technology revolution, has paved the way for the rise of financial services in general and insurance industry in particular which has ended the Govt. monopoly in the insurance sector. In extremely competitive marketplace, while new entrants focus on improving customer service and increasing the coverage of the insurance industry, old players are taking appropriate and appreciable efforts to counter the competition.

Availability and affordability of the insurance services have emerged as a valid regulatory development issue. Insurance

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Regulatory and Development Authority (IRDA) has issued various regulations for promoting insurance as a catalyst for social development. In this dynamic environment, the landscape has also broadened for professionals willing to serve the industry. For Chartered Accountants also, who have multi-pronged dexterity, financial and technical acumen and interpersonal and communication skills, the scope of services to the industry in more prolific manner, has increased.

### ***Insurance Business Environment***

Insurance, worldwide, is one of the most potent financial sectors. The global insurance industry, valued at approximately \$2.5 trillion, has more than 5,000 companies servicing life and non-life markets.

India, the second most populous country, is ranked one of the largest insurance markets in the world. The figures loudly talk of huge untapped potential in the Indian insurance market. With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. In 2005, worldwide insurance premiums amounted to USD 3426 bn. Of this, USD 1974 bn accounted for life and USD 1452bn to non-life insurance.

### ***Enabling Insurance Sector To Drive Indian Economic Development***

To reach the real potential rate of growth of the Indian economy the Government coupled with the development strategies should also focus on the massive resource mobilization.

Insurance can play an important role in channelising savings into national investment. In view of their long-term liabilities and stable cash flows, contractual savings institutions such as life insurance are the ideal sources of long-term finance for government and business. Insurers invest the funds addressed to them by the customers to make long-term loans and other investments to government and business.

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### ***Role of Chartered Accountants In The Insurance Sector\****

The present scenario of the Indian insurance market has brought in new challenges as well as opportunities. The efficient and effective functioning of enterprises involved in the industry calls for professionally equipped and properly trained personnel with understanding of the nuances of the new products and services to spread the message of insurance.

Chartered Accountants are known for their keen analytical ability, excellent technical skills and meticulous working style. Their vast experience in professional interaction with people bears testimony to their effective communication and interpersonal skills. They possess the technical expertise that the profession demands and the integrity that the industry needs. Chartered Accountants, as professionals, can emerge as insurance specialists.

Chartered Accountants can provide their services to Insurance enterprises in the field of risk management, insurance management, insurance fund management, insurance marketing, underwriting management, claims management, loss adjustment, re-insurance, product development, actuarial science and many allied areas such as:

#### **5.12.1.1 New Product Creation**

Chartered Accountants with appropriate customer understanding can design appropriate products, determine price correctly and increase profitability. They can advise on premiums, rebates and the like for products unique to specific industries/companies and suggest risk-mitigating measures.

#### **5.12.1.2 Underwriting**

Underwriting, a core insurance activity, involves classification of risks on the basis of risk characteristics so that insured parties pay premiums proportionate to the risk. Chartered Accountants can provide their services in analysing the information to determine the right prospect and also secure profitable business to the insurer.

### 5.12.1.3 Policy Owner Services

It has been an accepted fact that a sizeable new insurance business is generated through the existing policy holders and the principles of Customer Relationship Management have to be adopted which warrant the involvement of professionals like Chartered Accountants.

### 5.12.1.4 Claims Administration

This is a structured method of managing claims right from the initial report to the final payment or appeal - typically following an existing system. Claims processing is highly data intensive and time sensitive. Chartered Accountants can provide their services in effective management and understanding the system and interaction with the concerned parties.

### 5.12.1.5 Marketing and Distribution Channels

Chartered Accountants with appropriate public interface can help the public to appreciate the need for personal financial planning, estate and retirement planning. Chartered Accountants as Insurance Advisors can render valuable advice to his clients/customers in selecting among various Non- Life Insurance Policies. They can, based on the needs and risk profile of the client, advise them the best Insurance Policy to cover the risks to their life and property.

### 5.12.1.6 Insurance Broking

The opening up of the industry has resulted in a deluge of insurance products. Expertise in accounting and tax makes Chartered Accountants ideal insurance brokers to render advice on technical matters, assist in negotiation and settlement of claims, maintain records of client's business and much more,

### 5.12.1.7 Claims Audit Service

This area calls for specialised knowledge in risk management, audit of outsourced claims service providers and cost containment measures in relation to the overall claims spend. With their

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traditional audit knowledge and experience, Chartered Accountants can fit into this role with ease.

### **5.12.1.8 Actuary**

CA with expert knowledge on actuarial science can be of immense help in carrying out actuarial services such as complying with the provisions with respect to the bases of premium, ensuring that the policyholders' reasonable expectations have been considered in the matter of valuation of liabilities and distribution of surplus to the participating policyholders who are entitled for a share of surplus etc.

### **5.12.1.9 Surveyor or Loss Assessor**

An insurance surveyor is a technical expert who inspects the damage or loss of an insurance company. There are advocacies for survey and loss assessment job should be carried out by an independent, third party, licensed and categorised surveyor only. A CA can be of immense help in assessing the damage or the loss to the object of Insurance. This area includes general functions like conducting inspections, estimating and valuing the subject under loss.

### **5.12.1.10 Arbitration**

Arbitration is a procedure of settlement of dispute between two parties by an authority called arbitrator. A CA with a vast amount experience in various fields can assist the parties to a dispute either as a counsel or he may decide on the dispute of the parties as an Arbitrator.

### **5.12.1.11 Insurance Investigations**

A CA may also carry out insurance investigations for the insurance company or the IRDA. In case of a false claim the professional can investigate on the amount of loss actually suffered by the insured and the compensation claimed by the insured from the Insurance Company to gauge the veracity of the claim made and the amount of compensation to be make.

#### 5.12.1.12 Risk Management

This is a critical area and involves review of the efficiency and adequacy of risk management techniques. Additional areas of responsibility are business continuity planning, conducting alternative risk financing, feasibility studies and evolving loss minimisation strategies etc. Chartered Accountants will find these functions stimulating.

#### 5.12.1.13 Third Party Administrators Services

TPAs help insurers by reducing the administrative costs, while making the claims settlement a smoother process for the insured parties in health insurance. Because of the sensitive nature of this function covering the genuineness of the claim and timely payment of the claim and the heavy processing of accounting data involved, this area can be best handled by Chartered Accountants with appropriate qualification.

#### 5.12.1.14 Conclusion

With one of the best globally acclaimed curriculum through unmatched practical training and world class examination standards, Chartered Accountants could be ranked as the first amongst the professionals whose role is to transform the Indian insurance sector. Chartered Accountants have been already providing valuable services in the various departments of life and non-life insurers and other intermediary services such as internal audit, statutory audit, management consultancy services, strategic consultancy services, investigation etc.,

In the rapidly changing economic environment, the glut of opportunities in Insurance sector is providing different avenues for Chartered Accountants in practice and in service. While practising Chartered Accountants can prove invaluable to corporate entering the market by offering services such as entry strategy and strategic planning, there are high growth-oriented career opportunities for Chartered Accountants in service as well.



### **5.12.2 Role of Chartered Accountants in Pension Sector<sup>1</sup>**

Chartered Accountants who are always known for their professionalism and their specialized services, may play a vital role to make understand the various technicalities, involved in the new system of the Pensions. Chartered Accountants can grasp new concepts quickly, and also have the ability to look into the details along with an overall perspective. Moreover, the rigorous training and examination process builds an inherent sincerity towards tasks along with a high level of integrity. Apart from Statutory Audit functions, the role for Chartered Accountants may range from the computation of pension fund contributions, designing pension plans at the time of retirement or to the taxation of the income derived as Pension fund or to understand the various provisions of the Act.

The emerging pension sector has thrown open challenging careers / roles for the Chartered Accountants in the Strategic services, Finance, Risk Management, Planning and Operations functions in Pension Fund sector such as.

- Strategic Services
- Financial Accounting and Investment Operations
- Expense management
- Corporate Governance
- Designing of the Pension Products
- Management of Portfolio
- Pension Marketing
- Other areas

#### ***Strategic Services***

These services include designing entry strategies for corporates, joint ventures and other alliances for domestic pension sector organisations, business plans, incorporation related legalities and the like. With appreciable level of industry knowledge Chartered

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<sup>1</sup> Compiled from the book “Pension Plans” published by the Committee on Insurance and Pension of the Institute of Chartered Accountants of India in the year of 2006.

### ***Avenues of Work for Chartered Accountants in Practice***

Accountants can render their services for compliance of requirements with regard to incorporation, capital structuring, investments and for formulation of business plans and strategies. Within this domain the Chartered Accountants could be adding value to the Corporate Planning and MIS which would involve development of Strategic and Operational plans for the business.

Possible roles in this area would include:

- Detailing business plans in line with strategic objectives of the pension fund managers
- Engaging with various business functions for evaluating and defining budgets in line with forecasts
- Identifying information needs of the Company, evaluating data sources and using analytical software tools for publishing the same
- Developing the key performance drivers for the business and monitoring them
- Tracking the market developments and competition to support business strategy.

### ***Financial Accounting and Investment Operations***

The other areas of the role of Chartered Accountants revolve around Financial Accounting and Investment Operations of pension funds, which involve:

- True and Fair Financial Reporting, through process controls including adoption of Indian Accounting Standards like AS 15 on Employee Benefits, wherever applicable
- Liaisoning with Statutory Auditors
- Monitoring accounts and financial reconciliation to ensure accuracy of reporting and plausibility of leakages
- Monitoring Compliance with Sarbanes Oxley Act requirements wherever necessitated
- Investment Deal closures with broking intermediaries
- Monitoring & Reporting on compliance with investment regulations and policies
- Calculation/Verification/Reporting of Net Asset Values wherever applicable
- Preparation of Cash Flow statements, etc.

## ***Professional Opportunities for Members – An Appraisal***

### ***Expense management***

Expense management is critical to organisations involved in pension fund management. The Cost Control function performs continual monitoring, ideates as well as tracks and implements best practice ideas to enable the Company to meet efficient expense targets. In detail, the role involves:

- Defining expense ratios,
- Monitoring actual vs. planned ratios
- Identifying expense items for evaluation of optimisation opportunities
- Liaisoning with pension scheme vendors and buyer functions to optimize deals/negotiation

### ***Corporate Governance***

Chartered Accountants are expected to play a crucial role in Corporate Governance aspects of Pension Funds, whether through Internal Audit or other Risk Management or Compliance activities. The inter relationship between the corporate governance and internal audit is well established. Needless to mention that the members of the profession have engaged themselves in the internal audit for long. It has been an area in which Chartered Accountants possess an expertise and can apply it fruitfully. In the emerging scenario, pension companies will be outsourcing these internal audit requirements.

These roles have retained their timeless popularity with Chartered Accountants and Finance specialists as it provides an opportunity for cross- functional learning of operational as well as strategic concerns facing an organisation and regulatory mandates. This function requires a consulting approach at one level to advise top management on adequacy and effectiveness of controls, and a hands-on approach on another level in terms of driving risk management frame- work across the firm. The role of Chartered Accountants in this area generally covers

- Risk Assessment of operational concerns facing the organisation vis-à-vis strategic objectives and initiatives particularly the long term nature of pension fund investments. This is a critical area and involves review and audit of the efficiency and adequacy of risk management

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techniques. Additional areas of roles for Chartered Accountants are business continuity planning, conducting alternative risk financing feasibility studies and evolving loss minimisation strategies etc. Members of the Institute will find these functions stimulating.

- Creating an audit framework and ensuring audit across organisation for processes, systems and compliance related issues and providing feedback
- Defining a risk management framework which includes management of Information Security, Data privacy and Business continuity concerns and actioning the same
- Reviewing performance vis- à-vis the framework
- Implementing a framework for managing risks in the sales processes, especially considering the large distribution reach through an agency force
- Compliance with regulations and legal requirements
- Communication of Compliance requirements to the Organisation
- Handling Compliance related queries, including participation in product design and vendor contracting

### ***Designing of the Pension Products***

As explained in para 8 above, there would be four investment options in various pension schemes available for the beneficiaries. The Chartered Accountants can play a valuable role in developing the features of a pension product. They possess adequate knowledge of the financial and technical aspects pertaining to the industry and can apply their skills to yield well- tailored products incorporating the desired features. They can exploit their financial intuition to quantify the risk element and correlate it with the earnings of the company to develop a well-defined premium structure. The Chartered Accountant firms can formulate a model pension product grounded on the study of an industry and apprise the companies engaged in pension industry about the development of the same to make them aware of the quality of services, which can be rendered by them to the pension companies.

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### ***Management of Portfolio***

The management of the portfolio includes the assessment of requirement of funds, identification of various sources of finance, the evaluation of the sources. In the light of their cost, availability, timing, etc., reconciling the features of various sources with the needs of the company and the selection of appropriate conjunction of sources. The Chartered Accountants are well equipped with the techniques required to weigh the various sources and thus can provide efficient services to the pension companies as an outside advisory agency. There is invariably a large scope for the services of Chartered Accountants in this field.

The pension companies are expected to possess huge amount of funds, which need proper management. The management of the portfolio of a pension company requires the identification of investment avenues, evaluation thereof and the selection of the most appropriate mix of alternatives where the funds of the company can be invested. The selection requires the knowledge of finance-related functions and techniques apart from the in-depth knowledge of the patterns of requirement of funds in the company as well as in the industry as a whole and the (expected) regulations of the PFRDA in this behalf. The Chartered Accountants are well versed with the methods and techniques pertaining to the finance related decision-making including the application of scientific and statistical techniques for the same.

### ***Pension Marketing***

The key to success in the market for any pension fund manager is to generate awareness about the pension products among the target market. Though this domain belongs to small savings and insurance agents, Chartered Accountants, because of their superior knowledge and the ability to render services can enter into agreements with insurance companies to function as Direct Sellers of their products.

### ***Other Areas***

#### ***Calculation of Pension***

In the Employee's Pension Scheme, an amount equal to 8.33% of employer's contribution is required to be

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contributed. But as we know, this scheme came into effect after 15th November 1995, and the provisions relating to the calculation of pension fund for those who joined before this date are entirely different from those who joined after 15th November 1995. These complexities can be easily resolved by a qualified professional like Chartered Accountant.

#### ***Taxation of Pension***

When the pension fund is received at the time of retirement, it becomes taxable in the hands of the employee. The provisions of the Income Tax Act, 1961, which are applicable to taxability of the Pension Fund, can be well explained by Chartered Accountants only. Besides this, Chartered Accountants can also advise their clients about the various sections relating to calculation of deduction from the total Income.

#### ***Analysis of Pension Fund Schemes***

The Chartered Accountant can do cost benefit analyses of the various schemes of the Pension Fund and accordingly suggest their clients (employers / workers) the most economic / secure scheme according to the demographic characteristics.

#### ***Inspection of PF Investments***

The employees can get the deductions for their PF contributions from the total income only when their contributions are credited in the Recognised Provident Fund. Chartered Accountants can conduct the audits of the Pension Fund to ensure whether that particular organization is complying with the provisions of the regulations or not.

## **5.13 Internal Audit**

**(a) Operational Audits:** These audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization's mission and objectives

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**(b) Financial Audits:** These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of resources. Unlike external financial audits, internal financial audits do not prepare or express professional opinions on the fairness of financial statements.

**(c) Compliance Audits:** These audits determine if entities are complying with applicable laws, regulations, policies and procedures. Compliance audit would entail:

- Gathering information about laws, regulations, and other compliance requirements.
- Understanding limitations of auditing in detecting illegal acts and abuse.
- Assessing the risk that significant illegal acts could occur.
- The auditor would design and perform procedures based on risk assessment that would provide reasonable assurance of detecting significant illegal acts.

**(d) Information Systems (IS) Audits:** These audits review the internal control environment of automated information processing systems and how people use these systems. The audits usually evaluate system input-output; processing controls; back-up and recovery plans; system security; and computer facilities. These audits may review existing as well as the developing systems.

Information System reviews include the following:

- Reviews of existing or new systems, before and after implementation, to ensure their security so that they meet the needs of users;
- Project management reviews to ensure controls are in place to mitigate project risks or to identify the strengths and improvements required for future projects;
- Organizational or operational reviews to ensure that the organization's goals and objectives will be achieved; and,
- Specific technology reviews to ensure that security and controls are in place

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**(e) Investigative audits:** Investigative assignments scrutinize allegations of wrongdoing or breaches of standards of conduct. Allegations may be internal or external to the organisation and may examine the records of individuals, organizations and firms with agreements between them and the organisation

Reasons for conducting Investigation:

- Internal theft,
- misappropriation of assets,
- conflicts of interest

Co-ordination for this audit is usually at the highest level in the organisation with senior management or security department. Investigative audits differ from other audits because they are normally conducted without first notifying the personnel who may be affected by the findings.

**(f) Management Audit:** Management audit is a more recent concept. It focuses on results, evaluating the effectiveness and suitability of controls by challenging underlying rules, procedures and methods. Management audits, which are generally performed internally, are compliance audits plus cause-and-effect analysis. When performed correctly, they are potentially the most useful of the evaluation methods, because they result in change Specific Internal audit activities

1. Internal audit requirements under Companies (Auditor's Report) Order, 2003 (CARO,2003)
2. Internal Audit to check the compliance of The Competition Act, 2002
3. Internal audit of corporate governance
4. Internal Audit of depository Participants
5. Internal Audit - Controls due Diligence Reviews
6. Internal audit of stock option plan to employees
7. Internal Audit of Financial Instruments
8. Internal Audit on compliance of various Labour Laws
9. Internal Audit of Non-Banking Financial Companies
10. Internal Audit of Not –for- Profit Organisations
11. Internal audit of plastic money operations



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12. Role of Internal Audit in Risk Management
13. Internal Audit system for Treasury Management
14. Internal audit in Banks

Besides, a chartered accountant can also assist in improving the quality and effectiveness of internal audit process by

- Advising and assisting in the development of internal audit and risk management methodologies
- Assessing whether the internal audit function is delivering effectively to stakeholders
- Supporting internal audit functions with software to enhance and support their work
- Training staff of internal audit department
- Providing training on internal controls

## **5.14 Management Accounting**

Management accounting is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

Chartered Accountants can provide their services in the following aspects:

1. Budgeting,
2. Performance evaluation,
3. Cost management,
4. Asset management.
5. Strategic planning or the development of new products.
6. Analyzing and interpreting the financial information that corporate executives need in order to make sound business decisions.
7. Preparing financial reports for other groups, including stockholders, creditors, regulatory agencies, and tax authorities

## **5.15 Management Services**

### **5.15.1 Strategic Management**

Professionals with high level strategic thinking and management skills will be even more highly marketable than is currently the case. More Chartered Accountants can specialize in these areas and rise to the top echelons of business.

### **5.15.2 Change Management**

There will be a high and on going demand for professional advice and related services to assist organizations in managing change at the ownership, structural and operational levels. Change management will become a major speciality in the business services market.

### **5.15.3 Quality Management**

Quality Management as a concept as is understood and used has come a long way. Its origin can substantially be traced back to the post-war economy of Japan. It had to restore an economy that had been reduced to rubble. The Country took to the quality-line to free itself from the unenviable situation it was in. How Japan rose like a phoenix and has now become a benchmark for practically every activity is now history. Ever since, quality has played a crucial role in corporate strategies and businesses.

Quality Management is about managing business processes to achieve both external and internal customer satisfaction. It involves the following concepts:

- Prevention of problems
- At a minimum, ensure that problems not recur
- Reducing variation to improve the consistency of products and services.
- The commitment of everyone in an organization, especially senior management.
- A drive to continuously improve all aspects of the business.
- Working in teams to solve problems and make improvements.

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- Getting things right, on time, the first time and every time.
- Making decisions for long term benefit rather than short-term expediency.

#### **5.15.4 Disaster Management**

Disaster, be it man made or an act of god, has always been there, and will always remain; but everybody's concern is to minimise its occurrence and impact. Professional accountants as responsible citizens of the Country also need to devote their abilities and skills to ensure that the disaster affected people receive all their due benefits from society. This therefore, represents the wider social responsibility, which Chartered Accountants must shoulder. The Institute has taken the first step in giving a concrete shape to this responsibility. The Institute has published a background material on "Accounting Aspects of Disaster Management". The professional accountants need to evaluate the quantifiable damage in financial terms. Besides this, the professional accountants are also required to clearly understand the financial impact of the disaster. These include the post-disaster rehabilitation measures as well as the verification of end-use of funds and the provision of assurance and auditing services for inter-organisational transfer of funds.

Specifically, the Chartered Accountants may be involved in the following: -

- Evaluating the different alternative plans for coping with disaster from the financial perspective.
- Evaluating the procedures in place and procedures and systems plans for mitigation from the viewpoint of financial effectiveness and prudence.
- To advise, devise and evaluate different plans for assuring that resources would be available for disaster mitigation at the time and place needed.
- To advise on alternative plans for post-disaster management and rehabilitation with specific attention to assuring financial security to the affected availability and proper use of financial resources for generating new economic opportunities etc.
- To be involved with city management organisations,

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community organisations, corporates, the Government and various levels of agencies during the process of disaster mitigation to ensure that the financial systems and procedures are followed as per designed plan.

- To be involved with the co-ordinating organisations during the post-disaster phase to ensure the smooth flow of financial benefits to the beneficiaries and to also assure that the area remains financially attractive for investing companies including companies offering financial services.
- To be engaged in the continuous audit of the disaster management process.
- To advise at the corporate level on creation of necessary reserves and financial management subsequent to the occurrence of disasters.
- To advise Governments on the prudent use of financial resources in making allocations for Disaster Management.

Discussions are underway with various authorities to utilise the services of Chartered Accountants for management of disasters.

#### **5.15.5 Management Consultancy and Other Services**

Another area of specialisation is management consultancy and other services. Consultancy and advisory services will continue to grow in importance expanding from traditional finance into wider issues of business effectiveness and on to leading edge areas such as re-engineering. Chartered Accountants can play invaluable role in assisting business organisations to utilise resources effectively and increase their goals and objectives as management consultants.

By virtue of a resolution adopted under Section 2(2)(iv) of the Chartered Accountants Act, 1949, the Council of the Institute has opined that the services that may be rendered by a member in practice include the entire range of management consultancy and other services. The Council has defined what constitutes "management consultancy and other services". It may however, be clarified that the Council reviews this definition from time to time in the context of the developments. Members are therefore advised to regularly go through the Journal of the Institute to take note of

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any changes in the aforesaid definition that may be adopted by the Council from time to time.

The expression 'Management Consultancy and other Services' shall not include the function of statutory or periodical audit, tax (both direct taxes and indirect taxes) representation or advice concerning tax matters or acting as liquidator, trustee, executor, administrator, arbitrator or receiver, but shall include the following:

- (i) Financial management planning and financial policy determination.
- (ii) Capital structure planning and advice regarding raising finance.
- (iii) Working capital management.
- (iv) Preparing project reports and feasibility studies.
- (v) Preparing cash budget, cash flow statements, profitability statements, statements of sources and application of funds etc.
- (vi) Budgeting including capital budgets and revenue budgets.
- (vii) Inventory management, material handling and storage.
- (viii) Market research and demand studies.
- (ix) Price fixation and other management decision making.
- (x) Management accounting systems, cost control and value analysis.
- (xi) Control methods and management information and reporting.
- (xii) Personnel recruitment and selection.
- (xiii) Setting up executive incentive plans, wage incentive plans etc.
- (xiv) Management and operational audits.
- (xv) Valuation of shares and business and advice regarding amalgamation, merger and acquisition.
- (xvi) Business Policy, corporate planning, organisation development, growth and diversification.
- (xvii) Organisation structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of work loads.

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- (xviii) Systems analysis and design, and computer related services including selection of hardware and development of software in all areas of services which can otherwise be rendered by a Chartered Accountant in practice and also to carry out any other professional services relating to EDP.
- (xix) Acting as advisor or consultant to an issue, including such matters as:
  - (a) drafting of prospectus and memorandum containing salient features of prospectus. Drafting and filing of listing agreement and completing formalities with Stock Exchanges, Registrar of Companies and SEBI.
  - (b) preparation of publicity budget, advice regarding arrangements for selection of (i) ad-media, (ii) centres for holding conferences of brokers, investors, etc., (iii) bankers to issue, (iv) collection centres, (v) brokers to issue, (vi) underwriters and the underwriting arrangement, distribution of publicity and issue material including application form, prospectus and brochure and deciding on the quantum of issue material (In doing so, the relevant provisions of the Code of Ethics must be kept in mind).
  - (c) Advice regarding selection of various agencies connected with issue, namely Registrars to Issue, printers and advertising agencies.
  - (d) Advice on the post issue activities, e.g., follow up steps which include listing of instruments and despatch of certificates and refunds, with the various agencies connected with the work.
- Explanation:* For removal of doubts, it is hereby clarified that the activities of broking, underwriting and portfolio management are not permitted.
- (xx) Investment counselling in respect of securities [as defined in the Securities Contracts (Regulation) Act, 1956 and other financial instruments.] (In doing so, the relevant provisions of the Code of Ethics must be kept in mind.)
- (xxi) Acting as registrar to an issue and for transfer of shares/ other securities. (In doing so, the relevant provisions of the Code of Ethics must be kept in mind.)
- (xxii) Quality audit.

- (xxiii) Environment Audit.
- (xxiv) Energy Audit.
- (xxv) Acting as Recovery Consultant in the Banking Sector.

## **5.16 Professional Opportunities in the WTO Regime**

The field that lies ahead is vast and the opportunities available are plentiful. The secret of professional improvement lies in an individual's ability to cope constantly with change and encounter tough challenges. Chartered Accountants are well known for their analytical ability, their technical skills and their meticulous work. Their experience, coupled with inter-personal interaction, provides an excellent testimony to their communication skills. They possess an innate ability to assimilate and understand the complex processes of change. They also have the technical acumen that the profession demands and the ability to cater to specific and customized requirements.

There are a plethora of opportunities in the new international trading regime. Chartered Accountants would have to re-engineer their practical skills to cope with the new challenges. The basic skills required are an understanding of world tariff regimes, costing, taxation, accounting and economic trends – skills that every good Chartered Accountant should be possessing in any case. However, these skills have to be applied to the detailed requirements of WTO agreements. Since the profession has evolved by working with very specific issues, and not in terms of generalities, it is suited in particular to Indian Chartered Accountants.

To re-engineer a Chartered Accountant's practice, one would need to choose a particular area of interest, which has the likelihood of attracting clients. After collecting the necessary reference material and after analyzing case-laws on WTO disputes with respect to select agreements, Chartered Accountants would be in a position to take on assignments.

With the increase in the global trade in commodities and services; it has been a natural corollary that India has also started re-looking at the role it can play for increased trade levels for the benefit of

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the country as a whole. The increased level of trade would propel opportunities for professionals involved in various facets of industry and more so for the Chartered Accountants who are associated with the industry as well as with the Government through professional practice or employment. The liberalised trade scenario augers well for the service providers in general as it offers potential to provide services not only in the domestic market but is likely to give them an opportunity into various consultancy based assignments in overseas markets. These assignments will not be confined to the core areas of accountancy but would emanate from the entire gamut of professional services.

**Opportunities would primarily exist at three fundamental levels:**

- **At Government levels**
- **At Revenue Authorities' level**
- **At Business Units' level**

### **GOVERNMENT LEVEL**

#### **Government Interaction**

Chartered Accountants can identify areas of concern, work on strategy and help evolve policies under the WTO regime. They can aid in the formulation of rules and enactment of laws for successful implementation of policies adopted by the Central and State governments. This would enable bureaucrats and political leaders to cope with and effectively tackle challenges posed by multilateral trade agreements and also take advantage of opportunities that would assist in the overall economic development of the country.

#### **Claim Verification**

Chartered Accountants can assist Government in the verification of claims and help draw up documents recommending the need for higher budgetary support to meet technical and financial requirements of a particular industry or service. Moreover, they can play an important role in the design of policies required to safeguard the interests of socially sensitive sectors under the WTO dispensation.



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### **Information Systems**

All protective trade measures such as anti-dumping and countervailing measures by WTO members are information-sensitive. Unless the claims of an affected country are proved with appropriate data, such claims will not be acknowledged by counter-parties or Appellate Bodies at the WTO. Accordingly, the services of Chartered Accountants are required for development of right information systems and record keeping modules.

### **Administrative Structure**

Given the reality of globalization coupled with the fact that more and more countries are periodically resorting to protective trade measures, authorities need to develop an excellent public administration structure with the suitably trained personnel and equipment to deal with situations that would arise from time to time. Chartered Accountants can study systemic issues at both Central and State government levels and devise appropriate administrative structures. They can also assist in making the transition from a controlled regime to a globalised environment a smooth process.

### **Assisting in Regulatory mechanism for preventing abuse of dominant position**

In the process of capturing the market share, it is common amongst the enterprises to abuse its dominant position through imposing unfair or discretionary practices in their commercial transactions. Such practices may be selling or fixing price which is below the cost of goods or services (i.e., predatory pricing) denial of market access to new entrants, technical or scientific developments which may be prejudicial to the consumers interest. The regulatory mechanism in preventing these detrimental practices can be ensured successfully with the hands of a person who is an independent professional. In this regard, Chartered Accountants shall be having better advantage in determining and arriving at the cost of production of goods or provisioning of services.

### **Investigations in the area of Competition law**

The appropriate authority would be initiating an inquiry into an agreement of combination, which has caused or is likely to cause an appreciable adverse effect on competition in India. Chartered Accountants, well versed in competition law, can be having an opportunity to carry out investigations on behalf of the authority as inquiry officer and in verification of books of accounts.

### **Revenue Authorities' Level**

#### **Audit and Verification**

Chartered Accountants with a Diploma in International Trade Laws and WTO can assist revenue authorities at both the Central and State government levels in devising documents with various formats -- such as questionnaires in anti-dumping investigations -- as per regulatory requirements.

#### **Providing a Link**

Chartered Accountants have been providing a link between revenue authorities and business and trade organizations for more than half a century. They now need to re-engineer their profile to continue to provide such a crucial link in the transformed economic, legal and regulatory framework.

#### **Grievance Redressal**

Business entities have grievances, such as dumping in India by foreign firms and anti-dumping initiatives against India abroad, all of which cause harm to Indian industry, trade and the economy as a whole. These grievances can be tackled by Chartered Accountants. Apart from this, Chartered Accountants can perform other roles such as assisting revenue authorities to perform their normal responsibilities – such as proper tax collection, determination of credits, adjustments and exemptions from taxation. In addition, they can continue to play their traditional role in checking tax evasion and acting as a bridge between direct and indirect tax administrative authorities, such as between officials responsible for collecting value added tax (VAT) and those collecting personal income tax. Chartered Accountants could also assist in the certification of income tax returns of foreign entities that derive income in India.

### **The Business Units' Level**

At this level, Chartered Accountants have a wide variety of service areas to choose from:

- Helping Indian enterprises develop competitive strengths to face global competition;
  - Identifying market opportunities for Indian enterprises;
  - Providing services to enterprises from abroad that would like to access the Indian market;
  - Working with Indian and foreign enterprises facing action under different provisions of WTO agreements;
  - Advising Indian enterprises on performance management so as to improve core competencies;
  - Consultancy services in cross-border investment, international taxation, foreign exchange management and country-wise advice on taxation, investment and related areas; and
- International Dimension**

  - ◀ Provide services abroad by accessing foreign markets due to commitments undertaken by other countries under professional services with the opening up of service sector under GATS through:
    - Cross-border (electronically)
    - Consumption Abroad
    - Commercial Presence
    - Movement of natural persons
  - ◀ Work in specific areas under various WTO Agreements at international level in complying with their procedural and other aspects
  - ◀ Provide services to enterprises from abroad desirous of accessing Indian market
  - ◀ Work with foreign enterprises facing action under different provisions of WTO agreements
  - ◀ Provide consultancy services for cross-border investment
  - ◀ Provide services by analysis of domestic legislations of different countries in order to take advantage of various WTO Agreements for domestic industry.
  - ◀ Work with international agencies during investigations
  - ◀ Increased networking possibilities.

### ***Avenues of Work for Chartered Accountants in Practice***

- Chartered Accountants can also continue to provide business enterprises with their traditional services in maintaining books of account and record keeping and ensuring the submission of proper and accurate returns and certificates.

### **Specific Areas for Involvement of Chartered Accountants**

#### **Anti- Dumping, Anti- Subsidy and Safeguard Measures**

In general, the professional opportunities in trade remedy measures can be discussed under the following heads:

- **Defining the Primary Parameters of an Investigation**
  - Pre-petition subsidy and pricing assessment
  - Cost/benefit analysis of participation in a proceeding
  - Analysis of product scope and matching issues
  - Sales below cost allegations and rebuttals
  - Use of statistical sampling techniques for determining respondents
  - Surrogate country assessment for non-market economy cases
  - Potential antidumping or subsidy margins
- **Preparing Price and Adjustment Data**
  - On-site review of accounting and production records
  - Preparation of allocation methods and spreadsheet
  - Drafting narrative questionnaire responses and technical appendices
  - Coordinating the collection of data from multiple locations
  - Preparing data for submission to the Department of Commerce

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- **Analyzing Cost of Production**
  - Developing model or product specific costing systems for companies which lack such information in their normal accounting system
  - Applying specialized current cost methodologies in "hyperinflationary" economies
  - Assessing the reasonableness of company accounting methods and generally accepted accounting principles of the host country
  - Conducting arm's length pricing analysis of inputs provided by affiliated parties
  - Calculating factor of production information for producers in economies considered to be "non-market"
  
- **Assisting at Verification and Public Hearings**
  - Prepare document traces
  - Represent clients at on-site verification
  - Provide technical arguments and analysis for briefs
  - Testify at public hearings
  - Meet with government officials
  
- **Assessing the Strategic and Commercial Implication of Trade Actions**
  - Assessment of strategic risks and rewards associated with participation in trade proceedings
  - Assessing the potential costs of trade cases, in terms of impact on sales, production costs, and human resources.
  - Considering alternative sourcing strategies

***Professional Opportunities in Specific Areas include:***

***Anti-Dumping Investigations***

- Certification of Costing Data in the application for Anti-Dumping.
- Investigations (Currently, only Cost Accountants are permitted in India to issue such certificates).
- Similar jobs during Interim Reviews & Sunset Reviews on behalf of domestic industry.
- Consultation with regard to pricing structure for exports and imports
- Strategic planning, market research for domestic and international markets to avoid anti-dumping problems
- Analysis of substantive injury to the industry
- Analysis of various indices affecting the industry
- Assistance in Dumping calculations, injury studies, verification, expert evidence at hearings etc
- Preparing Price and Adjustment Data
- Analyzing Cost of Production
- Assisting at Verification and Public Hearings
- Assessing the Strategic and Commercial Implication of Trade Actions
- Providing detailed reviews of dumping calculation or injury analysis disclosures
- Assistance in preparing defense strategies in anti-dumping investigation
- Negotiations for price undertakings, cost records and financial implications etc. in the matter of initiation of the case or in the defence of a case initiated and on participating in the proceedings and minimizing the liabilities, both prior to and after the initiation of the formal proceedings.
- International pricing analysis
- Detailed cost accounting analysis
- Large-scale database analysis
- Price monitoring analysis

### ***Professional Opportunities for Members – An Appraisal***

- Competitive industry analysis
- Statistical analysis
- Preparation of Legal briefings when cases filed with High Court / Supreme Court.
- Representation before WTO Dispute Settlement Forum
- Similar jobs during Interim Reviews & Sunset Reviews on behalf of domestic industry
- Representing exporters to face Anti-Dumping investigations by foreign countries
- Preparation of Application for filling with DGAD & further coordination

### ***Anti Subsidy and Countervailing Duties***

Preparing comprehensive representations on behalf of a client to prove that there is :-

- Financial contribution by the state or any public body, by way of, inter alia, a grant, loan or equity infusion or a potential transfer in the form of tax credits etc
- Subsidised provision of goods or services by State
- Payment to a funding mechanism by the State or indirectly granting funds or where revenue is foregone by the State, or
- Any kind of income or price support and the benefit is thereby conferred to the particular manufacturer(s)/service provider(s).
- Study of different subsidy schemes framed by the Central as well as State Governments.
- Consultation with regard to pricing structure for exports and imports.
- Representing exporters to face Anti-Subsidy investigations by foreign countries.
- Representation before WTO Dispute Settlement Forum & other statutory authorities.

### ***Avenues of Work for Chartered Accountants in Practice***

- Preparation of Application on behalf of domestic industry for requesting.
- Government to take actions against the exporting countries and further coordination.

### ***Safeguard measures***

- To prepare a comprehensive report
- To show that imports of a product are increasing either absolutely or relatively
- To show that domestic producers of competitive products are seriously injured or threatened with serious injury, and that this injury or threat is caused by increased imports
- Representing exporters to face safeguard investigations by foreign countries
- Representation before WTO Dispute Settlement Forum & other statutory authorities.
- Preparation of Application on behalf of domestic industry for requesting.
- Government to take actions against the exporting countries and further coordination.

### **Trade Related Intellectual Property Rights (TRIPS)**

- Registration Services - Registration of Patents, Trademarks, Copy rights & Geographical indications etc. at both national & international level
- Representations before statutory authorities wherever permissible and possible.
- Documentation - Drafting of Application for registration of the Intellectual property rights
- Valuation of the Intellectual property rights and Strategic Advices related to Sale / Acquisitions of Intellectual property rights.



### ***Professional Opportunities for Members – An Appraisal***

- Advisory Services on Taxation of Intellectual property rights - Service Tax , Income Tax and Capital gains
- Accounting of Intellectual property rights
- Negotiating Royalty , Agency, Distribution, Franchise , Drafting licences , non-disclosure agreements and Licensing agreements
- Joint venture and Foreign Collaboration
- Intellectual Property Management & Audit
- Preparation for contesting opposition against application for registration of Intellectual property rights (in case of Patents, Trade marks, Geographical Indicators)
- Registration of copyright protected works i.e. literary, artistic, cinematographic work and computer programs.
- Patent and trademark litigation support including representation in hearings before the examiner, assistant, deputy, joint controller and controller of patents and assistant registrar and registrar of trademarks, filing oppositions and initiating infringement actions.
- Function as an Arbitrator - resolve infringement matters - through Alternative Dispute Resolution when considered appropriate
- Advisory on acquisition of intellectual property assets and a thorough due diligence review of complex ownership issues.
- Advisory and assistance in negotiating and structuring intellectual property development
- Agreements, including joint development agreements
- Analysing and assisting in strategically positioning Intellectual property rights to achieve maximum valuation and growth
- Registration of Domain Names
- Infringement Analysis Opinions and certifications

### ***Avenues of Work for Chartered Accountants in Practice***

- Advisory on assignments of Trademarks

#### **Trade Related Investment Measures (TRIMS)**

- Vetting / Drafting of FDI agreements and field study works.
- Vetting of Counter Guarantee Agreements signed by the Central & State Govts.
- Advisory services related to Foreign Collaborations, Joint Ventures and Acquisitions.
- Analysis of political and other factors affecting investment decisions of foreign parties.
- Representation before statutory authorities on behalf of either the domestic or foreign parties wherever permissible.
- Acting as Arbitrators when dispute arises.
- Valuation of Tangible and Intangible assets for settlement of trade disputes or initial / subsequent investments.
- Representation before WTO Dispute Settlement Forum when a dispute goes to their jurisdictions.
- Investigation Services when foreign parties require background verification of the domestic parties and vice-versa when joint ventures occurred.
- Advising Corporates about Global FDI policies adopted in different countries and selection of suitable partners for joint ventures.
- Financial Evaluation of FDI proposals on behalf of industries and Government.

#### **Agreement on Customs Valuation**

- Representing the corporate and non-corporate clients before customs and subsequent statutory authorities.
- Helping the Customs Department in correct assessment the valuation aspects of imported goods.

## ***Professional Opportunities for Members – An Appraisal***

### **Drafting & Impact Study of Free Trade Agreements**

- Helping the Governments in Pre-FTA & Post-FTA advocacy functions.
- Representation on behalf of Industries and other stakeholders with the Government officials.
- Drafting & Vetting of Free Trade Agreements.
- Representation at WTO regarding notification and final approval on the FTAs.
- Cross sectional Analysis of existing FTAs.
- Conducting Impact Study of FTAs on behalf of industries, political parties and Governments.
- Representation before statutory authorities for seeking relief under the ROO / Settlement of Disputes / Safeguard Measure clauses of the relevant FTAs on behalf of either Domestic Industries or Exporters of the foreign countries.

### **Investigations for Determination of Rules of Origin**

- Investigations for various parameters specified under the Rules of Origin Agreement on behalf of Domestic or Foreign Governments.
- Investigations for various parameters specified under the Rules of Origin clauses of various FTAs.

### **International Commercial Arbitration**

- To help clients in the process of undertaking settlement of Disputes at various international arbitration agencies.
- To act as an arbitrator for international commercial disputes.
- To draft commercial trade agreements in consonance with the principles of Alternative Dispute Resolution.
- Guidance to draft a proper arbitration agreement considering the arbitration rules promulgated by various international institutions.

**Agreement on Agriculture**

- Undertake research study works on behalf of Governments / International Agencies.
- Do advocacy function on behalf of Governments.

**Representation for National Governments in The WTO Dispute Settlement Forum at Geneva**

- Representation works for National Governments at WTO Dispute Settlement Forum.
- Participation and advisory on Dispute settlement by resorting to ADR before putting the case before DSB.

**Competition Laws & Policies**

- **Advisory and Consultancy Services to enterprises**
  - Advising any enterprise intending to set up business in India or to set up a branch or subsidiary in a foreign country to ensure that such setting up is not against the competition law.
  - Advising the enterprise during the process of any inquiry or investigation into any trade practice.
  - Help the parties in the drafting and registration of the agreement to ensure that the same is not anti - competitive.
  - Applying to the commission for an inquiry or investigation into practice where any person is affected by any monopolistic, restrictive, or unfair trade practice of any other person.
  - Representation with statutory authorities of various countries.
  - Advising Corporates about international Mergers and Acquisitions.
  - Study and investigations of Anti Competitive agreements.

### ***Professional Opportunities for Members – An Appraisal***

- Advising and investigating for corporate and governments about unethical combinations like Cartels etc.
- Undertaking Certification works where permitted.
- Due-Diligence studies for international mergers from the financial angles as well as the angle of Competition Laws prevailing in the countries.
- Undertaking Research studies.
- Drafting of anti-competitive agreements
- Compliance of competition law audit
- To work as Expert for Commission under Section 17
- To appear before Commission and can represent a party in cases relating to anti-competitive agreements, abuse of dominance and combination (mergers etc.) Regulation cases under section 35
- To appear before Competition Appellate Tribunal 53S
- To be consultant to government in framing national competition policy
- To be consultant for framing policies of various ministries in Government of India
  - Trade Policy
  - Industrial policy
  - Privatization policy
  - Regulatory reform policy
  - Investment and tax policy
  - Intellectual property policy
  - Regional development policy
  - Labour policy
  - Consumer policy

## ***Avenues of Work for Chartered Accountants in Practice***

- Environment policy

### **Advisory Services Related to Foreign Trade Policies & Instruments**

- Advisory Services to National Governments in framing WTO Compliant Foreign Trade Policies & modifying the existing schemes.
- Analysis of business operations and facilitation services
- Formation of a company/subsidiary of a foreign company
- Setting up 100% EOU/STP/EHTP/BTP/SEZ units
- Assistance in fulfilling the regulatory and licensing requirements
- Obtaining government clearances
- Liaisoning with the related government agencies
- Development of strategies and implementation plans according to the specific needs of the clients.
- Consulting, documentation and facilitation for
  - Exports and imports for Export-Import Policy
  - Licences
  - Incentives
  - Logistics
  - Exim Finance
  - Exim legal matters
- Getting Foreign Investment and related matters like Setting up of Business Operations in India including Liaison Office, Branch Office, Subsidiary Company, Joint Ventures.
- Approval of Investments from RBI/FIPB/Ministries.
- Quality certification for Foreign Companies exporting to India (as required under BIS regulations).

### ***Professional Opportunities for Members – An Appraisal***

- Domestic operations & Incorporations like Formation of companies in India & related issues with ROC, RBI & other Government departments, Registrations with DGFT (IEC), EPC (RCMC), Industry Ministry (IEM), Income tax (PAN), Sales tax, Excise, Representation of Cases Before Central Excise Appellate Authorities, Customs Authorities, Fixation of /Brand Rates for Drawback, Rebate / Refund of Central Excise Duties, Customs Duties etc.
- Application and Issuance of DEPB, DFRC, Advance Licence, EPCG Licence, Duty Drawback, Deemed Export Benefits.
- Representation and Liaison:
  - With DGFT, RBI and Ministries for import-export licences & other matters
  - For Foreign companies/NRIs/OCBs in India, Indian Investments Abroad, OCBs etc
  - Planning, Strategizing and implementation for clearances of Project Imports, Plant Relocations, Restricted Items Imports.

### **Advisory Services Related to Special Economic Zones/ 100 % Export Oriented Units (EOU) / Software Technology Parks (STP) / Electronic Hardware Technology Parks (EHTP)**

- Assistance in preparation of project report
- A project report outlining the economic and commercial viability of the project needs to be attached along with Form A i.e. Application for setting up a unit in Special Economic Zone.
- Assistance in Necessary applications, compliances etc. with the Board of Approval, State Government, Development Commissioner, Approval Committee, etc.
- Consultancy services for developing Special Economic Zones
- Consultancy services for setting up units in Special Economic Zones,

### ***Avenues of Work for Chartered Accountants in Practice***

- Representation before Board of Approval on behalf of any person aggrieved by the order passed by the Approval Committee.

#### **Tax Havens**

- Services of a professional are pertinent for the overall analysis of the investment decision and making a cost benefit analysis before selecting the location for expansion and investment in any enterprise intending to expand.
- Professionals could be hired to ensure legal and other regulatory compliances to avoid any legal complications in a foreign land.
- Using the tax incentives and avoidance of tax to the maximum extent possible legally would be one of the ways towards this goal. Professionals with their knowledge and experience can assist organizations in this respect.
- Various treaties and agreements between various countries; the extra burden imposed by our country for investing abroad in tax havens; comparison of the local and foreign tax incentives/holidays available need to be analysed for the purpose of carrying on of business in a particular location.
- Evaluating and appraising the performance of an organisation in a particular tax haven.
- Evaluating and appraising the performance of an organisation in a particular tax haven.
- The structure of the offshore organisation, the type of the entity and the functions to be transferred to that organisation should be decided with the help of professionals.
- Any enterprise intending to expand and invest has to make a cost benefit analysis before selecting the location for expansion and investment. This requires knowledge of the incentives and laws and regulations of various countries. While tax havens may provide high incentives in the form of low taxes or no taxes, there could be other demotivating



### ***Professional Opportunities for Members – An Appraisal***

factors like political crisis, stringent disclosure requirements, levy of heavy fees, etc. Services of a professional are pertinent for the overall analysis of the investment decision.

- Following the law in a foreign land is all the more necessary to avoid any legal complications. Professionals could be hired to ensure legal and other regulatory compliances.
- The incentive of all business is maximization of profit. Using the tax incentives and avoidance of tax to the maximum extent possible legally would be one of the ways towards this goal. Professionals, with their knowledge and experience can assist organizations in this respect.

### **International Taxation**

- Advisory on international tax consequences of specific investment proposals.
- Advisory on Profit Repatriation.
- Researching the tax attributes of potential overseas and domestic markets.
- Advisory on possible tax advantages of cross border trading, leasing, financing, or holding companies.
- Consulting for maximizing savings from treaty benefits, credits, deductions, exemptions, and incentives.
- Designing and implementing compliance systems.
- Conducting due diligence and transaction advisory services.

### **Knowledge Processing Outsourcing/ Business Processing Outsourcing Sector**

As a KPO, professionals can render services in the following ways:

- Finance and accounts – services can be rendered in areas similar to the following:

### ***Avenues of Work for Chartered Accountants in Practice***

- Accounting and data preparation
- Maintenance of books and records
- Accounts receivables
- Debtors management
- Accounts payables
- Fixed assets accounting
- Asset accounting management
- Reconciliations
- Expense analysis
- General Ledger maintenance
- Payroll management
- Cash management
- Internal Financial Reporting
- Different types of reports on daily basis
- Research & Development – Research could be through web-based market research solutions, secondary research methods, Government Publications, General Press, Industry Journals, Trade Associations, Public Company Filings, Investment Brokerages and Information Services, Newsgroups and UseNet. Other related services could be:
  - Data search and collection
  - Managing data
  - Business Analysis
  - Data Analysis
  - Network Management
  - Business & Market Research
  - Equity research

### ***Professional Opportunities for Members – An Appraisal***

- Research on fixed income markets
- Intellectual Property (IP) Research
- Legal research
- Market Analysis
- Financial Analysis
  - Forecasting, Budgetary and decision support
  - Consolidation and analysis
  - MIS reporting
  - Financial planning and analysis
  - Credit rating analysis
  - Examination and interpretation of financial statements
  - Event analysis
  - Risk management
  - Treasury and investment management
  - Financial research and investigations
  - Investment analysis
- Consulting services
  - Financial modeling
  - Deal profiles
  - Verification
  - Assistance and guidance in transfer of operations
  - Contribution towards continuous improvement of processes
- Services pertaining to legal matters –
  - Advice on the formation of e-Contracts
  - Legal research,

### ***Avenues of Work for Chartered Accountants in Practice***

- Documentation, reviewing documents and agreements, litigation matters, reporting requirements (drafting and reviewing reports required under various laws)
- Advice on existing and developing legal and regulatory requirements-domestic and international
- Domain name registration
- Advice on the risks and liabilities involved in electronic linkage to third party sites and the formation of third party alliances
- Regulatory review of Web site content
- Agreements for the licensing of software and the provision of support services to a licensee in connection with software licensing
- Education and related services – knowledge is power and the only thing that increases with giving. Some of related services that professionals can contribute in are:
  - Education
  - Training & Consultancy
- Other services
  - Valuation of companies
  - Evaluation of potential Mergers and acquisitions
  - Preparation of company profiles/reports
  - Transitioning financial information between accounting standards
  - Tracking of stock prices
  - Internal audit
  - Supporting internal activities
  - Transfer pricing

## ***Professional Opportunities for Members – An Appraisal***

### **Sectoral Research Studies on Various International Issues**

- Undertaking research studies on behalf of industries / governments and other international agencies on various subjects related to and affecting the international trade relations.

### **Faculty Position in Academic & Management Institutions**

- Faculty positions in leading Academic, Research and Management institutions

### **POST QUALIFICATION COURSE IN INTERNATIONAL TRADE LAWS AND WORLD TRADE ORGANISATION**

In view of the globalisation and consequential opening up of Trade and Services Sector by the member countries of World Trade Organisation (WTO), the understanding, interpretation, relevance and implications of international trade laws and related agreements has assumed significant importance and giving rise to the need for professionals well versed with these laws and agreements. The Institute, well aware of the emerging needs of the Trade and Industry, launched the Post-Qualification Course in International Trade Laws and WTO. The Course aims at equipping the members with technical competence to understand and respond effectively to the complex milieu of trade laws that operate under the aegis of the WTO thereby developing the dedicated practice in the area of services related to International Trade Laws & WTO. The Post-Qualification Course in 'International Trade Laws & World Trade Organisation' has been approved by the Government of India and notified by the Institute vide Notification No. 1-CA(7)/64A/2003 in Part III Section 4 of the Gazette of India (Extraordinary) dated 4th December, 2003.

As a qualified professional, the Indian Chartered Accountant is in an advantageous position to provide the skills and services to different sections engaged in international trade. To perform this role effectively, the Chartered Accountant needs to understand the WTO regime and assess the importance and implications of various rules that could impinge on the country's trade activities and relations. It needs to be appreciated that each member country of the WTO has the right to negotiate with other countries and would invariably try and safeguard their own national

## ***Avenues of Work for Chartered Accountants in Practice***

economic interests. The Chartered Accountant has to be aware of the consequences of implementation or non-implementation of particular trade laws on the Indian economy.

It is in this wider context that this Post-Qualification Course in International Trade Laws and World Trade Organisation seeks to orient Chartered Accountants towards developing the necessary and desirable capabilities to adapt to-and respond to-the dynamic and challenging international economic environment. This Post-Qualification Course in International Trade Laws and WTO is tailor-made for Chartered Accountants who intend to emerge as preferred professionals who have specialized in studying the complexities of international trade. The contemporary curriculum and comprehensive study material provide inputs required to comprehend the nitty-gritty of global economics. Participants in the course would get an opportunity to interact with experts in the field of international trade and thereby gain better understanding of ground realities. Armed with the Post-Qualification Course in International Trade Laws and WTO, Chartered Accountants would be able to play multifarious roles in new dynamic trade order.

### **The Objective of the Course**

To develop expertise base amongst the members of the institute in various agreements of WTO and to equip them with technical competence to understand and respond effectively to the complex milieu of trade laws that operate under the aegis of the World Trade Organization and to provide members with an insight into various phenomena that determine and influence international trade that, in turn, would lead to new opportunities for personal growth and development.

### ***Highlights***

- Approved by Government of India
- Exclusively for members of ICAI
- Registration fees of Rs.20,000/- payable in two installments of Rs.10,000/- each
- An attempt to re-engineer the skills of members
- Equips members with technical competence of WTO

### ***Professional Opportunities for Members – An Appraisal***

- Develops an ability to adapt and respond to the dynamic and challenging international economic scenario
- Professionally rewarding career opportunities
- Distance learning, self-study programme
- 6 months' registration for written exam
- Personal contact programme for 30 days with experienced faculty
- Practical Training for 30 days in approved organizations
- Research-based approach

### ***Methodology for the Course***

The Post-Qualification Course in 'International Trade Laws and World Trade Organisation' (the "Course") is offered in a combination of distance learning mode backed up with personal contact programmes and imparting of practical training. It follows an integrated learning approach comprising two stages:

Part I - Theoretical Knowledge with Examination and

Part II - Practical Training and Submission of a Dissertation.

This approach synergises both theory and practice.

The Course identifies the knowledge and skill requirements of Chartered Accountants intending to focus their attention of international trade laws and the WTO. The Course prepares such Chartered Accountants to be ready to tackle specific problems and issues that could arise in industrial organizations. Through a process of self-learning and community interaction, the methodology of the Course equips members with expertise in International Trade Laws and WTO so as to effectively service all organizations that are engaged in or concerned with international trade.

### ***Registration Fees***

Registration fees for the Course is Rs. 20,000/- payable in two installments: 1<sup>st</sup> Installment of Rs. 10,000/- payable at the time of registration for Part I and 2<sup>nd</sup> Installment of Rs. 10,000/- payable at

## ***Avenues of Work for Chartered Accountants in Practice***

the time of applying to attend the Personal Contact Program for the Course. Registration fee includes cost of study material to be provided by the Institute.

The provisions of the Course include:

### **Part-I**

- ❑ **Theoretical Knowledge (Self-study through prepared study material & Recommended Books/Reference Material)**
- ❑ **Personal Contact Programmes**
- ❑ **Examinations**

### ***Theoretical Knowledge***

The self-study aspect of the Course equips candidates to obtain an in-depth knowledge of principles and practices of the WTO. The Theoretical knowledge part is aimed at improving the candidates' understanding of domain knowledge, the application of which is facilitated by Practical Training. The candidates to the Course are provided with prepared study material by the Institute for all the Papers of the Course which would give an insight into nitty gritty of international trade laws and WTO and is designed to effectively build up in-depth knowledge and practical application skills.

As part of the Course curriculum, candidates are advised to read the various reference books recommended by the Institute. The recommended books and the study material provided by the Institute would supplement each other. Given the dynamic nature of the field of WTO, the Candidates are advised to update themselves with latest developments in the field by regularly accessing the relevant portals, professional periodicals/journals, latest publications available nationally or internationally and, in particular, regularly visit the Knowledge Page of the Committee on Trade Laws & WTO at the Institute's website (<http://www.icai.org>). Various announcements from the Institute pertaining to the Course are also hosted, inter alia, under this Knowledge Page also.



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### ***Personal Contact Programmes***

The self-study aspect of the Course is augmented by Personal Contact Programmes (PCPs) in Part I of the Course for a minimum duration of 30 days. These PCPs are intended to provide candidates with insights into the working of industry and keep them abreast of latest developments relating to international trade. The PCPs will cover the subject matter of all the papers contained in Part I of the Course. The minimum attendance record of 80% at the PCPs shall be compulsory and would be required to be produced at the time of applying for Examinations for Part I of the Course. The details of dates, time-schedule and places for the PCPs are hosted on the website of the Institute at <http://www.icai.org> from time to time.

### ***Examinations***

The knowledge of the candidates gained through self-study process and attending to Personal Contact Programme would be tested at the Part I Examinations for the Course. Part I Examinations would consist of two Groups: Group A and Group B. Candidates can appear either for Group A or Group B or for both Groups at their discretion. Examinations will be conducted in the months of May and November each year. The following Papers of 100 Marks each are contained in the two Groups:-

#### ***GROUP A***

Paper I: Introduction to International Trade

Paper II: GATT, Rules of Origin and Trade Related Agreements

Paper III: GATS, TRIPS and TRIMS, SPS and Dispute settlement and review procedures in WTO.

#### ***GROUP B***

Paper IV: Domestic Trade Laws

Paper V: Anti-Dumping, Anti-Subsidy and Safeguards – Laws and Practice

Paper VI: Competition Laws and Policies

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The Committee on Trade Laws & WTO may update/revise the syllabus, from time to time, which will be intimated to the candidates enrolled for the Course. The Candidates shall be eligible to appear for Part I Examination to the Course only after 6 months of registration, and would be required to produce a minimum attendance record of 80% in the Personal Contact Programmes, failing which they would not be eligible to appear for the examination.

### **Part- II**

- ❑ **Practical Training**
- ❑ **Dissertation**
- ❑ **Interview**

#### ***Practical Training***

With a view to develop appropriate competencies in the candidates for the Course, the theoretical knowledge would also be supported by undertaking hands-on practical experience in organisations/authorities enriched in imparting such requisite training to the Candidates. Practical Training shall be on-the-job training for a period of 30 days. During this practical training, the candidate shall choose a minimum of three areas in which he shall do detailed practical work. A suggested list of areas is:-

- Anti-dumping
- Anti-subsidies
- Safeguards
- Textiles and Clothing
- Agriculture
- Rules of Origin
- International Dairy Agreement
- Disputes Settlement
- Trade in Services

### ***Professional Opportunities for Members – An Appraisal***

- TRIPS
- TRIMs
- SPS
- Competition Law

#### ***Dissertation***

A candidate to the Course shall also be required to submit a dissertation, after undergoing practical training, on a subject to be approved by the Committee on Trade Laws and WTO, within a period of three months from the date of completion of training. The candidates shall choose any one of the areas listed, as above under Practical Training, for his dissertation.

#### ***Interview***

After approval of dissertation, to test the knowledge and the understanding gained by the candidates during the Course, an Interview Board is appointed by the Committee on Trade Laws & WTO.

On successful completion of the Practical Training, approval of the Dissertation and after successfully clearing the Interview, candidates would be awarded the Certificate and would then be entitled to use the letters “DITL (ICAI)” after their names.

## **5.17 Opportunities for Chartered Accountants in Local Bodies**

The Accounting Reforms are underway in the local bodies and the opportunities to the Chartered Accountants in this emerging area are as under:

#### **Conversion of Accounts to Accrual Based Double Entry Accounting System**

- Assessment of existing system and requirements including review of legislative framework with reference to existing laws for smooth transition into Double Entry Accounting System.

### ***Avenues of Work for Chartered Accountants in Practice***

- Review of existing State Accounts Manual for Local Bodies.
- Business process re-engineering with reference to accrual system of Accounting.
- Categorisation, grouping and sub-grouping of assets and liabilities.
- Design of Chart of Accounts with Accounting Codes.
- Determination and valuation of fixed assets including infrastructure assets, current assets, investments, long-term liabilities, current liabilities and net worth as on opening balance sheet date.
- Preparing of accounting policies, formats of financial statements and voucher format in the accrual system.
- Design of Double Entry Accounting System on accrual basis for Local Bodies.
- Preparation of opening balance sheet.
- Implementation of Double Entry Accounting System on accrual basis.
- Preparation of financial statements for the transition period.
- Training of finance and accounts personnel and training of trainers.

### ***Auditing and Assurance Services***

- Assignment such as Internal Audit, Statutory Audit, and Special Audit of Local Bodies as provided in Model Municipal Law and Audit of Escrow Account and the Project Account under tax-free municipal bonds guidelines.

### ***Management Consultancy Services***

- Providing assistance as domain expert to the agencies designated by the Government for computerization of records and computerization of Accounting System.

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- Advising the Local Bodies in Statutory compliances, preparation of Detailed Project Feasibility Reports required to be submitted to the funding Agencies / programmes such as World Bank, Asian Development Bank, [USAID – FIRE–D] United States Agency for International Development Financial Institutions Reform and Expansion–Debt, UNDP, and [JNNURM] Jawaharlal Nehru National Urban Renewal Mission for enabling them to access capital market and financial institutions for the capital investment.
- Design and implementation of Budgetary Control System (Accrual based Budget) in the line with the Accrual Accounting System and linkage among Budgetary System and Financial Management information System and Decision making system.
- Revenue system assessment and financial analysis of revenue and expenditure exploring potential for raising debt capital for projects, assessing financial viability of investment plans, preparation of financial projections and revenue mobilisation plans of Local Bodies, undertaking detailed revenue potential assessments, cost determination, control and reduction analysis, facilitating public private partnership in new projects and assist in bid process management, negotiations etc.

## **5.18 Transfer Pricing**

In the last century, global trade consisted of cases of import and export of raw materials and of finished goods between independent parties. With the advent of the industrial revolution and later on revolutions in transportation and communication, moving materials, labour & funds across geographical and political boundaries became easier and efficient. Companies expanded rapidly to open subsidiaries and affiliates resulting in emergence of Multinational Enterprises (MNEs), spread out in various countries.

An accompanying development has been the increasing volume of transactions within the group called intra-firm transactions. The structure of transactions within an MNE group–associated enterprises is determined by a combination of the market and

### ***Avenues of Work for Chartered Accountants in Practice***

group driven forces which can differ from the open market between independent entities.

Surveys evidence that intra-firm trade is growing steadily and arguably accounts for around 60 per cent of international transactions. The obvious consequence is that a large and growing number of international transactions are no longer governed entirely by market forces, but by forces which are driven by common interests of the entities of a group.

Also many MNEs and financial services organizations are moving their back office operations to India to take advantage of huge skill available and as well as the cost arbitrage.

*Evolution of Transfer Pricing at India:* India started integrating its economy with global economy in 1991. This has led to increased cross border flow of goods, services, funds and even intangibles and a large inflow of Foreign Direct Investment. Many of the Indian companies have also become large global players with overseas subsidiaries in many tax jurisdictions. Transfer pricing in India was introduced in 2001 for curbing tax avoidance by laying down norms for "income arising from international transactions" to be computed at "arm's length price".

Transfer pricing encompasses areas such as inter-company pricing arrangements between related business entities, including transfers of intellectual property, transfers of tangible goods, services and loans and other financing transactions.

**All this provides immense opportunities to Chartered Accountants who are well positioned to provide end-to-end solutions to help companies manage the whole process.**

Thus, in this environment, where change is rapid and international transaction flows are high, local transfer pricing knowledge and sound advice is paramount. Opportunities are certainly there but executives need advisers / Chartered Accountants who can bring in a global outlook, understand the business challenges and have deep expertise about the relevant industry.

**Chartered accountants (Chartered Accountants) hold high social and professional repute in India.**

### ***Professional Opportunities for Members – An Appraisal***

An important phenomenon of recent times is the rapid growth of the accountancy profession. The vast changes occurring in the economy of the country have been placing great responsibilities on the Chartered Accountants. It also constitutes a challenge to the profession to bring their knowledge and skill in their specialized fields of activity.

With the economic boom and complex tax structure, the profile of a CA has catapulted to a professional with a high-level of managerial skill with multi-disciplinary talent.

Transfer Pricing Rules in India which necessitates filing of separate returns and related documents on cross border transactions has generated an additional demand for Chartered Accountants with specialization in overseas deals.

#### ***Some of the Key Attributes for servicing in transfer pricing as a Professional Accountant:***

- Client driven with strong commercial awareness;
- Strong communication skills - both written and oral;
- Able to develop innovative ideas and solutions, with the ability to think around a problem;
- Strong client relationship management skills with ability to develop quality outputs;
- Strong project management skills;
- Understanding of key risks and opportunities in tax management and effectively develop policies and processes to maximize benefits and minimize the risks;
- Manage relationships with revenue authorities.

Chartered Accountants on account of their intense training and possession of above skill-sets; have many professional opportunities, more so in an emerging economy such as India.

With business boundaries fast disappearing and the world becoming one market place, professional avenues have opened up both for domestic and overseas clients.

### ***Avenues of Work for Chartered Accountants in Practice***

Some of the solutions provided by Chartered Accountants in Transfer Pricing include:

- Business model study - Performing benchmarking study to ensure that all international transactions entered by persons are maintained at arm's length price;
- Documentation compliance – Assistance maintenance in keeping information and of documents required by persons involving international transactions with associated enterprises;
- Issuance of Chartered Accountants Certificate i.e., Form No. 3CEB - Required by persons involving international transactions with associated enterprises;
- Representation before the revenue authorities including appellate level and tax tribunal;
- Assistance with competent authority negotiations and mutual agreement procedures;
- Advisory Services such as -
  - Pricing risk transfers in intercompany transactions (e.g. market price volatility, risk or counterparty credit risk);
  - Pricing intangible assets, and modelling their value over time;
  - Setting interest rates, defending levels of inter-company debt, and pricing inter-company guarantees using credit rating models;
  - Determining arm's length cost sharing and buy-in payments for technical know-how;
  - Establishing inter-company charges for central services;
  - Implementation of advance pricing arrangements covering a variety of different types of transactions.



## **5.19 Enterprise Resource Planning ( ERP)**

Enterprise Resource Planning is the latest high end solution, information technology has lent to business application. The ERP solutions seek to streamline and integrate operation processes and information flows in the company to synergise the resources of an organisation namely men, material, money and machine through information. Initially implementation of an ERP package was possible only by very large Multi-National Companies and Infrastructure Companies due to high costs involved. Today many companies in India have gone in for implementation of ERP and it is expected in the near future that 60% of the companies will be implementing one or the other ERP packages since this will become a must for gaining competitive advantage.

In the present business environment, role of a Chartered Accountant is considered to be very important and inevitable. As the business needs are very complex in nature, the implementation of an ERP package needs Chartered Accountants with functional skills for evaluation, Business Process Reengineering (BPR), Mapping of Business requirements, Report designing, ensuring Business controls, customization of the package for the specific requirements, Documentation etc. Here it is attempted to highlight various aspects of ERP and specific areas of ERP that are relevant for Chartered Accountants.

CA and ERP: A pertinent question one Chartered Accountant may ask is "How does an ERP matter for me?" As mentioned earlier the role of a Chartered Accountant in any business either as a Consultant, Auditor, Advisor or Manager is inevitable.

CA as a Consultant/ Functional analyst: Implementation of ERP solutions is one of the largest drivers of growth in the consultancy business. The introduction of such large and complex software like ERP, which enables an organisation to integrate their manufacturing, finance and marketing operations at all levels, in itself is a challenge, since it calls for technical and functional skills and a change in user's mindsets. Therein, comes the role of a consultant. CA as a Consultant will play a major role in implementation of an ERP solution.

### ***Avenues of Work for Chartered Accountants in Practice***

CA as an auditor: Assuming a situation where the client has implemented an ERP solution. If the auditor is aware of ERP he can make use of the features of ERP and thereby ensure that the internal controls and checks are consistently maintained.; ensure that the provisions of Income tax or other fiscal laws are not ignored ;ensure that the Accounting Standards are consistently followed across the company; and Improve the quality of the reporting.

CA as an Advisor: As an advisor to a company a Chartered Accountant can participate in various stages of ERP implementation. It goes without saying that advising without the knowledge of the current trends and modern management techniques will prove to be a wrong advice and may have a negative impact on the growth of the client.

CA as a Manager/ Functional Implementation Team member / Implementation Project manager: By now one should know that the ERP is a high-end sophisticated software solution that reduces the pressure and work load of the Managers and provides accurate, timely information for taking appropriate business decisions. Chartered accountants as managers with knowledge of ERP will be able to achieve their targets and goals by proper implementation of ERP system in their organisation. In fact Managers are expected to translate the business rules and requirements for mapping them into ERP software. Managers as representatives of the Organisation have to coordinate with Vendors, Consultants, Auditors etc., for a proper implementation of ERP package.

Under the present Indian business environment, where the globalization has been initiated, full convertibility is coined, Infrastructure Projects are nearing completion, and it is expected that the whole business system will undergo a major shift. Thus by being a proficient ERP consultant, Chartered Accountants will prove their commitment to the business world and modern management.

Some web addresses where one can gain further inputs on the topic are:

<http://erp.technologyevaluation.com> ;

<http://erpguide.computerworld.com>;

[www.erpwire.com](http://www.erpwire.com); [www.intelligenterp.com](http://www.intelligenterp.com); [erp.ittoolbox.com](http://erp.ittoolbox.com).

## **5.20 New Emerging Areas**

### **5.20.1 Carbon trading**

In India recently, MCE (Multi Commodity Exchange) has announced carbon trading exchange with licence agreement from Chicago climate exchange. Like the usual stock exchange, carbon credits have all spot transactions, forward settlement and options of trading. For trading purposes, one credit is considered equivalent to one tonne of CO<sub>2</sub> emissions. Such a credit can be sold in the international market at the prevailing market price. Japan is the largest buyer of carbon credit while India and Brazil are amongst the largest suppliers of carbon credit. Being a developing country, India is exempted from the requirement of adherence to Kyoto protocol. India, however can sell the carbon credits to the developed countries. Almost all industrialised countries are huge buyers of carbon credit and all developing countries, where industrialisation has not reached its peak, are suppliers of carbon credit.

Most of the beneficiaries of the carbon trading are these companies that are investing in windmills, Biodiesel, Biogas. Actually by investing in such an alternative non-polluting source of energy, these companies will earn carbon credit in the form of CERs (Certified Emissions Reductions) to the tune they have not polluted the environment. These CERs will be sold by the Indian companies to companies, say in Japan, at market prevailing rate of CERs and make profit. Companies like Torrent Power have started projects, which enhance energy efficiency and in turn have earned CERs points. These CERs will be sold by Torrent Power to companies in developed countries and are expected to earn approximately Rs. 200 crores. Several Indian companies are adopting such processes in their production units which result in earning of CERS.

Carbon trading has brought in a huge opportunity for Indian companies. Companies can earn CERs by adopting energy saving and environment protecting methods and in turn can earn huge

incomes by selling them. This opportunity will not exist forever for Indian companies. Once India is accepted as an industrialised country, it would have to adopt strict emission norms like other industrialised countries of the world and **India may turn into a net buyer** of carbon credit from other developing countries.

***Useful References***

1. United Nations Framework Convention on Climate Change  
<http://unfccc.int/2860.php> -
2. CDM India-Designated National Authority  
<http://cdmindia.nic.in/>
3. Ministry of Environment & Forests (MoEF)  
<http://www.envfor.nic.in/>
4. Ministry of Power- <http://www.powermin.nic.in/>
5. Ministry of New and Renewable Energy <http://mnes.nic.in/>
6. Ministry of Commerce & Industry <http://commerce.nic.in/>
7. Bureau of Energy Efficiency <http://www.bee-india.nic.in/>
8. International Emissions Trading Association(IETA)-  
<http://www.ieta.org/ieta/www/pages/index.php>

**5.20.2 Performance measurement**

Performance monitoring and reporting to the business-based critical success factors are the best insurance that the business is on track and reaching for value based growth. Performance measurement, incorporating non-financial criteria such as competitive performance, resolution performance, process performance and environmental performance, represents a new but complementary market for Chartered Accountants. Likewise, demand for risk-based measures of value and other new approaches in assurance present further opportunities

**5.20.3 Knowledge management and knowledge audit**

Knowledge management is a framework within which the organization views all its processes as knowledge processes. In this view, all business processes involve creation, dissemination, renewal, and application of knowledge toward organizational

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nourishment and survival. Knowledge management will become a professional discipline in its own right.

Opportunities in this area for Chartered Accountants include the following: -

- Knowledge Audit
- Information authentication, management, interpretation and evaluation
- Management of proprietary, external and individually held knowledge reporting to add value to business and continuous real time reporting

A knowledge audit is a review of the firm's knowledge assets and associated knowledge management systems. Knowledge Audit identifies the core information and knowledge needs and uses in an organization. It identifies gaps, duplications, flows, and how they contribute to business goals. It is an extension of knowledge management initiatives of various organizations and ensures whether their initiatives lead to the desired objectives of knowledge management.

## **Chapter 6**

# **KEY ASPECTS OF MANAGING THE PRACTICE**

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Like any business, managing the practice of a chartered accountants firm is also ultimately driven by the profits generated by the firm and available to the partners for distribution. However, to maintain the standards of the profession laid down by the Institute of Chartered Accountants of India (ICAI) with the ultimate objective of ensuring public confidence, the practice management of a chartered accountant firm has to be within the framework prescribed by the ICAI and any other regulatory authorities.

Within the framework of the ICAI and other applicable regulations, the practicing public accountants' while managing the practice, need to have proper quality control policies and procedures, manage people and administration efficiently, perform engagements to the desired level of professional competence, maintain policies and procedures in acceptance and continuance of clients and manage client relationships.

In the following sections each of the key aspect involved in managing the practice is discussed and for reference forms have also been provided that may be relevant under certain circumstances.

### **6.1. Acceptance and Continuance of Clients Policy**

To reduce the chance of association with an enterprise whose management lacks integrity and to avoid the possibility of a firm undertaking an assignment without the necessary degree of independence, firms should establish policies and procedures to decide which entities to accept or continue as clients.

#### ***Selectivity***

Firms should be selective in accepting new clients and accordingly following procedures (a) to (d) should be undertaken in all

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instances.

- (a) Ascertain the name of the prospective client's present or former accountants and inquiring as to the reason why such accountants are being replaced.
- (b) Make reasonable enquiries to determine that nothing adverse is known about the business reputation of the prospective client.
- (c) Obtain evidence of the identity of the prospective client's beneficial or ultimate owners' and of those ultimately responsible for its control, if different.
- (d) Check whether there is any relationship between the owners identified in (c) and any partner/ equivalent or professional personnel of the firm.

In addition the following procedures should be considered where appropriate:

- (e) Visit the premises of the prospective client to hold meeting with management.
- (f) Find out why the prospective client is interested in the firm's services.
- (g) Inquire about the specific needs of the prospective client.
- (h) Determine whether the prospective client has unusual problems in financial reporting or auditing.
- (i) Evaluate the competence of the prospective client's accounting and tax personnel, the condition of its accounting records, and the effectiveness of its system of internal control.
- (j) Determine if the prospective client has securities listed or is planning to list with any regulatory body.
- (k) Ascertain if the prospective client has, or contemplates having foreign operations and, if so, to what extent.
- (l) Determine whether the prospective client recently merged with or acquired any other companies or is contemplating a merger or acquisition.
- (m) Ascertain whether the prospective client files reports with any regulatory body.
- (n) Obtain copies of or excerpts from the prospective client's finance statements, tax returns and if applicable recent

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- reports filed with regulatory agencies.
- (o) Inquire about recent or pending litigation, investigation examinations, complaints, or enforcement proceedings.
  - (p) Discuss with the prospective client's management any special problems or plans known or contemplated.
  - (q) Obtain the name of the prospective client's legal representative, bankers, and principal creditors and requesting permission to confer with them.
  - (r) Obtain credit and other financial information from independent sources, and
  - (s) Obtain such other information as might be necessary to permit the firm to evaluate the prospective client.

### ***Documentation***

Investigatory procedures should be documented as evidence of compliance with the firm's client acceptance policies. Any doubt or material questions that remain as a result of performing these procedures must be resolved or answered satisfactorily before the client is accepted.

### ***Conditions Precedent to performing service***

A firm should not agree to perform services unless it has the required competence to execute the assignment and the engagement is not prohibited by law or professional ethics codes. In this context, competence means having the required expertise or having the ability to acquire the necessary expertise.

### ***Ethical Standards***

The success of the profession of accountancy depends on the existence of self-imposed code of ethics so as to command the confidence of the general public. A client, before engaging the service of a professional, is required to be assured that he has the required competence and that he is a person of character and integrity.

### ***Compliance***

The Institute of Chartered Accountants of India has established codes of conduct that constitute ethical standards. Firms should



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comply with the letter and the spirit of these codes and should recognize the public interest that underlies them. Towards this end, firms should declare the following standards of practice.

- (a) Each firm must maintain its integrity and objectivity. Accordingly, each professional must remain independent of any self-interest, which might impair or appear to impair his/ her judgment.
- (b) Engagement in a business or occupation outside the practice of public accountancy should be permitted only to the extent permitted under Appendix (10) of the Chartered Accountants Regulations, 1988. Further, it should be ensured that such business or occupation does not give rise to a conflict of interest and is not disclosed to fellow partners.
- (c) No firm should render professional service without an awareness of, and compliance with, the applicable legal, technical and ethical standards. Each firm must keep abreast of professional developments, which may be applicable to a particular service being rendered.
- (d) Engagements should not be undertaken unless the firm has the competence to render high quality service. Competence is construed as the technical ability to perform an engagement satisfactorily or the ability to acquire by study, research, or consultation with other practitioners, which is necessary to deliver the requested service.
- (e) It is considered as an act discreditable to the profession and to the name of firm to be a party to, or to condone:
  - a failure to reveal a material fact known to the firm which is not disclosed in the financial statements but the omission of which renders the financial statements misleading;
  - a failure to report any material misstatement known to the firm which appears in the financial statements;
  - a failure to acquire sufficient information to warrant the expression of an opinion in accordance with the applicable standards; or
  - any illegal act.

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- (f) In recognition of their dual responsibility to their clients and to the public, firms should:
- Act with professional care and skill for their clients best interests, provided, however, that their behavior is consistent with their responsibility to the public;
  - Strive to be unequivocal to the clients on any issue of significance; and
  - Hold in strict confidence any confidential information obtained in the course of their professional engagement unless the client consents to the divulgence of such information, or the firm is otherwise bound to make known such information by reason of professional standards, by legal or regulatory order, by court order, or by a duly constituted investigative or disciplinary body.
- (g) A firm may be associated with a forecast of future transactions, provided the following are observed:
- Full disclosure is made of the sources of the information used and the major assumptions made in the preparation of the statements, the character of the work performed by the firm, and the degree of responsibility taken; and
  - Whenever the firm expresses the nature of its participation in the forecast, such expression shall not contain a statement, or otherwise imply that the firm vouches for the forecast being achievable.
  - Further, each member should ensure compliance with all the clauses listed in the First and Second Schedule of the Chartered Accountants Act, 1949 including the notifications issued thereunder.

### ***Confidentiality***

- (a) All personnel must appreciate that they have access to secret and confidential information and that clients have implicit reliance that this information will not be disclosed to any unauthorised person.
- (b) Information which comes to the knowledge of a person in the course of his/ her duties must not be disclosed to any person, including any member of staff, unless considered

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essential for the affairs of a client, or the client consents to the divulgence of such information or, a firm is otherwise bound to make such information known by reason of professional standards, by court order, or by a duly constituted investigative or disciplinary body.

- (c) Personnel should also be careful not to discuss the affairs of clients amongst themselves where their conversation may be overheard in such places as trains, aero planes, lifts and public rooms in hotels, nor to expose files in these places in such a way that the name of a client can be seen by the public.
- (d) Improper use or disclosure of information which a firm regards as sensitive, confidential or of a proprietary nature can provide an unfair advantage to competitors and place the firm at an actual or apparent disadvantage with respect to current or future business activities. All such uses and disclosures of privileged information should be prohibited until such time as the information is made available to the general public.

### ***Computer Security***

- (a) Firms rely heavily upon their computer systems to meet their operational, financial and informational requirements. It is essential that these systems be protected from misuse and that both computer systems and the data that they process be maintained and used in a secure environment.
- (b) The use of all owned or leased computer systems must be for officially authorized purposes only. The use of computer systems for unofficial purposes should be prohibited without prior written approval of a partner of the firm.
- (c) All computer programs and data in computer systems and data libraries should be for the sole use of the firm. All computer programs and data developed for a firm by consultants or employees are the property of the firm and may not be copied or released without written authorization for the same.
- (d) Passwords and other EDP security procedures should be protected at all times from disclosure and unauthorized use.

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- (e) Employees or contractors whose services are terminated should return all property and equipment used in connection with a firm's computer systems. Such items include keys, identification cards and badges, portable computer and communication equipment, manuals, documentation and computer listings and other materials. Such material should be returned prior to the last day of active service.

### ***Affirmations of Secrecy***

Each person joining the professional staff of a firm should execute an "Affirmation of Secrecy" whereby they acknowledge that any information of which they become aware in the course of their professional duties will be treated as confidential.

A specimen form of the affirmation of secrecy is contained in Appendix 1.

## **Risk Factors Associated with Engagements**

### ***Client Acceptance Forms***

Firms should appropriately document acceptance of new clients so as to ensure that necessary background check has been done and all the factors were considered prior to accepting new clients. The documentation may be done by using standard Client Acceptance Forms, the draft of which can be referred in Appendix 2 to 4.

### ***Periodic Client Evaluation***

Periodically, firms should evaluate its relationship with each client to determine whether such relationship should be continued. Conditions that may lead to a decision to terminate a relationship include a major change in one or more of the following:

- (a) Management
- (b) Directors
- (c) Ownership
- (d) Legal representative
- (e) Financial condition
- (f) Litigation to which the client may be a party

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- (g) Client's business, and
- (h) Engagement scope, particularly client-imposed restrictions

Whenever a major change in management or ownership of a client occurs, a firm should re-evaluate its continued association with the client in the light of any information gathered concerning the prior business history and the views and objectives of the new management or ownership.

Any question concerning the integrity of new management or new owners must be satisfactorily resolved before a new engagement letter is submitted.

Whenever an engagement partner believes that the ability to provide services at the highest professional level is impaired because of independence, conflicting client attitudes, management integrity, litigation or any other reason, the engagement partner should discuss the matter with the Managing Partner/ the Partnership to evaluate whether resignation is appropriate.

## **Regulatory Issues**

### ***Predecessor auditors***

The Code of Ethics of the Institute of Chartered Accountants of India (Clause (8) of Part I of the First Schedule to the Chartered Accountant Act, 1949) sets out the procedures which must be observed before accepting a nomination or an appointment involving professional work hitherto carried out by another accountant who is already carrying out work for the same client. Each firm must observe these procedures.

Each firm should ensure compliance with specific regulatory provisions applicable with respect to Professional engagements. For example, section 224 of the Companies Act, appointed in respect of a company should satisfy himself about it, before he accepts the appointment.

### ***Engagement Letters***

For all new engagements, a letter confirming the terms of the engagement should be obtained. A new engagement letter should ordinarily be prepared whenever there is a significant change in

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management or in ownership of the client or there is a major change in the scope of a continuing engagement.

### ***Engagement letters- General***

- (a) The letter places on record with the client the respective responsibilities of the management and auditors for the preparation and fairness of financial statements submitted to owners, and to define any other work that the management requires the auditors to undertake.
- (b) It aims to ensure that the client is fully aware of the broad audit objectives, to confirm any special assignments to be conducted during the course of the audit which do not form part of the normal audit routine and to clearly define the responsibilities of all concerned.

### ***Engagement letters- Contents***

- (a) The form and content of an audit engagement letter may vary for each entity, but would generally include reference to:
  - The objective of the audit of the financial report
  - Management's responsibility for the financial report
  - The scope of the audit, including reference to applicable legislation, regulations, and the pronouncements of the ICAI
  - The form of any reports or other communication of results of the engagement
  - An explanation as to the extent to which an audit can be relied upon to detect material misstatements
  - Unrestricted access to whatever records, documentation and other information as requested in connection with the audit
  - A request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter
- (b) Consideration should be given to including in the letter:
  - Arrangements regarding the planning of the audit
  - A expectation of receiving from management written confirmation concerning representations that may be

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- made in connection with the audit
  - Description of any other letters or reports to be issued to the client
  - Basis on which fees are computed and any billing arrangements
- (c) When relevant, the following points could also be made:
- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit
  - Arrangements concerning the involvement of the audit committee, internal auditors and other client staff
  - Arrangements to be made with the predecessor auditor (if any) in the case of an initial audit
  - Any restriction of audit liability when such possibility exists (e.g. non –statutory audit)
  - A reference to any further agreements with the client

### ***Recurring Audits***

- (a) On recurring audits consideration should be given as to whether circumstances require the terms of the engagement to be revised, and whether there is a need to remind the entity of the existing terms of the engagement.
- (b) The following factors may make it appropriate to send a new letter:
- Any indication that the entity misunderstands the objective and scope of the audit;
  - Any revised or special terms of the engagement;
  - A recent change of senior management, including governing body, or ownership;
  - A significant change in the nature or size of the entity's business; and
  - legal requirements

### ***Audits of Components***

When in addition to being the auditor of a parent entity, a firm is the auditor of a subsidiary branch or division (components) consideration should be given to the following factors in deciding whether to send a separate engagement letter to the component.

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- Who appoints the auditor of the component
- Whether a separate audit report is to be issued on the component
- Legal requirements
- The extent of any work performed by other auditors
- Degree of ownership by parent

#### ***Acceptance of Change in the Terms of the Engagement***

- (a) Whenever, before the completion of an engagement, a request is received to change the terms of the engagement to one which provides a lower level of assurance, consideration should be given to the appropriateness of doing so and this should only be done when there is reasonable justification.
- (b) The new terms of engagement should be agreed with the client. If a firm is unable to agree to a change of terms and is not permitted to continue the original engagement, the firm should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the governing body or shareholders, the circumstances necessitating the withdrawal.

## **6.2. Quality Control Policies And Procedure Control Over Practice**

Through various policies and procedures, firms should establish control over the quality of its practice. (Policies refer to the firm's objectives and goals for implementing the various elements of quality control; Procedures' refer to the steps to be taken to accomplish the policies adopted).

#### ***Elements of Quality Control***

The quality control policies and procedures comprise these five elements:

- (a) Independence, integrity and objectivity
- (b) Personnel management
- (c) Acceptance and continuance of clients
- (d) Engagement performance



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- (e) Monitoring

### ***Common Objectives***

The size of the firm practice, the degree of operating autonomy appropriately allowed to its personnel, the nature of its practice and its administrative controls, all will have bearing on the procedures by which it implements the quality control policies. Therefore, what has been discussed individually under respective chapters relates solely to the common objectives with regard to the five elements of quality control.

### ***Responsibility and Management***

The managing partner should be responsible for the maintenance of professional standards within the office. Larger offices may designate a person to oversee the implementation of quality control policies and procedures. The managing partner or the person designated responsible for implementation of professional standards should be responsible for:

- (a) Maintaining liaison with the person responsible for professional standards within the organization;
- (b) Keeping abreast of professional developments and disseminating technical information within the office;
- (c) Serving as counsel to others in the office;
- (d) Bringing matters that should be the subject of policy making to the attention of the Partnership.

## **6.3 People Matters**

### ***Hiring Policies and Procedures***

Policies and procedures should be established to provide reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently.

#### ***Each firm should:***

- (a) Maintain a program designed to obtain suitable personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function.

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- (b) Establish procedures for the guidance and control of recruitment, employment and orientation of professional personnel.
- (c) Project its personnel needs based on existing clientele, anticipated growth, personnel turnover, individual advancement and retirement.
- (d) Establish qualifications including academic background personal achievements, work experience and personal interests. Employment, educational and other background investigation should be completed prior to commencement of employment.

### ***Personnel Management***

The following is the list of some of the matter which should where appropriate, be covered in a firm's policies and procedures:

- (a) Determination of salary ranges for each classification of personnel
- (b) Timing of salary reviews and interim compensation adjustments
- (c) Special compensation- bonuses, cash awards and incentive compensation for introducing new business
- (d) Reimbursement of university/ examination fees
- (e) Overtime compensation
- (f) Holidays
- (g) Personal illness
- (h) Expenses:
  - Professional associations
  - Travel and motor car
  - Relocation expenses, etc.

The above list is not exhaustive and is intended as a guide only as to the items which should be covered.

Each firm should formally document the policies and procedures established and care should be taken that they reflect the requirements of relevant Statues and ICAI regulations and awards as may be applicable.

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### ***Assigning personnel to Engagements***

Policies and procedures for assigning personnel to engagements should be established to provide reasonable assurance that work will be performed by persons having the degree of technical training and proficiency required in the circumstances.

Each firm should take steps to achieve the following:

- (a) Delineation of the firm's approach to assigning personnel, including the planning of overall firm and individual office needs and the measures employed to achieve a balance of engagement, manpower requirements, personnel skills, individual development and utilization.
  - Each client should be assigned a partner or equivalent to be primarily responsible for proper execution of the engagement in accordance with the firm's standards and the standards of the profession.
  - Where appropriate, each engagement may have assigned a manager or a supervisor whose responsibility for the engagement is secondary to the engagement partner, even though that involvement may and usually does exceed the engagement partner's.
- (b) Designation of an appropriate person or persons to be responsible for assigning personnel to engagements.
  - When assigning personnel, an attempt should be made to maintain a degree of continuity or engagements. This continuity is desirable not only to provide individuals with sufficient training to assume in -charge responsibilities later, but also to provide familiarity with client's peculiarities and problems.
  - When assigning experienced personnel to engagements, careful attention should be given to assure that they are placed with experienced personnel who will provide the training and supervision required.
  - Assignments should be made only after consideration of possible independence problems and conflicts of interest, such as assignment of personnel to engagements for clients who are former employers or are employers of certain relatives.

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- (c) Provision for approval of the scheduling and staffing the engagement by the persons with final responsibility for the engagement.

## **Professional Development and Advancement**

### ***Professional Development***

Firms should recognize their continuing obligation to maintain competence and to establish policies and procedures to provide reasonable assurance that personnel have the knowledge required to enable them to fulfill responsibilities assigned. In developing these policies and procedures, firms should seek to provide personnel with the means to develop professionally as well as to execute the tasks assigned to them.

#### ***Firms should:***

- (a) Establish guidelines and requirements for the firm's professional development program and communicate them to personnel:
- The firms should assign responsibility for the program to a partner or equivalent, and the person so selected should be given appropriate authority and resources to accomplish the identified goals.
  - Programs developed by the firm should be updated periodically, as necessary, and reviewed by qualified individuals prior to their use in continuing professional education activities.
  - All newly employed personnel should be given an orientation program to familiarize them with the firm's quality control policies, the responsibilities of the different levels of personnel, and the opportunities available to them.
  - All professional personnel should be required to participate in adequate and acceptable continuing professional education activities. Adequacy shall be determined by the firm, in accordance with the professional requirements of CPE issued by the ICAI. Continuing professional education activities that are acceptable must have the reasonable potential of

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improving an individual's professional competence.

- The firm's professional development program should be monitored. Participants should be encouraged to evaluate firm prepared programs, and qualified individuals should review programs periodically.
- (b) Make available to personnel information about current developments in professional technical standards and material concerning the firm's technical policies and procedures.
- (c) Provide or make available to the extent necessary programs to fill the firm's needs for personnel with expertise in specialized areas and industries.
- (d) Provide on-the-job training.

### ***Advancement***

Policies and procedures to advancing professional personnel should be established to provide reasonable assurance that those selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called upon to assume. Firms may follow the following procedures:

- (a) Identify the different levels of responsibility and the duties ascribed to each level. Performance of those duties should be used as a guide for making advancement decisions.
- (b) Specify the criteria to be considered in evaluating individual performance and proficiency. Those criteria should include technical knowledge, analytical and judgmental abilities, communicative skills, leadership and training skills, and client's relations and personal attitude. Possession of the appropriate qualifications should be a prerequisite for advancement to a higher level of responsibility.
- (c) Evaluate performance of personnel and periodically advise personnel of their progress.
- (d) Maintain personnel files containing documentation relating to the evaluation process:
- A personnel file should be established for each professional employee. Among other information, this file should contain written evaluations, a record of personal interviews and a record of advancement with

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the firm.

- At least annually, all professional employees should be interviewed by a partner or equivalent, where the employee's progress and strengths and weaknesses should be discussed. Each professional should then be counselled concerning future development. A record of the interview should be prepared by the reviewer and included in the personnel file.

**Assignment of responsibility for advancement decisions-** The managing partner in the firm should assign responsibility to the designated persons for making advancement and termination decisions, conducting evaluation interviews with persons considered for advancement, documenting the result of the interviews, and maintaining appropriate records.

## **Training**

### ***Professional Development (PD) partners***

- (a) Each firm should appoint a partner to be responsible for the direction of PD activities within the firm.
- (b) The training needs of all levels of personnel within a firm should be analysed by the PD partner and an appropriate PD program drawn up.

### ***Induction of new professional staff***

Professional staff newly recruited should undertake suitable induction courses to familiarise themselves with the firm's quality control policies, the responsibilities of the different levels of personnel, and the opportunities available to them. The PD partner in the firm should be responsible for organizing such induction sessions.

### ***Technical updating***

- (a) Each PD partner should be responsible for ensuring that personnel within his or her firm are encouraged to engage in self- development activities and are provided with the means of:
  - Keeping up-to-date with current developments in professional technical standards, and

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- Obtaining expertise in specialized areas and industries.
- (b) In this respect the PD partner should:
- Promptly distribute within the office technical advices and material relevant to the profession; and
  - Where necessary, arrange for the holding of technical update sessions.
- (c) Each PD partner should:
- (i) Provide personnel with professional literature relating to current developments in professional technical standards, including:
- Material of general interest, such as relevant national and international pronouncements on accounting and auditing matters
  - Pronouncements on relevant regulations and statutory requirements in areas of specific interest, such as company securities and taxation law, to persons who have responsibility in such areas
- (ii) Provide, to the extent necessary, programs to fill the firm's need for personnel with expertise in specialized areas and industries and:
- organize suitable courses to develop and maintain expertise in specialized areas and industries
  - encourage attendance at external education programs, meetings, and conferences to acquire technical or industry expertise
  - Encourage membership and participation in organizations concerned with specialized areas and industries
  - Provide technical literature relating to specialized areas and industries

### ***Compliance and CPE requirements***

- (a) Partners and qualified professional employees should comply with the continuing professional education (CPE) requirements set by the ICAI. Each partner and qualified professional staff member has the responsibility to ensure compliance with these continuing education requirements.

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- (b) Each partner and qualified professional staff member should be responsible for maintaining his or her own PD records and should be required to submit a copy each year of his or her record to the PD Partner.
- (c) A standard form for the reporting of CPE activities is contained in Appendix 5.

### ***PD Programs***

- (a) Each firm's PD program should:
  - Set out particulars for each course
    - title and general description of contents
    - objectives
    - levels and numbers of participants
    - duration
    - location and date (s)
  - Describe the induction program planned for new professional staff
  - Describe the program adopted to fill the firm's needs for personnel with expertise in specialized areas and industries
- (b) The PD Program should be completed by an internally decided due date (say 30 November of the preceding year.)
- (c) The PD Partner of the firm should be responsible for ensuring that copies of the PD Program are sent to the Partners.

## **6.4 Management Matters**

### ***Organization Structure and Responsibilities***

Firms should formally structure the hierarchies in the organization. This would lay down clear roles and responsibilities of people involved at each level and would also provide a clear path for individual growth and advancement.

The organization structure may be based on service lines for a fairly large firm. A partner may be designated as the Service Line Head for each area of services offered by the firm. A typical



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organization structure for a firm may include the following service lines:

- (a) Audit and Management assurance Services
  - Statutory Audit
  - Internal Audit
  - Other Assurance Services
- (b) Tax and Business Advisory Services
  - Direct tax services
  - Indirect tax services
- (c) Management consultancy services

Firms should define roles, responsibilities, etc. for each job title in the organization for respective service lines. For each individual job title the following should be defined:

- (a) Role
- (b) Reports to
- (c) Scope of authority
- (d) Supervision exercised
- (e) Scope of job (key areas of responsibility)
  - Project management
  - Project execution / client servicing
  - Professional development
  - Staff development/ recruitment
  - Relationship development
  - Billings and collections
  - Business plan
  - Organizational responsibilities
- (f) Job specification
- (g) Personality traits and skill set

As a part of human capital management [which is the most important asset for accountancy profession], firms should have policies on the following:

- (a) Careers: The endeavor should be to create greater opportunities in line with each individual's aspirations. Job Descriptions should be created across level and service

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lines

- (b) Career path: Career paths should be drawn out to help individuals chart their own career growth.
- (c) Performance evaluation: To ensure that merit is the only criteria for growth in the organization, a performance evaluation process should be carried out each year.
- (d) Training: Training policy should be linked with the performance and career development objectives of individuals. Personnel should be empowered to take charge of their own professional development by requesting for a training programme.

Firms should lay down administrative policies with regard to the following:

- (a) Dress code
- (b) Working hours
- (c) Public holidays
- (d) Attendance
- (e) Time reports
- (f) Leave
- (g) Use of mobile phone
- (h) Business travel policy—for within India and outside India firms should have separate policies for terms and conditions relating to Articleship, in conformity with ICAI guidelines, like tenure of articles, office timings, leave, etc.

## **Key Strategic Issues**

### **Contact Management**

Firms should have formal systems in place for contacts available within the organization, which would be necessary for business development. The details that may be included in such a contact management system may include the following:

- (a) Name, address, telephone/mobile/fax numbers, e-mail address and all other personal information that would be available of the contact
- (b) Organization to which the contact belongs

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- (c) Whose contact
- (d) Importance of contact – This may be categorized into A, B, C, D
- (e) Industry to which the contact belongs

### ***Best Practices***

Firms should consider having formal document of best practices to be followed by its professionals so as to instill confidence in its clients and portray a professional image. Few examples on best practices could be:

- (a) Switching off mobile phones during client as well as internal meetings
- (b) Distribution of presentation material at the end of the presentation so as to ensure focus of the audience on the presentation rather than on the material
- (c) Policies for maintaining client's confidentiality
- (d) Abstain from referring client related matters in public places
- (e) Avoid displaying firms/client's documents/files and other property in public places
- (f) Client Service Teams may be formed for large clients with multiple service needs. Such client service team should be led by a relationship partner, the engagement partner and key members of the engagement team.

### ***Knowledge Management***

Knowledge management is a very potent practice development tool. Firms may consider the following for knowledge management:

- (a) Assign responsibility to a designated person in the firm who would be incharge of knowledge management
- (b) A separate knowledge management section may be created with easy referencing facilities. This may be manually maintained or through separate software
- (c) Depending on the size of the firm software support may be obtained to upload all the knowledge available in the organization, which would also facilitate easy access to people. Software support would also enable easy search

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facilities thereby saving on the time of professional staff

- (d) Install processes to ensure that all the relevant updates and changes/amendments in subjects of professional interest are immediately available in the knowledge management
- (e) Data in the knowledge management should be conveniently grouped. The following groups may be created in the knowledge management:
  - Counsel's opinion
  - Legal references
  - Technical knowledge
  - Standard drafts to notes, qualifications, etc
  - Web resources
  - Discussion forum
  - Frequently Asked Questions (FAQs)

## **Forms and Documents**

### ***Client listing***

Each firm should maintain a listing of all engagements indicating for each engagement the name of the partner having primary responsibility and the manager or supervisor assigned to the engagement. This listing should be updated continuously as new clients are added, as old clients are terminated, and as related partner, manager or supervisor responsibilities are changed, so that, at all times, a current list of recurring engagements and related executive responsibility is available. Firms should also take into consideration notification No. 1-CA (7)/53/2001 dated 8<sup>th</sup> May, 2001 issued by the ICAI which requires firms to maintain a record of the audit assignments accepted by the firm of chartered accountants, or by any of the partner of the firm in his individual name or as a partner of any other firm. ICAI has also suggested a format for the same.

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| <b>S.No.</b> | <b>Name of the Company/<br/>Audit Assignment</b> | <b>Registration Number</b> | <b>Date of Acceptance</b> | <b>Date of Appointment</b> | <b>Date on which form 23-B Filed with Registrar of Companies</b> |
|--------------|--|----------------------------|---------------------------|----------------------------|--|
| 1            | 2  | 3                          | 4                         | 5                          | 6  |

Firms should also consider maintaining client register indicating separately the revenue earned from the different revenue streams from individual clients in view of the ICAI's circular on fees that a firm can earn from audit-non-audit engagements.

#### **Time reports**

The most important constraint for professional firms is time. which is sold to clients. Therefore, firms should have a system of obtaining time reports from each professional staff, including the partners, at least on a fortnightly basis. There should be systems in place to compile all such time reports so as give the management of the firm, MIS with respect to job inventory for all ongoing jobs, time spent on completed jobs, etc. Such a system would enable the firm to plan its staff properly, analyze time cost on engagements and discuss for fee increase wherever required.

Such time report should also facilitate in identifying the nature of work done by article/ audit trainee, which is necessary for submission to ICAI on termination/ transfer of trainees.

Form of time report to be submitted on a fortnightly basis is given in Appendix 6.

Further, firms should maintain following forms/ registers as a matter of good office procedures and control over administration:

- (a) Attendance register
- (b) Staff leave form
- (c) Staff leave cards/register
- (d) Compensatory off forms
- (e) Library catalogue
- (f) Reimbursement claims of staff register/petty cash register

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- (g) Register for client-wise out-of-pocket expenses for billing to them

## **Office Administration and Infrastructure**

### ***Office Administration***

Firms should have an adequate office administration system in place, which supports the staff in executing the various jobs and in maintaining the necessary records. The administration system should be designed in a manner so as to provide the member with the relevant information on a timely basis. Some of the key aspects of office administration are:

- (a) Firms should have a procedure for record retention like the period for which the records are to be retained, how the records are stored, the security and fire protection measures and insurance coverage over damage/ destruction of records.
- (b) Firms should maintain record into different files classified into permanent files and current files. Permanent file should normally include those documents which are of continuing importance and all working papers related to current period audit should be placed in a current audit file.
- (c) All correspondence with clients by way of letters, emails, etc. must be filed in a “duplicate” file in a chronological order.
- (d) Current working paper and permanent files for each client should be separately maintained. Income tax-related files must be maintained for the period prescribed under the statute. All files of clients should be maintained for a minimum period of ten years.
- (e) The office should maintain a library containing books and all publications issued by the ICAI, such as technical and other publications, standards, guidance notes and the Code of Ethics. The library should also contain books relating to the core areas of practice, i.e. company law, taxation, auditing and accounting.

### ***Office Infrastructure***

Sufficient infrastructure facilities should be provided for efficient functioning of an office. Adequate infrastructure facilities are a

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prerequisite for quality service. Following are certain suggestions on office infrastructure facilities:

- (a) The office premises should be of sufficient floor space depending on the staff strength of the office. The reception areas should be near the entrance with a proper reception desk. Separate work areas should be designated for visitors, staff workstations, cubicles/cabins for managerial staff and partners, filing area, computer server room and pantry. There should be separate meeting rooms for small meetings and conference room for bigger meetings. The design and layout should provide for efficient movement of people and proper work environment besides providing a pleasing look to all.
- (b) Desktop should be provided at each workstation and sufficient number of laptops should be kept for staff on move.
- (c) Internet browsing facility should be provided in the office for keeping update on developments and facilitating research. E-mail facility should be provided to staff with their own e-mail address.
- (d) Secretarial support staff should be available for staff in general and partners and senior managerial personnel in particular.
- (e) The stationery used like letterheads, envelopes, visiting cards, complimentary slips, client circulars, etc. should be of common design and layout so that standard front is presented before all the people dealing with the firm.
- (f) For larger offices, video conferencing facilities may also be made available in conference room. Remote access to the office server may be provided to managerial personnel to enable them to access important mails, files on server while they are on move.

## **6.5 Engagement Performance Management Engagement Staffing**

### ***Engagement partner***

The engagement partner should be responsible for ensuring that

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the professional standards and policies of the firm have been complied with.

### ***Referral Partner***

For all major or high risk clients, a second partner should be assigned to the engagement partner who, for the purposes of that engagement, is the referral partner.

### ***Staffing of engagements***

- (a) Depending upon the size and nature of the engagement a manager or supervisor should normally support the engagement partner and be responsible to that partner for significant aspects of the engagement.
- (b) Irrespective of the seniority or previous record of the staff member to whom work is assigned, the engagement partner is not justified in relying absolutely on that person and must personally undertake the following:
  - (i) Review and approval of the terms of the engagement
  - (ii) Approval and signature of all reports and correspondence issued in relation to the engagement
  - (iii) Review and clearance of all matters raised by senior members of staff
  - (iv) Review and approval of financial statements and reports

### ***Supervision and control***

The work executed by each person should be reviewed by a person senior to the preparer to determine whether it is adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report. The responsibility for each audit should be given to a designated partner who utilizes appropriately qualified and experienced staff under his or her supervision to complete the various facets of the audit.

At each level of supervision, a critical review of the work done and the conclusions reached should be made by those participating in the audit. No engagement can be considered complete without this critical review.



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To maintain the quality of work and reports:

- (a) Tests and procedures must be properly applied by competent persons;
- (b) Findings and conclusions must be based on an objective evaluation of all pertinent facts;
- (c) Factual statements and conclusions in reports must be documented and supported by information obtained or developed during the audit;
- (d) Detailed audit work and reporting procedures must conform to the standards set out by the firm; and
- (e) A critical review must be performed at every level of supervision of the work done and the conclusions reached by those participating in the audit.

Firms should establish policies and procedures for the conduct and supervision of work at all organizational levels to provide reasonable assurance that the work performed meets the firm's standards of quality.

In determining the level(s) of supervision required for a particular engagement each firm should address the following:

- (a) Complexity of the subject matter
- (b) Qualifications for persons performing the work
- (c) Extent of consultation available and used
- (d) Degree of authority delegated to assistants on an engagement
- (e) Performance of personnel assigned to an engagement, and
- (f) Risk inherent in the engagement.

#### ***Direction and supervision***

- a. Supervision is a continuous undertaking having a direct bearing on the quality of the work performed and the efficiency with which it is accomplished. All those in supervisory roles are expected to:
  - Instruct assistants;
  - Keep informed of significant problems encountered;
  - Review work delegated;

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- Act as mediator when there are differences of opinion among firm personnel
- b. Supervisory staff should instruct assistants on their responsibilities and on the objectives of the procedures they are to perform. Assistants should be cautioned not to commence work unless they understand their responsibilities and the objectives of the work assigned to them.
- c. Work executed by assistants should be reviewed to determine whether it has been adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the audit report.
- d. Sections of audit assignments should be delegated to staff members having appropriate qualifications and experience. All work performed by staff must be adequately supervised and reviewed. The audit engagement partner has the ultimate responsibility for the audit engagement.
- e. The audit engagement manager is responsible to the engagement partner for all aspects of an audit allocated to him. Although the manager retains the overall responsibility, audit tasks should be delegated to other staff members, as will be the responsibility for the control and completion of certain "on-the-job" aspects of the field work. The manager is responsible to the engagement partner for the planning, conduct, review and completion of the audit.
- f. Where work is delegated to another staff member, the person who delegates the work is responsible for the supervision and satisfactory completion of the work delegated.

#### ***Work performed by assistants in an EDP environment.***

Persons responsible for delegating audit work performed in an EDP environment should have sufficient knowledge of EDP to either:

- (a) direct, supervise and review the work of assistants with EDP skills; or
- (b) to obtain reasonable assurance that the work performed by experts with EDP skills is adequate.

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### ***Budget and time analysis***

For each audit engagement a budget and time analysis should be prepared. Ordinarily this analysis provides a summary of budgeted and actual hours incurred on each engagement, distributed by personnel and by work category (e.g. sundry debtors, inventories, etc).

### ***Client assistance***

Each engagement should be planned so that client personnel are utilized to the maximum extent practicable and reasonable to prepare schedules, listings, and account analysis and to perform such clerical tasks as are appropriate. Care must be taken to ensure that documentation prepared by client personnel is clearly identifiable.

### ***Review of audit documentation***

- (a) The review is more than a series of perfunctory questions as to the performance of particular procedures. It is a searching analysis of the facts developed in the course of the engagement. It correlates the working papers with the financial statements, assesses whether adequate evidential matter has been obtained, and determines whether significant matters or problems have been properly considered and resolved.
- (b) All working papers must be reviewed by a person senior to the preparer. An initial and date on the working paper by the reviewer is evidence of this review.
- (c) Working papers prepared and conclusions reached by the engagement manager must be reviewed by the engagement partner.
- (d) Conclusions reached by the engagement partner should be documented in the working papers. These significant matters for partner decision and endorsement should, if a second partner review is required for the client, be considered by that partner.
- (e) Review by the referring firm of the working papers prepared by the other firm on engagements where a firm has referred work to another firm should be done.

***Manager or supervisor review***

On each engagement to which a manager or supervisor has been assigned, the manager or supervisor reviews the working papers, financial statements, audit report, management letter and other data prepared by staff personnel. The extent of this review varies according to the problems and complexities of the engagement, the condition of the financial statements, and the experience and competence of the staff personnel. As evidence of this review, the manager or supervisor should complete and sign the appropriate section of the audit completion check-list.

***Engagement partner review responsibilities***

- (a) The resolution of significant questions by the partner must be documented in the working papers by the partner to the effect that the engagement has been resolved satisfactorily and been properly executed
- (b) Before arriving at a decision concerning the issue of the audit report, it is necessary for the engagement partner to undertake a sufficient review of the audit documentation to be satisfied that:
  - The work performed complies with the firm policies and procedures
  - The work performed is in accordance with the ICAI Auditing Standards
  - Conclusions reached are properly documented, and adequately supported by the working papers.
- (c) Depending on the size and nature of the audit assignment, an audit manager or audit supervisor should support the engagement partner and will be responsible to that engagement partner for all aspects of the audit from preliminary planning to the submission of financial statements for review. Also depending on the circumstances and the size of the office, certain aspects of this work may be carried out by the engagement partner.
- (d) The audit manager (or supervisor undertaking the manager's role in a particular assignment) must responsibly and effectively carry out his/her obligations and, although the engagement partner is entitled to expect this professionalism, he/she is not justified in relying

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absolutely on that person, irrespective of that person's seniority or previous record, and must undertake the enquires and review referred to in the following paragraphs.

- (e) The nature of the assignment and /or the size of the firm will determine the extent of the work undertaken by the engagement partner but, in any event, will include:
- Participation in the planning of the audit
  - Approval of the audit plan and programs
  - Review all working papers prepared by the manager/ supervisor
  - Review of the audit file for satisfactory evidence of completion and the testing of working papers to ensure that the standard of preparation is satisfactory and there is adequate evidence of manager's review
  - Review and clearance of all matters raised by the audit manager or supervisor
  - Following discussions with the manager/ supervisor and senior, discussion of all contentious matters and problems with management
  - Review of financial statements
  - Approval and signature of management letters, reports and correspondence issued in relation to the audit.
  - When considering the extent of the engagement partner's review of the audit working papers, regard should be made to the degree of complexity of the engagement and the problems encountered, whether the client is new to the partner and/or to the firm and the relative involvement of the partner and the manger/ supervisor.
- (f) Evidence of involvement –The working papers must clearly record the work undertaken by the engagement partner.
- (g) Location of review
- Wherever possible, the review by the engagement partner should be undertaken at the client's premises, not only to minimize interruption, but to involve the partner more closely with the client and to demonstrate

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his involvement.

- The partner's visits should coincide with completion of each stage of the filed work.
- It is the responsibility of the manager to ensure that suitable arrangements are made with the engagement partner for the reviews.

### ***Timing of visit to audit clients***

The timing of visits to audit clients will depend on the size of the client, the complexity of the problems and the closeness of contact between the partner and / or manager and the client. The following visits are likely to be required for major clients.

- (a) Pre-audit planning review
- (b) Interim audit review
- (c) Pre-balance sheet date meeting
- (d) Final audit review

Other visits may be necessary from time to time to meet with directors and management to discuss matters arising from the audit including the clearance of points raised in management letters.

### ***Concurring partner review procedures***

- (a) Each firm should, wherever practicable and wherever circumstances warrant, assign a second partner or a concurring partner to each qualifying engagement.
- (b) The tasks of the concurring partner are to provide support for the engagement partner in resolving contentious matters arising from the audit, to ensure that more than one partner is familiar with the affairs of major and high-risk clients, and to provide additional assurance of the quality of the audit work.
- (c) The concurring partner should know the client's senior personnel and have an understanding of the main activities of the client. He or she should be kept informed of changes in the client's affairs and be available to assist the client in the absence of the engagement partner. The concurring partner should consult with the engagement partner on significant accounting, auditing and reporting matters;

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perform the engagement partner's review when appropriate (e.g. if the engagement partner is unavailable for any reason); and concur with the engagement partner's decision to issue the report on the financial statements.

- (d) Either a second partner or a concurring partner should be assigned to engagements falling within the following categories:
  - Special engagements including prospectus reports, investigations, acquisition audits and valuations. The second partner or concurring partner should have adequate experience of these engagements.
  - Any engagements where the engagement partner wishes to have the assistance of a second partner or a concurring partner.
- (e) The concurring partner review should be documented on the file.
- (f) Differences of opinion between the concurring partner and the engagement partner which remain unresolved at the completion of the review should be notified to the Managing Partner.

### ***Tax review Procedures***

All audit clients should be assigned a tax specialist who conducts a review of the tax accounts before the audit report is signed. The person assigned as tax specialist for this purpose should possess the skill, knowledge and experience necessary to carry out the review function effectively. Criteria to be used in the appointment of tax specialists are:

- (a) Size of client and degree of public involvement
- (b) Complexity of tax problems envisaged
- (c) Specialist client business knowledge required
- (d) Existing involvement with client including tax return preparation and / or tax planning
- (e) Availability to meet audit deadlines.

In some case and particularly for audits of smaller entities, the engagement partner or manager may possess the skill, knowledge and experience to act as the tax specialist.

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Each audit report to be processed for release to a client should be accompanied by an audit report processing checklist to monitor the partner's authorization, typing, checking, reading, review and release of such report.

### ***Consultation***

Policies and procedures for consultation should be established to provide reasonable assurance that personnel will seek assistance to the extent required, from persons having appropriate levels of knowledge, competence, judgement and authority. All partners and professional employees should be encouraged to discuss openly with one another any matter of professional concern and to seek of other's advice. In fact, all professional personnel should be instructed to regard it as their duty to seek and obtain consultation whenever, in their judgement, such consultation is necessary to satisfy themselves that their proposed solution to a problem is proper.

Each firm should take steps to achieve the following:

- (a) Identify areas and specialized situations where consultation is required, and encourage personnel to consult with or use authoritative sources on other complex or unusual matters.
- (b) An adequate reference library should be maintained to facilitate research. The library should be easily accessible to professional staff, and at the minimum, include copies of all applicable official pronouncements to which professional personnel are expected to adhere. Other reference material should include as appropriate, information covering specialized industries in which the firm has one or more clients; accounting texts; auditing texts; tax services; periodicals and news summaries.
- (c) Designate specialists to serve as authoritative sources, and define their authority. Provision should also be made for resolving differences of opinion between engagement personnel and specialists.
  - The process by which an individual seeks consultation should be free of rigid procedures, which might discourage consultation or impede resolution of the matter for which consultation is sought.



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- Appropriate lines of communication should be maintained with other accounting firms, professional organizations, and private enterprise to deal with question for which the firm lacks the necessary resources to resolve.
- (d) The documentation necessary for consultation in those areas and other specialised situations where consultation is required should be established by the firm.

### ***Identification of situations where consultation is required***

Situations or areas, which ordinarily call for consultation are decided based upon the needs of the firm practices. The following situations will ordinarily require consultation:

- (a) When it is proposed to issue a qualified audit report
- (b) A continuing engagement with a history of recurring disagreements over major matters, or reporting issues
- (c) A continuing engagement for a client involved in litigation in which the firm has been formally charged with issuing misleading or false financial statements
- (d) An engagement for a new client in an industry or industries where the firm handling the account has no prior expertise
- (e) A new or existing client contemplating a public offering of one kind or another
- (f) A special engagement for a third party to provide expert advice or to serve as an expert witness

## **Performance and Evaluation**

### ***Evaluation guidelines***

Firms should ensure that:

- (a) The criteria to be considered in evaluating individual performance and expected proficiency are appropriate to the level of the individual being evaluated. Such criteria may include:
  - Technical knowledge
  - Analytical and judgment abilities
  - Communicative skills

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- Leadership and training skills
  - Client relations
  - Personal attitude and professional bearing (character, intelligence, judgement and motivation)
  - Qualifications for advancement to a supervisory position
- (b) advancement policies and procedures are communicated to personnel
- (c) personnel are instructed on the objectives of personnel evaluation
- (d) suitable forms are used for evaluating the performance of personnel
- (e) evaluations are reviewed with the individual being evaluated
- (f) evaluations are reviewed by the evaluator's superior
- (g) evaluations have been completed on a timely basis

Firms should periodically review the systems and related documentation of personnel evaluation and counseling to ascertain that:

- (a) procedures for evaluation and documentation are being followed on a timely basis
- (b) requirements established for advancement are being achieved
- (c) personnel decisions are consistent with evaluations
- (d) appropriate recognition in advancement decisions is given to the quality of work performed
- (e) recognition is given to outstanding performance
- (f) individuals meeting stated criteria are assigned increased degrees of responsibility

Firms should have a system of job evaluation of each member of the team at the end of each engagement and an annual performance review program. The annual performance review program can be based on both self-appraisal and then evaluation by the appraiser. Such evaluation should be fully discussed between the appraiser and the appraised a well documented and

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signed off. In case of differences, the matter may be referred to the higher authority.

#### ***Partner Performance counselling***

- (a) Of all the ways of improving a professional firm's success, partner performance counseling is one of the most powerful elements. Therefore performance review and evaluation should equally be applicable to the partners. Such evaluation may be done following 360-degree appraisal form designed to the requirements of performance such level.
- (b) Generally, reviews tend to focus overwhelmingly on the "look of back" appraisal function (in order to serve as an input to reward decisions) and contain only a minimal "look ahead" counseling component. Such should not be the case. The performance counseling process can (and should) be designed to help partners, creating the opportunity for them to:
  - Reflect on and learn from the past year's accomplishments
  - Receive constructive feedback, positive or negative
  - Receive personalized advice on how best to advance their career
  - Receive guidance in setting realistic but stretching personal goals for "growing their asset" and making contribution to the firm
- (c) The Following processes may be designed to accomplish the above goals.
  - **Specifying performance criteria:** The key performance indicators could include the following six categories:
    - Profitability of work supervised
    - Client satisfaction on work supervised
    - Coaching on work supervised
    - Contributions to practice development
    - Personal growth (career strategy)
  - **Designing the counseling process – for self-**

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**evaluation:** The process should begin with the firm sending to each partners the quantitative information it keeps on partner performance (preferably including financial and non- financial scorecards) with a request to prepare a self-evaluation of his accomplishments for the year.

- **Implementing the process:** At this stage the partner should meet the counsellor. In a small firm, all partners could be counselled by a single compensation committee chosen for that purpose. In larger firms, the counseling must be done by practice leaders– in charge of a discipline, an office, or a practice area.

If the firm uses a structured form for counseling sessions (in general, a good idea), it can be productive to include a section, which rates not only accomplishments but specific skills. For example, the form could include the following skills.

- (a) Communications skills (ability to express thoughts in a logical, fluent, and concise manner)
- (b) Counseling skills (tact, the ability to explain, to persuade others in a non-confrontative style, see the other person's point of view, keeping client informed, listening well, etc.)
- (c) Creativity and innovativeness
- (d) Planning and organization (ability to get things done)
- (e) Leadership (motivation of subordinates, effectiveness in delegation)
- (f) Cooperativeness and team play
- (g) Drive, self-motivation

An overall, evaluation category should be included on the form. This is a reasonable expectation for a partner to have and is needed to ensure that no misperceptions remain about what the performance review implies for the remainder of the compensation setting process. It should serve to reduce (but never eliminate) the number of “surprises “. (Great performance review, compensation increase!)

## **6.6. Client Relationship Management Delivering Quality Service**

We are in the profession of providing services. However, you need to distinguish between quality of work and quality of service. Quality work doesn't mean quality service. It is important to note that while goods are consumed, services are experienced. Firms should be as much in the business of managing the client's experience with respect to professional services as in the business of executing technical tasks.

When dealing with clients the following conditions should be borne in mind and followed:

- (a) Ask intelligent questions about symptoms; try to come up with an informed guess as to the scope of the problem. Do not say, 'Leave it with us and we'll get back to you'
- (b) Do not make them feel as if their problem was just one more job to be done; instead convey the impression that you wanted their business.
- (c) Deal with them with an appropriate mix of respect and friendliness
- (d) When complications arise, make strenuous efforts to contact them, inform them of developments, and involve them in the decision as to what to do next.
- (e) Provide advice as to how to prevent recurrence of the problem, or to avert other potential problem detected in the course of the problem solving exercise

It is necessary to service not only the problem through proper solution, but also the client. Indeed, it may be more important to excel at servicing the client.

In choosing professionals, the clients may pay more attention to the quality of service received than the quality of work performed—which, of course, is not the same thing. Clients know that any number of professionals can fix the problem, and rather than seek out the most highly qualified (and probably most highly priced) professional in town, these intelligent clients will appraise providers along a number of dimensions, including responsiveness, attitude, and other non technical "service" criteria.

### ***Key Aespcts of Managing the Practice***

The client may think that the service provider did a good technical job at dealing with the professional matter, whereas he/she is not an expert. However, with the unfolding of time he/she will learn more as his/her legal contracts do or do not result in problems, as his/her tax arrangements do or do not result in financial benefit, as his/her merger attempts are successful, and so on.

The question a client generally asks himself is how do I appraise my service provider? And the firms should always be available to provide an answer. Most clients come to focus more heavily on the quality of service than on the quality of work. Therefore, the personal relationship between the client and the firms takes on great significance. When the client finds a firm whom he trusts, in whom he can have confidence, and who provides him with peace of mind and reassurance, the client will tend to remain with that firm. Indeed, on most technical or professional matters outside his area of expertise, the client is as much shopping for trust, confidence, peace of mind, and reassurance as he is for “cold” technical expertise.

If the client perceives service at a certain level but expected something more (or different) then he or she will be dissatisfied. Firms should manage not only the substance of what they do for clients but also to manage clients’ expectations and perceptions. A pleased client is easier to keep pleased than one who is in a state of annoyance and impatience.

Firm should be adept at projecting a caring image and back it up with a substantive reality. This will do well in the marketplace. Clients are almost by definition in a state of anxiety and nervousness: They need to be confident that they are in good hands.

Client expectations should also be managed by vigorous efforts at keeping the client informed as to developments, progress, and discretionary decisions. The professional must discover each client’s style preferences and work to communicate the appropriate attitude.

The importance of clients service should be well understood by professional firms. Firms should acknowledge the critical distinction between technical quality (how good is the work?) and service quality (what kind of experience does the client have with

### ***Professional Opportunities for Members – An Appraisal***

the firm?) All firms should acknowledge the importance of service quality in determining client satisfaction.

#### ***Practice Development- Existing Clients***

By staying within the regulatory boundaries of ICAI with regard to soliciting businesses, firms can look for additional business opportunities. The existing clients represent the most probable (and often the profitable) source of new business.

Firms should always try to bring in new type of work, which would give the firm an opportunity to stretch and build up its skills. It is in the existing client base that firms are most likely to find the opportunity to conduct the type of work that not only contributes to the bottom line, but adds to its capability to earn more (and higher) fees in the future, to make a contribution to the firm's intellectual capital, and not just exploit its existing capabilities.

#### ***Obtaining Client Feedback***

Firms should listen to clients regularly and obtain feedback on services. Listening—soliciting clients' evaluation of current services and getting them to describe their unfulfilled needs - has two interrelated purposes: one, improving the competitiveness of current services and two, identifying opportunities to develop new services.

Some of the ways in which the client feedback could be obtained are:

- (a) Senior partner's visits to key clients – This is the most common form of listening to clients. Frequently, such visits should be conducted not in client's offices, but over dinner. The virtues of this practice include not only quality assurance but also the opportunity to converse on long-term issues.
- (b) Engagement team debriefings – At the end of each engagement, the engagement leader should sit down with the client to obtain the client's feedback on what went well, what less well, and how the engagement might have been improved upon. These conversations are the source not only of good ideas for improvement, but highlight additional unresolved issues that represent immediate new business for the firm.

**Key Aespcts of Managing the Practice**

- (c) Systematic client feedback—The firm may adopt a mandatory policy of sending a questionnaire to key identified clients at the end of each engagement or say once a year, inviting client to evaluate the firm. The questionnaire is a institutional mechanism and helps accomplish the goal of firm wide quality assurance as well as providing a means for the firm to systematically track its quality performance, watching for trends, and hence opportunities for improvements.

## **6.7. Specimen Documentation**

### **(A) Affirmation of Secrecy**

(SPECIMEN LETTER)

To \_\_\_\_\_ Managing Partner [Firm address]

I hereby declare that I will treat as confidential, information regarding the affairs of the firm or of its clients which, I become aware of in the course of my employment and professional duties and that;

- (a) I acknowledge that I have read and fully understood the policy statements of the firm relating to confidentiality
- (b) I know that compliance is mandatory and is a condition of continued service with \_\_\_\_\_ name of the firm; and
- (c) I agree to abide by the policy statements in all respects.

Name:

Title:

Signed:

Date

Witnessed

**Note :** Any breach of the rules relating to confidentiality would, in the firm's view, be a breach of confidence, and make the member of the staff liable to instant dismissal (and loss of discretionary benefits available on leaving the employment of the firm).



**(B) Client Acceptance Form-Summary**

Name of Prospective Client: \_\_\_\_\_

Location(s) : \_\_\_\_\_

Nature of Business: \_\_\_\_\_

Structure of Business : Bank/Insurance Financial Institution \_\_\_\_\_

Non-Profit \_\_\_\_\_ Publicly Listed \_\_\_\_\_

Public Sector \_\_\_\_\_ Privately Held \_\_\_\_\_

Beneficial/Ultimate Owners : \_\_\_\_\_

Members of Governing Body: \_\_\_\_\_

Present/Former Accountants: \_\_\_\_\_

|    | <b>Questions</b>   | <b>Yes</b> | <b>No</b> | <b>Comment</b> |
|----|--|------------|-----------|----------------|
| 1. | Is there any reason to believe that accepting the client will create unusual risk (i.e),create conflicts with current clients, violate professional ethics, other) | _____      | _____     | _____          |
| 2. | Is there any reason to believe management or other key individuals do not possess integrity?   | _____      | _____     | _____          |
| 3. | Is there any reason the firm cannot properly service the client?   | _____      | _____     | _____          |
| 4. | Is there any relationship between beneficial/ultimate owners/members of  | _____      | _____     | _____          |

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|    |   |       |       |       |
|----|---|-------|-------|-------|
|    | governing body and any partner/ equivalent or professional personnel?<br>_____  |       |       |       |
| 5. | As a consequence of 4 or for any other reason, can it be concluded that the firm lacks independence in relation to the prospective client?  | _____ | _____ | _____ |
| 6. | Is there any reason to believe the prospective clients accounting records or internal controls are of such a condition as to make the financial statements either unsuitable or require services beyond those contemplated by the fee arrangements (not applicable to review and compilation services)? | _____ | _____ | _____ |
| 7. | Is there any reason, based upon discussion with the previous auditor that the engagement should not be accepted?  | _____ | _____ | _____ |
| 8. | Is there any other reason to question acceptance of the prospective client?<br>_____  | _____ | _____ | _____ |

A 'Yes' response to any of the above question precludes acceptance of the clients until the conditions indicated by the 'yes' response are addressed. The Managing Partner of the firm concerned or the Partnership must approve the acceptance of any client that generated a Yes response to any of the above questions.

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\_\_\_\_\_  
Signature of partner responsible for form  
preparation

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chairman/Managing Partner Approval

\_\_\_\_\_  
Date

The Client Acceptance Form Summary should be completed prior to submission of a proposal to a prospective client. Necessary approvals may be verbal, but are required to be followed up with a completed form as soon as possible (no later than commencement of preliminary planning procedures).

**Other Client Acceptance Forms:**

|                         |              |  |
|-------------------------|--------------|--|
| Predecessor Accountants | (Appendix 3) | [Check if used ]<br><input type="checkbox"/> |
| Background Information  | (Appendix 4) | <input type="checkbox"/>                     |

**(C) Client Acceptance Form – Predecessor Auditors**

ATTACH CORRESPONDENCE WITH PREDECESSOR AUDITORS TO THIS FORM

***Inquire of the prospective client as to:***

1. The name and address of the predecessor or other auditor, including the name of the engagement partner:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. The services rendered by the other auditors. How long have they been associated with the prospective client?

\_\_\_\_\_  
\_\_\_\_\_

**Key Aespcts of Managing the Practice**

3. Any unpaid fees to the predecessor auditors?  
Yes \_\_\_\_\_ No \_\_\_\_\_

Explain a Yes answer. Indicate amount and reason:

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4. The reason for changing auditors:

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5. Any disagreements with the predecessor auditors as to accounting principles, auditing procedures, disclosure, reporting, or other significant matters?

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\_\_\_\_\_ Title  
and name of individual with whom discussed \_\_\_\_\_

Date: \_\_\_\_\_

***Discuss with the predecessor auditors:***

1. Their understanding of the reasons for change in auditors.
2. Disagreements with management as to accounting principles, auditing procedures, disclosure, reporting, or other similar significant matters.

Explain any differences between management's and the predecessor auditor's response to these inquiries:

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***Professional Opportunities for Members – An Appraisal***

3. Any facts or situations that might question the integrity of management.

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4. Whether or not their response is in any way limited. If so, explain:

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5. Whether or not we shall be given unrestricted access to their work papers. If not, explain:

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6. In situations where the predecessor auditor was engaged to perform compilation or review services, did the prospective client co-operate in providing any necessary additional or revised information requests?

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7. Whether they know of any reason why we should not accept the engagement? If yes, explain:

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Based on the specific facts and circumstances, consider whether additional inquiries will assist us in determining whether to accept the engagement. Describe any such

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additional inquires and the responses.

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Title and name of individual with whom discussed \_\_\_\_\_

Date: \_\_\_\_\_

**(D) Client Acceptance Form – Background Information**

- |   |               |
|---|---------------|
| 1. Type of Engagement                     | Estimated Fee |
| _____ Audit From To                       | _____         |
| _____ Review of financial statements      | _____         |
| _____ Compilation of financial statements | _____         |
| _____ Prospective financial statements    | _____         |
| _____ Others - describe                   |               |

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Yes No

2. Does the engagement involve work in connection with the raising of funds (debt or equity)? \_\_\_\_\_

If yes describe: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. If the engagement does not involve the raising of funds, what is your understanding of the prospective client's need for the proposed services?  
(Example: requirement of prospective client's banker).

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4. Describe the nature and size of the business:

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5. Identify and obtain the following information regarding key management, owners and directors:

| <b>Name</b> | <b>Ownership</b> | <b>Title or</b> | <b>Other</b>        |
|-------------|------------------|-----------------|---------------------|
|             | <b>%</b>         | <b>position</b> | <b>Company</b>      |
|             |                  |                 | <b>Affiliations</b> |
| _____       | _____            | _____           | _____               |
| _____       | _____            | _____           | _____               |
| _____       | _____            | _____           | _____               |

6. Identify the following:

How long Associated

(a) Lawyers\_\_\_\_\_

(b) Bankers\_\_\_\_\_

(c) Predecessor auditors (if any)\_\_\_\_\_

(d) Underwriters (if any)\_\_\_\_\_

7. Consider the need to conduct a search using the various data banks and /or industry publications, etc, to identify and review matters that may have a bearing on the acceptance of the prospective client (i.e. recent or pending litigation, tax examinations and, if applicable, complaints or other enforcement proceedings).

Information obtained and attached.

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Indicate information obtained from the above searches that may have a negative bearing on the acceptance of the proposed engagement:

**Key Aespcts of Managing the Practice**

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8. Obtain and review the following financial information to the extent applicable.

|   | Reviewed | Attached |
|---|----------|----------|
| (a) Attach the following financial statements to the extent available |          |          |
| Audited   | _____    | _____    |
| Reviewed  | _____    | _____    |
| Other (describe)  | _____    | _____    |
| (b) Most current interim financial statements                         | _____    | _____    |
| (c) Tax returns   | _____    | _____    |
| (d) Most current regulatory filings:                                  |          |          |
| (i) Director's Report   | _____    | _____    |
| (ii) Stock Exchange Filings   | _____    | _____    |
| (iii) Others (describe)   | _____    | _____    |
|   | _____    | _____    |
|   | _____    | _____    |
| (e)   | _____    | _____    |
| (f)   | _____    | _____    |

If we have reviewed the information noted above a copy should be attached to this form. In those circumstance where we are unable to obtain a copy, significant information should be excerpted.



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9. How and by whom were we contacted or approached concerning the prospective client?

Describe:\_\_\_\_\_

\_\_\_\_\_

10. Do we have the requisite expertise to properly service the client? Yes\_\_\_\_\_ No\_\_\_\_\_

(a) If yes, indicate the names of other related clients in the same industry serviced by the firm:

\_\_\_\_\_

\_\_\_\_\_

(b) If the response to 10(a) above is no, indicate the partner who has the experience, where the experience was obtained and on which clients.

\_\_\_\_\_

\_\_\_\_\_

(c) If the responses to 10(a) and (b) above were no, explain other arrangements to obtain sufficient knowledge.

\_\_\_\_\_

\_\_\_\_\_

11. (a) Are you aware of any accounting or law firm declining to service the prospective client?

Yes\_\_\_\_\_ No\_\_\_\_\_

Explain a yes answer:

(b) Are you aware of any pending litigation?

Yes\_\_\_\_\_ No\_\_\_\_\_

12. Is the prospective client part of a group of related entities or subject to significant related party transactions or affiliations?

Yes\_\_\_\_\_ No\_\_\_\_\_

**Key Aespcts of Managing the Practice**

If yes, attach explanatory data discussing the entities and relationships involved, the participation of other auditors, etc.

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13. Are we being asked to re-audit or review any periods reported on by other auditors?

Yes\_\_\_\_\_ No\_\_\_\_\_

Explain a yes answer:\_\_\_\_\_

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14. Are there any unusual or special considerations relating to accounting principles, auditing procedures, reporting, presentation or disclosure, regulatory matters, or tax matters?

Yes\_\_\_\_\_ No\_\_\_\_\_

Explain a yes answer to any of the above:\_\_\_\_\_

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15. Are we being asked to provide litigation support services?

Yes\_\_\_\_\_ No\_\_\_\_\_

If yes, provide information regarding the nature of the proposed services, our past relationship with the client and if a new client, how we were contacted by the prospective client.

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**(E) Personal Record Of CPE Activities**

PERIOD:

NAME:

OFFICE:

| <i>Date</i> | <i>Description of Title of Course/Activities</i> | <i>Hours</i> |
|-------------|--|--------------|
|             |  |              |
|             |  |              |

**(F) Fortnightly Time Sheet**

Firm Name:    Location:

Staff Name:    Time report for the period \_\_\_\_\_ to \_\_\_\_\_

| Job/Client Name               | 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | 14 | 15 |    |
|-------------------------------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
|                               | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 |
| Total                         |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Administration                |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| General office Work           |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Office Meetings               |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Reporting                     |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Special HR related activities |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| In-house Training             |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Non-Professional Assignments  |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Reading-self                  |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Technical                     |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |

**Key Aespcts of Managing the Practice**

|                                    |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|------------------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| Non-Professional Assignments       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Digesting-Tax/ Company Law etc.    |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Industry Research                  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Presentation/ Training preparation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Special Assignment s               |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Outside Training                   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Non-Technical-It/ Soft Skills etc  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Technical                          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Practice Development               |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Client Meetings/ Sundry Jobs       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Department Liaison                 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Entertainment                      |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Seminars/ Presentations            |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Total</b>                       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Daily Total</b>                 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

## **Chapter 7**

# **GOVERNMENT CONSULTING – TAKING THE FIRST STEPS**

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Prefatory Remarks of recent, There have been a number of assignments on the conversion of accounts of urban local bodies (ULB). West Bengal, Rajasthan, Madhya Pradesh, Gujarat, Tamil Nadu, Karnataka, Maharashtra have been active in this regard. Many consulting firms (most of them CA firms) have been given such assignments. Many States are now in the process of awarding contracts on conversion, and this list includes Punjab and Haryana. Of the metro cities, Delhi, Hyderabad, Chennai, Mumbai, Kolkata, and Bangalore are already either involved in the process, or getting ready for it.

Considering that there are more than 6000 towns and cities in the country, the opportunity that is opening up is a major one. And this is not all. The Government of India itself has taken up Pilot Projects on Conversion, and will follow it through with regular projects. This work will be spanning perhaps over the next ten or fifteen years.

Very few of the CA firms in this country have dealt with government accounts extensively. Those who have done so, know the problems involved in dealing with Government departments ( and ULBs copy government departments totally), but even then CA firms are rarely involved with working inside a government department, and therefore their knowledge is at best, peripheral. This also means that managing an assignment on conversion is not easy, because there is very little (for most firms) past experience to fall back on.

Keeping such problems in view, the Institute undertook two projects through the ICAI-Accounting Research Foundation ( ICAI-ARF), with the Municipal Corporation of Delhi, and the Kolkata Municipal Corporation, for Finance and Accounting Reforms. The knowledge that was garnered through the process of working with these two bodies, is concretely presented in this volume. The Question- answer structure is deliberate, so that those reading this

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book can find field level solutions – or at least be guided towards such solutions. The Institute has also been involved with several Evaluations for Municipal Accounts Conversion, and also in training. The *sumnum bonum* of those experiences forms the fulcrum on the basis of which arguments given in this book have been structured.

In this revised edition of the book certain updates have been provided mainly on Consulting with Government both at individual and Firm level, for foreign assignments also. It is important for individuals and Firms to refer to these updates before undertaking consulting assignments.

### **7.1 Dealing With The Preliminaries**

Everyone talks about Government Consulting projects these days, and they talk in crores of rupees or millions of dollars. But I have noticed that most of these people are either from large firms or they have been abroad for a long time. I belong to a small firm, and I have concluded that this area is not for me. Why should I be wrong? And why should I read this book anyway?

Apart from the fact that everyone is talking about government consulting, you are wrong on all other counts. First, not all government consulting is about large contracts. There are a huge number of small contracts, starting from 15-day assignments abroad ( and there are audit assignments also for small and medium firms, but you have to know where to look for them), to month or 100 day assignments in India and in other countries that are suitable for individuals and small/medium firms. Large firms have invested time and other resources and they have built up a credibility, so they talk about large contracts. We say, to each one, his own size. You can do a number of small contracts and build up credibility as a specialist.

Second, as we said, you need not be large in order to get a contract. Let us tell you a secret. People ask for international exposure; and obviously those who are from small firms (or even small-medium firms) cannot travel abroad unless there is something concrete, and no one is going to offer them anything unless they have prior experience. So how do manage people? The trick lies in trying to get contracts in post-conflict countries.

## **Government Consulting – Taking the First Steps**

Immediately after a conflict, there are very few who want to go in and work; and those who give out contracts will give them to anybody who wants to come. That is the time people get even seven-day contracts, and after one or two of such assignments, they become 'international consultant' all over their sleeve. Important thing to note is that one should not be finicky about the countries. If you have got a contract in Bangladesh, say, that tags on as 'regional experience'. And you get one more in Afghanistan, and you have got more 'regional experience'. You now get something in Africa, say, and you have got international experience, and you are on your way.

Third, government consulting is for anyone who will invest a little time and energy into studying the system, and how to get around the typical clauses of 'specific relevant experience'.

***This, in fact, is where I get caught. How do I get 'specific relevant experience'?***

You have to act smart. Let us take a simple example: There is an announcement inviting consultants for a poverty alleviation program. The programme is to be implemented through NGOs, and the consultants will help to set up the financial systems. Question is, how could a small or medium firm build up the experience to participate in this kind of an assignment?

The answer is, if you want to participate in such assignments in the future, get ready for it now. The first step is to get involved with NGOs. There are thousands and thousands of them and you can give them your services for free or for little cost, as a consultant. The important thing is six months of that kind of association, and you have got relevant experience. Of course, the bigger the NGO, the better it is. But not always. If the poverty alleviation programme is to be implemented in remote villages, then small NGOs who operate locally would be involved. In that case, your experience of small NGOs will give you higher credibility.

You have talked about getting international exposure from working in post-conflict situations. Why can't I get similar kind of experience or exposure in countries that are safer?

That is the way the world works. There is nothing to stop you from getting contracts in India. But then, you will always lack that edge

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of 'international exposure'. In any case, remember that most of the world's aid and loan money is tied up in developing and less-developed countries. In fact, all the world's big fish are there. And where the big fish feed, there is something for the smaller ones also.

#### ***Where do I look for opportunities?***

You can look at the websites of the major donor organizations – World Bank, ADB, DFID, JBIC, KFW etc. The Institute also has such opportunities displayed on the Professional Development Portal, [www.pdicai.org](http://www.pdicai.org). We suggest that you do a regular tracking of such opportunities – you never know when you will find one that absolutely suits you.

Basically one has to look at the particular sites where opportunities are always advertised. These are primarily three:

1. UNDB (UN Development Bulletin)
2. DG Market
3. ACBAR (for Afghanistan vacancies and consulting opportunities only)

There are other sites such as Development Executive, Reliefweb, etc. and it is simple to look for them. There are as many opportunities for Chartered Accountants, especially young Chartered Accountants, as there are development avenues.

It is, in fact mandatory for all borrowers all over the world to advertise international consulting opportunities in both UNDB and DG Market. This of course is for multilateral agencies. When individual countries provide aid, the consulting assignments may not be advertised at all.

When an Advertisement for Expressions of Interest (Eoi), say, for Conversion of Accounts of municipal bodies comes out, how should we respond, especially in terms of Relevant Experience?

For now, let us go with the example of an assignment on conversion of accounts of municipal bodies. Most firms will not have any direct prior experience in the conversion of accounts of



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municipal bodies. Those that have such experience, must include that in their EoI.

For those firms that do not have prior experience, it is best to look at all past consulting work done by the firm and cull out those aspects that have a direct bearing on the conversion of accounts. For example, the firm may have done work on

- ❑ Determination of Opening Balances
- ❑ Valuation and inventory of Fixed Assets
- ❑ Providing advice on management of Grants and Loans
- ❑ Reconciliation of various kinds of accounts, including Advance, Suspense, etc.
- ❑ Either directly reconciling or inspecting the reconciliation of very large number of Bank Accounts in a single organization.
- ❑ Accounting systems that are hybrid in nature (cash-based double entry systems or systems that are largely manual and only partly computerized and so forth)

It is best to break down the whole work of conversion into such simple components and state that the firm has done work on each component in different organizations or agencies. While doing this, also cull out the details of that past assignments, how many people from the firm were involved, what were the deliverables, what kind of documentation was developed, how much time it took, and so forth. All this data will come in useful later for the Technical Proposal, if the firm gets short-listed.

Many firms get stuck at this stage because they have no direct experience of working with the government in any way. It is useful to note that one can use private sector experience also (although most advertisements will ask for government experience), if the advertisement is even reasonably open-ended. In any case, it is helpful to get hold of someone with government experience (many firms just go ahead and hire retired people; this is not a very good idea, because Evaluation Committees also know these simple strategies). The best idea is to find someone who is not quite retired, and can talk about current developments. This is important

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because the interventions of such people will be needed later, if the firm is called on to make a presentation.

But there must be hundreds of people going around who can be called upon any time, people with experience and expertise that is specific to government contracts.

#### ***How do I stand a chance?***

Wrong. There aren't hundreds of people floating around, there are very few. If you could study the EOIs submitted by various firms (including the big ones) you would find that the same people appear over and over again as Chiefs of Party or Deputy Chiefs of Party or even Experts. Why is it like this? You say, and the answer is that not many people enter into this area—again that is the way the world is. In point of fact every time there is a new assignment, there is a rush by all the consulting firms to get hold of someone who has a reasonably sized bio-data, and very often such people cannot spare the time for a new assignment. What is the result? Very often people with impressive bio-data (like thirty years of service in the revenue department) get hooked onto such assignments and then most of them cannot deliver. This is a factual statement, believe it. And believe this also, there is a great need for new people, people who can deliver all over the world.

I would like to go back to a basic issue. We began this book with consulting assignments in conversion of accounts. Suppose I am not interested in this particular field. Do I have any other choice?

Of course. You have lots of other choices. Everyone wants financial systems to be set up, especially in the developing and post-conflict countries. In Afghanistan for example, most donors are going around looking for good FM and Accounting people from the region, and no one wants to come. Those who want to come withdraw after some time. And there is a big vacuum in almost every Ministry. Afghan capacity is to be built up, and there is no one to build it. As an example, USAID is funding a big program, called the Capacity Development Program (CDP) which is worth 200 Million dollars, and there are hardly any accountants (from India, and also from elsewhere) in that program. Opportunities are there in programs funded by World Bank, DANIDA, ADB, DFID and others. In fact the situation was so bad two years ago that the Senior Accounting Expert of one consulting organization engaged

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in a major accounting project turned out to actually be a Chef from big Hotel!

### ***What goes into an EoI?***

Most firms already know all this. For those who are entering this field for the first time, the answer is simple. Give only what is listed below, and no more:

- ❑ Basic coordinates of the firm (address, telephone number, etc.)
- ❑ Brief summary of firm's capabilities with regard to the assignment (it is always useful to have a Firm Capability Profile ready at hand. Remember that a Capability Profile is different from a Firm bio-data. A Firm bio-data talks about what the firm has done, the Capability Profile talks about what the firm is capable of doing, based on what it has done). Don't make the Capability section longer than two and a half pages, and mention in this section only the references to work done, not the details of the work done.
- ❑ A short section on the issues that the firm will tackle (or thinks that it will have to tackle) during the assignment. In no case longer than one page.
- ❑ A listing of the people who will work on the assignment (half-a-page)
- ❑ Short capability profiles of the people who will work on the assignment
- ❑ A listing on work done relevant to the assignment (header plus two lines at the maximum. Avoid referring to assignments that are more than five years old. If necessary, add two lines at the very bottom about them.

Don't mention the name and profile of the Principal Partner at the beginning. This is not going to help-in fact in some assignments where funding is from international donor agencies, you may be marked negatively for such things.

Don't make the EoI longer than five pages. If you spill over, don't go beyond six. Use a standard readable font, not too large and not

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too small. Don't use double spacing, and don't use single spacing either. A spacing of 1.5 is best.

Don't give details of firm's infrastructure unless it is asked for, and most important, don't talk about anything that is not directly relevant to the assignment. Professionalism in the presentation of an EOI gets you marks.

If you are involving people who normally do not work for your firm, be sure to get a Letter of Association as early as possible. Cases are not unknown when the same Expert promised his services to several firms, and went to the highest bidder, leaving others in the lurch.

And most important, do not indicate your budget for the assignment. At the EOI stage it is neither required nor expected. You will get marked negatively if you do that. In one case (USAID funded program) all three of the respondents provided budget figures in the response to the Request for Proposal (one stage further ahead than EOI) and the evaluation committee decided that their expectations were too high, and that in any case firms, who did not what to say and what not to say, did not deserve to be considered, and stopped the whole process right there, causing a delay of more than eight months.

I am still not clear about Capability Profile of the Firm. And who should write the Capability Profiles of the Team Members? How can I do it for others?

Let us take a hypothetical firm X. It's bio-data is like this

Established : 1997

Partners : 2 FCA, one ACA

Paid CA employee: 2

Firm turnover during last 3 years :

Rs. 30 lakhs ( 2004-5), Rs. 22 lakhs (2003-4), Rs. 16 lakhs (2002-3)

Branches : none

Experience:

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1. Stock Audit for ABC
2. Revenue Audit for DEF
3. Bank Audit for GFH
4. Statutory Audit of PSU ( three years)
5. Tax audits
6. Consulting assignment – accounting statements for 2 schools
7. Consulting assignment – utilization certificate of funds for project on irrigation, funded by the World Bank (three months)
8. Consulting assignment – accounting system improvement for private nursing home
9. Consulting assignment – Project financing for a private company
10. Consulting assignment – Project financing for a real estate company
11. Consulting assignment – Audit of expenditure for WHO financed program on public health, appointment under State Government.
12. Consulting Assignment – Audit of project financial statements for World Bank aided road project

Let us say that this firm is trying to respond to an EoI for conversion of accounts of a municipal body. How can the bio-data be converted into a capability profile? Let us see.

#### ***“Capability Profile of X relevant to this assignment”***

X has developed an in-house capability for adequately managing the various technical and organizational issues that would come up during this assignment. As per our understanding, Conversion of Accounts of the Municipality will require

- In-depth understanding of revenue accounts of municipalities or similar bodies

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- ❑ In-depth understanding of heads of accounts in government
- ❑ In-depth understanding of single-entry accounting system, prevalent in government
- ❑ Capability of understanding complex multi-location, multi-item stores transactions
- ❑ Capability of dealing with technical matters connected to tax revenue and similar issues
- ❑ Issues raised by government auditors
- ❑ Rules governing expenditure classification in government
- ❑ Ability to create an advanced accounting system based on a current one”

One can easily see that the work done by the firm can be tagged to these requirements, if they are presented as above. Please note that we are creating something because actual relevant experience for conversion is missing in the firm's profile. However, when presented in this format, most evaluation committees will find it difficult to reject the EoI, and there is a reasonable chance that the firm will get shortlisted for receiving the RFP (Request For Proposal). By that time, the firm should be able to find people with actual experience of conversion of accounts and associate them with the project. Of course, if such a person is found at the time of submitting the EoI itself, so much the better, and his experience will show up on the capability profiles of the team members.

The next issue is on writing the capability profiles of people who will be associated with the project. An example of such a profile is given below.

Extract from the Capability Profile of Manoj Gandhi, a Chartered Accountant

**EXPERIENCE, WHICH BEST ILLUSTRATES THE CAPABILITY AND SUITABILITY**

***As a Financial Management Expert***

- *Financial Management Consultant - World Bank Assisted RNTCP, DPEP I&II Project, Hydrology - II in States of PQR, MNO, PKL, etc.;* Responsible for conducting review of project audit reports and borrower follow-up action on such reports, identification of required Bank response to the audit reports, review of the Audit Report Compliance Systems (ARCS), database and provide inputs / guidance to ensure correctness of master in ARCS database. Also includes review of audit information on current data for the ARCS, project Statement of Expenditure (SOE), reports and borrower follow-up action on such reports, identifying required Bank response to the findings. Further, supervised project financial management through a review of progress on previously agreed actions and an analysis of the ongoing financial management arrangements including project visits.
- *Staff Consultant - The World Bank; India Tuberculosis Control Project;* The project involved working with the Bank's task team to discuss and develop with the Central TB Division (CTD), an implementation plan for a one year period (October 2004-September 2005) representing the proposed extension period of the project and provide support to the financial and procurement members of the Bank's team. Responsibilities included reviewing the draft implementation plan developed by the CTD to date, working with Bank's task team and CTD to define the contours of enhanced activities in the areas of private public partnerships, urban TB control and HIV-TB co-infection. In addition, also responsible for discussing and developing the mechanics of delivery of these enhanced areas of work within the program and ensuring that the plan that is developed meets with Bank's requirements on fiduciary aspects.
- *Municipal Reforms ; Financial Management Reforms at the xxx Municipal Corporation;* The project at xxx is

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aimed at building the internal capacity of the Municipal Finance and Accounts (MFA) Department, improvement in financial recording, reporting and management system and utilization of the financial information for better management in xxx. The assignment is proposed to institutionalize financial reforms, and develop xxx as a pioneer in accounting development, financial system, improved decision making and transparency. Achievements in the project include the preparation of Financial Statements for FY 2003-04, with the objective of maximum transparency and adherence to GAAP's. Other activities initiated include a BPR study for the treasury and F&A departments.

- ***Governmental Accounting; Conversion of Single Entry Cash Based Accounting into Accrual Based Double Entry Accounting System for the Municipal Corporation of yyy;*** Responsible for conceptualizing the new accounting codes, review of existing accounting practices, design of financial and accounting formats for converting the existing cash based single entry accounting system into accrual based double entry accounting system for the local body using the newly developed formats of commercial accounting. Interaction with local officials to understand systems requirements, interaction with Software Company for preparation of software, loading of data, testing and final installation. The ambit of this project includes identification, collection, collation and valuation of data for the preparation of Opening Balance Sheet for yyy, introducing systems for accrual accounting by adoption of 'best practices', preparation of an Accounting Manual and preparation of a Balance Sheet and Operating Statement on accrual basis for the financial year 2002-03.
- ***Financial Management; Municipal Solid Waste Management in 26 Towns of the State of zzz- Project Development and Project Management Consultancy (zzz Slum Clearance Board);*** The project involved preparation of feasibility studies for the first 6 months and implementing the project for next 30 months as Project Management Consultants. The responsibilities include



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feasibility studies, financial analysis of the urban local bodies, taxation, capital and O&M expenditure on the solid waste management along with suggesting development options and financial implications of such development options with a focus on the cost recovery. During the implementation phase, responsible for the financial management and project accounting to ensure smooth implementation. Additional responsibilities include suggesting appropriate tax structures for ensuring the repayment of loans to lending agencies.

- ***Governmental Finances ; Study of Fiscal Impact of State Level Public Enterprises (SLPE) in the state of kkk (III, UK and DFID, UK)***; Responsible for conducting a study to establish the total cost and the fiscal impact of the state level public enterprises (SLPE's) by assimilation and analysis of comprehensive information on the financial performance of each such enterprise in kkk over the last 5 years, with close support of and interaction with the Department of Public Enterprises (DPE), Govt. of kkk along with the relevant ministry. The study was instituted on 72 state level enterprises and the final report included the fiscal impact of the enterprises on the budget of the state government. A comparative analysis was made of the total applied state finances provided as aid or loans to all public enterprises, with the foregone opportunity cost of the funds involved. As part of the report, the socio-economic impact of the funds provided to the State Level Public Enterprises was highlighted vis-à-vis the investments in Education, Infrastructure, agricultural development etc. Individual enterprise information was assimilated by a survey conducted on each unit and the information analyzed for arriving at the projected state support for a period of 5 years. The study was instituted by III, UK with support from DFID and included information on all transfers made to each enterprise from the state budget, the fiscal health of each enterprise and a detailed analysis of guarantees given by the State Govt. to support the SLPE's over the last 5 years, with a forecast of future schedule of payments required to honor such commitments.

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- ***Program Evaluation ; Program Analysis of zzz AIDS Control Society, zzz(World Bank)***; Responsible for studying the implementation Schedule of AIDS Control Program in the State of zzz. The World Bank funded the project with support from the State Government of zzz. The scope of work included a study of the end-use utilization of funds at the district level and a report on the achievements vis-à-vis programs in other states
- ***Initiation Planning; Feasibility study and Strategy for the Entry into Insurance Sector for PPP, RRR (PPP, Government of RRR)***; Responsible for conducting a detailed financial feasibility study on Insurance sector entry, on behalf of PPP, one of the largest state owned enterprises in Asia, in RRR. A study of the existing business practices of this state owned enterprise was conducted and the strengths were identified to help synergize the existing business with the proposed entry into the insurance sector. The study outlined the strategy for entry of 'PPP' in the General Insurance business, after opening of the Indian Insurance sector to private participation. The study was conducted in line with the directives issued by the Insurance Regulatory & Development Authority (IRDA). As part of our scope of work, was also involved in the search of a suitable JV partner for PPP in its insurance operations, preferably an established player in overseas insurance market
- ***Financial Reviews; Associates India Financial Services (Citi Financial Services)***; Providing pre-and post-disbursal appraisal of borrowers obtaining financing from the company at Delhi. Work includes site visits, installation certification, periodic review of performance etc

### ***As an Accounting and Finance Resource (1995 till date)***

- ***Governmental Finance and Accounting; Project Development Consultancy for the SSS Municipal Corporation***; Responsible to evolve strategies to increase the locally generated revenue, financial management (better utilization of available funds with cost efficiency and development), area development, development and

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management of human resources and community development, institutional and organizational strengthening.

- ***Compliance matters; QQQ Bank , New Delhi (QQQ Bank, New Delhi)***; Responsible for conducting a monthly review of the payments made at-and-branches of QQQ Bank, New Delhi and providing a report on the adherence of transactions and transfers, to various legal statutes.
- ***Financial Resource; XYZ Limited, New Delhi, Lucknow and Jaipur)***; The assignment was instituted by XYZ, the company with the largest private deposit base in India. It involved the review and evaluation of internal controls procedures relating to the deposits mobilization and its repayments in North India. MIS structures were developed and the branches were provided with trigger points of any upcoming risks, due to increase in volumes of deposits.
- ***Finance Expert; for one of the major state owned financial institutions.*** Involved in formulation of accounting manual for UUU, a major public sector Financial Institution. The assignment also involved a detailed financial analysis of the operations of UUU.
- ***Payroll Accounting, SM Banking Corporation;*** Involved in preparation and management of monthly employee payroll accounting including formulation of policies related to employee incentives and increments, compliance with the tax regulation norms, maintenance and accounting for banks Employee Provident Fund.
- ***Financial Reviews; HHH;*** The insurance company regularly obtains our services for analyzing the financial performance of a claimant of insured losses. The assignments involve analysis of the historical financial data, level of operations, internal controls and to authenticate the sources of information, the report on which is useful to the insurance company to place reliance on the claims.
- ***GBF Board;*** Assignment of this Central Govt. funded enterprise involved review of business structure and

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operations in North India using various analysis techniques. Also identified key business risks and the organization was provided with procedures and checks to augment a proactive approach to overcome such risks. Detailed study was undertaken to identify the effects associated with discontinued state-aided grants.

- ***Financial Utilizations; Banks / Financial Institutions (Various Clients)***; Investigating the deployment of funds borrowed from Banks and Financial Institutions and causes end-uses of funds deployed by entities on borrowings obtained from Banks / Financial Institutions. The work involves scrutiny and analysis of financial information for ascertainment of end-use deployment of borrowed funds according to the disbursement conditions.
- ***Financial Due Diligence; Investigation Audits and Due Diligence Procedures (Various Clients)***; Involved in the Investigation Audits and Due Diligence Procedures of the following financial institutions:

It might have been seen that the person in the above example has a lot of experience relevant to a conversion assignment. However, he also has a lot of other experience which will be seen by experts as directly relevant to what is needed in a consultancy on conversion.

On the question of who should write the capability profile, we can suggest that this should be written by the person himself, though assistance can be provided in terms of a questionnaire. The questionnaire can be prepared on the basis of an example that has been given. One must remember that a bio-data is not like a ledger—a mere statement of facts. Enough pointers have to be put in it so that it makes the reader think. A bio-data, and, by inference, a capability profile is a personal statement, and it needs to be made by the person to whom it refers.

Finally, note that a capability profile for a person can be structured like this (this is, of course, only an example):

- Person's name
- Key Qualifications relevant for this assignment

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- ❑ Experience, which best illustrates capability
- ❑ Brief about employment/long-term engagements

Again, nothing more is necessary because this profile is going as part of the firm's EoI. If the person prepared something like this for himself, he would have to put in much more, including the usual educational qualifications, etc.

Word of caution – The example that we have given is a longish one, because this is taken from a person's own capability profile (generic). For specific assignments, shorten such long profiles so that they fit within the overall space constraints. In certain cases, even one-liners will do. *The Team will be headed by Mr JJJ, who has been in the urban finance field for the last twenty years and has advised more than-Urban Local Bodies on financial and accounting matters.* In such cases, nothing more needs to be said.

### ***What else have we got to be careful about when preparing an EoI?***

Read the advertisement very carefully. You must do all the things that are required, and must not do what is not required. Most firms go wrong when framing an EOI because to them everything seems relevant. The fact is what may seem to be very relevant to you, may not be relevant for the evaluator at all. And do remember that the evaluators are going to be very choosy for such assignments because most of them are into an uncharted area, in terms of conversion assignments.

An important point to note very carefully here is that in most post-conflict countries there are no expert evaluators. According to extant rules of multilateral agencies, the agencies themselves cannot participate in the evaluation because there might be a conflict of interest. In any case the evaluation is to be done by the Borrower. In ninety-nine percent of cases, the borrower has no experts. Sometimes some people (having some expertise) may be called in from other multilateral agencies, or from other departments of Ministries of the borrower to act as Expert, but such people are also rare on the ground, and generally they do not have the time to devote to this kind of work (first because they cannot get paid extra for this work, and second because they are mostly up to their neck in their regular work). Of course,

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consultants from consulting organizations are not called in, because of possible conflict of interest.

Given this situation, the evaluators go line by line of the TOR , since they do not wish to take any risk (and for complex assignments – and mostly for Accounting and FM assignments - because there is hardly any subject expertise. In Aghanistan for example, there is not even one Chartered Accountant who is Afghan.) And that is why it is best to stick to what has been asked for.

***Assuming that we get through the first stage, when shall we normally be told about the second stage? And what will be the second stage?***

Normally you should allow for two to two and a half months between the first and the second stages. This is because Procurement Guidelines of Multilateral Agencies state that 30 days must be given for the EOI responses. After that short-listing is done and (in the case of prior review<sup>2</sup> cases) approval on the shortlist is obtained from the funding agency. The evaluation of EOIs normally takes at least three weeks. According to Rules the short-list is to be submitted to the Funding Agency together with the RFP (see below). The delay happens here because most Borrowers do not complete their RFP in time. A couple of months pass easily only on this account.

The second stage is the issue of Request For Proposals (RFP). RFP will be issued to firms who have been short-listed after the Eoi stage. Usually, a time of 45 days will be given to submit the Technical and Financial Proposals in response to the RFP. The point to note is that even though the RFP is, in that sense, only a proposal, most organizations will go by the details of the RFP when awarding the contract to the selected consultant, and will keep on referring to the Technical Proposal submitted by the consultant, even when the project is on. That is why the response to the RFP, the Technical Proposal- should be carefully thought

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<sup>2</sup> Prior review means that the Funding Agency has to review every stage of procurement of consulting services, starting from advertisement to the final draft contract. Prior review is normally done for all cases (for the World Bank) above \$ 50, 000. Threshold may change from country to country for different assignments, but those would be exceptions.

through, before putting it on paper. Over-commitments should be avoided like the plague. Clients are apt to hold consultants to the commitments made in terms of the Technical Proposal, later on.

***What does an RFP contain?***

The RFP document lays out in great detail what the client wants. This does not mean the all RFPs are models of clarity of thought. Most RFPs will have overlapping requirements between the various components of the Terms Of Reference (TOR). Further, although the RFP will normally spell out time requirements and team requirements, these have to be linked to the actual work, which may not have been done. The components of a well-formulated RFP are usually as follow:

**Part A**

- ❑ Background of the assignment
- ❑ Background of the organization where the assignment is to be carried out
- ❑ Scope of Work (overall)
- ❑ Terms of Reference (in some cases, may be merged with Scope of Work)
- ❑ Other background considerations

**Part B**

- ❑ Statement on what the Technical Proposal should contain, e.g.,
  - Consultant's understanding of the Scope of Work
  - Consultant's comments on the Scope of Work
  - Methodology to be adopted
  - Timelines
  - Deliverables
  - Composition of the Team

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- Manpower Deployment Schedule
- Qualifications of Key Members of the Team
- The firm's Relevant Experience
- Specific instructions of the Client on certain matters, e.g.,
  - Timelines
  - Composition of the Team
  - Key Qualifications
  - Manpower Deployment
  - Firm's Relevant Experience
- Any specific formats that the Client wants

**Note** – It is best to consult the *Guidelines for Selection of Consultants* published by the World Bank (revised October 2006) before completing a RFP. There are more details that one should know about, including details of *Instructions to Consultants (ITC)*.

### **Part C**

- Form of Agreement and Clauses
- Formats of Declarations to be filled in by Consultants should they be selected
- Formats of presentation of Financial Proposal. Etc.

#### ***Are there any particular things that one has to be cautious about?***

Yes. The World Bank has clearly stated that it is the Bidder's responsibility to identify ambiguities, omissions etc before submission of the bid. Specifically, the Guidance document of the World Bank states :

*It is the responsibility of the bidder to raise any issue of ambiguity, contradiction, omission, etc., prior to the submission of its bid, to assure submission of a fully responsive and compliant bid, including all the supporting documents requested in the bidding*



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*documents. Non-compliance with critical (technical and commercial) requirements will result in rejection of the bid. If a bidder wishes to propose deviations to a non-critical requirement, or propose an alternative solution, the bidder should quote the price for the fully compliant bid and then separately indicate the adjustment in price that can be offered if the deviation is accepted. Alternative solutions should be offered only when authorized in the bidding documents. Once bids are received and publicly opened, bidders will not be required or permitted to change the price or substance of a bid.*

### **How should one go about preparing a Technical Proposal?**

A Technical Proposal should be prepared very carefully, as we have said. Be careful to avoid over-commitment, and state only what is required. A detailed examination of the requirements essential to the preparation of a good Technical Proposal, and the evaluation procedures of Donor Agencies, is given in the answers to the questions in the section on the subject.

### **How does one prepare a Financial Proposal?**

Generally we should note that a Financial Proposal should have a clear link to the deployment proposal. The preparation of a Financial Proposal can be approached this way

- ❑ Clearly state the roles of the various team members
- ❑ Link the work of each team member to the (a) Scope of Work's components and (b) Deliverables
- ❑ Derive the number of days
- ❑ Allot daily rates
- ❑ Distinguish between on-site and off-site deployment
- ❑ Take care to see that on-site deployment and off-site deployment of manpower are balanced
- ❑ Estimate staff support, both on-site and off-site
- ❑ Be careful to calculate all travel and stay costs, and also out-of-pocket expenses; there are cases where the need for travel increased and the consultant went over-budget

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- Keep a reasonable cushion

Before preparing the final version, try to guess who else will be applying, and the range of bids that can come in. If the evaluation is on the basis of the World Bank Format – QCBS, that is, (Quality and Cost) with a weightage of 85% on Quality and 25% on cost, try to guess how much you will get out of the 85 (*For details on Evaluation Formats used by the World Bank and others, see the relevant section in this book*). So far as the Financial Bids are concerned, evaluation committees usually have slabs, depending on the extent of the assignment. You can put yourself in any slab depending on your cost. Let us see how this works. In a typical assignment for a large ULB funded by a donor agency, let us say the possible range is up to Rs 1 crore. The Evaluation committee will normally create a grouping like this

| Price     | Marks (out of 25) |
|-----------|-------------------|
| 0.9-1.0   | 5                 |
| 0.75-0.9  | 10                |
| 0.6-0.75  | 15                |
| 0.4-0.6   | 20                |
| below 0.4 | 22                |

It should be noted that the Evaluation Committee really expects that those who quote below 60 lakhs will do very badly on the Technical Proposal scoring. That is why there normally is a cut-off on the technical proposal of 70 (out of a possible 85). Since the quality evaluation is carried out first, low-quoting firms will normally go out—because they would have cut costs at various places. Also in a QCBS, there may be a final round of negotiation or presentations before the Financial Bids are opened. Those presentations will also show up the weak firms.

Therefore, if the bidder is strong technically, it is best not to quote low. Chances are always that he would score high on the quality evaluation, and therefore will not have to worry about getting a relatively low score on the cost side.

You have mentioned the possibility that I would be required to make a presentation. How do I go about it? And how will I ensure that I have an edge over the others when I make a presentation?

At the end of this book there is a Chapter on how to make a good presentation. As a matter of fact, a whole book can be written on this subject- and indeed many books are already available. It is best to consult them.

As to getting an edge, remember, for example, that everyone these days talks about conversion. The issue is, how would you add value to that, without going over-budget? Figure that out, and you have got an edge. Why we are not saying anything about it here is that each ULB is different. What will work for one, and the value that can be added in it, will be quite different to what will work for another ULB. The applicant firm has to understand the background and then figure out a value-added path for itself.

## **7.2 Expressions of Interest and Technical Proposals, Requirements of Multilateral Agencies**

### ***How are proposals selected?***

There are several basic methods as follow:

- ❑ Quality and Cost Based Selection (QCBS)
- ❑ Quality Based Selection (QBS)
- ❑ Selection under a Fixed budget (SFB)
- ❑ Lease Cost Selection (LCS)
- ❑ Selection Based on Consultant's Qualifications (SBCQ)
- ❑ Single Source Selection (SSS)
- ❑ Commercial Practices (CP)

The choice of the appropriate method of selection is related to the nature, size, complexity, likely impact of the assignment, technical and financial considerations, and the particular circumstances of the Borrower. It is therefore, necessary to carefully define the

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assignment, particularly the objective and the scope of the services, before deciding on the selection method.

### ***What is Quality and Cost Based Selection?***

Quality and Cost Based Selection (QCBS) is a method based both on the technical quality of the proposals and the cost as estimated by consultant. It is the method most frequently used to select consultants under Bank-funded assignments. This method is normally used when

- ❑ The scope of work of the assignment can be precisely defined and the TOR are well specified and clear, and
- ❑ Estimation of staff time etc is possible to a reasonably accurate degree.

QCBS is appropriate for assignments such as<sup>3</sup>:

- ❑ Feasibility studies and designs where the nature of the investment is clear and well defined, known technical solutions are being considered, and the evaluation of the impacts from the project are not uncertain or too difficult to estimate.
- ❑ Preparation of bidding documents and detailed designs.
- ❑ Supervision of construction of works and installation of equipment.
- ❑ Technical assistance services and institutional development of Borrower agencies, and
- ❑ Procurement and inspection services.

Under QCBS, the technical and financial proposals are submitted simultaneously in separate sealed envelopes (two-envelope system). Proposals received after the submission deadline are normally rejected. Evaluation of proposals is carried out in two stages: (1) technical quality and (2) cost. The technical envelopes are opened by a Committee of officials immediately after the closing time for submission of proposals; the financial proposals remain sealed and are only opened after the evaluation reports

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<sup>3</sup> Source: World Bank Document on Consultancy assignments

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are completed and the technical scores are disclosed publicly. The financial envelopes of those consultants who submitted responsive technical proposals meeting the minimum qualifying mark are opened in the presence of the consultants or their representatives. The proposals are then evaluated. Once the financial proposals are evaluated, a combined evaluation of the technical and financial proposals is carried out by weighing and adding the quality and the cost scores, and the consultant obtaining the highest combined score is invited for negotiations. Since price is a factor of selection, staff rates and other unit rates are not normally negotiated.

### ***What about Quality Based Selection?***

Quality Based Selection (QBS) is used when the Scope of Work of the assignment and the TOR are difficult to clearly define because of the nature of the assignment itself. It is also used when the assignment can be executed in different ways such that the cost proposals may not be easily comparable, or when the introduction of cost as a factor of selection can lead to unfair competition.

In the case of QBS, the evaluation is solely on the technical quality of the proposal. Financials are negotiated with the consultant who submits the highest ranked technical proposal.

### ***What is Selection under a Fixed Budget?***

Selection under a Fixed Budget (FBS) is used when the overall budget of the assignment is fixed and cannot be exceeded. Added to this, the TOR has to be precisely defined. Under FBS, consultants submit their technical and financial proposals in separate envelopes. As in QCBS and QBS, technical proposals are ranked first. Then, the financial proposal of the firm ranked first is opened. Under this method, Borrower may negotiate with the selected firm on costs.

### ***What is Least Cost Selection?***

Least Cost Selection (LCS) is also the method that the Central Vigilance Commission (CVC) advocates. Under LCS, a minimum qualifying mark for technical quality is established and also stated in the RFP. The financial envelopes of only those consultants who get more than the qualifying mark, are opened, and the consultant

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offering the lowest evaluated price is selected. It is important to note that cost negotiation is not allowed under the World Bank Guidelines for LCS.

#### ***What about Single Source Selection?***

According to the World Bank guidelines, under Single Source Selection (SSS), a specific consultant is asked to prepare technical and financial proposals, which are then negotiated. This is done only in exceptional cases and because any of the following apply.<sup>4</sup>

- The assignment represents a natural or direct continuation of a previous one awarded competitively, and the performance of the incumbent consultant has been satisfactory; or
- A quick selection of the consultant is essential, for instance, in emergency operations such as natural disasters and financial crisis; or
- The contract is very small in value; or
- Only one consulting organization has the qualifications or experience of exceptional worth to carry out the assignment.

In the case of most post-conflict countries, in the initial stages (when people are not interested to come to that country for security reasons) SSS is a regularly used option. However, as time passes it gets discouraged. The Government gets more in control and discourages SSS. This does not mean that SSS does not happen, it does. But it is more closely scrutinized before being approved.

#### ***And what is Selection Based on Consultant's Qualifications (QC)?***

This method applies to very small assignments for which the cost of a full-fledged selection process is not justified. Under SBCQ, a TOR is first prepared and then Expressions of Interest and Qualification information on experience and competence relevant

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<sup>4</sup> Source: World Bank Guidelines on Consulting Assignments

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to the assignment are requested. The consultant with the best qualifications is chosen. The selected consultant is asked to submit a combined technical and financial proposal which is then negotiated if the technical proposal is of acceptable quality.

### **What is meant by Commercial Practices?**

In certain cases, multilateral agencies allow the following of normal commercial practices. Generally however, one of the other methods which we have described above is recommended.

### **What normally are the evaluation criteria?**

The World Bank<sup>5</sup> uses the following criteria as a basis for evaluation of technical proposals:

- ❑ Specific experience of the consultants relevant to the assignments;
- ❑ Adequacy of the proposed methodology and work plan in responding to the TOR; and
- ❑ Key staff's qualifications and competence for the assignment.

Depending on the particular objectives of the assignment, two additional criteria may be required:

- ❑ Suitability of the transfer of knowledge program (training); and
- ❑ Participation by nationals among proposed key staff.

### **Point Distribution of Evaluation Criteria for Technical Proposals**

| <b>Evaluation Criteria</b>                         | <b>Points (Weights)</b> |
|--|-------------------------|
| Specific experience of the consultants             | 5 to 10                 |
| Adequacy of the proposed methodology and work plan | 20 to 50                |
| Qualifications and competence of key staff         | 30 to 60                |

<sup>5</sup> Source: Consulting Services Manual, World Bank

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|  |                           |
|--|---------------------------|
| Suitability of the transfer of knowledge program (training) – optional | Normally not to exceed 10 |
| National participation (nationals among key staff) – Optional          | Not to exceed 10          |
| Total  | 100                       |

The criterion “qualification and competence of key staff” is divided into the following three sub-criteria:

- ❑ General qualifications
- ❑ Adequacy for the assignment, and
- ❑ Experience in region

The other four evaluation criteria may also be divided into sub-criteria, although excessive detail should be avoided. However, given their relatively small assigned weight (in most cases maximum of 10 points out of 100), it may not be practical to adopt sub-criteria for the following three evaluation criteria:

- ❑ Specific experience of the consultants relevant to the assignment
- ❑ Suitability of the transfer of knowledge program (training), and
- ❑ Participation by nationals among proposed key staff.

The methodology and work plan is a key component of the technical proposal and should be evaluated carefully. Sub-criteria for evaluating this component of the proposal should include the following:

- ❑ Technical approach and methodology
- ❑ Work plan, and
- ❑ Organization and staffing
- ❑ **Technical Approach and Methodology** : Here consultants explain their understanding of the objectives of the assignment, highlight the issues and their importance, and explain the technical approach they would adopt to



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address them. They should then explain the methodologies they propose to adopt, demonstrate the compatibility of those methodologies with the proposed approach (for instance, the methods of interpreting available data; carrying out investigations, analyses, and studies; and comparing alternative solutions), and address in Form 3C of the RFP any modifications to the TOR proposed by the consultants. In case the TOR require the consultant to provide a Quality Plan and carry out the assignment according to its provisions, an outline of the Quality Plan (its list of contents, for example) should be included in this section of the proposal.

- **Work Plan** : Here consultants propose the main activities of the assignment, their content and duration, phasing and interrelations, milestones (including interim approvals by the Borrower), and delivery dates of the most important reports. The consistency of the technical approach and methodology with the proposed work plan is a good indication that consultants have understood the TOR and are able to translate them into a feasible working plan. A list of the final documents, including reports, drawings, and tables to be delivered as final output, should be included here. The work plan will enable the consultants to prepare the Activity Schedule following Form 3H of the RFP.
- **Organisation and Staffing** : In this section, the consultants propose the structure and composition of their team. It will list the main disciplines involved, the key expert responsible, and proposed technical and support staff. The roles and responsibilities of key experts should be sent out in job descriptions. In case of association, this section will indicate how the duties and responsibilities will be shared. Completion of the organization and staffing section will allow consultants to summarize the team composition and task assignments in Form 3E of the RFP and prepare the time schedule for professional personnel following Form 3G. An organization chart illustrating the structure of the work team and its links to the Borrower and institutions involved in the project also should be provided. The importance of organization and staffing increases with

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the size of the team; in fact, larger teams, such as those required by multidisciplinary projects, are far more difficult to manage.

#### ***What exactly is the sequence followed in the preparation, submission and evaluation of the proposals, say, under the QCBS method?***

The World Bank has suggested a sequence in its Guidance Document for consultants. This sequence is as follows:

- ❑ Letters of invitation are issued.
- ❑ Pre-bid conference is held.
- ❑ Clarifications can be provided before and after the pre-bid conference, within a stipulated time.
- ❑ Evaluation Committee is appointed.
- ❑ Evaluation Committee meets to agree on rating system to adopt for evaluating the technical proposals.
- ❑ Evaluation Committee internally reconfirms that all members fully understand the evaluation process and method.
- ❑ Technical and financial proposals are received.
- ❑ Proposals are opened by appointed officials. Provision are made for safekeeping of financial proposals.
- ❑ Each member of the Evaluation Committee independently evaluates the technical proposals.
- ❑ Evaluation Committee meets to discuss and consolidate the evaluation.
- ❑ Technical Evaluation Report is prepared by the Evaluation Committee and delivered to the designated decision-making authority.
- ❑ Decision-making authority reviews the Technical Evaluation Report, decides on possible technical deviations, and approves the procedure.

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- ❑ Technical Evaluation Report is forwarded to the lending/granting agency for No Objection.
- ❑ Once 'No Objection' is received, consultants are notified of the date of opening of the financial bids.
- ❑ Public opening of financial proposals by the Evaluation Committee.
- ❑ Financial Proposals are evaluated, combined scores are determined, and the recommendation for award is made in terms of the final evaluation report.
- ❑ Final Evaluation Report is delivered to the decision-making authority.
- ❑ The decision-making authority reviews the Final Evaluation Report, decides on recommendation for award, and forwards the report to the lending/granting agency for 'No Objection'. This will normally be accompanied by the Draft Contract.
- ❑ Once the 'No Objection' is received, the first rank consultant is invited for contract negotiations.
- ❑ After the Draft Contract is agreed upon, approval of the Funding Agency is obtained in case there are changes from the original Draft Contract. If there are no changes, the final contract is arrived at and a copy of the final contract is sent to the Funding Agency.

#### ***Specifically, what aspects does the Evaluation Committee consider?***

For the Evaluation Committee, several things are important. Certainly, methodology etc. are important but if you look at the points distribution table, then you will find that the following aspects have high weightage:

- ❑ ***Experience in similar projects.*** There should be evidence of having successfully carried out similar assignments.
- ❑ ***Experience in similar areas and conditions.*** Consultants may not have worked in the specific country where the project is to be executed, but they may have worked in

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regions or countries which are similar in nature. Such experience counts.

- ❑ ***Experience of similar projects.*** Consultants may have worked on projects that share major characteristics with the current project. Experience of such projects are looked at in terms of major, common or similar characteristics.
- ❑ ***Experience in transfer of knowledge and training.***
- ❑ ***Size, organization and management.*** The consultants have the necessary capacity and infrastructure to carry out the assignment. For certain kinds of assignments, the standing of the firm is also seen.
- ❑ ***Specialisation.*** Consultants access to specialized skills or technologies that may be needed for the assignment.
- ❑ ***Quality Management.*** Especially in large or complex assignments, attention is also paid to QM systems within the firm.

#### ***How is the rating system devised?***

As we have said, the Evaluation Committee works out in detail how the grading is to be done. Since the characteristics of assignments may vary, there is no standard grading system. However, we reproduce here an example which the World Bank has given:

- ❑ ***Satisfactory:*** The consultants have relevant experience in the field of the assignment but have not dealt with critical issues specific to the assignment, such as delicate social or environmental issues. The consultants are fully experienced in the use of standard approaches and methodologies required for the assignment. The consultants' permanent staff is adequate.
- ❑ ***Good:*** The consultants have extensive experience in the field of the assignment and have worked in countries with similar physical and institutional conditions, including similar critical issues. Permanent staff is adequate and highly specialized to cover the needs of the assignment, and the firm has additional resources at its command to

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cope with unexpected requirements. The consultants have experience with advanced approaches and methodologies for dealing with the specific requirements of the assignment.

- **Very Good** : The consultants have outstanding, state-of-the-art expertise in assignments similar to the one being considered. Quality and composition of the consultants' staff easily cover the needs of the assignment and ensure an excellent level of backstopping, and consultants' staff includes top experts in the field of the assignment. The consultants are considered world-class specialists in the approaches and methodologies dealing with specific issues of the assignment. The consultants operate according to well-established QM procedures.

### ***How rigidly are these ratings applied?***

Normally, ratings are not applied very rigidly. For example, it may happen that a particular firm does not satisfy all the conditions that have been determined for a particular grade. However, the Evaluation Committee may decide to give the firm the higher grade in view of the overall specifics of the firms.

### ***How is the methodology evaluated? And how is the work plan evaluated?***

The major aspects that are normally considered are:

- **Understanding of the objectives of the assignment.** The Evaluation Committee looks at the degree of correspondence between the objectives given in the TOR and the consultants' technical approach and work plan.
- **Completeness and responsiveness.** Under this, the Committee looks at whether the proposal responds exhaustively to all the requirements of the TOR.
- **Creativity and Innovation.** Under this, new approaches to the assignment or new methodologies related to better outcomes are considered.

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- ❑ **Clarity.** The Committee considers whether the various components follow a consistent internal logic and whether decision points are clearly stated and well defined.
- ❑ **Efficiency and Resource Utilisation.** The Committee considers whether the staffing schedule is appropriate (Too many short-term experts? Too many generalists?) Also, how many of the staff are permanent, and how many are associated with the firm for this assignment, are checked out. If there are quite a few external persons then, normally the Committee will consider whether such persons have worked before with the permanent staff on other assignments.
- ❑ **Flexibility and Adaptability.** Ground conditions can change during the execution of an assignment. Therefore, the Committee will normally look at, and give more weightage to, methodologies and work plan that are flexible and which can adapt to changing ground conditions.
- ❑ **Technology.** To what extent the methodology uses appropriate technology (read appropriate technical concepts in particular cases).
- ❑ **Timeliness of Output.** What is looked at is whether the activity schedule provides the outputs asked for in a timely manner.
- ❑ **Logistics.** Where consultants have to work away from their offices, and in remote locations, the consultants approach to handling logistics problems may also be considered. This is important for example, where training is to be given to field staff who cannot be brought to a central, easily accessible location.
- ❑ **Quality Plan.** For large and complex assignments, a quality plan may be requested, and this in turn, is evaluated.

Normally, the quality and adequacy of the proposed methodology and work plan are evaluated by considering (a)

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the technical approach and methodology, (b) the work plan and (c) the organization and staffing.

### ***What about the ratings in the case of work plan and methodology?***

We reproduce below the example that has been given by the World Bank in its Guidance Document. One should go through this very carefully.

#### **(a) Technical Approach and Methodology**

- ❑ **Poor:** The technical approach and/or the methodology to carry out important activities indicated in the TOR are inappropriate or very poorly presented, indicating that the consultant has misunderstood important aspects of the scope of work. The list of contents of the Quality Plan (required in the TOR is missing).
- ❑ **Satisfactory:** The way to carry out the different activities of the TOR is discussed generically. The approach is standard and not specifically tailored to the assignment. Although the approach and methodology are suitable, they don't include a discussion on how the consultant proposes to deal with critical characteristics of the assignment. The list of contents of the Quality Plan (if required in the TOR) is provided, but it is generic and does not reflect the specific features of the assignment.
- ❑ **Good :** The proposed approach is discussed in full detail, and the methodology is specifically tailored to the characteristics of the assignment and is flexible enough to allow its adaptation to changes that may occur during execution of the services. The list of contents of the Quality Plan (if required in the TOR) is tailored to the specific characteristics of the assignment.
- ❑ **Very Good :** In addition to the requirements listed above under "good", important issues are approached in an innovative and efficient way,

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indicating that the consultants have understood the main issues of the assignment and have outstanding knowledge of new solutions. The proposal details ways to improve the results and the quality of the assignment by using state-of-the-art approaches, methodologies, and knowledge. A detailed description of the Quality Plan is provided in addition to its list of contents (if required).

### **(b) Work Plan**

- **Poor** : the activity schedule omits important tasks; the timing of the activities and correlation among them is inconsistent with the approach and/or methodology proposed. There is lack of clarity and logic in the sequencing.
- **Satisfactory** : All key activities are included in the activity schedule, but they are not detailed. There are minor inconsistencies between timing, assignment outputs, and proposed approach.
- **Good** : The work plan fits the TOR well; all important activities are indicated in the activity schedule and their timing is appropriate and consistent with the assignment outputs; and the interrelation between the various activities is realistic and consistent with the proposed approach. There is a fair degree of detail that facilitates understanding of the proposed work plan.
- **Very Good** : In addition to the requirements listed above under “good”, decision points and the sequence timing of activities are very well defined, indicating that the consultants have optimized the use of resources. A specific chapter of the proposal explains the work plan in relation to the proposed approach. The work plan permits flexibility to accommodate contingencies.

### **(c) Organisation and Staffing**

- **Poor** : The organization chart is sketchy, the staffing plan is weak in important areas, and the staffing schedule is inconsistent with the timing of the most



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important outputs of the assignment. There is no clarity in allocation of tasks and responsibilities. The proposed specialists have never worked together as a team.

- **Satisfactory** : The organization chart is complete and detailed, the technical level and composition of the staffing arrangements are adequate, and staffing is consistent with both timing and assignment outputs.
- **Good** : In addition to the definition above in “satisfactory”, staff is very well balanced, that is, they show good coordination, clear and detailed definition of duties and responsibilities, not too many short-term experts, not too many generalists, precise matching of staff skills and needs, and efficient logistic support. Some members of the project team have worked together before the some extent.
- **Very Good** : Besides meeting all the requirements for a “good” rating, the proposed team is integrated and several members have worked together extensively in the past; a detailed explanation of the Borrower’s role and integration in the assignment is provided. The proposal contains a detailed discussion demonstrating that the consultants have optimized the use and deployment of staff from the point of view of efficiency and economy, based on the proposed logistics.

#### ***What about qualifications of proposed key staff?***

The Evaluation Committee will look at the following:

- **General Qualifications** : The number of years of professional experience is important. For evaluation purposes, the value of previous University education reduces with age.
- **Adequacy for the assignment** : What is looked at is whether the expert has recently held similar positions, whether the proposed Team Leader has been a successful one before, and how well the knowledge and skills of the staff meet the needs of the assignment.

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- **Experience in the region and language** : Regional experience is generally given weightage and knowledge of the local language also carries higher scores, but only if local language is very important. For national consultant staff, their knowledge of the language of the contract gets a higher weightage, instead of the local language.

The World Bank suggests the following kinds of grades in each of the criteria given above.

#### **(a) General Qualifications**

- **Poor** : The proposed expert has less experience than that specified in the RFP or less than 10 years of relevant experience.
- **Satisfactory** : The proposed expert has 10 years or more of overall working experience relevant to the assignment, with relevant academic education and training.
- **Good** : The proposed expert has more than 15 years of overall working experience; a substantial part of that experience relates to consulting assignments similar to the one in question; the expert's professional achievements, such as position within the firm and level of responsibility, have steadily increased over time.
- **Very Good** : The proposed specialist has more than 20 years of specialized experience in the field of the assignment and is recognised as a top expert in his or her specialty. The specialist is fully up to date in the state of-the-art of the concerned discipline.

#### **(b) Adequacy for the Assignment**

- **Poor:** The proposed expert has never or only occasionally worked in a position similar to the one required under the assignment. His or her qualifications do not match closely the assigned position. For instance, the position requires a highly experienced

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project manager, while a relatively junior professional with brief experience is proposed.

- **Satisfactory** : The experience of the proposed expert fits the assigned position; in the past 10 years he or she has successfully held positions similar to the one proposed for the assignment in at least one project of a similar nature. The proposed expert's skills (either professional or managerial as the proposed position may require) are adequate for the job.
- **Good** : The qualifications of the expert are suitable for the proposed position; over the past 10 years he or she has held several similar position in similar assignments; the expert's skills (either professional or managerial) are fully consistent with the position and characteristics of the assignment.
- **Very Good** : In addition to the criteria under "good", the expert has qualifications and experience that exceed substantially the requirements for positions similar to the one being considered.

#### **(c) Experience in the Regional and Language (this example refers to expatriate staff)**

- **Poor** : The proposed expert has never or only occasionally worked in countries similar to the one of the assignment and his or her knowledge of one of the official languages of the Bank and the local language is insufficient to properly communicate orally and in writing.
- **Satisfactory** : The expert has worked in countries with cultural, administrative and governmental organizations similar to the ones of the country of the assignments; his or her knowledge of one of the official languages of the Bank is adequate.
- **Good** : In recent years, the expert has worked in the region of the assignment for at least one year; and he or she is fluent in one of the official languages of the Bank and in the local language.

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- **Very Good** : In addition to meeting the above definition of “good”, the expert has detailed, direct knowledge of the country and the language through years of professional work in the country.

#### ***How will the Evaluation Committee look at the training component?***

Normally, the Committee would consider three major aspects of the training component as proposed:

- **Methodology and expected outcome of the programme:** Outcomes of the training programme should have been defined; and they should be in line with the requirements of the TOR. The approach to the transfer of knowledge i.e. on-the-job training, stand-alone training or combinations thereof will also be seen. The quality of learning material proposed is also evaluated.
- **Organisation of the Programme** : How well the programme is defined will be evaluated. Level and skill of personnel required will be looked into. The allocation of responsibilities between consultants and the organization will have to be clearly defined.
- **Experience in transfer of knowledge and training** : The level of previous training experience of the consultant experts will be looked at.
- **Supervision and Evaluation** : Arrangements for supervision, implementation of the assignment etc. will be seen by the Evaluation Committee. This includes progress reports, participants’ feedback etc.

Most often, such detailed criteria are not provided for in the RFP. Under those circumstances, the Evaluation Committee will look at the training proposal as a whole and devise the rating scheme accordingly. The World Bank’s suggestions in this matter are as follow:

- **Poor** : Approach and methodology of the training programme respond only partially to the objectives

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indicated in the TOR, and resources allocated are insufficient.

- **Satisfactory** : Programme objectives and approach are generally consistent with the requirements of the TOR; proposed methodology seems suitable, but there is no discussion of its important aspects; training programme is complete and well defined; allocated resources are commensurate with the objectives; functions and responsibilities are only broadly defined; and measure to supervise the programme are only generally indicated.
- **Good** : The methodology is specifically tailored to the objectives of the programme and is discussed exhaustively. Timing of training activities is well defined and fully consistent with the time schedule of the activities on which the training is based. Quality and composition of consultant personnel involved are very well thought out and balanced. Duties and responsibilities of consultant and Borrower personnel involved are clear and defined in detail. Measures to supervise the programme and minimize risks of abuses are clearly indicated.
- **Very Good** : In addition to meeting the definition under “good”, approaches and methods proposed should represent new best practices.

#### ***You have been mostly talking about the World Bank? What about the others?***

The World Bank’s approach is very comprehensive. That is why we have been extensively quoting from their Guidelines for Consultants. So far as others are concerned, there is very little difference from what the World Bank recommends. Apart from minor variations in the actual weightage, there is no difference. However, a small point should be kept in mind. Some others, such as the DFID sometimes say that the proposal should be within a given number of pages. Consultants are well advised to stick to such small restrictions. That is because sometimes marks are allotted on that also.

***How will I see what a final Technical Proposal looks like (apart from my own, of course)?***

At the end of this book we have attached a Technical Proposal of the ICAI itself. The European Commission accepted this proposal, and the Institute got the work. Of course, this is research oriented in nature, but it has all the elements that we have been talking about. In any case the next section is all about writing Technical Proposals, and many issues are explained there.

## **7.3 Writing the Technical Proposal**

***Can I get back a little? I would like to know in slightly more detail about the RFP.***

The RFP is sent to the shortlisted firms (on the basis of the EOI) requesting them to send the technical and financial proposals for the project. It also provides information on how to prepare the proposals. A typical RFP will contain :

- ❑ The request letter
- ❑ Instructions to Consultants
  - Preparation of technical proposal
  - Preparation of financial proposal
  - Datasheet
  - Terms of Reference (TOR)
- ❑ Standard form of contract
- ❑ Other information, as required

***What does the TOR contain?***

The TOR contains first, background information on the assignment. This usually includes:

- ❑ Sub-sector information
- ❑ Relevant work previously undertaken
- ❑ Name of the executing agency and implementation arrangements

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- ❑ An overall description of the project
- ❑ Overall objectives of the assignment

The TOR also contains the detailed tasks. These are broken down into:

- ❑ Detailed objectives
- ❑ Scope of work and tasks to be undertaken
- ❑ Required expertise and estimated inputs
- ❑ Scheduling and reporting requirements
- ❑ Available facilities from the executing agency

I am not clear about overall objectives and detailed objectives. What is the difference?

An example will make this clear. We give below a set of overall objectives and detailed objectives for a project that the Accounting Research Foundation of the Institute is doing. The differences are self-evident.

#### **Overall objectives of the Project**

The assignment is intended to build the internal capacity of the Municipal Finance and Accounts (MFA) Department to improve financial recording, reporting and management system and utilize the financial information for better management in \_\_\_\_\_. The assignment is proposed to institutionalize financial reforms and develop \_\_\_\_\_ as a pioneer in accounting development, financial system, improved decision making and transparency. As mentioned in RFP, the scope of work would broadly cover the following three components:

**Component 1** : Strengthening the Capacity of the Finance & Accounts Department

**Component 2** : Development and Implementation of Improved Accounting and Financial Systems

**Component 3** : Improvement in the Financial Management

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### **Detailed Objectives**

*Under Component 1, the scope of work is to provide technical advisory services for financial and organizational matters, which may include –*

- *Assisting in clearing the earlier accounts complying with the requirements of ADB and DFID with regard to deliverable dates and quality of information. This will include –*
  - *Advising on accounting policies to be followed by the \_\_\_\_\_ for good presentation and transparent dissemination of information, in accordance with the Generally Accepted Accounting Principles (GAAPs).*
  - *Assisting in the adjustment/reconciliation of advances, preparation of Bank Reconciliation Statement, aging analysis of property tax dues etc.*
  - *Supervising the preparation of accounts and financial audit for previous years, ensuring that they need the requirements of the donor agencies.*
  - *Advising on financial matters including issues of revaluation accounting, depreciation charging and off balance sheet disclosures.*
- *Developing and implementing an action plan for strengthening the MFA department on the basis of a rapid assessment and strategy of organizational development consultants. This action plan will include :*
  - *Identifying the various job requirements and documentation of job descriptions of individual positions, with details of qualification and experience requirements of individual positions.*
  - *Assessing the current work load and human resource availability in the MFA department.*
  - *Deciding of redeployment of suitable personnel from other departments, for strengthening the MFA department.*



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- *Selecting the candidates and facilitating transfer to the MFA department.*
- *Suggesting means to bridge the HR gap if still required.*
- *Providing advice on matters with regard to Indian and International Accounting Standards, Fund Based Accounting System and any other subjects related to finance-cum-accounting and allied fields.*
- *Developing a team spirit in the MFA team and institutionalize transparent, accountable, accurate and timely availability of financial information in the \_\_\_\_\_.*

*Under Component 2, the scope of work is to develop and implement appropriate accounting and financial systems for recording, reporting and managing the finances of \_\_\_\_\_ . This will include:*

- *Developing an accounting system for incorporating good practices in financial reporting including:*
  - *Timely and regular recognition of revenue under accrual method.*
  - *Regular adjustment of advances with supplies/services provided.*
  - *Timely reconciliation of Bank Balances.*
  - *Regular system for cash/inventory/fixed assets verification.*
  - *Recognition and adjustment of Capital Work in Progress (CWIP) regularly.*
  - *Transparency in financial reporting including disclosure of off-balance sheet items, contingent liabilities etc.*
- *Co-ordinating with the Business Process Re-engineering (BPR) consultants to develop appropriate systems for efficient operation of the MFA department, with particular*

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*stress on propriety, accountability, transparency and decentralized management.*

- *Developing an accounting manual for day to day operations of the MFA department incorporating best practices in internal control and internal checks, consistent with the statutory provisions regarding maintenance of accounts by \_\_\_\_\_.*
- *Strengthening the Internal Audit Department and supervising effective internal audit in \_\_\_\_\_.*
- *Assisting in asset management policies including generating revenues from unused assets.*
- *Developing and implementing budgeting systems for better management and decision-making.*
- *Adopting the recommendation of the Task Force appointed by the Comptroller and Auditor General of India (CAG) in accounting formats, systems and practices.*
- *Preparing a corporate style Annual Financial Report for \_\_\_\_\_ for circulation to a larger group of stakeholders.*
- *Assisting in Development of a computerized Financial Information System.*

*Under Component 3, the scope of work is to strengthen \_\_\_\_\_'s ability to utilize the financial information for better decision-making and management. This includes:*

- *Using the financial information for decision-making.*
- *Improving the financial management practices.*
- *Achieving the projected targets for financial sustainability.*
- *Assisting in developing a pension management plan.*
- *Increase transparency – accounts on the internet, Borough meeting, Wards meeting.*
- *Expenditure management (energy audit etc.).*

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- *O & M expenditure – management.*
- *Greater productivity of social expenditure.*
- *Fund Management*
- *Public Private Partnership (PPP)*

### **What does a Data Sheet contain?**

*The Data Sheet usually contains:*

- *General Information regarding:*
  - *Client's name and contact details*
  - *Selection method*
  - *Type of Technical Proposal*
- *Budget (of the assignment)*
- *Provisional sums (could be under each component)*
- *Proposed validity period*
- *Currency conversion details*

### **What do I understand by Budget in this context?**

The Budget is an estimate of the cost for the consulting services prepared by the executing agency during project formulation. The budget indicates the maximum amount available for the consulting services.

### **I need some more examples of both Firm and Individual TORs.**

Examples of Individual TOR:

#### **1. Terms of Reference for Financial Management Adviser**

The Ministry of Education (MOE) seeks the service of a Consultant to assist in the Strengthening of the finance and accounting functions of MOE”.

The Ministry of Education has already undertaken a planned program for the improvement of its Financial Management

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Systems with the assistance of DANIDA and the World Bank . First measures were initiated in late 2005 and this program has continued to date

### **A Objectives**

The overarching objective of this consultancy assignment is to enhance, further develop, and institutionalize fundamental changes in accounting and financial management systems, procedures and practice aiming at streamlining and increasing the effectiveness of accounting for both the Ordinary and the Development Budget of the Ministry.

### **B Scope of Work**

The Financial Management Adviser (FMA) is expected to provide within a two to three-year time-span robust intellectual, professional, analytical, and management leadership in supporting the ongoing reform process in the area of accounting and financial management in accordance with the specific tasks described below. The FMA is expected to consolidate, put into a consistent framework all the present results, ongoing changes, by designing, initiating, and then assisting in both, by management and training in implementing fundamental development on the said two major subject areas. The MOE will provide the FMA with all relevant documents, rules, procedures, templates prepared, adopted since 2005. FMA will also have the support of other Funded Advisers. The FMA will work not only as a primary institutional development agent but also as Chief Financial advisor of MOE under the guidance and monitoring of the Minister and the Deputy Minister (Finance and Administration).

The scope of work of the FMA includes but is not limited to the following major functional areas: Accounting, Budgeting and Planning, Internal Control, Monitoring and Reporting. He will take the lead in designing, testing, and implementing respective systems, instruments, procedures, and the training of all personnel. The consultant is also expected to design, advice, and lead selecting, procuring, installing, testing, training, and full application of new hardware and software instruments deemed to be necessary for the said development. The KUWMP program provides for a separate budget for procuring hardware and software instruments.

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Capacity building of Ministry of Education staff is an essential aspect of this consultancy assignment. The FMA is expected to develop a robust Training Policy that will not only build the capacities of present staff but will encourage the building of a skilled Middle Management Financial Cadre over time. He will provide (develop or adapt to MOE circumstances) training materials and reference materials as needed. The improvement in capacity building shall be monitored closely by both the Ministry and the Funding Agency and shall be an important factor in the evaluation of the performance of the FMA. The next section below provides a detailed list and explanation of the tasks need to be fulfilled under this consultancy assignment.

### **C Tasks**

This consultancy assignment requires the FMA to fulfill multiple tasks each of which should include but is not limited to a number of subtasks that follow logically from the three Groups of tasks as given below:

- (i) Assisting in Enhancing Effectiveness and Efficiency of Accounting Systems including systems and policies, the management of assets and inventories and Preparation of Accounting and Financial Reports,
- (ii) Assisting in Enhancing the Effectiveness of Budgeting and Budgetary Control procedures and systems,
- (ii) Assisting in building robust internal control systems and procedures.

In particular, the following are to be fulfilled:

#### ***Task: Assisting in Improving the Management of Assets and Inventories***

This task aims at establishing a sound asset and inventory management, since only a few fragments of such a system exist, while key fictional areas are non-existent in MOE. The FMA is expected to cover four sets of activities: Stores and inventory management, Accounting for Development projects, Costing

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system, and Fixed assets Register. The specific tasks the FMA should fulfill are summarized below.

#### **Stores and Inventory Management:**

This task aims at extensive streamlining the present inventory management system and the procurement system in order to reduce costs and to integrate the stores-accounting system into the new accounting system of the MOE. The specific tasks the FMA should fulfill include, but are not limited to, the following:

- Analysis and evaluation of the current systems of stores management, stores accounting and inventory control systems;
- Designing and implementing of a computerized stores management and inventory control system;
- Design and assistance in the implementation of all necessary forms and administrative and record-keeping procedures;
- Designing and assistance in implementation of accounting procedures and budgeting procedures for procurement for stores and integration of the same with the accounting database;
- Designing and implementation of appropriate systems for management of procurement contracts, and integration of the same with the Financial Management system

#### **Accounting for Development Projects**

This task aims at introducing an accounting system for development projects in order to monitor expenditures by project components, compare expenditures across projects for control purpose, auditing cost and management of projects, sound accounting for expenditures to regulate and control outflows from the municipal exchequer, analysis of project cost and benefits, and taking advantage of financial synergies from projects that are geographically or functionally proximate. The specific tasks the FMA should fulfill include, but are not limited to, the following:

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- Analyzing and evaluating the current systems and procedures for accounting for development projects;
- Design and implementation of appropriate accounting procedures for the accounting of development projects;
- Integrating of the accounting for development projects with the main accounting database and designing appropriate report formats for (a) FMIS for financial management and (b) MIS for decision support

#### **Costing System for Key services**

The MOE does not currently cost the services it provides, thus cost recovery is rare and difficult. This task aims at developing, testing, and introducing a costing system initially in the DoS, and then replication in other departments. The specific tasks the FMA should fulfill include but are not limited to the following:

- Designing a costing system appropriate for services provided by the MOE
- Preparing a piloting program for testing the designed costing system and guiding piloting with sufficient training of respective staff in the DoS of MOE
- Supervising and monitoring of the piloting in a selected service area and based on mid-term assessment propose corrections as deemed required
- Proposing a program with adequate training component for rolling out-the-service costing system and supervising and monitoring of implementation of costing system in other service departments or functions.
- Designing and implementing a system for use of costing data in operational and development budgeting and for supporting management decisions (MIS).

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### **Fixed Asset Register**

This task aims at establishing a reliable fixed asset register (FAR) and train the respective staff. The Municipality has only a pilot fixed assets register with new technical data-lists, but without valuation; and data accuracy is still questionable, despite that the current FM consultants have provided guidance for maintaining and updating of the FAR. The specific tasks the FMA should fulfill include, but are not limited to, the following:

- Design and implementing a proper FAR and providing a detailed manual for updating the FAR. This task would require substantial field work for collecting/validating technical data and fair valuation of the assets that should be done with substantial involvement and on-the-job training of respective staff of MOE.
- Supervising of implementation of the FAR for one full year.
- Designing and implementing procedures and systems for FAR to fully integrate it in the accounting database and for the FA database to provide MIS for decision support

### ***Task: Assisting in Improving Accounting Systems and Policies***

This task aims at substantially improving and institutionalizing accounting systems and policies already under reform. In order to fulfill this task, the FMA is responsible for consolidating the gains of the recent changes in the accounting system, identifying and improving areas not yet specifically attended to, revising practices, procedures, guidelines and proposing changes as deemed necessary to ensure that all needed systems of internal control are in place and the accounting systems and policies are sustainable. The FMA is also expected to provide for classroom and on-the-job training and coaching for all respective MOE staff. The FMA is expected to cover key areas such as: accounting policies, Chart of Accounts, Accounting for employee compensation, income and expenditure accounting and treasury accounting. The specific tasks the FMA should fulfill are summarized below.



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- 2.2** The Tasks of the FMA shall be, without any limitations of particularity, and with complete reference to the above paragraph, the following:
- 2.2.1 Implementing procedures and systems for the regular reconciliation of all Bank Accounts, including Provincial Accounts
  - 2.2.2 Implementation of procedures and systems for proper treasury reconciliation
  - 2.2.3 Design of formats for reporting by the Provincial Units on regular and timely basis
  - 2.2.4 Design and implementation of procedures for streamlining of book-keeping on double-entry cash basis through the use of user-friendly computerized accounting software
  - 2.2.5 Design and implementation of systems and procedures for the regular and timely presentation of periodical financial statements
  - 2.2.6 Design and implementation of systems and procedures on a computerized format for recording of personnel data and expenditures on personnel as well as other establishment expenditures.
  - 2.2.7 Design and implementation of procedures for tracking of all bills and vouchers from the point of entry to the accounting department to the point of payment
  - 2.2.8 Design and implementation of procedures for tracking assets and liabilities for the production of the necessary accounting reports
  - 2.2.9 Development of appropriate Accounting Policies in line with the Financial Rules, and any other Rules or Law for the time being in force
  - 2.2.10 Ensuring that the Revised Chart of Accounts is fully implemented and recommending any modifications required thereon – and

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implementation of such modifications if approved by the Municipality

- 2.2.11 In general, to bring about a holistic improvement in internal control systems and their effectiveness, FMIS reports, generation of related MIS reports, presentation of Financial Statements, and accounting analytics.

#### **Institutionalizing accounting policies**

The Ministry aims to gradually adopt a Fund-based Cash based Accounting System from the present Cash based Accounting system. The FMA therefore is expected to assist in designing and implementing an accounting system which accounts for the complete incomes and expenditures of key municipal services. The specific tasks the FMA should fulfill include but are not limited to the following:

- Developing appropriate Accounting Policies in line with the present Financial Rules and any other Rules or Laws being in force
- Evaluating the Revised Chart of Accounts (CoA), recommending and ensuring approval by MOE modifications as deemed necessary, and ensuring that the CoA is fully implemented.
- Designing and guiding implementation of procedures for streamlining of book-keeping on double-entry cash basis through the use of user-friendly computerized accounting software
- Designing and guiding implementation of systems and procedures on a computerized format for recording of personnel data and expenditures on personnel as well as other establishment expenditures.
- Designing and guiding implementation of procedures for tracking of all bills and vouchers from the point of entry to the accounting department to the point of payment

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- Designing and guiding implementation of procedures for tracking assets and liabilities for the production of the necessary accounting reports to support effective asset-liability management
- Designing and guiding implementation of systems and procedures for the regular and timely presentation of periodical financial statements
- Revising and proposing changes as deemed necessary in order to ensure a holistic improvement in internal control systems and their effectiveness, FMIS reports, generation of related MIS reports, presentation of Financial Statements, and accounting analytics.
- Providing for both classroom and on-the-job training for all respective MOE staff.

#### ***Task: Assisting in Improving Financial Management and Budgeting***

This task aims at developing, testing, training, and gradually implementing a computerized financial management and budgeting system for MOE in a three-year time period. Progress achieved on this area is significant, but not yet sufficient, thus enormous task needs to be accomplished in particular on the area of training a sufficient body of MOE staff. The activities the FMA is expected to cover include Financial Management Information System (FMIS), Budgeting, and Financial Statements. The task includes the implementation of the Program Budgeting system as developed by the Ministry of Finance (MoF).

#### ***Establishing a Computerized FMIS***

The FMA is expected to design or adapt to MOE circumstances a computerized FMIS system which able to timely and accurately generate all necessary MIS. This would allow for the accurate reporting of the state of finances of the municipality at any point of time and assist the management of MOE in undertaking strategic management decisions. The specific tasks the FMA should fulfill include, but are not limited to, the following:

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- Assisting the Ministry as a key advisor and implementing agent in introduction of a proper Financial Management System, as required by Ministry.
- Carrying out a detailed analysis of the present situation and then proposing reliable, well manageable, and cost-effective solutions for a computerized FMIS system and assisting in final decision of key system characteristics, capacities, and HW/SW design
- Designing an FMIS system in accordance with the agreed characteristics with necessary HW/SW and training components and guiding procurement.
- Developing a proposal for a proper fiduciary oversight system with clearly defined functional assignments, job descriptions, and with provision of necessary training materials and training respective staff of MOE.
- Guiding implementation of complete FMIS including guiding installation, testing the HW/SW modules, and providing for all necessary classroom and on-the-job trainings

### ***Establishing a reliable Budgeting system***

This task aims at establishing a reliable budgeting system that would provide for detailed activity budgeting and even multiyear rolling plans over the time. The specific tasks the FMA should fulfill include, but are not limited to, the following:

- Designing and guiding implementation of a computerized budgeting system, budget preparation and approval procedures and procedures for monitoring and controlling budget execution in harmony with a computerized accounting and FMIS system
- Designing and guiding implementation of appropriate budgeting formats/templates/reports in harmony with a computerized accounting and FMIS system

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- Preparing and testing in training respective staff of using the annual Budget Guidance Document with necessary data for budget formulation
- Preparing a proposal and piloting a procedure for a three-year rolling base budgeting

### ***Institutionalizing Preparation and Presentation of Financial Statements***

This task aims at establishing sound capacity for preparing and presenting financial statements in full compliance with national regulation and built on the capacity of the computerized accounting and FMIS system planned to be established in tandem.

It will be necessary to ensure that IPSAS on Cash basis is followed and that the groundwork is done for a gradual upgradation to a Fund Based Cash System to parallel the one in the Ministry of Finance of the Government of Afghanistan

### ***Advising Human resource management, Computerization, and Capacity Building***

- The tasks described in detail above already indicate the extensive need for changing and improving human resource capacities, introducing computerization on all the key areas covered in this assignment, and concurrently the need for robust capacity building. The specific task for the FMA have been listed above, but the importance and the magnitude of the FMA input on these three functional aspects justifies summarizing and in part repeating these functions as a separate group of tasks.

### ***Implementation Adviser for the Directorate of Vocational Education and Training Ministry of Education Government of Afghanistan Under the Afghanistan Skills Development Program Supported by the World Bank***

The Government of Afghanistan (GOA) has recognized the importance of skills development in the process of recovery and rehabilitation of a country that had been in civil strife for a period of nearly three decades. Early on in this recovery process the GOA

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identified skills development as an essential ingredient and began to lay the groundwork for a major thrust in this area.

Key-line ministries were identified and mobilized, a new National Priority Program—the National Skills Development and Market Linkages Program was established, and the government, through the support of key donors, began to build new infrastructure (e.g., the Afghan Korea Vocational Training Institute and vocational training institutes supported by JICA, Government of Iran, and the World Bank), and rehabilitate some existing institutions in the country. Furthermore, an increasing number of NGOs were encouraged to offer vocational training programs around the country. The GOA keen to increase the number of people undergoing labor market relevant training and has set a target of 150,000 people to be trained as stated in the Afghan Compact. This does not take into account the fact that thousands of people continue to receive most of their career related training through informal and traditional apprenticeship programs, though this is very difficult to quantify and document.

The strategies adopted by the GOA to implement their vision for skills development are predicated on a two pronged approach: (i) increased access to technical vocational education and training opportunities around the country, and (ii) enhanced relevance of the programs to the needs of the labor market. The GOA has also identified and recognized the need for a variety of providers (public, private and non-government), the need for modular competency-based and assessed programs (instead of programs that are defined purely by major, formal examinations and the length of time spent in classrooms), for a good mix of theory and practical training, and for the need for a coherent system for all education and training, but particularly underpinning the needs of Technical and Vocational Education and Training (TVET) sub-sector

Given the complexity of the overall design, the Ministry of Education is now concerned with two specific aspects as regards the implementation thereof. The first is the need for an experienced person to guide the implementation and coordinate its various facets and the second is the need to bring about changes in the nodal department (the Directorate of Vocational Education and Training, DTVET) itself.

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The need to have a person to coordinate and guide the various sets of program activities arises from the fact that in this particular project, there are parallel activities which affect each other in a number of complex ways. For instance, the project envisages the establishment of a National Institute of Management and Administration which is projected to have three different Schools within it. The certifications to be given by the proposed institution will also be tied to the development of a national qualifications framework and the establishment of an appropriate Certification Board – efforts for which are being initiated simultaneously. Four major Ministries are involved, and the second highest Office of the country is also involved. Three sets of Donors are funding the project.

Given the above complexity there is need for a senior person to anchor himself within the Nodal Department and to assist the whole process of implementation on a continuing basis.

As part of the overall project design, the Ministry of Education (MOE) feels that the nodal department, the Directorate of Vocational Education and Training (DTVET) itself has to undergo a process transformation in order to be able to respond positively and in time to the various new issues and demands that are likely to be put on it in order not only to implement the program but also to pro-actively engage in developing long-term sustainability. The Directorate is currently in charge of 42 vocational Training Schools in the country, and has other administrative duties and tasks as assigned to it by the Ministry of Education.

The essential objective of the ASDP as a whole is to re-orient vocational education and training in Afghanistan to the requirements of a market economy. To that extent, the Ministry feels that not only is it necessary that the Vocational Training Schools adjust their approach to the provision of training to becoming demand-driven, it is necessary for the nodal department itself to undergo the process of attitudinal reorientation so that the objective as stated is realized.

The MOE has determined that the interventions of a competent Implementation Adviser who will fulfill both the roles as briefly summarized above, are required to assist the DTVET in undertaking this internal transformation.

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### **Reporting**

The Implementation Adviser (IA) will be required to work in the DTVET and will work closely with the Director and with other senior staff in carrying out his assigned tasks.

### **Assignment Period**

The period of assignment will be for Two Years with the possibility of extension for one more year.

### **On-site Stay**

IA will be required to spend the entire assignment period on-site, in Kabul.

### **Terms of Reference**

Without any loss of generality, the Terms of Reference of the Implementation Adviser shall include the following:

1. Establishing monitoring and reporting systems centering on the DTVET for the components that are directly concerned with that Nodal Department
2. Implementing continual Review mechanisms with regard to the progress of the project
3. Addressing donor concerns within the ambit of policies and procedures of the Government.
4. Assisting the DTVET and its Director General to set up necessary administrative systems in the proposed National Institute of Management and Administration.
5. Dealing with the various other Consultants for the various components of the total project so far as they are directly concerned with DTVET, including review of reports and the holding of management meetings with them.
6. Providing assurance to Donors, through appropriate reporting that the progress of implementation of the project is as per design, and on quality and effectiveness aspects of the same.



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7. Provide expert guidance to the DTVET on the resolution of various administrative issues.
8. Designing and implementing appropriate Financial Management systems and assisting the department to improve payment procedures, cash flow designs, etc.
9. Prepare and have prepared the necessary financial and other reports to the donors in compliance with financing and other agreements as applicable.
10. Review of all processes, procedures and systems in the DTVET and recommendations on (a) weak processes and procedures, i.e., those which do not have sufficient checks and balances, (b) redundant processes and procedures, (c) systemic weaknesses in terms of staffing, skills, documentation, clarity of sub-system objectives and tasks, etc.
11. Survey of Training Needs of all officers and staff.
12. Identification of attitudinal negativities in dealing with the department's clients (including the Heads of the vocational schools under the control of the Department), other users of the Department's services, industry, and other Ministries and Departments.
13. Redefinition of the Department's Primary Task in the long run with specific regard to the imperatives of the ASDP.
14. Evolving mechanisms to deal with weak processes, systemic deficiencies, and redundancies.
15. Comprehensive revision of job descriptions and specific recommendations on job enrichment with special attention to discharge of responsibilities and commitment to the job.
16. Redesigning modes of interaction with dependent organizations (the VET schools) so that they are provided administrative and resource support as may be needed, in the way that it is needed.

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17. Evolving mechanisms for improved quality of decision-making at senior levels especially and all other levels generally.
18. Assistance and involvement in the implementation of all recommendations that are accepted by the Directorate.
19. Providing process interventions on a continual basis to assist in the improvement of process effectiveness and processing efficiency
20. Designing and delivering interventions (on-the-job, and through training and capacity building programs) to assist in the gradual reorientation of attitudes of officers and staff of the Directorate. This will include the development of handouts, lecture notes, powerpoint presentations, etc.
21. Development of a personnel evaluation system and internal HR policies generally.
22. Providing guidance and suggestions to the Director in developing and institutionalizing an effective value based administrative system.

### **Deliverables**

The Deliverables for the Consultant are as follow:

1. Comprehensive Scope Evaluation Report (CSER) – the report should be the result of an in-depth analysis and survey with respect to both implementation issues outstanding and the concerns of items 10 to 13 of the Terms of Reference.
2. Monthly Reports - The Monthly Reports submitted by the IA should include
  - a. Reporting on progress of implementation, difficulties faced and overcome, administrative issues outstanding, financial issues outstanding, donor related issues outstanding.
  - b. Reporting on design and implementation of systems of Financial Management and Monitoring and reporting

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with respect to DTVET concerns within the overall project

- c. Reporting on progress of specific program-activities within the ASDP with which DTVET is particularly concerned.
- d. Reporting on Reorientation of Systems, processes and procedures within the DTVET, in terms of the relevant clauses of the TOR.
- e. Report on Qualitative Changes in Decision Making within the DTVET as a result of interventions made by the IA
- f. Reporting on HR
- g. Reporting on Training and Capacity Building.

**Time Schedule for Deliverables**

The projected time schedule is as below

| Deliverable                       | Delivery              |
|-----------------------------------|-----------------------|
| CSER                              | 8 weeks after joining |
| Monthly Reports on Implementation |                       |

It should be particularly noted that the effectiveness of the consultant shall be adjudged on the basis of the qualitative improvements, both in the implementation of the project as well as in the operational effectiveness of the DTVET, that are brought in by him on the ground, rather than the reports themselves. The Government is quite aware that a series of recommendations that are not implementable, or are considered as such, will not help the Department of the Government in realizing the overall objectives of such a large program as the ASDP. The DTVET is a crucial node in the whole project and much depends on its effective functioning. Consequently, the Consultant must ensure that each step that he recommends to be taken is implementable and gets accepted and adopted by the Directorate.

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**Example of a TOR for a Firm not in the assurance area**

**Terms of Reference for an Assurance Engagement**

for The Ministry of ----- of the Government of ----- is one of the largest Ministries of the Government and is currently in the process of executing some of the largest Donor funded programs in ----- amounting to more than 400 million dollars. The Ministry is concerned with obtaining Best Practice in Accounting and Financial Management as per the mandates of the donors and extant Rules and Regulations pertaining to the respective Grant Agreements.

For this purpose, pending a detailed exercise, the Ministry is interested to engage a professional Accounting Firm to provide assurance report to the Ministry on matters as elaborated below.

Following paragraphs describe the Scope of the Engagement:

This Engagement will cover the following Projects:

- (1) World Bank Projects I and II
- (2) Programs funded by the [Foreign Country] Ministry of Foreign Affairs as bilateral Aid

The Engagement Period is six weeks.

This Engagement is for the purpose of establishing, through a rapid assessment:

- (a) Levels of compliance of project practices and Reporting requirements with those established and/or mandated by the World Bank and the Danish Ministry of Foreign Affairs for similar projects, particularly in the areas of financial management, accounting, human relations practices, and procurement
- (b) Levels of observance of accuracy, prudence and propriety in financial transactions and financial decisions,
- (c) Levels of authenticity and completeness of records

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- (d) Control and possession of physical properties attributable to the project, including those under the control of third parties.

through sample testing and in particular cases, complete and full examination of documents. The Assurer will pay particularly to large payments and Advances.

In particular the Assurer shall examine and report upon

- (a) The Borrower has established an accountability framework for adequate definition and responsible implementation of the projects, and that such framework covers the functional areas of finance and accounting, procurement, and recruitment and human relations
- (b) The Borrower has established and approved sound internal policies, guidelines and practices to be followed by the leaders of the various functional project leaders, project managers and other staff responsible identifying, planning, approving/budgeting, defining, and implementing the overall project as well as sub-projects
- (c) The Borrower has followed the instructions contained in the Project Implementation Manual as approved by the World Bank, in carrying out transactions and activities related to finance, procurement and oversight .
- (d) The Borrower has developed, implemented and institutionalized a functioning internal control system and has processes that adequately address the matters and issues raised by the internal control reports
- (e) The borrower has maintained proper records of fixed and intangible assets including intellectual property
- (f) In particular, the borrower has taken sufficient precautions to acquit advances and to reconcile financial transactions between the centre and the provinces and the centre and the ministry of finance within a reasonable time frame and within acceptable norms of accuracy, prudence, propriety and transparency.

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- (g) Examine that application of funds has been as per the mandate of the financing agreement
- (h) The covenants of the financing agreement have been fully complied with.
- (i) The borrower has prepared and submitted in due time proper project financial statements transparently reflecting the state of public finances and project monitoring reports to the mandated organizations and authorities.
- (j) proper documents and records are maintained for the preparation of financial statements accurately and that proper audit trails exist.

Assurer shall assess the Risks (both financial and otherwise) as revealed by his investigations and shall recommend appropriate steps to mitigate the same.

Assurer shall present his observations in a detailed Report containing necessary evidence directly related to the observations. Assurer shall ensure that his Working Papers are available for examination if required.

Assurer shall follow INTOSAI and IIA Standards and any other applicable standards of IAASB in conducting the engagement.

Assurer shall present the following Reports in the formats as shall be specified:

- (1) Preliminary Report (within fifteen days of the commencement of Engagement)
- (2) Final Report at the end of the Engagement Period

The Reports of the Assurer shall be presented to the Client and shall be discussed in Draft form. The Assurer shall give adequate opportunity to Client's staff to reply to Queries raised by the Assurer. Queries in their original form and replies by the Client shall be recorded and presented as Annexes to the Report as finalized. Finalized Reports shall be presented to the Client and a copy of the Report shall be forwarded to the World Bank and the Danish Embassy in Kabul.

**Example for Firm**

**Scope of Work:**

The Implementation Partner (IP) is required to assist in developing the National Institute of Management and Administration (NIMA) so that it becomes a viable and vibrant center of learning with a clear linkage to business and industry so that its students can be immediately placed after passing out. Obviously, such a general task would always be greater than the sum of the individual tasks that may be stated. Keeping that in mind, and therefore without the loss of any generality, the following are stated as the tasks of the IP:

1. **IP will develop suitable curricular the Schools of Accounting, General Management and Administration and ICT for one and two year courses for NIMA students who at entrance to the institution, will be Grade XII pass-outs.** The development of curricula should be in line with the requirements of business, industry and government, in Afghanistan so far as skills and competencies in these areas are concerned. It is expected that simultaneously with the Curricula, the IP will also provide from its own bank as well as through on-site development, suitable teaching materials for all the courses. Such material should include Case-studies as well as texts. IP will have to ensure that so far as reproduced texts are concerned, no intellectual property rights are breached. IP should also ensure that the Curricula are modular in nature and the modules are arranged in increasing orders of difficulty of comprehension and assimilation. IP should ensure that there is a clear path for Afghan teachers and trainers to take over the delivery of the modules from the lowest order of difficulty to the highest within a reasonable period of time. The Curricula should be such that there is enough flexibility for the teacher to modify contents based on the curricula from course to course, in order to improve relevance and linkage to latest developments in the concerned discipline(s).

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2. **IP shall Provide direct teaching inputs through expatriate Faculty for the courses to be run at NIMA for at least the first two academic years.** NIMA will have 1500 students divided into the mentioned three major Schools. It is expected that the proportion of students will be the highest in ICT (approximately 600) with roughly equal numbers in the other two schools. IP will plan for courses keeping a class-size of 30 in mind. It is envisaged therefore that there will be 15 groups each in Accounting and General Management, and 20 groups in ICT. However, ICT groups may be handled in large class sizes also, with the identity of the groups kept intact especially for practical classes. Similar arrangements may also be thought of for the other two Schools. To the extent possible, IP will make use of Afghan teachers, followed by teachers from the Region. Expatriate Faculty should be brought in by IP to teach, and to coordinate teaching done by Afghan and Afghan and Expatriate Visiting Faculty. There is no bar on using visiting expatriate Faculty from Kabul.

Teaching inputs shall be carefully monitored by IP and regular feedback shall be taken from the students. Student feedback on classes shall be considered an important input to the evaluation of IP's performance. IP shall immediately replace a Faculty who gets a consistent unsatisfactory feedback for more than two months. IP shall be informed of decisions in these regards by the Steering Committee of NIMA before which Feedback summaries shall be regularly placed. In responding to this RFP, it should be considered carefully that the teachers are expected to relate to the level of the students (pass-outs of Grade XII). It is not expected, nor desired, that expatriate teachers have phenomenal academic records. It is expected, and desired, that teachers are capable of relating to the relatively young and undereducated student population and the task is to build their basic skills for taking up junior management level jobs. Thus sophistication of teaching content should be considered as secondary to teaching skills in deciding upon the choice of the teacher. However, in the case of ICT, a relatively higher level of sophistication of content is



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desired so that the students can relate to the latest developments in appropriate software.

- 3. Train young Afghan Teachers to become Faculty at NIMA through person to person mentoring and other means** – In responding to this RFP it should be kept in mind that a firmly held basic objective is to have sustainability of the institution. It is postulated that sustainability would be adversely affected if there is a continued reliance on expatriate Faculty. Consequently, it is desired that IP shall develop a consistent and clear development program for Afghan Trainee Faculty. As part of the overall project, 100 Afghan Trainee Faculty are being exposed to out-of-country courses for a period of four months. IP shall have to train these Trainees to become full-fledged Faculty members within the tenure of the assignment. It is accepted that not all Trainees may be found suitable as teachers. IP shall advise the Steering Committee on career paths for each one of the persons so that appropriate decisions can be taken by the Steering Committee in these regards. IP shall involve the Trainees in preparation of case-studies, in taking lectures (initially for the modules at the lower levels of difficulty), designing and conducting of management games, moderating student presentations, debates, and so forth. IP shall also give a person-by-person report on the progress made by the Trainees in terms of the Tasks assigned to them by expatriate Faculty and shall also take student feedback in these regards. All such matters shall be duly reported to the Steering Committee.
- 4. Introduce a variety of teaching technologies in NIMA** – As earlier stated, NIMA is expected to become a vibrant center of learning. To that end, it is envisaged that the teaching methods used would be a combination of those best suited for a learning environment in Afghanistan. IP will ensure that a combination of methods used in most management schools is used and applied to teach the students. Case-studies, management games, group work and exercises etc. methods should be regularly used in conjunction with regular lectures. Advanced methods such

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as those using satellite communication networks etc are considered too expensive at this stage and need not be resorted to. However, classroom methods using audio visual aids are expected to be integral features of the teaching technology.

5. **Guide the Institute administration in adopting Best Practice in Academic management and administration** – IP is expected to assist in improving administrative and academic management practice – keeping in mind the rules and mores of an Islamic country. Contribution to such improvement will constitute an element of evaluation of IP performance.
6. **Introduce suitable Examination systems** - IP will have to conduct the examinations and also examine the answer papers for the students during the tenure of the consulting assignment. It is also expected that Examination methods shall also be a combination of group presentations, group papers, individual term papers and regular examinations, etc.
7. **Provide accreditation to the courses at NIMA.** - IP will have to make arrangements for accreditation on its own. *It is a basic requirement of this assignment that NIMA students get suitable certification from an internationally recognized institution (not an accreditation agency) for example, as Accounting Technicians.* Design and conduct of courses should be done in such a manner as to make this possible
8. **Develop continuing programs for Faculty development..-** it has already been stated that IP should develop a detailed program for career development of the Trainee Afghan teachers. However, career development programs should not be confined to the tenure of the IP. IP is expected to provide a clear guideline on how the institution can recruit and further develop Faculty in future. Such a program may include in-country and out-of-country courses and programs and also individual programs for acquiring Master's or post-Master's degrees and diplomas.

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9. **Facilitate improvements in information technology and library resources and create a program for continual updating of the same even after the tenure of the Consultant comes to an end** – IP shall develop separate plans within allocated resources for improvement of IT facilities and Library resources.
10. **IP shall also be asked to assist in** developing programs for improving the presentability of the students of NIMA, and assisting them to fare well in interviews etc. It is expected that IP shall put in place mechanisms for student counselling which will cater not only to these needs but also to adjustment problems.
11. **Placement** – IP is expected to have regular discussions with employers and to arrange for placement interviews on campus. IP will also set up a regular Placement mechanism and train Afghan Placement Officer(s). Feedback from Employers on the quality of institute interaction with them and the level of employability of the students will be an important factor in overall evaluation of the assignment.

**Deliverables**

The Deliverables of IP shall be as follow

| <b>Deliverable</b>  | <b>Timeline</b>                       |
|---|---------------------------------------|
| Inception Report – incorporating evaluation of abilities of students, basic plan of action for the whole period of the tenure and for the first year broken up into quarterly periods, and details of the plan of action covering all applicable items [at this initial stage] of the Scope of Work. This Report shall also include the details of courses to be delivered during the first trimester and the methodology of delivery as well | Within 8 weeks of start of assignment |

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| Deliverable   | Timeline  |
|---|---|
| as details of Faculty involvement. The report shall also contain the basic outline of development of the trainee teachers and the plan for involving them in the delivery of courses during the first and second trimesters             |   |
| Report on Curricula to be adopted for the three Schools for the one-year and two-year courses, with details of the Teaching Materials to be used  | Within 10 weeks of start of assignment              |
| Report on Course Delivery for the first trimester, containing, <i>inter alia</i> , details of the courses, teaching technology used, progress of the students, feedback of the various faculty, progress of the Trainee Teachers, etc.  | Within 12 weeks of the start of the first trimester |
| Report on Actions taken for developing the Placement Function   | Within 12 weeks of the start of the first trimester |
| First Report on Improvement of Academic and Administrative Management Practices in NIMA   | Within 12 weeks of the start of the first trimester |
| Report on Course Delivery for the second trimester, containing, <i>inter alia</i> , details of the courses, teaching technology used, progress of the students, feedback of the various faculty, progress of the Trainee Teachers, etc. | At the end of the first six months                  |

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| <b>Deliverable</b>   | <b>Timeline</b>                        |
|--|--|
| Report on Actions taken for developing the Placement Function  | At the end of the first six months     |
| Second Report on Improvement of Academic and Administrative Management Practices in NIMA   | At the end of the first six months     |
| Report on Course Delivery for the first academic year, containing, <i>inter alia</i> , details of the courses, teaching technology used, progress of the students, examination methods used and results thereof, feedback of the various faculty, progress of the Trainee Teachers, etc. | At the end of the first Academic year  |
| Report on Actions taken for developing the Placement Function  | At the end of the first Academic year  |
| Third Report on Improvement of Academic and Administrative Management Practices in NIMA  | At the end of the first Academic year  |
| Report on Course Delivery for the first trimester, containing, <i>inter alia</i> , details of the courses, teaching technology used, progress of the students, feedback of the various faculty, progress of the Trainee Teachers, etc.   | At the end of the Second Academic year |
| Report on Actions taken for developing the Placement Function  | At the end of the Second Academic year |

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| <b>Deliverable</b>   | <b>Timeline</b>                        |
|--|--|
| Fourth Report on Improvement of Academic and Administrative Management Practices in NIMA | At the end of the Second Academic year |
| Monthly Reports on all items of the Scope of Work  | Monthly                                |
| Bi-monthly Report on Faculty Performance   | Bi-monthly                             |
| Annual Placement Report  | Annual                                 |
| Special Report on Student Counseling   | Half-yearly                            |
| Progress on Plans for up-gradation of IT and Library resources                           | Half-yearly                            |

**Tentative Team Composition and time involvement**

| <b>Designation</b>                       | <b>No of Positions</b> | <b>Expected Input (man-months)</b> |
|--|------------------------|------------------------------------|
| Team Leader                              | 1                      | 10                                 |
| Dy Team Leader and Senior Faculty        | 1                      | 12                                 |
| Senior Faculty                           | 3                      | 51                                 |
| Junior Faculty                           | 40                     | 640                                |
| Consultant- Academic Administration      | 1                      | 8                                  |
| Consultant – Curriculum                  | 1                      | 8                                  |
| Consultant – Examination system          | 1                      | 3                                  |
| Consultant – Placement System            | 1                      | 6                                  |
| Consultant – Teacher Development Program | 1                      | 8                                  |

***What are the steps for preparation of the proposal?***

The steps for preparation of the proposal are as follow:

- ❑ Acknowledge the letter of invitation.
- ❑ Appoint a team for the preparation of the proposal. This will include the person from the Head Office who is in-charge of the Project, and preferably the Team Leader. One should also have an identified person who will act as Editor for the proposal.
- ❑ Prepare the technical proposal strictly according to the TOR. Do not add additional details or you may lose marks.

***Do I have to go through this whole exercise every time I prepare a Proposal?***

Certainly. But we would point out that not all RFPs require a very detailed proposal. The ADB, for instance, has three categories of technical proposals:

- ❑ Full technical proposal for projects with budgets over \$1 million.
- ❑ Simplified technical proposals for projects between \$400 thousands to \$1 million.
- ❑ Bio-data proposals for projects which are below \$400 thousands.

However, that is only for the ADB. In the case of the World Bank, even projects worth \$200 thousands need full technical proposals.

***What would be the basic steps for the proposal team?***

The first step is to analyse the TOR requirements and to assemble background information. A visit to the project site to assess local factors is recommended. Also important is to meet with staff of the executing agency.

The next step is to identify precisely the expertise required. This should be followed by locating the potential staff having the necessary qualifications. And also the identification of associates if considered necessary.

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### ***The technical details apart, how shall I submit the proposal?***

On the cover, state the name of your firm and the name of any associates. State the name of the project and its number, if any. You can include a photo or a relevant map or graphic, if you want. Do not make a very long covering letter. It should be a maximum of two pages.

### ***What do I include under general approach/methodology?***

First, state your understanding of the project, making reference to site visits, if you have done so. Next, explain how the work will be executed and identify the key steps, phases etc. The important part about the methodology is to relate it to the TOR itself. This means that you have to think through the detailed objectives and then show how the major phases, steps etc. of work execution will lead to achievement of these detailed objectives. In doing this, remember that marks are given for creativity and innovation; but these should be tested against the benchmark of the TOR.

Do not present a general thesis on the subject. And do not bring in your firm's specific experience in the general approach and methodology unless your experience led to something that was innovative and which you want to reuse here.

There should be a logical structure and internal consistency within the methodology. You should structure the methodology so that people reading the document can figure out what will be the result of the actions that you propose to take and why. A methodology, remember, is something that highlights how issues (those that form part of the TOR and those that you have identified) will come to the front as a result of what you will do and how you propose that they should be dealt with.

Also remember that a methodology is not a simple restatement of the deliverables or a simple listing of action sequences.

### ***What should I keep in mind while structuring the Team?***

The do's and don'ts can be summarized as below:

- ❑ Look at specific CVs in relation to the TOR
- ❑ Include a detailed organization chart.



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- ❑ Remember that the selection of Team Leader will be looked at twice—once for leadership capability and once for his technical expertise.
- ❑ Include as many permanent employees as possible with reference to the TOR.
- ❑ Don't put heavy weights if they are not directly relevant
- ❑ Don't put foreign consultants unless you can actually bring them to the project, otherwise show them as referrals experts
- ❑ Don't structure the Team in such a way that there is a direct linkage between the steps in the methodology and the CVs of the experts
- ❑ Don't structure the team so that it looks top-heavy
- ❑ Don't create the team so that there is overlapping expertise between several experts
- ❑ Don't overlook the importance of support staff
- ❑ Don't overlook the importance of field staff
- ❑ Don't overlook the access that field staff must have to the team leader and the Experts throughout the project

Do not provide very long CVs. Experts' CVs should not normally exceed more than five pages.

#### ***How do I present the work programme?***

First, a work programme should cover the total project. The detailed programme, which we can call a work schedule, should show the responsibilities of each member of the project team. And remember that a work schedule should have a direct connection to the deliverables sequence but should not be built around it.

#### ***Now we come to deliverables. What do I need to know?***

Normally, the deliverables required will be spelt out in the RFP itself. However, it is always better to explain in short what each deliverable will contain. For example, the RFP may say that there should be an Inception Report. You should clarify in your proposal

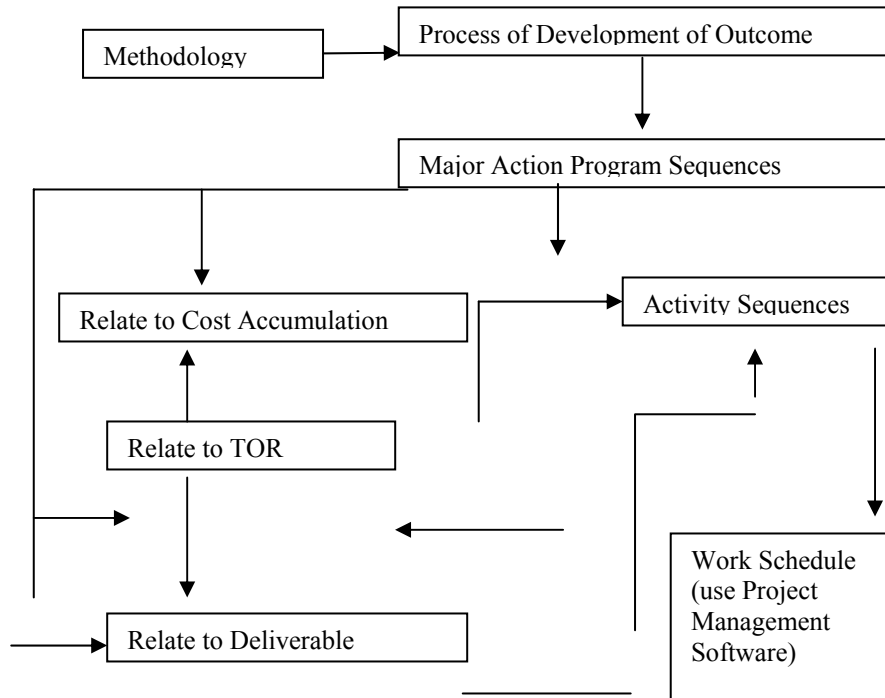
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what the Inception Report will contain. Don't make it too long, and put in such a way that it becomes a logical output of your very first series of actions as given by you under the work schedule.

We seriously recommend that while preparing the work schedule, you use a project management software (such MS Projects, but there are others which are even easier to use).

#### ***This all gets a little confusing. Can we tie all this up together?***

Look at the diagram below. It is self-explanatory, and should help to clear up doubts.



#### ***Should I follow any particular style while writing the proposal?***

##### Writing Style

- ❑ Obey simple rules such as using short sentences and a standard vocabulary of terms

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- ❑ Standardize punctuation, spelling, capitalization and use of underlining and bold fact text
- ❑ Write names of organizations in full first time with the abbreviation in parenthesis

### **Standardisation and Design**

- ❑ Keep it simple
- ❑ Use a single type face and organize headings, sub-headings and text in a standard way
- ❑ Develop a standard numbering system
- ❑ Use running headers along the top of pages to sections of the proposal
- ❑ Use section dividers (could be coloured), to give structure to the proposal
- ❑ Use tabs with labels to clearly identify the different sections
- ❑ Consider the use of charts, graphs and diagrams to explain concepts

### ***Any other points that I should keep in mind?***

Remember that there has to be a very clear logical sequence running throughout your proposal. Never assume that the Evaluation Committee will not read through the document. Everyone does, and since money at stake is never very small, everyone does a thorough job. That is why you should do one also. As per the ADB Guidelines, you can go up to fifty pages only on Methodology, Work and Staffing. In the case of simplified technical proposals, this is restricted to ten only. Therefore, try to be precise. In some cases, for example, in the sample which has been enclosed as Annexure, there are no limits. Nevertheless, each sentence will be read through thoroughly.

## **7.4 Making the most of a Financial Proposal**

### ***What is the first step?***

Break down the activities in terms of the resources you will need for each. This includes manpower, travel, delivery cost and

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overheads. Most people tend to take a sort of general approach and they do not go into the details here. But the Evaluation Committee will. They will have their own estimates of how much each activity will cost and therefore, they will check your estimates with that. For instance, the Evaluation Committee may have its own idea of how many visits of a foreign expert are needed, and if you have given more and included the cost for it, they will want to know why.

Allocate your resources to every defined activity through a spreadsheet and calculate each cost well. Many RFPs provide a format which is to be filled in.

#### ***Then what?***

Assign cost to each of your resources to arrive at activity-wise costs. Then you add the overheads. Note that for foreign projects, there may be a separate overhead component for the offshore part of the work. After you have done that, go through an optimization exercise to reallocate resources to the activities in order to streamline the overall project cost.

#### ***Anything in particular about the different multilateral agencies?***

Most multilateral agencies will allow you to add costs (for which standards are provided) for relocation of experts, social hardships etc. You should look at this standards before you take a decision on setting up a guest house, for example, in the country of action. Noting the details of these permitted allowances is also important because you can negotiate on an overall basis with your own associates or external consultants.

#### ***Will the Committee refer to my technical proposal while evaluating my financial proposal?***

Not necessarily, but they may. Therefore, what we recommend you to do, is :

- Check the number of experts in the Technical and Financial Bids, their man-months (cross-check with EOI)
- Check that Foreign Experts have been properly accounted for (not too many days in India which may not happen)

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- ❑ Check that contribution to deliverable per expert/consultant correlates with fees charged/costs attributable to the Deliverable
- ❑ Check that Work Schedule and support staff requirements correlate with cost
- ❑ Strategic mix of Technical and Financial aspects, if the selection is on a QCBS

### ***Anything else in this context?***

Yes, remember what we said in Chapter 1 about Financial Bids. It is important for you to collect market information. If you know who the other firms are (and you will, because normally the invitation letter for the RFP also shows who are the other firms to whom the letter is being written) then, you should use your judgement to estimate the range of bids. As we have said, in some cases, the budget will be specified, so that you will know where to position yourself. In those cases where the budget is not known, you should collect information of the bidding in similar proposals elsewhere. In fact, this is one more reason why consultants should network. Otherwise, you will never come to know what really is going on in your selected area.

## **7.5 Technical Proposals and Financial Proposals – What goes wrong**

### ***Well, what does go wrong?***

Many things. We are giving below a series of errors that are committed by consultants. We are grateful to the Asian Development Bank who have given us these errors that they have observed over the years.

### ***ERRORS (1) Proposal ranked 2nd, (4 Proposals), 18 points behind winner***

- ❑ the Proposal showed an implementation period of 4 months longer than that required by the TOR
- ❑ 7 international experts were proposed compared to the 4 positions in the TOR

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- ❑ 15 proposed trips to the field were considered to be excessive

***ERRORS (2) Proposal ranked 2nd (3 Proposals), 23 points behind winner***

- ❑ the personnel schedule was not in the required format
- ❑ the methodology gave the impression that the firm did not intend addressing all the TOR tasks
- ❑ inclusion of a project director was considered inappropriate

***ERRORS (3) Proposal ranked 5th, (5 Proposals), 83 points behind winner***

- ❑ strong project and country experience
- ❑ very experienced domestic associate firm, BUT...
- ❑ no nomination for one domestic position
- ❑ international economist was rated at zero because she was from Bulgaria, a non-ADB member country

***ERRORS (4) Proposal ranked 4th, (4 Proposals), 67 points behind winner***

- ❑ the work plan was weak as there were no linkages between experts inputs and timing of deliverables
- ❑ the committee was of the opinion that there were too many associate firms which could complicate management of the team
- ❑ too much home office input was shown for the team leader

***ERRORS (5) Proposal ranked 5th, (6 Proposals), 99 points behind winner***

- ❑ assignment of tasks to team members was not clear
- ❑ the staffing schedule indicated limited input by the team leader which was due to a conflict of a previous commitment to another ADB project

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- ❑ the international financial analyst had strong academic qualifications but no DMC experience

#### ***ERRORS (6) Proposal ranked 3rd, (5 Proposals), 72 points behind winner***

- ❑ a strong team of experts BUT.....
- ❑ no site visit had been undertaken
- ❑ there were no details as to when the various reports were to be submitted
- ❑ distribution of person months indicated inadequate allowance for economic analysis tasks
  - the TOR for this study was specific on the inputs of the various experts in the team

#### ***ERRORS (7) Proposal ranked 3rd, (5 Proposals), 68 points behind winner***

- ❑ the number of pages exceeded the limit for Simplified Technical Proposals
  - this applied to both the approach & methodology section and the expert's biodata
- ❑ there were 4 trips to the field for each expert for a study with a 6 month duration
- ❑ the inclusion of an administrative assistant was not a TOR requirement

#### ***ERRORS (8) Proposal ranked 4th, (5 Proposals), 76 points behind winner***

- ❑ the methodology did not cover all TOR requirement and focused too much on training activities
- ❑ there was a lack of understanding of related sector work previously undertaken by the ADB
- ❑ the Proposal was difficult to read because of the size and style of font used

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***ERRORS (9) Proposal ranked 2nd, (3 Proposals), 17 points behind winner***

- ❑ the proposed additional 10 months input and the addition of 3 experts to the 8 required by the TOR was inappropriate
- ❑ the fragmented input by the team leader could lead to management problems
- ❑ otherwise very good methodology and a strong team of experts

***ERRORS (10) Proposal ranked 3rd, (4 Proposals), 12 points behind winner***

- ❑ proposal contained information about the firm's previous work experience which is not permitted for the Simplified Technical proposal
- ❑ the committee did not see the need for input by the firm's chairman

***ERRORS (11) Proposal ranked 4th, (4 Proposals), 80 points behind winner***

- ❑ the Proposal presented a rather cursory approach and methodology which demonstrated a lack of understanding of the TOR objectives
- ❑ none of the experts in the team were permanent employees of either the lead firm or the associate firms
- ❑ 9 experts were nominated for the 5 TOR positions

***ERRORS (12) Proposal ranked 2nd, (3 Proposals), 80 points behind winner***

- ❑ the methodology was very brief and was only presented in chart form
- ❑ the personnel schedule was not in the required format
  - only expertise was shown, there were no names and inputs were shown in days, not months



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- ❑ the team leader had a background in statistics rather than investment finance

#### ***ERRORS (13) Proposal ranked 4th, (4 Proposals), 91 points behind winner***

- ❑ the Proposal was poorly presented with numerous typing errors and redundant content
- ❑ names in the personnel schedule did not match those in the organization chart
- ❑ the methodology was brief and did not address all issues
- ❑ biodata was not in the ADB's format

#### ***ERRORS (14) Proposal ranked 4th, (4 Proposals), 182 points behind winner***

- ❑ none of the quoted projects in the experience section were relevant to the TA's requirements
- ❑ the personnel schedule and the work program were difficult to interpret
- ❑ there were no nominations for two domestic positions
- ❑ the committee determined the Proposal to be non-responsive

#### ***ERRORS (15) Proposal ranked 3rd, (3 Proposals), 177 points behind winner***

- ❑ inadequate information was contained in the biodata of the domestic experts to allow for a detailed evaluation
- ❑ the inclusion of an executing agency employee as a domestic consultant was not acceptable
- ❑ the committee determined the Proposal to be non-responsive

## **7.6 Making a Technical Presentation**

***How is a technical presentation for a consultancy assignment different from the usual presentations that we make to our clients?***

Actually, the difference is a very fundamental one. In the usual technical presentation, the presentation itself comes at the end of a job whereas these presentations which we are talking about, come before. When one is making a presentation at the end of the assignment, one knows what the answers are; whereas, in a presentation before an assignment, one is suggesting things. Answers are not known, and everything (more or less) is open-ended.

***How do I begin?***

The very first thing is to estimate the time that you have. You may have been told how much time will be given to you. Discount that by 30% because invariably, some presentations take longer than others, and if you are in the middle or you have been put at the end of the day, you will get less time. In case you find that you suddenly have more time, you can always talk more on some of the slides, or you can give more time for questions and answers, but working the other way around, i.e., having less time than you planned for, is more difficult to handle.

Jot down what you want to say. You may decide to say a little about your methodology, and more about your work program and deliverables. The choice is yours. You must give weights according to your information about who all will make up the evaluation committee, and what they are most likely to be interested in. What you should not do is to spend a whole lot of time on yourself or your firm. Remember that the Committee already knows who you are, so that repeating that information is no use, and you are only wasting time that is scarce, and that you should have used up in talking about the assignment itself.

Basically, in a presentation, you need to understand what will hold your audience. Mostly, in such cases people in the audience think they know what the presentation is going to be all about. And they get jaded after the first couple of presentations. So the basic

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approach should be- surprise them! Add something that is new, and which they will remember.

### ***Okay, I got that. But should I try out new ideas everytime?***

Try to gauge whether, you are putting new knowledge and thoughts in your presentation,

- the audience is likely to think that you have gone fishing, or
- the audience is likely to react positively.

Obviously, a whole lot depends upon how exactly you present your ideas.

### ***But how will I know?***

We did say that you should do a little bit of homework on the Committee members. If you have done that, then a good idea is to estimate on a scale of ten how much they will appreciate your

- Technical Knowledge
- New Ideas
- Breadth of your understanding
- Depth of your understanding

Depending on which of the factors has a higher score, adjust both the content of your presentation, and your presentation style.

### ***Can you give me some basic tips?***

Never –

- Assume that your homework is sufficient
- Assume that you can do a complete job of the presentation itself, and therefore, plan for it
- Assume that your audience will always be interested in what you have to say

***How should slides be structured?***

Obviously, there should be a clear logical string that goes from beginning to end. That apart, a good slide show should certainly be visually attractive. Choose the colours carefully so that when projected, the text comes out as very readable. Don't have too many graphics and don't use too many fonts. Also avoid using too much of animation as this makes the audience wait, and you also may find it hard to fill up the time gaps. Remember that a successful presentation is dependent about 50% on presenter's style and confidence (a presentation does not speak for itself!).

***What about presenter's style?***

Try to avoid explaining things in great detail. There is a huge difference between verbalizing an idea and becoming verbose on the subject. Answer some questions but don't answer all because that may take up valuable time. Take breaks as these can be effective. In any case, consciously attune your body language so that you appear confident. Some more tips are –

- Don't just read out the slide (but don't keep silent while your audience reads the slide)
- Don't even read the slide handouts verbatim (your audience is intelligent)
- Don't keep the same slide on screen for too long
- Be prepared to jump slides if you are running short of time. But for this, we suggest you have a previously prepared plan. No audience likes to feel as if it is being deprived of something. Therefore, when you jump slides, add one or two remarks about why you are doing it. In any case, the best idea is to have two or three versions prepared and stored on your computer. The versions should differ from each other in the amount of time they would take in a presentation.

***You have been talking about logical structure. Can you tell me something more?***

You have to explain your logic in the very beginning. This you can do by spending a little time on your synopsis. Don't go backward

and forward constantly, and more important, structure your slides so that the audience does not have to move backward and forward mentally also.

Remember that there are people who arrive at the right answer using the wrong reasons and there are people who arrive at a wrong answer for the right reasons. There will be people like these in your audience also. So be patient with people who don't seem to follow your trend of thought.

***How can I keep the audiences' interest intact?***

Create a slide-to-slide suspense. Try to end every slide with –

- A question that requires an answer
- An idea, only half of which has been told in the slide, and
- A leader to other ideas

Some people are over-fond of using clip art. It is useful to remember that a clip art is a memory association tool, and that it is not a slide identifier. People are well advised not to use a clip art as a major slide graphic.

***Any final thoughts on presentations?***

A closure is very important. Most people tend to run out of steam towards the end of their presentations, and, suddenly before anyone realizes what is happening, there is a 'Thank You' slide. We recommend that you clearly plan for a closure and that you close your presentation with –

- A single concluding statement, or
- An appropriate quote, or
- An open-ended question, or
- A visual, which may be a cartoon (depending on the subject)

## **7.7 Negotiating The Contract**

OK. So I have come through all the stages of EoI, Technical Proposal, Presentation, and the Financial Proposal evaluation.

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The Client has now asked me to come for contract negotiation. What are the issues I should be concerned about?

Before you go for the negotiations, remember that an important part will always be your financial bid. Therefore, do your homework on the calculations that went into the preparation of your financial proposal. Build up your arguments in support of your bid especially with respect to the value addition that you propose to make.

Other than the money matters, there are several issues that you need to talk about and settle on. Most people make the mistake on going to a contract negotiation and talking only about billing procedure and the rate of TA/DA etc. This is a mistake not only because clients don't want to talk about small things, but also because the major issues which can make or break an assignment, get sidelined.

The major issues are :

- ❑ Supply of information
- ❑ The meaning of words like 'assistance', 'help', 'support' etc.
- ❑ Manpower support from the client's side
- ❑ Training arrangements
- ❑ Infrastructure for the project office
- ❑ Deliverables, and the time to be taken by the client for accepting them, etc.

#### **Supply of Information**

A major problem in urban local bodies is the supply of financial information. While there would be no difficulty in getting information from the Finance Department (this is largely because financial and accounting reforms are pioneered by the CFO), there is likely to be a lot of delay in getting relevant information in time from other Departments such as Engineering or Assessment in collection. These other Departments may give the consultant a runaround and as a result figures for fixed assets, Capital works in progress, demands and receivables may not be very easy to get.

That is why at the time of the negotiation of the contract itself, it is a good idea to see that a clause which squarely puts the responsibility for collection of information and supply thereof in an acceptable format, gets put on the Finance Department Itself.

***The meaning of words like `assistance', `help', `support' etc.***

Most TORs will have components that used words like `assistance', `help', `support' etc. These words are dangerous because they are open handed. One man's idea of help may be totally different from another's. As a consultant, you may go on helping the client, and the client may not feel that this is what he wanted.

Therefore, at the time of negotiations be very careful about the use of such words. To the best extent possible, ask the client to define what means by these. It is possible that going by the client's interpretation, your cost will go up. Therefore, so far as such words are concerned, go into the full detail, and ask for more money if required, or else ask the client to tone down his requirements.

***Manpower support from the clients side***

This is another problem area. Most urban local bodies will have very few officers at the top in the Finance Department. As a rule, all of these officers are overburdened. Therefore, when it comes to support from the Finance Department, it becomes limited to a few meetings whereas, what you will require will be an extensive chunk of their time. Usually, urban local bodies get over this problem by appointing nodal officers to handle the assignments, from the second rung of officers. The problem is that such second level officers are usually not qualified for the work pertaining to financial and accounting reforms. Also, they normally do not have any authority whatsoever, and are not capable of sorting out inter Departmental issues. This creates a whole lot of problems.

The way to deal with this is (a) to get it included in the agreement that there will be severe/top management meetings at least once a week, and (b) that the consultant will have priority in terms of claims on the time of the senior management. It is also a good idea to get it stated that any nodal officer who is so nominated, will be given sufficient powers so that that requests of the consultant can be quickly addressed.

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### ***Training arrangements***

This is one area to which no one (and that includes the clients) pays much attention. People seem to forget that it is only through training that the whole assignment can come to an acceptable stage. Also, contrary to normal beliefs, training is not cheap.

The best idea is to include all training costs in the financial proposal itself. This has the major advantage that the client will not have to worry about paying separately every time a training programme is held (and for conversion assignments, a lot of training programmes are needed). The other advantage is that the consultant gains a lot of flexibility in managing training costs.

At the time of negotiations, a clause should be put into the agreement that the client is responsible for arranging the trainees and for ensuring that they attend the programmes regularly. The consultant should not take this particular responsibility. This is also because there may be union problems, especially where lower level training is to be provided, and the consultant should certainly not get involved with that.

In case, the financial proposal has been structured in such a way that the client has to be provided the training infrastructure, and then this matter should be thrashed out and put down clearly in the agreement. There should also be a specific clause that refers to training for senior and top management. The reason is that people at such levels find many excuses not to participate in training while, in the interest of the overall reforms programmes, it is most important that they do so. It is a good morale booster for the lower level participants who have to attend many more programmes.

### ***Infrastructure for the project office***

Get the details of the infrastructure for the project office incorporated in the agreement. The number of computers etc. to be provided by the client should be clearly mentioned. Under normal circumstances, the consultant will have to hire computers and data entry operators in any case. However, if infrastructure details (so far as they are to be provided by the client) are put down in the agreement, the consultant will be able to manage his costs reasonably well on this item.



**Deliverables, and the time to be taken by the client for accepting them, etc.**

At the time of issuing the RFB, most clients are not clear about the deliverables that they will expect. Most consultants also, in terms of their technical proposals do not go into specific while giving the details of their deliverables. That is why one usual finds terms such as 'inception report', 'interim report', 'mid-term report' etc. in agreements with consultants with no explanations as to what these reports shall contain. This creates problem both for the clients and the consultant. The consultant puts in whatever he likes, and the client does not know what to evaluate. Since evaluation and acceptance lead to payment of bills of the consultant, one can well imagine the problems that this causes.

The best idea is to spell out everything very clearly in the technical proposal itself, and simply copy from there into the agreement proper. If the things have not been spelt out in the technical proposal then that should be done at the time of contract negotiations. As a consultant one is well advised to go to a negotiation meeting with the detailed contents of every deliverable worked out. The agreement then should state that the deliverables shall be discussed and agreed to, based on the contents as given.

***What else should I look at when negotiating?***

We had mentioned in the previous chapter that for most urban local bodies, financial and accounting reforms are completely uncharted territory. This can result in two quite different kinds of attitudes at the negotiating table. First, and the usual, is a kind of submission on the part of the client because they know that they have no expertise in these matters. Arising from this attitude, the client may accept almost everything that the consultant says. This is also dangerous because the consultant can get tempted into going overboard in terms of extending a helping hand without realizing the costs of the same.

The second attitude also arises from the basic realization of the client that he does not know much. This can give rise to fear, and fear can lead to negativity. The consultant will then be faced with people who appear to doubt everything that he says from the very beginning.

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Remember that most urban local body people are quite good at handling public, politicians, and contractors. It just so happens that conversion is a new area for them and therefore, they may be a little unsure of themselves in the beginning. This will quickly change once the assignment begins. The best thing for the consultant to do is to appear to be objective, knowledgeable and helpful, without too much of any of these.

#### ***Anything else?***

Yes. Given that you will be dealing the governmental body, it is better to ask for a mobilization advance. If you did not ask for in your financial proposal, do so at the negotiating table. This will also prove the seriousness that the client has.

#### ***How do I close the negotiations?***

Remember that the consulting is different from auditing. As an auditor you can demand, and get various documents and statements prepared according to your requirements. As a consultant, you will have to request, and you may have to beg. To avoid this latter possibility, use the negotiating table to build bridges with the key people. Also ask for a kick-off meeting where the whole top management should be present. As far as possible try and close the negotiations on a warm note, and don't just go away after the negotiations. Spend some time with the key people. You are, after all, dealing with Government people.

## **7.8 Parting Thoughts**

Getting into consulting assignments is no longer really a choice. With other traditional areas of practice shrinking in scope, consulting is emerging as a major option. People normally think, as we have said, that consulting is for large firms only. A visit to the website of any of the multilateral agencies will show that there are enough options for even small proprietorship firms or individuals. The problem in most cases is that people do not want to invest the time and energy that is required to become prepared for undertaking assignments. In essence, that is all that is needed.

This book has detailed some aspects of working towards doing government consulting work on a regular basis. For the first timer,

### ***Government Consulting – Taking the First Steps***

there would obviously be difficulties. But as in everything else in life, the first success is the best teacher. We recommend that those who follow the guidelines laid down in this book, create, on the basis of their own experience, an internal manual for making applications and for preparing proposals. Simultaneously, more attention will have to be given towards quality management procedures within the firm. Even if a particular RFP does not ask for QM practices, the addition of these strengthens the proposal to end.

Similarly, most firms do not keep complete records of the training programmes that they conduct. Nor of the material that they use in the training programme. As a result, the detailing of the training component in the technical proposal is normally in very general terms, and training costs are also not properly estimated. However, it is in this respect only that some proposals win and others lose. Many applicants do not bother to find out what exactly is the extent of counter-party support. The typical items that are required include office accommodation, secretarial assistance, office equipment, local transportation, venue for training etc. A realistic approach is to take these into consideration and also look at local conditions in this context. Some multilateral agencies like the ADB, give points for the amount of counter-party support required. Therefore, consultants would be well advised to pay specific attention to this matter.

Finally, please note that for any given project, the consultancy work is only a small part of the whole project. The World Bank publishes the Technical Annexe of the whole project electronically. Therefore, before responding to an EOI look up the Technical Annexe of the whole project, and look at the section on the Procurement Plan ( given as an Annexe to the document). In the procurement plan for Services you will find the budget allocated for the assignment as well as other details. This is very important.

At the end, we would only like to say that if after reading this book, you find that there is something more that you would like to know, then you should consult the appropriate reference material. Nothing however, can take the place of interaction with personnel of the lending agencies and interaction with personnel of the executing agencies. And nothing is more valuable than market information.

## **Annexure A**

### **I. Revised empanelment norms for appointment of statutory central auditors of PSBs, select all-India Financial Institutions and RBI.**

1. For the purpose of empanelment of statutory central auditors for 27 PSBs, select all-India Financial Institutions and RBI following norms will come in force from the year 2004-05 (existing norms will continue to apply to those audit firms which have not completed their four year terms with the respective PSBs, select all-India Financial Institutions or RBI).

As on 1 January of the relative year

- (i) The firm should have minimum 7 full-time Chartered Accountants, of which at least 5 should be full-time partners exclusively associated with the firm. These partners should have minimum continuous association with the firm i.e. one each should have continuous association with the firm at least for 15 years and 10 years, two with a minimum of 5 years each and one with a minimum of one year. Four of the partners should be FCAs. Also at least two of the partners should have minimum 15 and 10 years experience in practice. In case the paid Chartered Accountant available with the firm without any break was admitted as a partner of the said firm at a future date, his association with the firm as a partner will be counted from the date of his joining the firm as a paid Chartered Accountant.
- (ii) The number of professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.), consisting of audit and articled clerks with

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the knowledge in book-keeping and accountancy and are engaged in outdoor audit should be 18.

- (iii) The standing of the firm should be of at least 15 years which would be reckoned from the date of its constitution and availability of one full time FCA continuously with the firm.
- (iv) The firm should have minimum statutory central audit experience of 15 years of a public sector bank (before or after nationalization) and/or by way of statutory branch audit thereof or that of statutory audit experience of a private sector bank with deposits resources of not less than Rs.500 crore. In case any of the partner of an audit firm is nominated/elected for a period of atleast 3 years or more on the Board of any public sector bank then his/her such experience for a maximum period of three years will be considered as bank audit experience, provided such experience has not been earned by him/her concurrently i.e. when his/her firm was assigned statutory audit of any PSBs, select all-India Financial Institutions or RBI.
- (v) The firm should have statutory audit experience of 5 years of the public sector undertakings (either Central or State Government undertaking). While calculating such experience, more than one assignment given to a firm during a particular year or more than one year's statutory audit (audits in arrears) assigned to the firm will be reckoned, as one year experience only, for the purpose of counting such experience.
- (vi) At least one partner of the firm or its paid Chartered Accountant must possess

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CISA/ISA or any other equivalent qualification.

**II (a). Revised norms for categorization of audit firms for their empanelment as branch auditors for public sector banks and branch allocation to different categories of audit firms.**

| <b>Category</b> | <b>No. of CAs exclusively associated with the firm (full-time)</b> | <b>No. of partners exclusively associated with the firm (full time) (Out of 2)</b> | <b>Professional staff</b> | <b>Bank audit experience</b>   | <b>Standing of the audit firm</b>              |
|-----------------|--|--|---------------------------|--|--|
| (1)             | (2)  | (3)  | (4)                       | (5)  | (6)  |
| I.              | 5  | 3  | 8                         | The firm or at least one of the partners should have a minimum of 8 years experience of branch audit of a nationalized bank and/or of a private sector bank with deposits of not less than Rs.500 crore. | 8 years  |
| II.             | 3  | 2  | 6                         | The firm or at least one of the partners should preferably have conducted branch audit of nationalized bank or of a private sector bank with deposits not less than Rs.500 crore for at least 5 years.   | 6 years (for the firm or at least one partner) |

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|      |   |   |   |   |  |
|------|---|---|---|---|--|
| III. | 2   | 1 | 4 | The firm or at least one of the CAs should have preferably conducted branch audit of a nationalized bank or of a private sector bank with deposits not less than Rs.500 crore for at least 3 years. | 5 years (for the firm or at least one partner) |
| IV.  | 2   |   | 2 | Not necessary   | 3 years  |
|      | Even proprietorship concern without bank audit experience may be considered as hitherto. (The proprietary concerns of Chartered Accountants with 1 paid CA, 2 professional staff and not having any statutory branch audit experience of a nationalized bank or of a private sector bank with deposits not less than Rs.500 crore will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment). |   |   |   |  |

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**II (b). Criteria fixed for allocation of branches of PSBs for the purpose of statutory branch audit among different categories of audit firms.**

| <b>Category</b> | <b>Branches, to the extent possible, to be allotted</b>   |
|-----------------|---|
| Part 'C'        | Branches with an outstanding advances of Rs.50 crore and above.   |
| I               | Branches with an outstanding advances of Rs.10 crore and above.   |
| II              | Branches with an outstanding advances of more than Rs.150 lakh but less than Rs.10 crore and not located at rural centres.                |
| III & IV        | Branches with an outstanding advances of less than Rs.150 lakh or those located at rural centres irrespective of the quantum of advances. |

**Annexure II**

**Other important recommendation of the working group which will be implemented from RBI from the year 2004-05.**

1. For determining inter-se seniority of experienced as well as new audit firms a detailed marking system has been introduced.
2. Experience of statutory central audit of Jammu & Kashmir Bank Ltd. will be reckoned as public sector bank audit experience (and not that of public sector undertaking as has been reckoned presently) with effect from the year 2003-04 subject to certain conditions.
3. For each public sector bank a team of 4, 5 or 6 audit firms will be appointed as Statutory Central Auditors (SCAs) depending on their assets and liabilities of previous year (audited figures) i.e. upto Rs.50,000 crore, above Rs.50,000 crore and upto Rs.1 lakh crore and above Rs.1 lakh crore respectively. In case of SBI the present practice of appointing one audit firm for each of its 14 circles will continue. There will be no change in the number of audit



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firms that are presently allotted to IDBI, NABARD, EXIM Bank, NHB, SIDBI and RBI.

4. With a view to help preparing second line of defence as also infusing young blood in bank audit with effect from 2004-05 and onwards, the available vacancies of SCAs will be filled in, in the ratio of 8:2 instead of 9:1 as is being done presently. This ratio will be subject to revision after 3 years by RBI in the light of experience gained.
5. The system of giving preference to experienced unallotted audit firms carried over from the previous year will be discontinued effective from the year 2004-05 and they will now be ranked along with the other experienced firms becoming eligible during the year subject to usual norms.
6. The policy of rotation and resting for statutory branch auditors which is presently applicable to 17 centres viz., Mumbai, Kolapur, Pune, Solapur, Thane, Kolkata, Chennai, Coimbatore, Delhi/New Delhi, Ajmer, Bikaner, Jaipur, Kota, Udaipur, Ahmedabad, Vadodara, and Surat has been continued and other 16 centres viz. Hyderabad, Chandigarh, Raipur, Faridabad, Gurgaon, Panchkula, Panipat, Sonapat, Bangalore, Ernakulam, Indore, Nagpur, Ludhiana, Jodhpur, Bhilwara and Ghaziabad have been included in the list of resting centres thereby raising the total of such centres to 33 effective from 2004-05.
7. Effective from 2004-05, a panel of statutory branch auditors (Part A and B) will be prepared by the ICAI and RBI once in two years, instead of annually, as is being done now.

**Annexure B**

**Revised Guidelines For Appointment Of Statutory Auditors Of Insurance Companies**

***I. Eligibility Conditions :***

- 1) Auditor of an Insurance company shall be a firm ;
- 2) The firm should have been established and has been in continuous practice for a period of 15 years or more;
- 3) (a) It should have
  - (i) A minimum of five partners of whom at least two should have been in practice as partners in an audit firm for a minimum period of 10 years and
  - (ii) Atleast two other partners have been in continuous practice in the audit firm as their partner or had been in employment earlier with that firm for a minimum period of five years ;
- 3) (b) Alternatively,
  - (i) It could be a firm which has atleast seven Chartered Accountants including not less than two as partners who have been in continuous practice as partners in the firm for a minimum period of 10 years and
  - (ii) At least three Chartered Accountants, either partners or as employees, had been in continuous partnership/employment with the audit firm for a minimum period of five years and
  - (iii) At least two partners of the firm shall be Fellow members of the Institute and had been in continuous practice for five years after enrolment as Fellows.
- 4) In both the cases mentioned in 3 (a) and 3(b) above, at least one partner or paid Chartered Accountant of the firm should have CISA/ISA or any other equivalent qualification.

**2. Maximum Number of Statutory Audits in Insurance Industry at a time :**

One Audit firm would not be permitted to carry out more than two Statutory Audits of Insurance Companies (Life/Nonlife/Reinsurer).

**3. Rotation of Joint Auditors:**

- 1) Each insurance company will have two auditors on a joint audit.
- 2) One of the Joint Auditor may have a term of 5 years and the other 4 years in the first instance. Thereafter, the maximum duration for which the auditor could be retained would be for a period of 5 years.
- 3) There will be a cooling period of two years. An audit firm which completes a tenure of five/four years as the case may be, at the first instance, in respect of an insurance company should not accept statutory audit assignment of that Insurance company in the next two years. However, audit firm may accept statutory audit of any other insurance company subject to the compliance of maximum two statutory audits.
- 4) It is clarified that cooling period is applicable in respect of audit firms that completes a term of five/four years as the case may be as on 31<sup>st</sup> March 2006.

**Annexure I**

***Example of a Full (Winning) Technical Proposal***

We give below an Example of a full technical proposal. This work was research oriented, but the Institute got the contract, and the work is now progressing. Incidentally, the offer was only for Institutions, and not for firms.

**I The Action**

**1. Description**

**1.1 Title**

*Financial and Accounting Reforms, Capacity Building and Related Strategies*

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**1.2 Location (s)**

| <b>Locations in India</b>   | <b>Locations in European Union</b>  |
|---|---|
| <p><b>Metropolitan Cities</b></p> <ul style="list-style-type: none"> <li>➤ Mumbai</li> <li>➤ Chennai</li> <li>➤ Kolkata</li> <li>➤ Hyderabad</li> <li>➤ Ahmedabad</li> </ul>    | <p><b>Metropolitan Cities</b></p> <ul style="list-style-type: none"> <li>➤ Birmingham</li> <li>➤ Vienna</li> <li>➤ London</li> <li>➤ Paris</li> <li>➤ Berlin</li> </ul> |
| <p><b>Middle Level Cities</b></p> <ul style="list-style-type: none"> <li>➤ Nasik</li> <li>➤ Bhubaneswar</li> <li>➤ Ernakulam</li> <li>➤ Chandigarh</li> <li>➤ Jaipur</li> </ul> | <p><b>Large Metropolises</b></p> <ul style="list-style-type: none"> <li>➤ Oslo</li> <li>➤ Budapest</li> <li>➤ Edinburgh</li> </ul>                                      |

**1.3 Amount Requested from the European Commission**

| <i>Total eligible cost of the Action</i> | <i>Amount requested from the European Commission</i> | <i>Percentage of total cost of Action</i> |
|--|--|---|
| EUR 200,000                              | EUR 150,000  | 75%                                       |

**1.4 Summary**

The aim of the Action is to assist Indian Urban Local Bodies to institutionalize financial and accounting reforms. Concurrently, the objective is also to strengthen the capacity of the Finance and Accounts Department to utilize the financial information for better management of the Indian Urban Local Bodies. The target groups are selected Urban Local Bodies in India and the Action aims at utilizing the benefits of dialogues between Indian ULBs and City Governments of selected European Cities. As part of the

action plan a comprehensive review of the existing urban financial framework will be undertaken with a view to clarifying financial flows in the urban sector in the State, and identifying and detailing the accountabilities for those flows so that decisions regarding them become more transparent and accountable. The expected results include ownership of financial and accounting reforms and change processes by Indian Urban Local Bodies

**1.5 Objectives**

**1.5.1 Broad Objectives**

1. To create a general awareness of need for financial and accounting reforms in Urban Local Bodies in India.
2. To help to create intra-organisational conditions conducive to change and to point out policy, strategy and tactical issues on which City Govt. Managements have to take decisions.
3. To assist the City Governments to prepare their financial statements and financial and non-financial disclosures in such ways as to contribute directly to improved citizen-City Government communication and understanding.
4. To undertake such actions as are likely to assist in bringing about a shared understanding of the problems of Urban Financial Management among Urban Local Bodies in India.

**1.5.2 Specific Objectives**

1. To create a specific awareness about the imperatives of such institutional reforms in so far as they impact upon the overall organizational structure identities, strategies and policies.
2. To assist the City Governments to adopt appropriate basis of accounting .

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3. To incorporate, in all possible manner, in the various recommendations and exercises to be undertaken as part of the project, international best practices and especially, experiences drawn from EU member States.
4. To help in institutionalizing training policies and strategies directed towards adoption of reforms in the identified Urban Local Bodies.

#### **1.6 Justification**

- (a) The relevance of the Action to the Objectives of the Program
  1. The overall program as stated in the 'Call for Proposal' document is directed towards building extended EU-Indian interaction in the civil society. Further, the overall objectives of the program are concerned with institutional reforms that may lead directly to economic development and general societal change. Since Urban Governments are a major determinants of the quality of city life and therefore, also major determinants of the state of civil societies in cities, it is considered an imperative that Urban Governments are able to carry out the functions as embodied in citizens charters. To do that, it is necessary for City Government not only to be financially viable themselves but also to demonstrate to the civil society at large that the lay citizen gets value for the money that he pays as tax. Clearly, this in turn implies that the finance function within the City Governments is not only capable of determining where sufficient value addition is not taking place but is also able to arrive at strategic financial decisions directed towards enhancing the overall economic worth of the city which is reflected in the financial work of the City Government. Therefore, the proposed Action of capacity building for financial and

accounting reforms is deemed to be directly relevant to the overall objective of the program insofar as any policy or strategy for economic development and change becomes meaningless unless concrete actions are taken to add value at every step of the change and reforms process. The proposed action will not only help to identify such value addition but to help to create the capacity for the Urban Governments to discover their own strategies for giving better value for money to the citizens. Thus, it is clear that the proposed Action can be viewed as an integral part of the ongoing transformation and modernization of the Indian economy and systems of governance especially at the local levels.

2. The proposed Action is designed to draw extensively on the experience of a number of European Cities and is also predicated upon directed interactions between finance specialists of such European cities and the senior most finance functionaries of identified Indian cities. The Action therefore, will also encourage development of mutuality between Indian and European City Governments and networking amongst them to aid in the adoption of international, especially European best practices so far as urban financial management and strategies are concerned.

(b) The relevance of the Action to the Priorities of the Program

1. The proposed action is aimed at creating a basic environment for capacity building and doing so through the establishment of dialogues between Indian and European cities. To that extent, it is directly related to the priorities of the SPF Program for 2004.

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2. The proposed Action is directed towards building a network of Indian and European cities and City Governments. The purpose of such networking is explicitly to accelerate the speed of institutional reforms, specifically in the finance function, in the Indian City Governments. These components of the action may be seen as directly relevant to the second priority of the SPF Program 2004.
  3. The dissemination of knowledge and the research forming the foundation of such dissemination, and suggestions on structural reviews and changes are also seen as integral part of the reform process leading to higher levels of institutional effectiveness in Indian City Governments. As such this is seen as directly related to the institutional reform priority of the SPF Program 2004.
- (c) The identification of Perceived Needs and Constraints in India
1. The need for financial and accounting reforms in City Governments in India became a matter of public concern when the Hon'ble Supreme Court of India opined on the subject in the year 2001 and suggested that such reforms be ushered in, beginning with the changeover of accounting system from Cash Basis to Accrual Basis. Even earlier, various City Governments had realized the need for reforms but had been unable to do so without any legislative or judicial support. The opinion of the Supreme Court of India, delivered on a detailed affidavit of Union of India which itself highlighted the need for accounting reforms, therefore formed the imperative for many City Governments to initiate change and reform.
  2. Indian City Governments are perennially starved of resources and dependent upon State



Governments even for ways and means funded. This happens inspite of the facts that City Governments do posses sizeable current assets in the shape of unpaid tax dues, as also a number of avenues of levying user charges which for some reason or the other are never levied. There is no valuation of the investment property held by the City Governments and there is also no valuation of infrastructure assets.

3. Clearly then, financial and accounting reforms will substantially assist in making the City Governments self-sufficient insofar as resources are concerned. The need is obvious. The constraints are as follow:

- Entrenched inertia within City Governments and consequent resistance to change.
- A lack of understanding of the benefits of financial and accounting reforms especially at the middle levels in the City Government finance functions.
- A lack of a clear ideology of the financial and accounting reforms.
- A lack of in house machinery for the development of appropriate Financial Management Information Systems and Decision Support Systems.
- Outdated Charts of Accounts and outdated methods of budget preparation and Budgetary Accounting.

In addition to the above, there is also a major constraint of State Governments themselves not realizing the importance of need to accelerate reforms in Urban Local bodies. The subsidies provided by the State Government are, in many instances, also

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seen as means of control. Therefore, there is every need to encourage the City Governments to develop financial self-sufficiency and to do so, to the adoption of such financial management practices and accounting systems as would appear demonstrably value additive to the common citizen.

- (d) List of Target Groups and Estimated Number of Direct and Indirect Beneficiaries
  - 1. The target groups will be as follow:
    - (i) City Governments – Metropolitans  
Hyderabad, Kolkatta, Ahmedabad, Mumbai and Chennai
    - (ii) City Governments – middle level cities  
Nasik, Bhubaneswar, Ernakulam, Chandigarh and Jaipur.
  - 2. As regards medium sized metropolises, the Accounting Research Foundation is also proposing to undertake certain studies on its own with respect to such medium cities and small towns and a publication has already been released entitled 'Conversion of Accounts of Municipal Bodies to Accrual Basis' which inter alia identifies the steps to be taken for capacity building in these classes of towns and the consulting strategies that have to be employed.
  - 3. Direct beneficiaries will be the City Governments of the identified target cities and the indirect beneficiaries will be (a) the citizens of these metropolises, (b) the State Governments and (c) other stakeholders.
- (e) Reasons for the selection of the target groups

It will be noticed that while selecting the cities in metropolitans category, all the three major metropolises of India have been chosen. Delhi has been excluded because Delhi has already been covered under similar scheme for which the proposing organization is already involved. While selecting the cities in middle size metropolises category, one each from each region has been included.

(f) Relevance of the action to the target groups

Indian City Governments are perennially starved of resources and dependent upon State Governments even for ways and means funded. The proposed action of capacity building in Urban Local Bodies for financial and accounting reforms would help in making the Urban Local Bodies self-sufficient in so far as resources are concerned.

**1.7 Detailed Description of Activities**

1.7.1 *The activities described in this section have been designed on the basis of the model which is presented later in the section on 'Methodology', particularly in para 1.8.1.3. 'For the purpose of discussion it is taken that there are major four steps in the Methodology as follows:*

- *Examination*
- *Developmental Intervention*
- *Partnered Implementation*
- *Ownership*

1.7.2 *In terms of planned activities, the above steps are considered realizable through the following(ref. 1.8.2.2)*

- *Dialogues*
- *Strategic Restructuring as part of Institutional Reform*
- *Development of 'Model' schema for Accounting Manuals, Financial Management Information Systems, etc.*

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- *Development of training strategy and training policy manuals*
- *Dissemination of knowledge within and between ULBs*

1.7.3 *In simple terms, the action programmes included in this Project fall within the following stages of the project:*

1. *Develop*
2. *Define*
3. *Detail*
4. *Derive*
5. *Disseminate*

1.7.4 *The stages as well as the actions falling within these stages are as follows:*

1.7.4.1 *Develop* – *This stage of the action Programme is directed towards the development and presentation of the context within which all subsequent actions can be seen to be rooted. This stage therefore includes*

- *Preparatory stage – During this stage the following actions will be taken with respect to Indian cities as well as EU ‘partners’ cities*
  - *Sending Missions to each of the EU ‘Partner’ cities with the objective of creating the basis for a long term dialogue and also collecting data on decisions support system for financial management, structural mechanisms, accounting and auditing procedure system, training policies and strategies, resource generation systems, enabling legislation etc.*
  - *Sending Missions to the target cities in India to collect data on the various aspects as indicated in the immediately preceding paragraph for the EU ‘Partners’ Cities. This stage would include looking upon City*

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*Government 'as is' the situation. Typically, functions performed during this stage of activity are directed towards developing a detailed 'site map' of the situation with stress on identifying undefined or fuzzily defined factors and parameters. In this stage a detailed examination of the working of the City Government will be done. At this stage, a detailed examination of processes and procedures is not attempted; rather, attention is focused on the assumptions and adjustments made, for example, in the preparation of the last ten years' accounts, and the gaps remaining. These are recorded as factual matters.*

- *Context Construction Stage : During this stage the context of the total action programme will emerge as
  - *A pair-wise comparison between the Indian and European Cities on the various aspects of financial management, structural mechanisms, financial decision support systems and the enabling legislative system*
  - *Identification of the points of difference and location of the factors responsible for effectiveness or ineffectiveness of each of the criteria applied to the target groups as well as the partner cities.*
  - *Detailing of the 'Cultural Context' including the historicities of prevalent practices and decision making frameworks in India*
  - *Placing the substance of individual interview and dialogues on the desire scope of financial and accounting reform as stated by the management functionaries of the various target group cities in India**

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1.7.4.2 *Define*: During this stage the documents developed during the previous stage will be analyzed in order to:

- *List all the emergent issues*
- *Link all the emergent issues in terms of a framework:*
  - a. *Theoretically defensible*
  - b. *Practical in terms of implementation*
  - c. *Activities that may be derived therefrom*
  - d. *Meaningful in context of legislative environment, financial realities of the ULB as well as its organization culture.*
- *Identifying the organization specific point of actions*
- *Defining the context of each specific action and placing it within a logical structure that takes into account applicable intra-organizational resources and constraints.*

1.7.4.3 *Detail*: During this stage the contours of each organization specific action will be developed. Overall, these organization specific actions will follow the sequence as given below:

- *Intra-organizational Dialogues*
- *Presentation of an initial Change Document*
- *City CFOs' conclave*
- *Intra-organizational programs especially for top management*
- *Presentation and discussion of the 'model' documents*
- *Intra-organizational training programs for middle level managers*

- *City-specific reform documents prepared by the city governments*

1.7.4.4 Derive – *During this stage, the knowledge and inputs gathered during the previous stages, will be jointly used by the researchers and the representatives of the city governments to*

- *Review programs within each ULB*
- *Hold workshops between cities (possibly pair-wise, ensuring that cities belonging to one group are called at a time), to establish correspondence between the actions being taken at the city level and to identify the difficulties that are being faced by each city and to find out whether the actions taken by one city can assist in solving the problems being faced by another.*
- *Presentation of updated Reform document to the city governments – these documents would then include all the future actions that are needed to be taken at policy, strategy, and tactical levels.*
- *Documentation of the reactions of the city governments to reform documents and elaboration of further action to be taken with respect to each specific city – in terms of internal initiatives, in terms of further activities under this Program, and in terms of activities that would be taken in future with funding from other sources.*

1.7.4.5 Disseminate – *this stage of the Action primarily includes the wide circulation of lessons learnt and progress made in terms of the total program of Action. Specifically, this stage will include*

- *Presentation of case studies on Reform by the city governments in City administrators' and CFOs' conclave*

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- *General sharing of ideas and presentation of case studies in open conference*
- *Publication of Articles, book(s) and other material*
- *Holding series of meetings with major stakeholders, including the Ministry of Housing and Urban Development*

1.7.4.6 *Before concluding this part of the discussion we may note that for the stages of defining, deriving and disseminating following sub-steps will also be followed:*

- Preparation of Documents suggesting changes on the basis of best international practices.
- Preparation of Documents suggesting the appropriate strategy to be adopted.
- Preparation of Documents containing general recommendations on the restructuring of the Finance and Accounts Department, and developing a consensus on the Way Forward.
- Helping the City Governments to implement the changes suggested by the team by suggesting to create the Core Group within the Finance and Accounts Department.
- Training would be imparted to the Core Group as well as other personnel of the Finance and Accounts Department.

1.7.4.7 The detailed sequencing of actions has been tentatively drawn up as below:

1. Establishing contacts with different European and Indian cities.
2. Drawing up schedule of visits to Indian and European Cities.
3. Collection and collation of available material on each of the Indian and European Cities.



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4. Development of initial pair-wise comparison schedule and identification of factors for comparison.
5. Development of detailed questionnaire for discussions with each of the cities.
6. First mission to Birmingham, London, Paris and Vienna.
7. First mission to Mumbai, Chennai, Kolkata.
8. Preparation of city-wise reports on the basis of first mission.
9. Preparation of first set of draft pair-wise comparisons.
10. Second mission to Berlin, Oslo, Budapest, Edinburgh
11. Second mission to Hyderabad, Nasik, Bhubaneswar, Ernakulam, Chandigarh and Jaipur.
12. Detailing the cultural context including the historicities of prevailing practices and decision-making frameworks.
13. Listing all the emergent issues.
14. Holding dialogues within City Governments
  - Mumbai
  - Chennai
  - Kolkata
  - Hyderabad
  - Nasik
  - Bhubaneswar
  - Ernakulam

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- Chandigarh
  - Jaipur
15. Preparation of an initial change document
  16. Holding the First Conclave of the Cities' CFOs.
  17. Correspondence with EU Cities on various training programs
  18. Holding First Program for Top Managements of various City Governments.
  19. Preparation of first draft of `Model Document on Change based on inputs received from programs mentioned at Point No. 16 & 18 above.
  20. Holding of training programs for middle level managers of various City Governments as follow:
    - Mumbai
    - Chennai
    - Kolkata
    - Hyderabad
  21. Consolidation of the results of the training programs and redefining the strategy for the balance cities.
  22. Holding of Second Program for Middle Level Managers of following cities:
    - Nasik
    - Bhubaneswar
    - Ernakulam
    - Chandigarh
    - Jaipur

## ***Annexures***

23. Consolidation of reports on training.
24. Sequenced discussions with the Top Managements of all the Urban Local Bodies in India and preparation of report thereon.
25. Circulation of report to different EU cities and invitation of comments from them.
26. First set of inter-city Workshops within India.
27. Consolidation of reports on the Workshops.
28. Second set of inter-city Workshops within India.
29. Consolidation of reports thereon.
30. Holding of Second Conclave.
31. Presentation of documents on future actions to be taken on policy, strategy and tactical levels.
32. Documentation of the feedback of various City Governments with respect to initial initiatives.
33. Documentation of the feedback of various City Governments with respect to future action to be taken.
34. Holding training of the Core Group as well as other personnel of Finance and Accounts department.
35. Giving wide publicity to the various documents prepared as mentioned above.
36. A publication of articles, books and other research materials etc.
37. Holding meetings with major stakeholders including the Ministry of Housing and Urban Development.

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38. Circulation of reports of various meetings to different EU cities and invitation of comments from them.

The total sequence mentioned above is a tentative outline and further detailing will be done when the Action program is actually taken for implementation.

The total Action is also based on the sequence *awareness – sensitization – explicit cognition – introjection – acceptance – behavioral change*. Any practitioner will recognize these as the normal stages in bringing about organizational change. The Action, while it is not, and cannot be totally specific to any particular City Government – given its overall nature, nevertheless will seek to identify major similarities in organizational culture, based on which training policies and strategies can be derived for the specific organization.

It is recognized that the inherent strengths of the City Governments include an understanding of the City that is not possible for outsiders to match. The reason is that, perhaps more than any other kind of organization, City Governments carry their sense of history to very great lengths. On the one hand, this acts as an inhibitor of change, and on the other, if change is accepted then this innate strength helps to institutionalize and to add value to the change. However, this cannot come about until and unless there is organizational ownership of the change. This is what the Action aims at developing.

There are other dimensions of organizational change, which are not totally divorced from financial and accounting reforms. These arise from the fact that it is important to adopt a multi-disciplinary approach to the solution of the city's problem, in the contemporary context. Thus, inter-departmental teams need to be formulated and specific projects also need to be addressed through such matrix organizations. These dimensions of organizational

change are not intrinsic to the action but, it is expected that the result of the activities, the atmosphere of cooperation between departments will substantially increase. Since the ultimate aim is to create value for the citizens' money, reforms in financial management practices are seen as the pivot on which organizational development as a whole will evolve.

**1.8 Methodology**

**1.8.1 Reasons for the Proposed Methodology**

The total action program has been designed on the basis of assumptions as follow:

- That at the senior levels of management in the Urban Local Bodies, there exists a felt but not necessarily expressed need for reforms in the finance and accounts functions.
- That a realization shared amongst senior members of the management of Urban Local Bodies that resource augmentation also will not be possible unless there are comprehensive changes in the budgeting and budget monitoring processes.
- That the felt need of the management are not necessarily shared by either the corporators, staff at middle and lower levels, or even the citizens.
- That senior officers in the State Governments most often share the feelings of senior members of the management of Urban Local Bodies.
- That such feelings and needs are not necessarily shared by the legislators in the State Governments.
- That it is therefore, possible to build on an overall program of action that takes the management's feelings as a starting and major premise.
- That in every Urban Local Body, there is among the staff and the management, a very strong sense of

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identity, and identification with the city which is both a cause of inertia as well as an opportunity that can be explored to provide a better vision of the city in the future.

- That the current level of understanding of modern methods and systems of financial management and accounting in most urban local bodies, is very low.
- That almost all major urban local bodies are concerned in some way or the other with presenting a better picture of their internal financial decision-making and accounting processes to lending and granting agencies which include the multilateral agencies as well as the Union Government.
- That, notwithstanding anything else, there is a feeling amongst staff and management of Urban Local Bodies that value for money is not being delivered although no one quite knows where to start with change the situation.

Capacity Building takes as its fundamental premises and engines of change the following:

- The existence of a shared view that change is necessary.
- The existence of an enabling structural framework.
- The existence and/or postulation of demonstrable short-term, medium-term and long-term goals that are connected explicitly to key indicators of organizational performance.
- A management commitment to undertake initiatives and to follow through.
- A stated or unstated management objective of creation of a competent middle order.
- A stated or unstated management desire for higher levels of empowerment to the middle order based on demonstrated and reliable levels of compliance.

- An internal or imposed imperative of establishing explicit connectivities between systemic effectiveness and overall organizational goals as well as strategies derived therefrom.
- A willingness to introduce higher levels of intra-organisational transparency and accountability.

It is then clear that a logical sequence of change leading to capacity building could be derived as follows:

- Examination- meaning a detailed examination of the 'as is' situation
- Developmental intervention- meaning interventions that lead to higher levels of acceptance of ideations and structured constructions on change
- Partnered implementation- meaning thereby a joint undertaking of initiatives to concretize and institutionalize the change processes
- Ownership- ownership of the total exercise by the target groups.

The methods of implementation can now be easily seen as directly derivable from the above structured rationality.

## 1.8.2 Methods of Implementation

1.8.2.1 If one merges the ideas contained in the previous paragraphs, it is then clear that capacity building in Urban Local Bodies for financial and accounting reforms, as an exercise will necessarily have to be based on :

- Adopting means by which implicit needs and unstated desires and objectives of management and other personnel within the ULBs, can be made explicit.
- Adopting means by which such explicit needs and objectives can be given a structural form consisted with existing legislation, organizational realities, and the technical imperatives of the finance and accounting function.

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- Adopting means by which expectations as to higher levels of competence of the different levels of organization can not only be communicated but can also be acted upon without raising irrational barriers to change.
- Adopting means by which original initiatives become replicable in implementation and the results of both the initiative as well as the replication are fully disseminated throughout the organization as well as the other stakeholders.
- Adopting means by which the general process of acceptance of financial reforms can be accelerated through the creation of intra-group pressure amongst Urban Local Bodies and also a sense of competitiveness and achievement.

1.8.2.2 It follows then from the previous paragraph that the methods of implementation should logically be as follow:

- Dialogues – Intra ULB and Inter ULB. Such dialogues should also take place with cities from the EU so that not only is there an exchange of views but the managements of Indian ULBs can find the appropriate expressions to make their own desires and needs for reforms explicit in the context of their own organization. Similarly, there should be within-ULB dialogue across functions and within functions to generate a shared ideation of what financial and accounting reforms can achieve for the ULB. Such dialogues will be encouraged through Conclaves and Workshops as given under 'Detailed Description of Actions'.
- Strategic restructuring as part of institutional reform – Arising from the dialogues as well as detailed study papers of best practices in terms of strategic restructuring of the finance function and legislative and systemic reforms in various European Cities, presentations will be made to the various Indian ULBs as also to the State Governments so that the direction



and pace of initiatives can be accelerated and specified.

- Devising of 'model' schema for development of accounting manuals, financial management information systems, presentation of financial statements, disclosure practices, on the basis of accounting models developed in consultation with the City Governments of selected EU cities.
- Development of training strategy and training policy manuals for the ULBs as well as recommendations on post-training analysis and follow-ups for development of higher levels of competence.
- Dissemination of knowledge within and between ULBs in regard to benefits of financial and accounting reforms and processes of reforms through appropriate corporate communications as well as publication of relevant issues, strategies and tactics.

**1.8.3 How the action is intended to build on a previous action**

1.8.3.1 The ICAI-Accounting Research Foundation (ICAI-ARF) set up by the Institute of Chartered Accountants of India to initiate various research activities, has been engaged with the Municipal Corporation of Delhi, which is one of largest Municipal Corporations in Asia for the last two years (2003-04) to bring about financial and accounting reforms in the Municipal Corporation of Delhi.

1.8.3.2 In the above engagement, the ICAI-ARF has not only implemented a Fund Based Accrual Accounting System in the MCD, it has also taken a number of steps, jointly with the Municipal Corporation of Delhi for capacity building for financial and accounting reforms in that organization.

Specifically, the following have been done:

- Implementation of a Fund Based Accrual Accounting System developed from best practices all over the world and applicable GAAPs.

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- Publication of the financial statements of the MCD on Fund Based Accrual System together with a separate set of financial and non-financial disclosures.
- `Ownership' of the process of adoption of the Fund Based Accrual System by the MCD as demonstrated publicly through the functions organized in August, 2003 when the Lt. Governor of Delhi, the Mayor, the Leader of the Opposition in the House, the Chairman of the Standing Committee of MCD, the Commissioner of MCD and the Deputy Comptroller and Auditor General of India came together on the same platform and expressed their ownership of what had been done in terms of accounting reforms.
- Holding of a large number of training programs cutting across levels to disseminate information about the process of reform and to make explicit the assumptions behind the reform and expectations from the reform.
- The creation of a Core Group of Change Agents within the MCD to carry on the work of reforms through 2004 and beyond as well as the development of other Change Groups in the various Zones of the MCD, so far as the finance function is concerned.
- The development of an internal environment within which structural change is now not only possible but is also being requested for by the MCD personnel themselves.

The ICAI-ARF has applied the same methodology of examination-developmental intervention-partnered implementation-ownership-capacity building to officers of the Department of Finance, Government of Andhra Pradesh also in terms of bringing about change in internal audit practices as well as structural reforms directed towards the same end. The Government of Andhra Pradesh has accepted the report developed jointly by its own officers and the ICAI-ARF and is now in the process of implementing the same.

**1.8.4 Procedures for Internal Evaluation**

1.8.4.1 Internal evaluation would take place on the basis of the following :

- Quality and depth of reports of internal and external dialogues.
- Quality, coherence, clarity, feasibility and practicality of each of the documents to be produced as part of the total action with specific reference to 'Model Documents'.
- Public documents as well as internal documents of the ULBs included in the project that can be shown to be directly related to the actions taken under the project.
- Public expressions of ownership of the reforms process.
- Demonstrable effects of the dialogues with EU cities as well as adoption of best practices from the EU cities evidenced by relevant internal and public documents of the ULBs included in the project.
- Number of training programs and workshops conducted and post-training evaluation and analysis reports.

**1.8.5 Level of Involvement and Activity of other Organizations in the Action**

1.8.5.1 The level of involvement of EU cities included in the total program is postulated to be as follows:

- Participation in the Conclaves and dialogue sessions.
- Sharing of experience in specific aspects of strategic financial restructuring and accounting reforms.
- Sharing of best practices in terms of implementation of Financial Information Management Systems, accounting systems and procedures, consequent institutional reforms and creation of financial decision support systems.
- Advice on strategic financial decision-making especially in such areas as privatization of such services, augmentation of resources and enabling legislation.
- Training strategy and policy.

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- Sharing of other incidental and related documents included formats of corporate communication, whether written or electronic.

#### **1.8.6 Reasons for the role of each partner**

Mention has been made of a number of EU cities who can be considered as 'partners' in the project. This partnership is not seen as a formal one in the sense that they participate in each stage of the exercise or that they depute persons for continuous involvement in the project. Rather, the partnership is viewed as a helping relationship in which the 'partner' cities will assist and participate in all the activities that are indicated under paragraph 1.8.5.1 above.

It may be incidentally stated that one round of dialogues has already been held on these subjects generally with some of the 'partner' cities. They are: London, Birmingham, and Vienna. It is proposed to further build on the relationships thus established. Elsewhere, in a public document, acknowledgement was already made by the ICAI-ARF of the contribution of these cities.

The reasons for the inclusion of specific cities are as follow:

Birmingham – has a relatively advance system of financial management. Is surplus on resources, and also has established public-private partnership programs. They are also closely linked to the ICAI-ARF and the Lord Mayor of Birmingham has already visited the Institute in February 2004 and established partnership links.

London – As one of the largest metropolises in the world and as one which has strategically reorganized itself through the setting up of the Greater London Authority, London has lessons to offer on the constraints to the implementation of a full accrual system.

Vienna – Vienna City Council has appeared to the ICAI-ARF to be one of the best managed financially and also one which has successfully privatized basic services such as sewerage. The City Council itself has been of

considerable help to the ARF in introducing best practices for the MCD project of the ARF.

Paris has been included as another example of a metropolis which is geographically widely spread. The management of Paris has also traditionally been a difficult one and hence it is considered that considerable assistance on the resolution of strategic problems can be obtained from the Paris City Government.

Berlin has been included since it is a city that has gone through major traumatic transitions, and the experience of the city government in managing these transitions is therefore considered to be of great importance.

Oslo, Budapest and Edinburgh have been included as medium sized metropolises who also have developed Financial Management Systems (in the case of Budapest a successful transition to a different economic system also), from whom best practices can be had for similar cities and towns in India.

**1.8.7 Team proposed for implementation of the Action**

1.8.7.1 The team proposed is as follows:

| Functional Designation                | Functional Specialisation                        |
|---------------------------------------|--|
| Team Leader                           | Urban Development and Urban Financial Management |
| Expert (MF)                           | Municipal Finance                                |
| Expert (MA)                           | Municipal Accounts                               |
| Expert (ULPP)                         | Urban Legislation and Public Policy              |
| Documentation Expert                  | Financial and Municipal Documentation            |
| Expert (IEC)                          | Information, Education and Counselling           |
| Expert (BSFP)                         | Budgetary Support and Financial Planning         |
| Research Assistance and Support Staff |  |

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**1.9 Duration and Action Plan**

The duration of the Action will be 18 months. The specific activities and their durations are shown in the prescribed format below.

| Year 1              |            |   |   |   |   |   |            |   |   |    |    |    |
|---------------------|------------|---|---|---|---|---|------------|---|---|----|----|----|
|                     | Semester 1 |   |   |   |   |   | Semester 2 |   |   |    |    |    |
| Activity            | Month 1    | 2 | 3 | 4 | 5 | 6 | 7          | 8 | 9 | 10 | 11 | 12 |
| Develop             | █          | █ | █ | █ | █ |   |            |   |   |    |    |    |
| Defining the issues |            |   |   |   |   | █ | █          | █ |   |    |    |    |
| Detailing Actions   |            |   |   |   |   |   |            |   | █ | █  | █  |    |
| Deriving            |            |   |   |   |   |   |            |   |   |    | █  | █  |

| Year 2        |            |   |   |   |   |   |
|---------------|------------|---|---|---|---|---|
|               | Semester 3 |   |   |   |   |   |
| Activity      | Month 1    | 2 | 3 | 4 | 5 | 6 |
| Deriving      | █          | █ |   |   |   |   |
| Disseminating | █          | █ | █ | █ | █ | █ |

The involvement of the target groups as well as EU cities at each stage is shown below:

| Broad Activity | Indian Cities                                | EU Cities                                |
|----------------|--|--|
| Develop        | All Indian Cities included under 'locations' | All EU Cities included under 'locations' |
| Defining       | -  | -  |
| Detailing      | All Indian Cities included under 'locations' | All EU Cities included under 'locations' |

|               |  |              |  |
|---------------|--|--------------|--|
| Deriving      | All Indian Cities included under 'locations' | Cities under | All EU Cities included under 'locations' |
| Disseminating | All Indian Cities included under 'locations' | Cities under | All EU Cities included under 'locations' |

**2.0 Expected Results**

**2.1 Expected Impact on Target Groups**

The expected impact on the target groups and the improvement in capacity are postulated to be as follow:

- Adoption by the identified ULBs in India of a documented policy and strategy of financial and accounting reform.
- The undertaking of initiatives by the identified ULBs for bringing about the financial and accounting reforms.
- The use of the results of the various modules of the reform process to demonstrably improve the quality of financial decision making.
- Generation of internal documents related to the reform process predicated upon higher levels of competence of managerial and other staff.
- Implementation of improved budgetary and other processes leading to higher levels of public accountability which in turn exhibit:
  - Demonstrated improved **stewardship** of public funds including
    - Regularity
    - Propriety
    - Value for money
    - Effective Management System
  - Demonstrated improved compliance

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- With applicable legislation
- With Government policies and initiatives
- With public expectations of proper conduct
- Demonstrated improved performance
  - In relation to objectives and targets
  - In delivering acceptable level of services to the public
  - Improved technical and managerial capabilities in ULBs, as a result of training programs and workshops will also be demonstrated through publicly announced policies of the ULBs.

#### **2.2 Publications and Other Outputs**

The outputs as envisaged are listed below: Each of the publications as well as the training sessions and conclaves will be fully publicized as being done jointly with the European Commission.

- 1) Book – Capacity Building in Urban Local Bodies in India
- 2) Articles (at least 4) on international best practices in Financial Management in City governments, in reputed journals
- 3) Manual on Training Policy and Strategy in local Government on Financial Management and Accounting Procedures
- 4) 'Model' accounting manuals,
- 5) Model financial management information systems,
- 6) Model Financial Statements,
- 7) Manual on disclosure practices, on the basis of accounting models developed in consultation with the City Governments of selected EU cities



- 8) At least two Conclaves on city governments' CFOs and administrators with participation from the 'partner' EU cities.
- 9) At least three training programs in each of the Indian city governments
- 10) At least one top management workshop in each of the Indian city governments
- 11) At least one major conference where city stakeholders will be invited to participate.

2.3 Multiplier Effects

2.3.1 Possibilities of replications and extension of the Action Outcomes

Since it has been postulated that there will be public expressions of the work done under the Action program, it is expected that other cities and towns not included within the project, would also desire to have the benefits which could be seen to have accrued from the project. Further, since it is necessary that statutory bodies such as the Comptroller and Auditor General of India, as well as other organizations will be involved with various activities under the project from time to time, the fallout effect of the project can be reasonably expected to be very large. Since the activities themselves are largely dependent on internal initiatives of the Urban Local Bodies, replication of the actions will be possible. Such replication will be considerably assisted by the documents, especially the 'model' documents developed as part of the action plan.

2.4 Short and long term impact

2.4.1 The Financial Aspect

There is already a fund that have been established by Government of India to finance capacity building in individual City Government. So far there are only a few cities and towns who have applied for this fund. The major constraints have been the lack of a coherent model for action. It is, therefore, expected that after the grant is over,

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individual City Government will be able to present internally consistent plans and projects to the Government of India for release of the Fund as indicative. Further, many of the major City Governments have direct access to multilateral lending agency funds, such as World Banks funds and these funds normally carry a provision for capacity building activities. Also, most of the City Governments already have a training component as a regular feature of their budget. Thus, there are a number of sources, other than internal sources for City Governments to carry on the capacity building. In the long term, the City Governments will be able to have direct access to multilateral lending agency funds and would also be able to raise loans from the International Markets.

### **2.4.2 Institutional Level**

The structural changes predicated upon the initiatives and actions included in this project are internal to the Urban Local Bodies. Since, the whole action programme is itself based upon the desire of the Urban Local Bodies to reform themselves it may be reasonably expected that the structural changes and Internal Institutional will continue to be in place in the future. It should also be noted that the methodology rests upon the concept of partnered implementation in terms of which the target group itself makes a transition from `Joint Owner' to `Owner" of all the expected results. It is expected that in the long run the target group would itself make a transition from joint owner to owner of the Urban Local Body.

### **2.4.3 Policy Level**

The specific impact at the policy level are expected to be (on the basis of recommendations generated through the conclaves, conferences as well as internal and external recommendations)

- Legislative action institutionalizing new systems of maintenance of accounts and presentation of financial statement.

- Legislative action institutionalizing new budget monitoring systems.
- Other legislative action institutionalizing ways and means of augmentation of resources, imposition of user charges and other actions that can be seen as direct consequences of the presentation of resource gaps, through the restructured financial statements.
- The see change that may be expected in the vision of the City Government for the cities' future, based on the information received from the financial decision support system can lead to an overall change in the Governments viewpoint so far as the creation of an Urban policy is concerned.

*As per the TOR, the role and functioning of the Institute, with details of the organization set-up was next given. Then further details followed, as below: After describing what the Institute does and how it functions , the following was given:*

#### **4. Capacity to manage and implement actions**

##### 4.1. Experience of similar actions

###### Municipal Corporation of Delhi

The ICAI-ARF which has been set up by the Institute to conduct research, was requested by the Municipal Corporation of Delhi (MCD) to execute a comprehensive Finance and Accounting Reform project in the finance department of the MCD. The Scope of Work included, inter alia, the following:

- Conversion from cash basis to accrual basis
- Presentation of accounts on fund based modified accrual basis
- Design, implementation and institutionalization of all related systems including bank reconciliation, maintenance of asset register, tracking of Capital Works in Progress.

### ***Professional Opportunities for Members – An Appraisal***

- Financial Management Information System and Management Information System.
- Training

Execution of the above Scope of Work was done with the positing of a Fund Based Accrual System as its pivot. In turn, the implementation of a Fund Based Accrual System required the development of the following:

- Accrual System of Accounting
- Redesigned Chart of Accounts
- Strategic Definition of Funds
- Clearly stated Significant Accounting Policies
- Asset Accounting and Management System

The following have been already achieved:

- Accrual System of Accounting – implemented from top downwards
- Redesigned Chart of Accounts – has been published
- Strategic Definition of Funds
  
- General Municipal Fund
- Capital Projects Fund
- Debt Service Fund
- Special Revenue Fund
- Trust and Agency Fund Clearly stated Significant Accounting Policies – has been stated in the presented financial statements for 2002-03
- Asset Accounting and Management System
  - *Asset Accounting and Valuation – completed to a very large extent*
  - *Manual for Fixed Assets issued*

## **Annexures**

- *Financial Transaction Code System introduced for tracking Capital Work – in-progress*

In the process of the execution of the above assignment, the ICAI-ARF has also assisted in the publication of the following:

- Comprehensive Annual Financial Report 2002-2003 of the Municipal Corporation of Delhi – Prepared on a Fund Based Modified Accrual System.
- Statistical Tables for the MCD as Annexure to the Comprehensive Annual Financial Report for the 2002-03.
- Comprehensive Annual Financial Report of the Slum and J.J. Department, MCD - 2002-03

On the training front, the ICAI-ARF has conducted the following training programs:

- Top Management including Commissioners and all Additional Commissioners
- For Finance Officers at headquarters
- For all other Finance and Accounts Officers
- All Finance and Accounts Officers of Slum and J. J.
- For Identified Core Groups for 'Change'

In total 20 training programmes have been held. The assignment is now being extended by the MCD to include the following:

- Supervision of new process in the balance nine zones
- Handholding for the period of one year
- Setting up office of Management and Budget
- Setting up Asset Information Management System

The cost of the action was approximately --- crores.

***Professional Opportunities for Members – An Appraisal***

***Finance Department of the Government of Andhra Pradesh***

For the Government of Andhra Pradesh, the ICAI-ARF has carried out the following assignment :

- Designing and developing Internal Audit Manual for the following departments:
  - Treasury
  - Pay & Accounts Office
  - Works, Pay & Accounts Office
  - Department of Health
  - Department of Education
  - Department of Social Welfare
- Structuring the Internal Audit Function with respect to all the above departments.
- Drawing up a feasible program of Internal Audit.
- Developing check-lists and instruction sets for Systems and Compliance Audit
- Training for all concerned Government Officers.

The manuals have been accepted by the Government of Andhra Pradesh and the internal audit processes are now being institutionalized.

The Cost of the action was approximately ---lacs.

As per the TOR, several details of the Institute, such as Bank Accounts, etc. followed.

After that, it was necessary to provide a logical framework of the project, and this is shown in the next page