

CA Professionals & SMEs in Make in India



The SME sector plays an important role in economic development i.e. constitutes a major source of employment, provides most of the essential goods and services to the society, generates significant domestic and export earnings and SME development emerges as a key investment in poverty reduction efforts. At the same time, Access to finance is one of the key obstacles to SME development & Lack of guidance in the area of financial reporting by SME's specifically at international level. Chartered Accountants contribute to the growth of the nation in numerous areas like accountancy, direct taxes, indirect taxes, company law matters, strategic decision making, international business and taxation, project finance and many more Regulatory matters. Currently, CA is the part of the decision-making process instead of merely providing inputs for decision-making. With these, CAs and SMEs rightly fit with the Government of India's vision for Make in India and contributing a lot in achieving the same.

Introduction

United Nations recognises Small and Medium Enterprises (SMEs) as the engines of economic growth. SME sector plays an important role in economic development *i.e.*, constitutes a major source of employment, provides most of the essential goods and services to the society, generates

significant domestic and export earnings & SME development emerges as a key investment in poverty reduction efforts. At the same time, Access to finance is one of the key obstacles to SME development & Lack of guidance in the area of financial reporting by SME's specifically at international level. CA professionals required for a simple, understandable and user-friendly accounting reporting system should be provided to these SME's.

World over, it has been recognised that Small and Medium Enterprises (SMEs) have been continuously contributing a good amount to gross domestic product and are a very large source of employment. The SMEs are mostly in the private sector. They always need continued service of small & medium



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practices (CAs) as the SMEs do not have in-house resources/expertise, something that the CAs can provide. In the SAARC region, small and medium enterprises also contribute significantly to poverty reduction and inclusive growth. SMEs in all SAARC countries have a major part of business providing the highest proportion of employment. Small and Medium Size Practices (SMPs) *i.e.*, Chartered Accountants (CAs) are also continuously providing significant business support services to SMEs in the SAARC region. CAs have a significant share of the professional service market in many countries. CAs have a long relationship and are most approachable for services needed by SMEs in the SAARC region.

Corporates increasingly face more complex business issues and need to rapidly change to keep pace with today's dynamic market. As competition grows and a larger number of industries head for a shakeout, improving business performance (efficiency and effectiveness) is a survival imperative. Meeting the rising expectations of key stakeholders in companies, has led to a greater focus on ensuring better returns on investment.

Having addressed all the obvious areas of improvement, companies are now increasingly looking to develop more innovative ways to improve performance on lead-time, cost, quality and service related parameters. Most management teams realise that developing and implementing improvement initiatives take up a significant amount of their time and efforts. By engaging Chartered Accountants as consultants, they are able to ensure that the initiative does not lose steam after the initial hype, as it so often happens when the initiatives are taken up internally. Chartered Accountants can assist the management in providing the services like Improving customer satisfaction, Reducing process cycle cost, Enhancing quality of delivered services *etc.*

MSME Development Act

The Micro, Small and Medium Enterprises Development Act was notified in 2006, to address policy issues affecting SME's as well as the coverage and investment ceiling of the sector. The salient features of the Act includes setting up of a National Board for SME's, Classification of Enterprises,

Advisory committees to support SME's, Measures for promotion development and enhancement of SME's, Schemes to control delayed payments to SME's & Enactment of rules by State Governments to implement the SME's Act, 2006 in their respective states.

Relationship between SMEs & SMPs (CAs)

The expectations of today's user from the CAs are '**Expertise, Experience and Efficiency**'. However, small and medium practitioners (CAs) may not have adequate manpower, may lack finance and may need soft skills to provide to the diverse needs of business clients. Further, SMEs now expect delivery of professional services at multi-locational areas through a 'Single Point Outlet'. The CAs, usually small in size, may not have requisite expertise in diverse areas. Further, with multinational CA firms in the field, CAs face difficulty in procuring business in today's competitive business environment. CAs need to network with the other Practitioners or CA firms to meet the expectations of the SME clients.

The SMEs market in India is very dynamic, and the regulatory environment which governs SMEs operations is also constantly changing and, as a corollary, the demands of business advisory services are being evolved. SMEs themselves are different in size, age, sector, location, and growth profile and are run by owners, managers with different capabilities and motivation. Such factors inevitably influence the requirement of external services which are being sought from CAs. SMEs are mostly owned by proprietors, partnership, or private limited companies or organisations of similar nature, which are said to be Family Owned Businesses. But market conditions are chaotic, and in order to maintain growth/strong hold on market, financial strength and other such factors for running the enterprises, the next generation of these SMEs is waking up to the new paradigms of marketing nationally or internationally, availing financial facilities in domestic or foreign currencies so as to accelerate their growth, considering affordable exposure to the best available opportunities in the world. CAs are generally very close as family friends in providing services, which can be called as management consultancy services in the areas like Financial management planning and financial policy determination, Capital structure planning and advice regarding raising finance, Working capital management, Preparing project reports and feasibility studies, Preparing cash budget, cash flow

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Chartered Accountants (CAs) are also continuously providing significant business support services to SMEs in SAARC region

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statements, profitability statements, statements of source and application of funds *etc.*, Budgeting including capital budgets and revenue budgets, Inventory management, material handling and storage, Market research and demand studies, Price fixation and other management decision making, Management accounting system, cost control and value analysis, Control methods and management information and reporting, Personnel recruitment and selection, Setting up executive incentive plans, wage incentive plans *etc.* Management and operational audit, Valuation of shares and business and advice regarding amalgamation, merger and acquisition, Business policy, corporate planning, organisation development, growth and diversification, Organisation structure and behavior, development of human resources including design and conduct of training programmes, work study, job-description, job-evaluation and evaluation of workloads, System 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 Chartered Accountant in practice and also to carry out any other professional services relating to EDP, Quality Audit, Environment Audit, Energy Audit *etc.*

Opportunities for CAs

'Due Diligence' is a term that is often heard in the corporate world these days in relation to corporate restructuring. Due Diligence can be sub-classified into discipline-wise exercises. It may be mentioned here that these sub-classifications should not to be seen as totally mutually exclusive to each other. If considered mutually exclusive, it might result in a less-than-effective evaluation of the entity. The sub-classification of due diligence exercise could be Commercial or Operational Due Diligence, Financial Due Diligence, Information systems Due Diligence, Legal Due Diligence, Environmental Due Diligence, Personnel Due Diligence *etc.*

CAs have developed their multi disciplinary and skills based over and above the book-keeping. SMEs make use of their services to ensure compliance with various laws and regulations. Such major areas are: Preparation of Statutory Financial Accounts, Audit

of Accounts, Compliance of Tax Laws including Income Tax, Wealth Tax, House and Property Tax, International Tax Service, Sales Tax, Service Tax, Customs, Excise, Value Added Tax, Anti-Dumping Duties, Labour laws *etc.*

A large number of Chartered Accountants (CAs) in practice are involved in project financing, consultancy to their clients and liaising with the 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 that provide finances.

SMEs themselves do not have knowledge of assessing the risk relating to potential loss of profit on account of machinery breakdowns, fire, natural calamities, transit losses, workmen compensation, accidental losses and other such similar areas. CAs has wide knowledge of such risk of the probable losses and work as advisors to the SMEs for returning insurance risk at comparative prices. CAs can play a vital role in designing the insurance products and advice for premium, rebates which fulfill the need of associate industry/enterprise.

The CAs in India can render their professional expertise in the quantification of claims, both personal injury and business interruption claims. They may also render their services in determining the consideration of liability involving accountants' negligence and for other professional negligence cases. They may also provide their knowledge in rendering assistance of fidelity insurance disputes and insurance accounting disputes.

In today's volatile business environment, organisations face a wide array of complex business risks. These risks come in the form of many issues such as regulatory compliance, litigation, competitive market pressures, changing technology, investors' demands *etc.* Managers and investors are concerned about whether entities have identified the full scope of these risks and evaluate whether adequate precautions are taken to mitigate these

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risks. In the absence of in-house expertise, CAs can ensure that identification of business risk of the entities is comprehensive and can also evaluate whether the entities have an appropriate system in place to effectively manage the risk.

Performance measurement incorporating non-financial criteria such as competitive performance, resource performance, process performance and environmental performance represents a new but complementary support by CAs. Likewise, demands for risk-based measures of value and other new approaches in assurance, present a further expanding area of business support service.

CAs can belong term strategic partners. They can provide sound business advice to minimise business risk. The right advice from an impartial professional can be the difference between success and failure. Chartered Accountants in public practice have the skills, knowledge and experience to improve the business practices. A Chartered Accountant can be the business partner for the long haul, continuously adding values to the business.

Role of CAs as an Arbitrator

Among the Small and Medium Chartered Accountant Practitioners, a number of CAs have a wide range of experience about social customs, Hindu laws, business practices and commercial laws and all other relevant laws and regulation, human behaviour which are essential for working as an arbitrator. A number of Chartered Accountants are members of the Indian Council of Arbitration (ICA). An SME can draw the services of arbitration from CAs. For the SME, arbitration is a quick alternative dispute resolution medium at a reasonable cost and time.

CAs can also take up various roles under the Arbitration and Conciliation Act, 1996. Those are, Drafting of Arbitration Agreement, Representing either of the party (plaintiff and defendant) to the dispute in the arbitral proceedings, Assisting Arbitrator in drafting arbitral award, Assisting both parties to Court of Law, Assisting in preparing submissions to arbitrator, Member of Arbitral Tribunal, Assisting Trade and Industry associations in setting up Alternate Dispute Redressal (ADR) mechanism, Acting as arbitrator in Micro and Small Enterprises Facilitation Council u/s 18 of Micro, Small and Medium Enterprises Development Act, 2006. In some legislation, redressal of dispute or particular kind of disputes are mandatorily to be resolved through Arbitration *e.g.*, as per Clause 14 of the First Schedule to the Limited Liability Partnership

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Act, 2008, all disputes between the partners arising out of the limited liability partnership agreement which cannot be resolved in terms of such agreement shall be referred for arbitration as per the provisions of Arbitration and Conciliation Act, 1996, assisting Indian Judiciary u/s 89 of Code of Civil Procedure 1908, where there is possibility of settling of dispute through arbitration *etc.*

CAs & Information Technology

CAs are now fully equipped with a certain level of expertise in information technology to establish IT System and to solve their problems. A few areas in which CAs can fruitfully serve the SMEs are: System Development Life Cycle, Information Security, Performance Measurement and Monitoring, Emerging Standards and e-Governance. Other areas include Preparation of policies, Review of IT Organisation Structure, Risk analysis, Framing of long-term and short-term plans, Internal control assessment, Continuous and concurrent auditing, External assurance, Contractual agreements, Selection of software tools, Outsourcing, Incident identification and intrusion detection system, Disaster recovery planning, Document retention plans, Audit of quality check, Audit of application controls, Audit of emerging technologies, Physical, logical and environment controls, IT Budgeting & Web trust assurance *etc.*

Global Warming & the Role of CAs

Carbon credits are key component of national and international emissions trading schemes that have been implemented to mitigate global warming. They provide a way to reduce green-house effect emissions on the industrial scale by capping total amount emissions and letting the market assign a monetary value to any shortfall through trading. SMEs have very little knowledge of Certified Emission Reductions (CERs). Credits are issued by Clean Development Mechanism (CDM) Executive Board for emission reduction achieved by their projects. Ministry of Environment and Forests is the nodal agency for climate change issues in India. CAs can render following services under Carbon Credit Mechanism: Conceptualising the

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Clean Development Mechanism (CDM) Project, Quantification of green house gases (GHG) Carbon Footprint, Selection of Cleaner technologies for New projects, Project risk analysis, Registration of project-both national and international level, Obtaining Host country approval, Preparation of Project Concept Note, Preparation of Project Design Document, Selection of Methodologies and Baseline, Legal and regulatory advice during negotiations with host country Designated National Authority (DNA), Advice on the appointment of independent validators, Assistance to achieve registration of the project by the CDM Executive Board, Assistance in getting verification done by Designated Operational Entity (DOE), Ensure Compliances, Assisting various Ministries associated with National Action Plan on Climate Change (NAPCC), Carbon Finance, Energy Audit under the Energy Conservation Act, 2001, Advice on investment in carbon credit *etc.*

Services for environmental laws are rapidly expanding, driven by various government regulations and a movement by business and industry to reduce environmental liabilities associated with their operations. Some of the opportunities are: Give opinion on—viability of various projects, technologies to prevent pollution and clean up polluted resources, Obtain consents under the various environmental regulations and also ensure that the conditions of the consent order are complied with on a regular basis, Research, identify and analyse different sources of pollution to determine their effects on the environment and find alternative ways to handle projects in an environmentally sensitive manner, Obtaining Consents under the Water Pollution Act, 1974 and Air Pollution Act, 1981. Under the provisions of these Acts, entrepreneur running or establishing any industry or process and discharging effluent/emitting pollutants into any water resources or on land/air and polluting thereby the environmental water/air is required to obtain consent, submitting application form for obtaining No Objection Certificate (NOC) from the Pollution Control Boards, Environmental Clearance and Environmental Impact Assessment (EIA).

Make in India & Role of CAs

The ‘Make in India’ campaign launched by the Government of India eventually take up policy reforms involving changes in laws to ensure ease of doing business in the country. To set up a business at present, an entrepreneur needs to follow 12 procedures, which on an average takes 27 days, 35 procedures and 168 days to get construction permits and 1,420 days to enforce contracts in India. The objective of the make in India is to provide conducive environment for investment in India & aimed at reviving the job-creating manufacturing sector — key to taking the economy on a sustainable high growth path. The latest World Bank report on the ‘ease of doing businesses placed India at the 134th rank out of 189 economies on various parameters relating to business and regulatory environment. India’s manufacturing sector accounts only for 16% of the GDP, and is posting a negative growth now, in comparing to other countries *i.e.* 36% in China, 34% in South Korea and 22% in Germany. The objective of the mission “Make in India” is to provide conducive environment for investment in India & aimed at reviving the job-creating manufacturing sector — key to taking the economy on a sustainable high growth path.

Conclusion

Earlier, the need of a CA’s services arose only once the business reached a certain reasonable level of operation, while today the scope of a CA’s services commences, from the inception of the business idea itself. Chartered Accountants contribute to the growth of the nation in numerous areas like accountancy, direct taxes, indirect taxes, company law matters, strategic decision making, international business and taxation, project finance and many more Regulatory matters. Currently CA is the part of the decision making process instead of merely providing inputs for decision making. With these CAs & SMEs are rightly fit with the Government of India’s vision for Make in India & contributing a lot in achieving the same. ■

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