

# Some Interesting but Lesser Known Facts about ICAI and Indian Accountancy Profession



*Today, accounting is the language of global business and accountants are a versatile must-have tool of modern day business. In that spirit, the Indian accountancy profession too has undergone a paradigm shift over the decades. The CA profession is not only spearheading the government accounting reforms but is also involved in the policy making processes at various levels of government. The then President of India Shri Pranab Mukherjee while speaking at the ICAI international conference in Kolkata in November 2013 said: The profession has moved much beyond performing merely accountancy functions, and has been contributing by giving inputs to the Government and various regulators in the areas of financial markets, taxation, corporate laws, economic laws, banking, insurance, reforms in government accounting, and has truly added value to the process of economic and social development in the country... A hallmark of the accountancy profession is its obligation to act in the public interest. The current spate of financial crises has only reinforced the role that the profession has to play in providing high quality financial information, facilitating market discipline and fostering confidence amongst various stakeholders in the financial markets." These morale boosting words of wisdom from the then first citizen of the country speak volumes of ICAI, Indian accountancy profession and their combined potential. All this has been possible because of ICAI's relentless efforts to keep Indian CAs at the forefront of professional knowledge and transitory times through its various initiatives. In this special feature, we bring you some of the lesser known but important and interesting facts about ICAI and Indian accountancy profession based on information contained in the upcoming ICAI publication History of Accountancy Profession in Indian- Volume III. Read on...*

(Contributed by Editorial Board Secretariat of the ICAI with inputs from some committees and departments of the ICAI. Comments can be sent to [eboard@icai.in](mailto:eboard@icai.in))

# Did You Know?

## A Look-back at Accounting Standard Setting at ICAI

Till 1999 only 16 Accounting Standards issued by the ICAI were mandatory only for its members. In 1999, legal recognition to the Accounting Standards was accorded (section 211(3C) Companies (Amendment) Act, 1999) requiring companies to follow Accounting Standards prepared by ICAI and notified by the Central Government on recommendation by the National Advisory Committee on Accounting Standards (NACAS). The ICAI has never looked back since then. In 2006, ASB recognised the global momentum of adoption/convergence with IFRSs and need for high quality globally acceptable accounting standards in a large emerging economy of India. In May 2006, recognising the global scenario, the ICAI decided to 'converge' with IFRS and not to 'adopt' the same. The momentum has never slowed down ever since. It got final push from the Union Finance Minister Shri Arun Jaitley in his speech on the Union Budget for 2014-15 where he said that *"There is an urgent need to converge the current Indian Accounting Standards with the International Financial Reporting Standards (IFRS)"*. Subsequently, Ministry of Corporate Affairs (MCA) issued new roadmaps for implementation of IFRS converged Indian Accounting Standards (Ind ASs) by Companies, Banks, Insurers and Non-Banking Financial Companies (NBFCs).

**Constitution of NACAS:** NACAS was constituted by the Central Government on 29<sup>th</sup> August, 2001, under Section 210A of the Companies Act, 1956, with Secretariat at ICAI, to consider the Accounting Standards recommended by ICAI and advise the Government of India to notify them under the Companies Law. A proviso to section 211(3C) was also included to provide that until the Accounting Standards are notified by the Central Government the Accounting Standards specified by the Institute of Chartered Accountants of India shall be followed by the companies.

## Insurance Sector and CAs

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (*Manusmriti*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthasastra*). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. 1818 saw the advent of life insurance business in India with the establishment of the

Oriental Life Insurance Company in Calcutta. The life insurance business was nationalised on 19<sup>th</sup> January 1956 and Life Insurance Corporation came into existence in that year. The general insurance business was nationalised with effect from 1<sup>st</sup> January 1973. The process of re-opening of the sector had begun in the early 1990s. Following the recommendations of the Malhotra Committee report, the insurance sector was opened for private players in 2000. Foreign companies were allowed ownership of up to 26%.

**Constitution of ICAI Committee on Insurance:** Post liberalisation of insurance sector in 2000, a very large number of opportunities were expected to come for professionals like Chartered Accountants and at the same time, they must be ready to take on these challenges and discharge their responsibilities in the tradition of technical excellence. In order to leverage the professional opportunities for members of ICAI and as a measured response to contribute for the development of the Insurance sector, ICAI constituted a separate non-standing committee viz. Committee on Insurance in the year 2001. The Committee was broadbased in 2006 by including Pension under its ambit and it was renamed as Committee on Insurance and Pension. The Committee was again rechristened as Committee on Banking, Insurance and Pension in 2010. In 2017, the Committee was renamed as Banking, Financial Services and Insurance Committee.

## History of Renewed Capacity Building Initiatives for CAs



The Capacity Building Measures of Practitioners got a renewed focus in the year 2004 with the formation of the study group to and make recommendations on Merger, Demerger, Networking, MDP & corporate form of Practice and the Brand image to face confidentiality emerging challenges of National & Tans-national corporate sector. Later a separate non-standing Committee for Capacity Building of Members in Practice (CCBMP) was formed under regulatory provisions of Chartered Accountants Act, 1949. This Committee was formed in the month of

February, 2010 under nomenclature 'Committee for Capacity Building of CA Firms and Small & Medium Practitioners' (CCBCAF & SMP) by combining previously formed Committees, Committee for Capacity Building of CA Firms and Committee for Small & Medium Practitioners. Thus the ultimate objective of the Committee is to strengthen CA firms as well as Small & Medium Practitioners to rejuvenate their practice portfolio.

### Origin of ICAI's Focused Attention on International Taxation



The process of globalisation of the Indian economy initiated in the nineties gradually acquired momentum in the 21<sup>st</sup> Century. India witnessed tremendous increase in the activities of multinational corporations and other non-residents in the manufacturing and servicing sectors of the economy. Outsourcing, which was confined only to non-core activities, was expanding its scope to cover even core and strategic activities of the foreign corporates. The inflow of funds from international financial institutions was extremely impressive.

All the above developments had a great impact on taxation of the transactions arising out of such activities. Thus, consequential changes were constantly being made in the taxation laws to cope with the rapid developments in the economy. International taxation gradually became major area of professional interest.

In order to guide and equip members of ICAI to foray into the field of International Taxation, the Fiscal Laws Committee of ICAI came out with various publications on topics relating to International taxation and Transfer Pricing. In 2008, on the formation of Direct Taxes Committee the tasks pertaining to International taxation were transferred to it. Thereafter, in 2009 considering the need to guide/educate our members practising in the area International taxation in a focussed manner a dedicated Committee i.e. Committee on International taxation was formed.

### ICAI Council in Historical Perspective

**Composition of the Council:** The Council, which is the Governing Body of the Institute is entrusted with the task of management of the affairs of the Institute for discharging the functions assigned to it under Section 15 of the Chartered Accountants Act, 1949. The Council continued to be composed of 24 members elected by the members from five regional constituencies and 6 members nominated by the Central Government till 4<sup>th</sup> February, 2007. Effective from 5<sup>th</sup> September, 2006, Section 9 of the Chartered Accountants Act, 1949 was amended by the Chartered Accountants (Amendments) Act, 2006 providing the composition of the Council as not more than thirty-two members elected by the members of the Institute and not more than eight persons to be nominated by the Central Government. Accordingly, effective from 5<sup>th</sup> February, 2007, the Council (i.e. 20<sup>th</sup> Council and onwards) is composed of 32 members elected by the members of the Institute from five regional constituencies and eight persons nominated by the Central Governments in accordance with the rules framed by the Central Government.

It is pertinent to mentioned here that for the first time, the Central Government framed the Chartered Accountants (Nomination of members of the Council) Rules, 2006 specifying the fields which will be considered for making nominations on the Council of the Institute. These Rules also provide that no member of the Institute shall be eligible for such nominations.

**Term of the Council:** Section 14 of the Chartered Accountants Act, 1949 provides that the duration of any Council shall be three years from the date of its first meeting. The term of the 17<sup>th</sup> Council was to expire on 17.1.2001 and the 18<sup>th</sup> Council was to be constituted from 18.1.2001. However, due to the nation-wide strike by the employees of the postal department, the last date for receipt of postal ballots was extended resulting delay in constitution of 18<sup>th</sup> Council. The 17<sup>th</sup> Council continued to be in office till 4<sup>th</sup> February, 2001 and the 18<sup>th</sup> Council was constituted w.e.f. 5<sup>th</sup> February, 2001 for a period of three years ending on 4<sup>th</sup> February, 2004. In the year 2010, the term of the 20<sup>th</sup> Council was again extended upto 11<sup>th</sup> February, 2010 arising out of the Order of Hon'ble High Court of Rajasthan at Jaipur restraining the Institute from declaring the result of election to the Council from Central India Regional Constituency on a writ petition filed by one of the candidates.



**Code of Ethics:** The 'Code of Conduct', was called as 'Code of Ethics' for the first time in its ninth edition in 2001 with an idea of reinforcing and observing the ethical standards for the profession. The tenth edition of Code of Ethics was issued in January, 2005. The revised Code included provisions of Notification imposing ceiling on non-audit fees, norms relaxing the criteria in responding to tenders of government agency or similar organisations, and permitting the members to publish passport size photograph in their website. ICAI has been a member of IFAC. It was observed that IFAC's Code of Ethics for Professional Accountants was structured in a manner different than the Code of Ethics issued by ICAI, viz., the IFAC's Code is divided into various parts like General Application of the Code, Professional Accountant in Public Practice and in Business, etc., and each part, in turn, contained various sections dealing with important issues like the Fundamental Principles, Conflicts of Interests and Independence. On the other hand, ICAI's Code of Ethics was structured around the specific requirements of the various clauses of the Schedules to the Chartered Accountants Act, 1949. As such, it was thought to be necessary to review and revise the existing Code of Ethics issued by ICAI in the light of the IFAC's Code of Ethics to bring it at par with the IFAC's Code of Ethics. As a result, the eleventh edition of Code of Ethics was approved by the Council, based on recommendations of Ethical Standards Board, at its 283<sup>rd</sup> Meeting held from 18<sup>th</sup> to 20<sup>th</sup> December, 2008. Accordingly, the same was issued in January, 2009. Subsequent to ICAI's membership obligation towards IFAC, ICAI *Code of Ethics*, 2009 incorporates for the first time, the provisions of IFAC *Code of Ethics*, thus complying with the membership obligation of ICAI towards IFAC. The *Code of Ethics*, 2009 is divided into Part-A and Part-B, Part-A incorporating provisions of IFAC *Code of Ethics*, and Part-B based on the Chartered Accountants Act, 1949 and other domestic provisions. The Part-A of the Code of Ethics i.e. the part based on IFAC Code of Ethics has been issued as a Council Guideline, meaning thereby that its non-compliance would be deemed as professional misconduct.

### ICAI and the Trade Laws & WTO

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 in Services. 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 is in this wider context, the ICAI had constituted a Committee on Trade Laws and WTO as a non-standing Committee in the year 2001. The Committee as a part of its threefold activities namely-(1) awakening campaign (2) identification of concerns-negotiation skills, formulating positions/strategies and (3) education to develop enough expertise to address the concerns arising out of implementation of the WTO agreements

The Committee has been seeking to evaluate the changes taking place in the new world trade milieu and their ramifications for this prominent sector in order to adequately equip members of the Institute to take advantage of the space created by the new world trading regime. In order that the Indian professionals do not remain insular to the winds of change that have been gathering around us at a mind boggling pace, the Committee has currently embarked upon to provide greater thrust, inter alia, to the pursuance of following :-

- a) Capability enhancement of Members of the Institute in WTO Regime
- b) Identification and exploration of means for expanding export of services from Indian professionals
- c) Creation of professional avenues under WTO
- d) Dissemination of knowledge through various means
- e) Provision of level playing field for Indian professionals under WTO Regime by providing technical inputs to the Government for taking up at appropriate level at WTO.

In February, 2010, a rechristened Committee on Economic, Commercial Laws & WTO came into existence with the merger of two former Committees, viz., Committee on Economic & Commercial Laws, and Committee on Trade Laws & WTO with an



# Did You Know?

objective to create a knowledge base on various matters concerning National and International Trade Laws and Protocols, and their implications and ramifications by examining various Economic, Commercial Laws, Rules/Regulations/Notifications issued thereunder, vis-à-vis International Legal scenario/best practices and those arising from WTO era and to make representations to the concerned authorities suggesting suitable amendments/modifications.

In February 2018, a new non standing committee namely Committee for Export of CA Services & WTO was formed to promote exports of CA services and address the concerns of WTO Regime.

## Origin of FRRB as a Proactive Step of ICAI

The Council at its 224<sup>th</sup> meeting held on 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> March, 2002 deliberated regarding debacle of Enron which was 7<sup>th</sup> largest corporation in the world and had collapsed overnight. Accordingly, the Council decided to constitute a Working Group for a thorough review of the existing provisions of the Chartered Accountants Act and Regulations framed thereunder in the light of changing global scenario and the experience gained. The said group was constituted under the Convenorship of CA. T. N. Manoharan and it submitted its interim report at the 225<sup>th</sup> meeting of the Council held on 17<sup>th</sup>-20<sup>th</sup> May, 2002 and thereafter its revised report at the 226<sup>th</sup> meeting held on 2<sup>nd</sup>-4<sup>th</sup> July, 2002. During discussions relating to disciplinary matters by the said group at its 226<sup>th</sup> meeting, the Council as a proactive measure decided to set up a Financial Review Panel which would undertake review of financial statements of enterprises. However, instead of Panel, Financial Report Review Board was set up as a non-standing Committee in 2002, by the ICAI to enable improvement in financial reporting practices in the Country. CA. Amarjit Chopra was appointed as the first Chairman of the said Committee. The Board aims to develop and maintain an environment of sound financial reporting of Financial Statements and also to improve transparency in financial reporting, which is important to promote investor confidence in audited financial statements.

## Emergence of XBRL in India

The XBRL wave started in India in late 2007 when the ICAI realised the critical role of Digital Business Reporting in the arena of regulatory reporting and the optimum advantage that it enjoyed in leveling



the playing field. Then, the ICAI constituted a High-Level Group on XBRL (XBRL Group) under the chairmanship of the then President, ICAI, to establish a forum for the development of XBRL in India including its promotion and to develop taxonomy for XBRL based reporting bearing in mind the peculiarities of the Indian Accounting Standards. Members of the XBRL Group include among others, regulators like RBI, MCA, IRDA, stock exchanges and certain software companies. To facilitate the implementation of XBRL, the XBRL Group developed two taxonomies viz. C&I Taxonomy and Banking taxonomy which was later accredited by the XBRL International.

In order to create a forum for XBRL in India to promote efficient adoption of XBRL, it was decided that the ICAI, being the apex accounting body in the country and the regulator of the accountancy profession, is an appropriate organisation for the establishment of an XBRL jurisdiction in India. After following due processes, the ICAI in October 2008 submitted an application with XBRL International for setting up the Indian XBRL Provisional Jurisdiction. The application was approved and the provisional status of the Jurisdiction was granted to the ICAI in December 2008. As per the criteria laid down by XII, the ICAI subsequently applied for an established jurisdiction after completion of a period of two years.

Further, in December 2008, spearheaded by the ICAI, the Indian XBRL Jurisdiction, i.e., XBRL India was constituted.

**Formation of XBRL India as a Company:** In the year 2010, a need was felt to involve the regulators, technologists, corporates and academicians in this endeavour of the ICAI for the promotion of XBRL in India. For their effective participation, the ICAI facilitated the incorporation of XBRL India as a company registered under section 8 of the Companies Act, 2013 (erstwhile Section 25 of Companies Act, 1956) for managing the affairs of Indian Jurisdiction of XBRL International. ■