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**STANDING COMMITTEE ON FINANCE
(2013-14)**

FIFTEENTH LOK SABHA

MINISTRY OF CORPORATE AFFAIRS

[Action taken by the Government on the recommendations contained in Seventy-first Report on Demands for Grants (2013-14) of the Ministry of Corporate Affairs]

EIGHTY SECOND REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2013/ Agrahayana, 1935 (Saka)

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(2013-2014)

(FIFTEENTH LOK SABHA)

MINISTRY OF CORPORATE AFFAIRS

[Action taken by the Government on the recommendations contained in Seventy-first Report on Demands for Grants (2013-14) of the Ministry of Corporate Affairs]

Presented to Lok Sabha on 09 December, 2013

Laid in Rajya Sabha on 09 December, 2013



LOK SABHA SECRETARIAT
NEW DELHI

December, 2013/ Agrahayana, 1935 (Saka)

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Analysis of Action Taken by the Government on the recommendations
Contained in the Seventy-first Report of the Standing Committee on Finance on
Demands for Grants (2013-14) of the Ministry of Corporate Affairs

* Not appended in the cyclostyled copy

COMPOSITION OF STANDING COMMITTEE ON FINANCE (2013-14)

Shri Yashwant Sinha - Chairman

MEMBERS

LOK SABHA

2. Shri Suwendu Adhikari
3. Dr. Baliram
4. Shri Sudip Bandyopadhyay
5. Shri Udayanraje Bhonsle
6. Shri Gurudas Dasgupta
7. Shri Nishikant Dubey
8. Shri Rahul Gandhi
9. Shri Deepender Singh Hooda
10. Shri Chandrakant Khaire
11. Shri Bhartruhari Mahtab
12. Dr. Chinta Mohan
13. Shri Sanjay Brijkishorlal Nirupam
14. Shri Prem Das Rai
15. Shri S.S. Ramasubbu
16. Adv. A. Sampath
17. Shri Thakur Anurag Singh
18. Shri Subodh Kant Sahai*
19. Dr. M. Thambidurai
20. Shri Shivkumar Udasi
21. Shri Dharmendra Yadav

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Rajeev Chandrasekhar
24. Smt. Renuka Chowdhury
25. Shri Piyush Goyal
26. Shri Satish Chandra Misra
27. Dr. Mahendra Prasad
28. Shri Ravi Shankar Prasad
29. Shri P. Rajeeve
30. Shri Praveen Rashtrapal
31. Dr. Yogendra P. Trivedi

SECRETARIAT

1. Shri A.K. Singh - Joint Secretary
2. Shri Ramkumar Suryanarayanan - Additional Director

* Nominated as Member of the Standing Committee on Finance w.e.f 16th September, 2013

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Eighty Second Report on action taken by Government on the recommendations contained in the Seventy-first Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2013-14) of the Ministry of Corporate Affairs

2. The Seventy-first Report (15th Lok Sabha) was presented to Lok Sabha/laid in Rajya Sabha on 22 April, 2013. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 17 July, 2013.

3. The Committee considered and adopted this report at their sitting held on 29 November, 2013.

4. An analysis of action taken by Government on the recommendations contained in the Seventy-first Report of the Committee is given in the Appendix.

5. For facility of reference, observations/recommendations of the Committee have been printed in thick type in the body of the Report.

New Delhi;
29 November, 2013
08 Agrahayana, 1935 (Saka)

YASHWANT SINHA
Chairman,
Standing Committee on Finance

REPORT

CHAPTER I

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their Seventy-First Report (Fifteenth Lok Sabha) on Demands for Grants (2013-14) of the Ministry of Corporate Affairs, which was presented to Lok Sabha on 22 April, 2013 and simultaneously laid in Rajya Sabha on the same day.

2. Action taken notes have been received from the Government in respect of all the 11 recommendations contained in the Report. These have been analysed and categorized as follows:

- (i) Recommendations/Observations that have been accepted by the Government:

Recommendation Nos. 1,2, 3, 7, 8 and 9

(Total: 6)
(Chapter II)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Nil

(Total : Nil)
(Chapter III)

- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:

Recommendation Nos. 4, 5, 6, 10 and 11

(Total: 5)
(Chapter IV)

- (iv) Recommendations/Observations in respect of which final replies of the Government are still awaited:

Nil

(Total : Nil)
(Chapter V)

3. The Committee desire that the replies to the recommendations/observations contained in Chapter I may be furnished to them expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations.

A. Registrar of Companies (RoCs)

Recommendation (Para No. 4.)

5. The Ministry had informed the Committee that its IT platform (version-2 of MCA21), which was rolled out from January, 2013 had the capacity to take the additional load but the issue of shortage of manpower in the field offices of Ministry had still not been addressed by the Ministry. The Committee observed that the shortage of skilled manpower was seriously affecting the functioning of the Ministry in general and its field offices in particular.

6. In their action taken reply the Ministry of Corporate Affairs have submitted as follows:

“The Ministry is taking necessary steps for filling up the vacant posts at the earliest. The present strength of posts in Group A and Group B is indicated below:

Sr. No.	Grade	Sanctioned strength	Present strength
1	Group “A” ICLS	292	230
2	Senior Technical Assistant (STA) Group ‘B’	128	104
3	Company Prosecutor (CP) Group ‘B’	30	17
4	Junior Technical Assistant (JTA) Group ‘B’	231	112

The recruitment and promotion in Group ‘A’ posts in the Ministry is done on regular basis. The Ministry has moved a proposal for amendment in the service rules of Group ‘A’ posts (ICLS Posts) for incorporating a provision engaging similarly placed officers on short term deputation. The requisition for appointment in Group ‘B’ and Group ‘C’ posts have been sent to SSC and UPSC. The promotion to Group ‘B’ and Group ‘C’ posts are being done regularly. The Ministry is making all efforts for filling up vacant posts.”

7. **The Committee note that the Ministry is functioning with shortages of skilled manpower across different cadres. Although the recruitment and promotion in Group ‘A’ posts (ICLS) is being done on a regular basis, the vacancy level is about 21% in this cadre. The Committee are alarmed to note that bulk of the vacancies are at the cutting edge level like Junior Technical Assistant (JTA), thereby impairing the functioning of field offices. The Committee, therefore, reiterate that the Ministry should make sincere efforts to address the issue of**

shortage of skilled manpower so that the responsibilities cast on the Ministry and its field / attached offices under the new company law can be discharged effectively.

Recommendation (Para No. 5)

8. The Committee found that inspite of being in such a tight spot, the Ministry had been reluctant to hire/engage skilled workforce on contractual terms on the plea that it would create conflict of interest and undermine professional ethics. The Ministry instead, sought to fill up its regular vacancies and was pursuing UPSC and SSC in this regard. The Committee would urge the Ministry to come out of its slumber and take immediate action to address this serious shortage of skilled manpower. The Committee desired that while taking steps to fill its regular vacancies, the Ministry should explore new ways and means for supplementing its regular manpower. The Ministry might replicate proposals like the one approved for Serious Fraud Investigation Office, with regard to appointment of legal counsels on contract basis. The Committee were of the view that since there was no dearth of skilled/qualified manpower in this country, the Ministry should take the initiative to gainfully employ them.

9. In their action taken reply, the Ministry have stated, among other things, the following:-

“It is submitted that the main function of the Ministry is regulation of Companies under the Companies Act, 1956. The officers appointed function in the offices of Registrar of Companies, Official Liquidator and Regional Directors as per provisions of the Companies Act 1956. There is no provision to confer such powers to private professionals to be engaged on contract basis. In addition, issues such as conflict of interest can arise by engaging private professionals on contract basis.”

10. In case of engaging skilled manpower on contractual basis for the field offices of the Ministry, it has been stated by the Ministry in their action taken reply that the officers appointed in the offices of Registrar of Companies (RoCs), Official Liquidators (OLs) and Regional Director (RDs) functions as per the provisions of the Companies Act, 1956 and there is no provision to confer such powers to private professionals to be engaged on contract basis. The

Companies Bill, 2012 as passed by the Parliament gives statutory status to SFIO. Apart from regular induction, SFIO has also been working on proposals like appointment of legal counsels on contract basis to address the issue of shortage of skilled manpower. The process for engaging technically skilled manpower on contractual basis for the revamped Market Research & Analysis Unit of the SFIO is also stated to have commenced. The Committee would therefore recommend the Ministry to follow a standard policy of engaging skilled / technical manpower on contractual basis as support staff to its regular workforce across all offices of the Ministry.

B. Serious Fraud Investigation Office (SFIO)

Recommendation (Para No. 6)

11. The Committee noted that Serious Fraud Investigation Office (SFIO) had been proposed to be given statutory status under the Companies Bill, 2012. However, the Committee found to their surprise that the Ministry had not shown the requisite seriousness towards the functioning of the SFIO, which had been in existence for almost ten years. It was presently operating at a pathetic vacancy level of 40% at the operational level, 90% at the legal staff level and 79% at the support staff level. The primary mode of appointment in SFIO was deputation basis, but the Ministry had made no efforts to make deputations terms attractive at SFIO. Recruitment Rules had also not been finalized even then. The Committee would, therefore, urge the Ministry to take immediate steps to address the shortage of manpower so that SFIO was well-equipped for the enhanced role it was expected to play after the passage of the Companies Bill, 2012.

12. In their action taken reply the Ministry of Corporate Affairs have submitted as follows:

“SFIO is on a regular trying its best to fill the vacancies. For this purpose, advertisements were released in 2012 as well as in February, 2013. Letters have also been sent to various Government organizations for filling up various posts on deputation basis in SFIO. The applications received through proper channels have been screened and some vacancies are likely to be filled up by the end of June, 2013. In addition, the process for engaging technically skilled manpower on contract basis

for the revamped Market Research & Analysis Unit, has already commenced. The Unit has been entrusted with responsibility of developing and implementing the proposed Fraud Prediction Model.”

13. The Committee note that the Market Research & Analysis Unit of SFIO has been entrusted with the responsibility of developing and implementing the proposed Fraud Prediction Model. The Steering Committee of the Ministry has recommended purchase of IT tools and hiring on contract basis manpower with requisite IT skills and experience for operationalizing the proposed Fraud Prediction Model. As IT enabled Early Warning System (EWS) under the Ministry is already functioning to scrutinize financial statements and detect corporate frauds, the Committee desire that the Ministry / SFIO should seek to synergise the proposed Fraud Prediction Model systemically with the existing Early Warning System so as to yield optimum results. The Committee would also suggest that a coordination mechanism should be set up in this regard so that all the investigating agencies working under different departments can share data on a common platform. The Committee desire that additional budgetary and technological support may also be provided for this purpose. In the meantime, the Committee would like the Ministry of Corporate Affairs to furnish a statement of cases detected through the existing Early Warning System and action initiated thereafter.

C. National Corporate Governance Policy

Recommendation (Para No. 10)

14. The Committee noted that the Adi Godrej Committee on the Corporate Governance had submitted its report in 2012, which was under examination of the Ministry. The Committee desired that the Ministry should consider the report at the earliest, and accordingly formulate a National Corporate Governance Policy including

issues relating to corporate delinquency in line with the new company statute. The Committee might be apprised of the action taken report in this regard within one month.

15. In their action taken reply the Ministry of Corporate Affairs have submitted as follows:

“The Adi Godrej Committee was constituted by the Ministry of Corporate Affairs in 2012 to formulate a policy document on Corporate Governance and its report is under examination and consideration of this Ministry. Accordingly, a National Corporate Governance Policy is to be formulated after examination.”

16. The Committee note that the process of examination of the Report of Adi Godrej Committee on Corporate Governance has taken an unduly long time as it has been pending with the Ministry for more than a year. It is imperative that a clear policy is formulated with regard to Corporate Governance issues, which may also be suitably incorporated in the Company Rules. The Committee would, therefore, reiterate that the Ministry should consider the above said report at the earliest, and accordingly formulate a National Corporate Governance Policy including issues relating to corporate delinquency in line with the new company statute.

Recommendation (Para No. 11)

17. The Committee in its 55th Report had desired that the Ministry may review the role, functions and scope of the two related profession of Chartered Accountants and Cost Accountants and bring necessary amendments, if required, in their respective statutes so that the ambiguities and gray areas were duly addressed. The Committee observed that the Ministry had not taken any specific measure so far to streamline the functioning of the professional institutes. The Committee noted that the Ministry had not taken any steps to ensure that both development and regulation of the professions of Chartered Accountants/Cost Accountants/Company Secretaries were not handled by the professional institutes themselves. The Committee urged the Ministry to bring necessary amendments in the respective statutes of the professional institutes so that these area of concern were addressed at the earliest.

18. In their action taken reply the Ministry of Corporate Affairs have submitted as follows:

“The Ministry has taken adequate measures to streamline the functioning of the Professional Institutes. The statutes of the three Professional Institutes which were enacted many decades back, have been amended from time to time to meet the changing requirements of the professions as well as the expectations of the stakeholders concerned. In the winter session of Parliament, 2011, the Acts relating to the three Professional Institutes viz. the Chartered Accountants Act, 1949, The Company Secretaries Act, 1980 and the Cost and Work Accountants Act, 1959 have been amended to allow the practitioners of the relevant Professional Institutes to form multi disciplinary LLPs. In addition, the name of the Institute of Cost and Works Accountant of India has also been changed to the Institute of Cost Accountants of India. These amendments have come into force with effect from February 1, 2012. Subsequent to the change in the name of the Institute of Cost Accountants of India, necessary changes in the relevant Rules have been carried out in consultation with Legislative Department, Ministry of Law & Justice and notified in the Official Gazette vide notification dated 24th September 2012. Further, a large number of provisions significantly enhancing the efficiency, transparency and work culture of the professions in performance of their professional and academic roles have been incorporated in the Companies’ Bill, 2012 which has been passed by the Lok Sabha and is presently awaiting the consideration of the Rajya Sabha. Some of these proposals are as follows:

- (i) The disciplinary mechanism will be strengthened by establishing a National Financial Reporting Authority (NFRA) with a mandate to ensure monitoring and compliance of accounting and auditing standards and to oversee quality of service of professionals and covers areas relating to Audit, Accounting, Quality Review Mechanism, Disciplinary Mechanism, etc.
- (ii) The term ‘Key Managerial Personnel’ recognized to fix responsibility in relation to a company will, also include Company Secretary, the Chief Financial Officer (who is generally a CA) and such other officer as may be prescribed.
- (iii) Clause 144 prohibits an auditor of a company to render certain other kinds of services.
- (iv) Clause 141 provides for ceiling on number of Audit assignments for an auditor.
- (v) The term ‘Officer who is in default’ will also include Professionals working for the company.
- (vi) Provision for rotation of Auditors.
- (vii) Cost records mandated for companies engaged in production of such goods or rendering of such services. The concept of “cost auditing standards” has been mandated.
- (viii) Internal Audit mandated for bigger companies.
- (ix) Enabling provisions for Vigil mechanism (Whistle Blowing).

2. The three Professional Institutes i.e. Institute of Chartered Accountants of India (ICAI), Institute of Cost Accountants of India and Institute of Company Secretaries of India (ICSI) have been established under three separate Acts of Parliament and are autonomous and self regulatory bodies engaged in developing and regulating the respective professions/professional education in India. Although the professional Institutes are self regulatory, the Ministry exercises adequate control in accordance with the provisions of the relevant Acts to ensure that the autonomy of the Institutes does not result in promotion of vested interests in the following ways:-

- a) The Central Govt. administers the Acts governing the three Professional Institutes, and amendments thereon are also made depending upon specific requirements of the professions and its stakeholders from time to time. The Rules under these Acts are also framed by the Central Govt.
- b) The Regulations of the three Professional Institutes under the respective Acts are framed and amended with the approval of Central Govt. The Central Government is also empowered to issue directions to the Institutes to amend or revoke any Regulations earlier made.
- c) Central Govt. nominees are also nominated on the Councils of the three Professional Institutes. In order to ensure that Govt. nominees discharge their duties impartially, members belonging to the profession represented by the Institute are not nominated as Govt. nominees to the Council of such Institutes.
- d) The Central Government may from time to time issue such directions to the Councils of the Institutes, as in the opinion of the Central Government are conducive to the fulfillment of the objects of this Act and in the discharge of its functions, the Council shall be bound to carry out any such directions. The Central Government is also empowered to dissolve the Council, after satisfying the prescribed conditions, if in its opinion, the Council of the respective Professional Institute has persistently made default in giving effect to the directions of the Central Govt.
- e) Quality Review Boards of the Institutes, with both Govt. nominees and nominees of the Councils of the respective Institutes have been set up by the Central Government for making recommendations to the Councils with regard to the quality of services provided by the members of the profession. The Chairpersons of the Boards are also nominated by the Central Govt.
- f) Accountability and parliamentary oversight in the functioning of the three Institutes is also ensured by providing that all rules regulations and notifications made and every notification issued under the respective Act shall be laid, in Parliament within specified time period.
- g) All the three Professional Institutes are covered by the provisions of the Right to Information Act, 2005, and they have

nominated their own CPIOs who are responsible for complying with the provisions of the RTI Act.”

19. The Ministry have stated in their action taken reply that necessary amendments have been made from time to time in the respective statutes governing the professions of the Chartered Accountants, Company Secretaries and Cost Accountants to meet the changing requirements of the profession as well as expectation of the stakeholders. The reply also states that the Companies Act 2013 contains many provisions which significantly enhances the efficiency, transparency and work culture of these professions. While taking note of the steps taken up by the Ministry in the recent past including the enactment of the new Companies Bill, to streamline the working of the professional institutes, the Committee recommend that the spirit of this new legislative framework should be carried forward by the rules and regulations which are currently being framed by the Ministry. The proposed rules under the Companies Act, 2013 should ensure that the institutions like National Financial Reporting Authority (NFRA) to be constituted under the new Act has the necessary mandate and independence to oversee the quality of the services of professions associated with it and enforce the compliance of the prescribed accounting and auditing standards.

New Delhi;
29 November, 2013
08 Agrahayana, 1935 (Saka)

YASHWANT SINHA
Chairman,
Standing Committee on Finance

MINUTES OF THE SEVENTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2013-14)

The Committee sat on Friday, the 29th November, 2013 from 1100 hrs to 1330 hrs.

PRESENT

Shri Yashwant Sinha – **Chairman**

MEMBERS

LOK SABHA

2. Shri Gurudas Dasgupta
3. Shri Nishikant Dubey
4. Shri Chandrakant Khaire
5. Shri Bhartruhari Mahtab
6. Shri Sanjay Brijkishorlal Nirupam
7. Shri S.S. Ramasubbu
8. Adv. A. Sampath
9. Shri Subodh Kant Sahai
10. Dr. M. Thambidurai
11. Shri Shivkumar Udasi

RAJYA SABHA

12. Smt. Renuka Chowdhury
13. Shri Piyush Goyal
14. Dr. Mahendra Prasad
15. Shri Praveen Rashtrapal

SECRETARIAT

- | | | |
|---------------------------------|---|---------------------|
| 1. Shri A.K. Singh | – | Joint Secretary |
| 2. Shri Ramkumar Suryanarayanan | – | Additional Director |
| 3. Shri Sanjay Sethi | – | Deputy Secretary |
| 4. Shri Kulmohan Singh Arora | – | Under Secretary |

Part I (1100 hrs. to 1235 hrs.)

WITNESSES

- | | | | | |
|----|----|----|----|----|
| 2. | XX | XX | XX | XX |
| | XX | XX | XX | XX |

The witnesses then withdrew.

Part II
(1240 hrs. to 1320 hrs.)

WITNESSES

3.	XX	XX	XX	XX
	XX	XX	XX	XX

The witnesses then withdrew.

A verbatim record of the proceedings was kept.

Part III
(1320 hrs. to 1330 hrs.)

4. The Committee, thereafter, took up the following draft Reports for consideration and adoption :-

- (i) Draft Report on action taken by the Government on recommendations contained in 79th Report (14th Lok Sabha) on 'Counterfeit Currency Notes in Circulation';
- (ii) Draft Report on action taken by the Government on recommendations contained in 6th Report (15th Lok Sabha) on 'Inflation and Price Rise'; and
- (iii) Draft Report on action taken by the Government on recommendations contained in 71st Report (15th Lok Sabha) on Demands for Grants (2013-14) of the Ministry of Corporate Affairs.

5. The Committee adopted the above draft reports without any modifications. The Committee authorised the Chairman to present these Reports to Parliament.

6. The Committee decided to hold their next sitting on 5th December, 2013 subject to other exigencies.

The Committee then adjourned.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SEVENTY-FIRST REPORT OF THE STANDING COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2013-2014) OF THE MINISTRY OF CORPORATE AFFAIRS

	Total	% of Total
(i) Total number of Recommendations	11	
(ii) Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1,2, 3, 7, 8 and 9)	07	63.63
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies	NIL	0.00
(iv) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 4, 5, 6, 10 and 11)	04	36.37
(v) Recommendation/observation in respect of which final reply of the Government is still awaited	NIL	0.00