

# Opinion

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## Rational Expectations

SUNIL JAIN

sunil.jain@expressindia.com  
@thesuniljain



## Argue Rafale case, don't duck issues

Big SC win for media as govt can't invoke OSA to hide secrets, but govt should use the chance to argue merits of its decisions

**IT WAS NEVER** clear why Attorney General KK Venugopal argued that the documents on the Rafale deal published by *The Hindu* should not be relied upon by the Supreme Court since they were 'stolen' and were confidential government papers. After all, and this is the question the judges asked when he made the original submission, if the documents are genuine and make a compelling point, how does it matter if they are stolen or not? In the event, it is not surprising that the Supreme Court, in a bench led by Chief Justice Ranjan Gogoi, ruled in favour of the petitioners being allowed to use the documents to argue their case.

This is a big victory for journalists since it means that future governments can't try and discredit their investigation—or worse, apply the Official Secrets Act on them with impunity—which is based on documents the government wants to keep secret. Indeed, it was always odd that the government took this view since, first, it gave the impression the government had something to hide; and second, if this logic was to be used, many of the documents used to prove corruption in various UPA deals would also become inadmissible in court.

There are three documents in question that the government wanted to be kept away from the court, all from the ministry of defence. One document, for instance, is a November 2005 note by the then defence secretary who objected to the PMO carrying out a negotiation with the French while a negotiating committee was doing the same thing; then defence minister Manohar Parrikar, however, had overruled the objection and said that this appeared to be an over-reaction as the PMO and the French president's office monitoring the progress was part of the agreement of prime minister Modi and French president Macron. There is another note that discusses the French demand for waivers for sovereign guarantees, and the Indian government agreeing to it, amongst other issues; the lack of a French government guarantee, for instance, meant the deal wasn't quite a government-to-government one as claimed by the Indian side.

There is also the dissent note of three members of the seven-member negotiation committee that raised most of these issues as well as others like whether the price was too high. One issue raised, for instance, pertains to why the EADS offer of a 20% discount—made after Rafale was awarded the tender for 126 jets based on its lower bid—shouldn't be used to negotiate the price of the NDA's 36-jet deal; the other four members of the negotiating committee argued this was an unsolicited offer and so was invalid. Similarly, the dissent note argued that the India-specific enhancements were too costly while the others on the committee didn't hold the same view.

Now that the issue is going to be argued fully in the Supreme Court, presumably, the government will also make available the notes of the others in the negotiating committee who were, in fact, in the majority. More important, the reasons for overruling these objections need to be made public; the government, after all, is well within its rights to reject the advice of its officials if the reasons are valid.

While the crux of the argument seems to be about whether the UPA's 'deal' for 126 aircraft was cheaper, the fact is that the UPA's 'deal' was never completed because the French didn't agree to guarantee the quality of the aircraft made under licence by HAL and, indeed, the costs of the aircraft would have made Rafale a more expensive aircraft since HAL's labour costs were higher than those being charged by Rafale at its French facilities. As the CAG report on Rafale put it, "the above two issues led to a stalemate in negotiations... Five years after the bid, and after three years of evaluation and negotiations, there was no finalisation".

Also, given what the Mallikarjun Kharge-headed Parliamentary Accounts Committee said about HAL's delays—decades, in the case of the LCA—this would probably have delayed the Air Force getting the Rafale as well; indeed, as the CAG pointed out, it took 180 months to sign the initial contract in the UPA regime. A telling chart in the CAG report points to the fact that it took 96 months for the armed forces to sign a contract for a Doppler Weather Radar while it took the Met department just nine months to conclude.

Defence purchases are not just about the price, speed is also of the essence and has to be regarded as an essential component of any contract. If it is not, the take-away for subsequent governments will be that it is better not to sign a deal for fear of being tripped up in the future; indeed, when AK Antony was the UPA's defence minister, he was reluctant to push most acquisitions for this reason, and, it is still not clear what he meant when he said, recently, that he had intentionally delayed the Rafale deal in the national interest. The SC case is a great opportunity for the government to present its arguments in detail; trying to take cover under the Official Secrets Act was always a bad idea, and gave the impression that the government had something to hide.

## NoShit!

Faecal transplants have now been clinically proven to aid the efficacy of cancer medicine

**STOOL TRANSPLANTS HAVE** now been proven to shrink or lessen the size of cancerous tumours, as the early findings from two groups discussed at the annual meeting of the American Association for Cancer Research (AACR) show. Oncologists and medical researchers conventionally use chemotherapy, radiotherapy and surgery or any combination of the three to fight cancer. Lately, there has been some work on immunotherapy to treat cancer, but that has shown limited success. But, the faecal transplant studies, in early phases as yet, suggest that tumours topped growing, or even shrank, in some patients who didn't respond to immunotherapy initially, after stool samples from patients who did respond to the drug were introduced in their guts. This perhaps points at a strong link between gut bacteria, immunity and immune system-mediated cancer treatment.

After the healthy microbiome (the microbes particular to our guts) are transferred to the patient's gut, the immunotherapy drugs (called PD-1 blockers, since they enable the immune system's attack against cancerous cells by blocking the activation of the protein PD-1 found on immunity cells whose function is to shut off T-cells' ability to ward off pathogens and other foreign invaders) are given again. Gut bacteria from relatively healthier (who responded to immunotherapy) patients could be working in a manner that elicits a stronger reaction from these drugs in the attempt to fight cancer. Although data is mixed—of the two studies that investigated this phenomenon, two out of the three patients in one trial and one out of three in the other displayed positive reactions to the PD-1 drugs after the healthier gut bacteria was transferred—this is nevertheless a groundbreaking discovery that can revolutionise the process through which cancer can be treated. However, obstacles still persist. The question of what specific kind of microbiome enables a more favourable response to PD-1 drugs needs to be resolved. Also, patients on antibiotics that temporarily wipe out gut microbiota can't be given the treatment, which means it will be harder to treat opportunistic infections in patients whose immune barriers are down if they are to follow this line of treatment for their cancer.

INTRODUCING AN MSME-FOCUSED CREDIT RISK DATABASE WILL HELP LENDERS IN DEVELOPING MODELS THAT WILL AID MSME FINANCING CHALLENGES AND IMPROVE THEIR EMPLOYMENT GENERATION

## Towards better assessment of MSME credit risk

### INFORMATION FAILURE

**THE MICRO, SMALL,** and medium enterprise (MSME) sector is estimated to comprise of over 63 million enterprises and contributes 28.8% of the GDP of the country. Most importantly, the sector employs around 1.11 million people, 26% of the total workforce. Yet, according to a 2018 report by TransUnion CIBIL-SIDBI, credit to MSME entities accounts for only 14% of total formal credit in India. As per the report, an additional 10% of loans go to MSME owners in their individual capacity, often against collateral of property and vehicles. While funding to the MSME segment over the last one year has increased at a rate of more than 20%, the highest growth has come from loans to individual MSME owners. This indicates a need for reducing information gaps regarding MSME entities to enable bankers to make more informed credit decisions without a reliance on the personal collateral of owners.

Many of the policy measures taken in the past have primarily focused on increasing the volume of funds to the sector. The MUDRA Bank initiative sought to increase funding availability to last-mile providers of MSME loans such as banks, non-bank finance companies (NBFCs) and micro finance institutions. The number of last-mile providers has also been increased with the licencing of new banks, especially small finance banks that have a special focus on the sector. Several NBFCs focused on MSMEs have also emerged. However, availability of funds does not guarantee that increasing amounts of loans will be made available to the MSME sector as lenders need to be convinced of the bankability of the loans. A major hurdle for MSME financing is the information opacity prevalent in the sector as many of the units do not have complete accounting records, audited financial statements, or well-articulated business plans. This makes credit assessment by potential lenders very difficult. There is hence a need to

**SAVITA SHANKAR**  
Author is a faculty member at Keio Business School, Japan



take steps to reduce the information asymmetry in the sector.

Several recent positive developments such as the implementation of the Goods and Service Tax (GST) data and the setting up of electronic platforms for auctioning trade receivables (Trade Receivables Discounting System or TReDs) are useful in verifying and cross-checking details provided by MSME owners. In addition, the growth of services providing credit information on individuals, and attempts to assign ranks to MSMEs based on credit history are also useful to potential lenders. Yet, measures to directly link the data generated to loan and default data could be very insightful.

A policy initiative that attempted to help potential lenders assess MSMEs was the Performance and Credit Rating Scheme (PCRS) aimed at enabling regis-

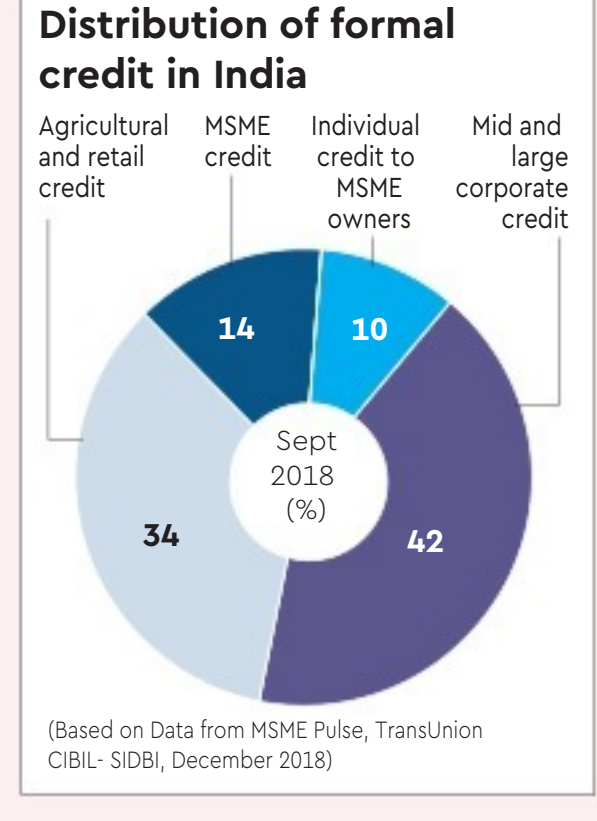
tered micro and small enterprises to obtain credit ratings. The rationale for the scheme was that credit ratings would enable such enterprises to obtain cheaper and faster financing from banks. Under the scheme, micro and small enterprises could obtain a 75% reimbursement of the rating fees charged by credit rating agencies for their first credit rating. However, the availability of budgetary funds for the scheme has varied year on year and, as a result, usage of credit ratings by MSMEs has been sporadic. As many MSMEs are unsure about the process and their likely rating, the subsidy acts as an important incentive. Moreover, the scheme has often been used by bankers after completing their own credit assessments with a view to ascertaining risk weights for capital adequacy purposes. A recent paper on the scheme is available at ([bit.ly/2UMzTB6](http://bit.ly/2UMzTB6)). Yet another policy initiative, the credit guarantee scheme, helps reduce risk exposures for lenders for smaller, collateral-free loans but does not help reduce information asymmetry for the lender.

To help get the full benefit of the credit rating scheme, the credit guarantee scheme and other favourable developments relating to MSMEs, the information generated should be utilised to build a large credit risk dataset. The database should utilise data generated by the implementation of the GST, data available at credit bureaus, banks, NBFCs and rating agencies. Participants should submit financial statements well as default data. A similar database with SME data being shared by members has been found to be useful in Japan. The names

of the customers are not included when data is shared, but entries relating to the same entity are clubbed by use of algorithms. The database was set up specifically to encourage bank lending to SMEs. The costs of setting up the model need to be borne by potential users and subscribers. Mandatory reporting, as required in the case of credit bureaus, will help in building up the database. MSMEs are a heterogeneous and large group, so such a database can help in understanding the various subsegments in the group. The use of analytics will help in developing scoring models for MSME lending specific to each subsegment.

The database could also help in developing differential pricing for credit guarantees. Once set up, the model will result in a lower unit cost per loan assessment as compared to a credit rating exercise. Currently, some banks have their own in-house models developed with the data available to them, however, a model based on sector-wide data can enable development of more robust statistical credit scoring models. Availability of such a model could greatly reduce the appraisal time and cost for MSME loans as well as reduce risk levels. Moreover, the models will improve with time as more and more data is added. This initiative would be distinct from the MSME databank initiative that the government is pursuing. The latter is useful in developing a census of MSMEs and in enabling public sector entities to meet their procurement obligations from MSMEs.

The time is now right to introduce an MSME-focused credit risk database that will help lenders in developing credit scoring models that will aid appraisal of MSME loan requests. This is the next important step that will greatly help in addressing the financing challenges faced by these entities. Given the large number of MSMEs in the country and their importance in employment generation, the returns are bound to be worth the investment.



## Patriotism will always trump nationalism

in the end, nationalism will always fail both because it is antithetical to the human spirit and also because, being inward-looking and exclusive, it leads to poor—and, sometimes, disastrous—economic outcomes

**I HAVE AN** 86-year old aunt—one of the most wonderful people I have ever met—who, nearly 60 years ago, married an American and moved to the US. She was the only daughter in a large family and so had led a much pampered life. Nonetheless, as soon as she moved there, she told her mother (my grandmother) not to come visit for at least two years, and she herself didn't come back to visit for about that long. Her thinking was that she needed to assimilate into her new environment and she needed to very quickly stop missing her homeland.

Today, I call her Mrs America. She loves America, wears red, white and blue every day (no joke) and is the very embodiment of American patriotism.

George Orwell defined patriotism as devotion to a particular place, native or adopted—my aunt, for instance. Nationalism is another animal altogether. Patriotism is about your country; nationalism is about the currently prevailing government and its policies. Patriotism will always mean the same thing, even at different times or in different places; nationalism will be different depending on the where, the when and the whom.

Thus, Americans who protested against the Vietnam War in the 1970s were patriots but not nationalists; the journalists who have been imprisoned in Erdogan's Turkey are the same; as are the writers, stage actors, musicians and just plain people who protest against Modi's attempts to constrain Indian-ness into a narrow-minded saffron coloured box.

Nationalism can sustain for sometimes shockingly long periods—you can't fool all of the people all of the time, but you can fool a large number for a long, long time. However, in the end, nationalism will always fail both because it is antithetical to the human spirit and also because, being inward-

looking and exclusive, it leads to poor—and, sometimes, disastrous—economic outcomes. Ask the Germans.

In the current world environment, we already see Turkey in an economic tailspin, the UK struggling with its Brexit-inspired self-goal, and even India, the fastest growing large economy in the world, fumbling, as, amongst much other nationalist foolishness, cow politics pressures an already weak agriculture.

Only the US appears to be holding firm, with the latest employment statistics confirming continuing strong employment growth and still excellent (as compared to recent years) wage growth. Of course, the inversion of the yield curve, Trump's pressure on the Fed to cut rates, rising oil prices and the fact that the US expansion is now running longer than any expansion ever before all suggest that some sort of nasty surprise may not be far away.

To be sure, this denouement will have multiple fathers going back to the 2008-09 crisis and even earlier. But it is Trump's populist/nationalist approach that will ensure that the trauma will be severe and, likely, long-lived. The hopeful news is that there appears to be some sane Democratic politicians who have sprung up who would need to wield a magical healing touch post-2020. The difficulty will be in reversing some of the institutional problems created by Trump (as by his nationalist brothers in other countries).

Complicating all this will be the fact that the developed economies, suffering as they are from demographic chal-

lenges to growth and fiscal pressure with more and more people in country after country "mad as hell and not willing to take it [meaning austerity, stagnating incomes] anymore", will have to live with slower growth than they would be happy with, and, in some cases, have gotten accustomed to.

For us in India (and, indeed, other emerging economies), the reflection of global growth travails will exacerbate our already weak macros, and the sooner we transition from the economically inefficient and wasteful world of demagogic nationalism to a softer, stronger patriotic ethos the better.

To remind each of us who we really are as Indians:

*I wish I was a Parsi so that one day I could be a 65 year-old Parsi and eat dhansak at the Ripon Club for lunch and then sleep on those chairs with a newspaper across my face I wish I was a Sikh so I could wear brightly colored turbans and shimmer on bright sunny days I wish I was a Catholic so then Goa would really be my home I wish I was a Muslim so then I could eat with greater gusto on Mohamedali Road after sunset during Ramzan I wish I was a Hindu so then Ganesha would ever dwell in my heart I am a patriotic Indian Aajaaan maidaan mein!*

**JAMAL MECKLAI**

CEO of Mecklai Financial



## LETTERS TO THE EDITOR

### Fair and equal step

The Election Commission's move to stall the release of the biopic on PM Narendra Modi until the conclusion of the Lok Sabha polls is a step in the right direction. As rightly observed by the EC, the film might sway voters to the BJP side and further the saffron party's electoral gains. The EC also banned Laxmi's NTR, a biopic of late NT Rama Rao, purported to depict Andhra CM Chandrababu Naidu and Udyama Simham, and a biopic of Telangana CM K Chandrashekar Rao. It is important that the EC ensures that all political parties stick to the model code of conduct — Ravi Chandler, Bengaluru

### Too close for comfort?

It is important for the regulator to ascertain whether broking firms with a secured preferential access to high-speed algorithmic trading platforms have drawn undue gains, as suggested by the preliminary forensic analysis. That said, the inherent nature of real-time HFT trades render an unfair advantage to the members using the co-location facility. Provision of TBT feeds and the disclosure of latency can significantly offset the opacity in operations and reduce arbitrage. It is important to implement the proposed relaxed norms for order limits and standardise the processing at managed co-located facilities in order to strengthen the overall knowledge-based DMA trading framework and reduce the overheads for authorised members. Imposition of a use-based congestion charge and OTR penalty for violating the market price tolerance levels are some of the stringent diktats which are expected to level the playing field for participants and discourage spoofing — Girish Lalwani, Delhi

Write to us at [feletters@expressindia.com](mailto:feletters@expressindia.com)



**ARE PUNJAB STUDENTS** pursuing agricultural research? In the first of two examinations conducted this year (the other is not final) for the post of scientist at the Indian Council of Agricultural Research (ICAR), 179 candidates were selected. Of them, only one was from Punjab. Among the state agricultural universities (SAUs) that sent the maximum number of selected candidates are the University of Agricultural Sciences (UAS), Bangalore (14); Tamil Nadu Agricultural University (Coimbatore), GB Pant University of Agriculture and Technology (Pantnagar) and CSKHPKV (Palampur in Himachal Pradesh) supplied each; and five came from UAS, Dharwad.

Forty-nine of the selected candidates for ICAR's Agricultural Research Service (ARS) were from the Indian Agricultural Research Institute (IARI), Delhi. The Indian Veterinary Research Institute (Bareilly), the Central Institute for Fisheries Education (Mumbai) and the National Dairy Research Institute (Karnal) contributed 37 of the 179 selected candidates. These are national institutes and deemed universities. Seven of the selected candidates came from the Banaras Hindu University.

The candidates from SAUs are most likely to be from that state because local domicile is a requirement for 85% of their admissions. To the national institutes, students are admitted on an all-India basis, so it is possible that among the candidates selected from them for the ARS, some were from Punjab.

Punjab and Haryana do not figure in the list of top-10 states whose candidates were recommended for selection to the ARS between 2006 and 2016. "In the last 10 years, there has been no significant representation from Punjab," says AK Srivastava, acting chairman of the Agricultural Scientists Recruitment Board (ASRB). "Punjab students don't like to go out of Punjab. They feel it's the best," adds Srivastava, who served for 20 years at the Punjab Agricultural University (PAU). The maximum number of candidates qualifying for the ARS during this period were from Tamil Nadu (296), followed by Karnataka (266), West Bengal (187), Bihar (168), Uttar Pradesh (167) and Maharashtra (153) also sent significant numbers.

The ASRB recruits all scientists of the ICAR. These include nine levels, from entry-level scientist to deputy director-general. It also does ICAR's assessments of scientists and their promotions.

The ARS was created in October 1975, two years after the ASRB was set up on the recommendation of a group of ministers headed by Fakhruddin Ali Ahmed, who later became the President of India. The first examination was held in 1976.

For SAUs, the ASRB conducts the National Eligibility Test (NET) twice a year. Candidates need to pass the test to be considered for the posts of assistant professors in these universities. There are 75 SAUs and 108 ICAR institutes.

The states that had the highest number of candidates qualifying in the NET in 2018 were Karnataka (913), Uttar Pradesh (720), Tamil Nadu (588), Maharashtra (51), Kerala (491), Rajasthan (426), Odisha (420), Gujarat (359), Andhra Pradesh (333) and West Bengal (325). Punjab is not among the top-10.

Only two of the 207 PhD students admitted to the IARI this year were from Punjab. Last year, too, of the 204 students admitted to the programme, the same number of candidates came from Punjab. The IARI was the seat of Green Revolution in India, and has developed blockbuster basmati rice and wheat varieties that have produced handsome yields and incomes for farmers and export earnings.

A fifth (89) of IARI's PhD students in these two years came from Karnataka. Nearly a tenth (38) were from West Bengal, followed by Tamil Nadu (37). Uttar Pradesh sent 35 candidates, 25 came from Odisha and Rajasthan each, 32 PhD students were from Kerala, while Maharashtra's was 20.

Baldev Singh Dhillon, PAU's vice-chancellor who was recently awarded the Padma Shri for his work in maize breed-



ILLUSTRATION: ROHINIT PHORE

**VIVIAN FERNANDES**

The author blogs at [www.smartindianagriculture.in](http://www.smartindianagriculture.in)



● **CHLOROPHILE**

## Has Punjab lost affinity for agricultural research?

In the last 10 years, there has been no significant representation from Punjab—India's first Green Revolution state—to the Agricultural Research Service, nor have students from Punjab been well-represented at central agricultural research institutes. Punjab Agricultural University, however, says that local students either stay within the state or go abroad

ing, says, "Punjab students do not want to move out of Punjab. They say, 'PAU is top-ranked, so why move out?'"

He cited students going to foreign countries for higher studies after BSc and MSc as another reason. A third reason was the large number of agricultural graduates recruited by the government in the last two years as agricultural and horticultural development officers. A substantial number of students, mostly from rural backgrounds, prefer to earn rather than learn further.

The PAU was set up in 1962 on the model of the land-grant universities of the US. It had a tie-up with the Ohio State University. It has done pioneering work in wheat, rice, cotton and mustard.

"The top-cotton are going for studies outside India," says Navtej Singh Bains, PAU's director of Research, about the university's students. They prefer to go to the US, Australia and Germany. A few agricultural postgraduates also go to Canada and the UK for higher studies.

The perception that Punjab students were shunning agricultural sciences is not right, Bains asserts. "The intake of students is much higher now than at the time before," he says, because of the proliferation of agricultural colleges and universities. Punjab has two of them. The PAU is getting more students from other north Indian states for its postgraduate and doctoral programmes, Bains adds.

A reason for the low number of Punjab students in IARI's doctoral programmes, according to Bains, may be their focus on research rather than on academics. Students from other states were competitively engaged in bagging fellowships, he says.

Interestingly, the discipline with the most number of candidates registering, appearing and qualifying for the NET is agricultural biotechnology. The 948 candidates who qualified last year were from the 4,829 who appeared for the test and the 6,897 candidates who registered for it. This is a huge waste of money, time, effort and talent, because there seems to be no future for them in India. The private sector is reducing its investment in India in agricultural biotechnology research because no genetically-modified crop apart from Bt cotton has been approved for cultivation in India in the past 17 years. There is strong opposition to the technology from across political parties, including the ruling party, but this is not reflected in state-funded agricultural biotechnology research programmes.

Demand for teaching and research staff in this discipline has been the highest in the 10 years to 2018, as evidenced by the numbers who appeared for the test (26,558) and qualified (3,474).

"*Sadak para aana ho tohi* (if you want to be on the streets) start a research department in agri-biotechnology," says SK Rao, vice-chancellor of the Rajmata Vijayaraje Scindia Krishi Vishwavidyalaya in Gwalior. Rao is a chickpea breeder who is known for his work in setting up a seed production system in Madhya Pradesh while he was at the Jawaharlal Nehru Krishi Vishwavidyalaya in Jabalpur. "I discourage my students to opt for biotechnology."

Agricultural entomology, fruit sciences, plant pathology, vegetable sciences, genetics & plant breeding, agricultural microbiology, plant physiology, agronomy, and land and water management engineering also saw interest from significant numbers of candidates who appeared for the NET last year.

In food technology, of the 1,793 candidates who appeared for the test, only two qualified. If the government is serious about food processing to reduce waste, add value and also mop up excess supply in the market (to firm up prices for farmers), pedagogy in this discipline must improve. This can be said of all the disciplines because the share of those qualifying from among those who appeared for the test between 2008 and 2018 has never exceeded a quarter. It was the lowest in 2012, at 8%. Last year, 17% of those who appeared got qualified.

The performance of women has been steadily improving over the past years, from 32% selected who qualified the NET in 2013 to 49% last year.

## Towards better audit quality

**JAMIL KHATRI & S SETHURAMAN**

Authors are partners with BSR & Co

**P**URSUANT TO recommendations of Kotak Committee, SEBI amended Regulation 33 of the SEBI Listing Obligations and Disclosure Requirements by requiring that "the statutory auditor of a listed entity shall undertake a limited review of the audit of all the entities/companies whose accounts are to be consolidated with the listed entity as per AS 21 in accordance with the guidelines issued by the Board on this matter." This change was intended to ensure that, in relation to financial statements of subsidiaries and associates (referred to as 'components') that may be audited by other auditors, the principal auditor (auditor of the parent company) has exercised appropriate diligence before concluding that reliance can be placed on the work of such other auditors.

Globally, most jurisdictions require the principal auditor to perform certain minimum procedures that would enable the auditor to either assume responsibility for the work done by such component auditors (for example, International Standards on Auditing), or to ensure auditor obtains additional comfort before making a reference to the other auditor in the main report (for example, US Auditing Standards).

While the SEBI amendment was a step in the right direction, there was lack of clarity on the level of procedures to be performed by the principal auditor since the term 'limited review of the audit' was subject to multiple interpretations. Also, it was unclear how this requirement was aligned to existing guidance for auditors included in Standard on Auditing SA 600 'Using the work of Another Auditor' (SA 600) and principles set out in the Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) issued by the ICAI (GN on Audit of CFS). SEBI has now issued guidelines to provide clarity on the procedures to be performed by principal auditors to meet the requirements of the amended Regulation 33. The guidelines also provide updated formats of reports to be issued by the principal auditor.

The procedures are intended to enable the principal auditor to obtain sufficient audit evidence to ensure that the work of the other auditor is adequate for principal auditor's purposes. These cover aspects relating to determination of the scope of work in the context of audit/review of consolidated financial statements, addressing significant findings of the other auditor and related reporting considerations. The guidelines set out key matters that may be included in audit or review instructions given by the principal auditor to other auditor. Such instructions pro-

vide a structure to the communication between the principal auditor and the other auditor, and seek to cover ethical and independence considerations, timelines for reporting, compliance with laws and regulations, listing of uncorrected misstatements, and other matters relevant to the audit. The updated report formats specifically require the principal auditor to assert that audit/review of components has been performed by the auditor of the component, and that the principal auditor has performed the procedures under the guidelines, while relying upon the work of the component auditor. Such specific reference to the guidelines and procedures in the report of the principal auditor seeks to reinforce the diligence that needs to be exercised by the principal auditor to comply with SA 600 and GN on Audit of CFS.

The guidelines acknowledge the exclusion of audit/review of certain components by the parent auditor that may not be material in the context of consolidated financial statements. The principal auditor is required to determine 'significant components' and 'non-significant components' to develop an overall audit/review plan. Such determination should be made by the principal auditor based upon their understanding of the risks associated with consolidated financial statements, materiality and exercise of professional judgement. As a minimum, significant components selected by the principal auditor would represent those components that together with the parent company would, in the aggregate, represent at least 80% each of the consolidated revenue, assets and profits.

The new SEBI guidelines, along with revised formats of audit reports, will sharpen the focus on responsibilities of the principal auditor enshrined in SA 600 and GN on Audit of CFS. This will improve overall audit quality and governance environment. The guidelines may result in change in practice for principal auditors in terms of performing prescribed procedures, and for component auditors in terms of more detailed reporting to principal auditors. Companies and auditors need to consider the impact of the guidelines on the audit, and plan for any changes that may be required.

**The new guidelines with revised formats of audit reports, will sharpen focus on responsibilities of principal auditor**

**IF EVER THERE WAS** a beautiful word in Indian polity, it shall be none other than 'poverty'. Existence of poverty, the necessary evil, ensured the Congress and various regional parties win elections after elections through rhetoric, albeit repeatedly but in different forms, and finding a page on their election manifestos. Did any of the ideologically opposite previous dispensations ever knocked the door of the poor man for eliminating the poverty surrounding him and subsequent economic engagement.

Poverty was around 66% when the British left India, and the population during the time was 330 million. By 2011-12, the poverty level has been reduced to 29.5%, or 363 million people in absolute terms. More number of people lived in poverty in 2011-12 than the population of India during Independence.

There are multiple definitions on poverty from academicians, economists, governmental and international agencies. The one from the UN Committee on Economic, Social and Cultural Rights is comprehensive. It defines poverty as a human condition characterised by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights. Fortunately, all the definitions on poverty converge on upholding human rights.

A compassionate Narendra Modi set forth his journey of comprehensive devel-

## PEAS for the poor

The government has provided shelter, sanitation, standard of living, social security, sustainable economic engagement. These elements form the poverty-eliminating architecture and sustainable strategy (PEAS)

**SANDEEP VEMPATI**

The author is attached to Sanjay Paswan, ex-Union-MoS HRD. Views are personal

opment of the poor beginning with a call for providing the unbanked on August 15, 2014—popularly known as the Pradhan Mantri Jan Dhan Yojana (PMJDY). So far, 344.3 million PMJDY accounts have been opened along with inbuilt accidental cover of ₹1 lakh and a life cover of ₹30,000. Significant reduction in percentage of zero balance and inoperative accounts and increase in average balance is a testimony to its intent—financial inclusion as a precursor to poverty elimination.

The poor have the first charge on the exchequer and right to receive penny for penny transferred. The Modi government accomplished this through direct benefit transfer linking bank accounts with Aadhaar. Thus, fake beneficiaries, middlemen eliminated and ₹90,000 crore saved. On a

parallel track, 1.25 crore houses were built for the poor in comparison to 25 lakh houses in the last four years of the UPA. Moving from shelter to sanitation, 9 crore toilets improved the rural sanitation cover from a mere 40% in 2014 to 98%.

Adequate standard of living was ensured to the rural poor—power through 100% rural electrification and Saubhagya scheme, subsidised LED bulbs through Ujala Yojana and free LPG connections under Ujjwala Yojana. And their physical connectedness greatly improved through the Pradhan Mantri Gram Sadak Yojana.

The National Food Security Act was implemented in all states by 2016 and this government allocated ₹6,76,868 crore vis-a-vis ₹3,72,109 crore during UPA-2. The MGNREGA, through higher bud-



getary allocations, efficient implementation and timely payments, ensured the poor could enforce their right to work and receive wages. Fasal Bima, procurement operations under 1.5 times the cost) and ₹6,000 cash transfer tackled the poverty prevailing in agriculture.

Economic transformation is deemed to be meaningful if it uplifts people out of poverty and creates an environment for sustained economic engagement, while preventing people slipping into economic poverty. For sustained economic engagement, either starting an enterprise must be encouraged or self-employment must be fostered through skill training or suitable employment opportunities must be created. Creating a large number of jobs, especially in secondary and tertiary sec-

tors, was a challenge to the government, more so after inheriting harsh economic realities from the UPA, gloomy global economic scenario and grim private capex. The government launched the Pradhan Mantri Mudra Yojana for funding the unfunded towards enterprise creation and consequent generation of jobs. More than 4 crore jobs have been created under it. The scheme's success assumes significance given that gross bad loans touched as high as 11.5% in March 2018 as a result of RBI initiating AQR in 2015 (reclassification of previously restructured loans as NPA).

Further, 10.65 lakh self-employed jobs through skill development under the Prime Minister Kaushal Vikas Yojana, 14.75 lakh jobs under the Pradhan Mantri Employment Generation Programme, 8.73 lakh IT sector jobs and 16.71 lakh jobs due to schemes and vacancies from various ministries have been generated, totalling 601.32 lakh jobs since 2014-15.

A single percentage point rise in GDP per capita can lift about 3 million Indians out of poverty. It is to be noted that out of pocket expenditure for healthcare in India is over 60%, which leads to nearly 6 million families slipping into poverty. Having realised that healthcare expenditure may play the spoilsport in GDP growth for economic transformation, Modi launched Ayushman Bharat—the world's largest health insurance scheme—in September 2018. It aims to cover over 10 crore vulnerable families for providing quality secondary and tertiary healthcare cover up to

₹5 lakh per family per year without any cap on family size and age—17.22 lakh poor have benefited from this scheme. Prior to this launch, the government reinvented a near dysfunctional Pradhan Mantri Bhartiya Janaushadhi Pariyojana from the UPA—availability of affordable quality medicines for the poor and the disadvantaged. Currently, 5,001 PMBJP kendras are functional in 651 districts and its product basket covers more than 800 medicines and 154 surgicals and consumables.

The government also introduced comprehensive social security schemes—the Pradhan Mantri Suraksha Bima Yojana for accidental death, Pradhan Mantri Jeevan Jyoti Bima Yojana for life cover, Pradhan Mantri Shram Yogi Mandhan (pension) for poor labourers from unorganised sector, Atal Pension Yojana or National Pension System for the poor from other sectors.

According to a study published in Brookings Future Development blog, India is no longer home to the largest number of poor, only 3% Indians shall remain poor in 2022 and extreme poverty could be eliminated by 2030. The reasons are the aforementioned measures along with the forecast GDP growth of 7-8%.

The government has provided shelter and sanitation, standard of living, social security and sustainable economic engagement. These elements form the poverty-eliminating architecture and sustainable strategy (PEAS), driving the poor man's accession into a progressive state from a poverty-stricken one.