OPPORTUNITIES AND CHALLENGES OF IASS/IFRSS IMPLEMENTATION WITH REGARD TO CORPORATE GOVERNANCE IN INDIA

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ABSTRACT

Corporate governance is indispensable in resilient and vibrant capital market and is an important instrument for investor protection. The world is demanding greater corporate transparency; investor wants access to more accurate and relevant information about companies, transition, markets, regulations and risks. Corporate governance is the process that aims to allocate corporate recourses in such a manner that value of stakeholders, i.e., shareholders, investor, employees, customers, suppliers, the environment and the community is maximized. International Financial Reporting Standards (IFRSs) are designed as a common global language for business affairs and represents assets of Generally Accepted Accounting Practices (GAAPs) used by companies to prepare financial statements. Through this paper, an attempt has been made to highlight the process of convergence with IFRSs in India. The degree of convergence of local GAAPs to IFRS and various opportunities and challenges of IFRSs implementation with regard to corporate governance in India. The study reveals that the corporate governance system, both at the country level, at firm level has a positive influence on accounting conversation besides other factors of the economy.

Keywords: Corporate Governance, Generally Accepted Accounting Practices, International Financial Reporting Standards

INTRODUCTION

The essence of good corporate governance is a framework, which ensures effective accountability of management towards all its stakeholders. Corporate governance is indispensable in resilient and vibrant capital market and is an important instrument for investor protection. The government recognizes the importance of financial reporting in providing essential financial information about the company to its shareholders and other stakeholders, as an integral and important part of good governance. Such information needs to be reliable, free from bias and should enable comparison based on common benchmarks. An appropriate, financial reporting system is the form of accounting standards that incorporates sound accounting principles and reflect a true picture of the financial health of the company which ensuring legally enforceable accountability.

Shankaraiah and Rao In any country, awareness and competitiveness among the corporations would be strengthened when they understand each other and compare their performance. A Financial Reporting system supported by governance, high quality standards, and firm regulatory framework is the key to economic development. The corporate management would also demand greater transparency and disclosure internationally recognized sound corporate practices. The Institute of Chartered Accountant of India (ICAI) as the accounting standards-formulating body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. As the world continues to globalize, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRSs) has increased significantly. Adoption of IFRS, directly affect the corporate management, which improves the quality of accounting, reporting because of IFRS is a single set of accounting practice. All levels of regulatory authorities realize that they have two responsibilities to give the quality information for good corporate governance.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards (IFRSs) are a common global language, which is gaining momentum across the world. IFRS is principles–based Accounting standards. Mira and Vial (2009) IFRS is an accounting structure, which establishes the measurement, recognition, presentation and disclosure requirement of the financial transactions, which are reflected in financial statements. In 2001, International Accounting Standards Board (IASB) introduced IFRSs to provide a single set of high quality, understandable, transparent, and comparable financial statements in the public interest. International Financial Reporting Standards (IFRSs) represent the most commonly accepted global accounting framework for business affairs and represents assets of Generally Accepted Accounting Practices (GAAPs) used by companies to prepare financial statements more than 100 countries. The capital markets, production and traders are expanding their business globally and to access the funds internationally. Every country has own set of accounting practices which create confusion for the same financial transaction. Thus, the solution of this multiple transaction has only been the degree of convergence of Indian Generally Accepted Accounting Practices (GAAP) with IFRS.

REVIEW OF LITERATURE

Forest, Gaeremynck & Thornton (2013) have found that stronger governance firms engage in more transparent IFRS restatements, provide better quality and comply with IFRS more rigorously than weaker governance firms comply. Okpala (2012) has highlighted that the adoption of IFRS is the right step in the right direction, although there are many issues and challenges facing the implementation the benefits outweigh the challenge. Jain (2011) concluded that IFRS adoption in India is inevitable and the government and accounting body are taking every step for a smooth transition process. He concluded that self-regulation. Awareness and proper training are required for smooth and accurate IFRS adoption in India. Wardhani (2010) has examined the degree of convergence system effect on the accounting standards and governance system. Convergence of local GAAP to IFRS has improved the earning quality and is improving the corporate governance system of a country.

OBJECTIVES OF STUDY

- To study the process of IFRSs in India.
- To highlight the opportunities and challenges of IFRSs implementation with regard to corporate governance.

RESEARCH METHODOLOGY

The study is based on secondary data. The secondary data has been collected from various books, journals, internet, magazines, newspapers and reports. The study has revealed the facts that the adoption of IFRS in Indian Accounting standards has an effect on corporate governance.

CONVERGENCE OF INDIAN GAAP WITH IFRS

In India, the economic environment paradigm shift during the last few years, which increase the attention towards the transparent accounting standards in the financial reporting given by corporate. The accounting standards are formulated with a view to harmonize different accounting policies and reduce the accounting alternatives to preparing the financial statements.

The Institute of Chartered Accountants of India (ICAI) is the apex body of working for the development, adoption and improvement of Accounting Standards. In 1973, recognizing the need for international harmonization of accounting standards in financial reporting the International Accounting Standards Committee was established. ICAI became one of the members of IASC from 1974. IASC promotes the International

Accounting Standards (IASs) across the world for acceptance and harmonize the accounting standards.

IASC reconstituted as the International Accounting Standards Board (IASB) and IASs has renamed which called IFRSs. IFRSs are issued by IASB. The objective of the IASB was to develop, in the public interest, accounting standards that would be acceptable around the world in order to improve financial reporting internationally. Some countries adopt International Accounting Standards (IASs/IFRSs) without any modification but in India, September 1976, ICAI to set up Accounting Standards Board (ASB) and decide not to follow the standards issued by the IASC. ASB was constituted in April 1977.The objective of ASB to formulate national accounting standards and establishing accounting standards in India.

IMPORTANT MILESTONES

1977	ASB constituted
1987	Mandatory status of AS 4 & AS 5 w.e.f. January 1, 1987.
1991	Mandatory status of AS 1, AS 7, AS 8, AS 9, AS 10 and AS 11 w.e.f April 1,1991.
1998	Legal recognition to ASs under companies act 1956 u/s 211 (3c)
2006	MCA notified ASs under companies' rules 2006. ASB decided to constitute a Task Force to develop a concept paper on convergence with IFRS.
2007	ASB & council accepted concept paper on converge with IFRS from April 1, 2011.
2010	The ASB issued a roadmap for convergence with IFRS from April1, 2011 in a phased manner.
2011	35 Ind ASs formulated by ICAI and cleared by NACAS
2012	ASB is revising and issuing new Ind ASs & revising existing notified ASs.

MEANING OF CONVERGENCE

Convergence means to design and maintain the national accounting standards in such a way that financial statements are prepared in accordance with the national accounting standards to draw unreserved statement of compliance with IFRS.

DIFFERENCE BETWEEN CONVERGENCE AND ADOPTION

Adoption would mean full- fledged use of IFRS as issued by the IASB by Indian companies. Convergence means that would over time continue working together to develop high quality compatible accounting standards.

PROCESS OF IFRSS IN INDIA

- The ICAI, being a member of the International Federation of Accountants (IFAC), tries to integrate the business environment of India to possible extent with IFRS.As the world globalized, India make a formal strategy for convergence with IFRS with the objective to harmonies' with globally accepted accounting standards for developing high quality standards, transparent and comparable financial statements.
- ASB held its 127th meeting on 11 August 2006 decided to develop on convergence with IFRSs.
- ASB considered at its 133rd meeting on June 12-13, 2007, the concept paper prepared by the Task Force and accepted with effect from 1 April 2011, in respect various public interest entities.
- ICAI in 2007 on its 269th meeting at Mumbai accepted convergence ASB with IFRS.
- In 2009, the G-20 made a commitment India that is a member country, Inter-alia, agreed to achieve a single set of high quality and complete their convergence project by June 2011.The ministry of corporate affairs, government of India also supported the initiative of ICAI to convergence, which stated that IFRS converged with Indian Accounting Standards will be implemented in a phased manner from 1st April, 2011 and MCA prepare to a roadmap for convergence with a constitution of core group representatives

from regulatory bodies (SEBI, RBI, IRDA, PFRDA, C&AG) Ministry of Finance (CBDT) ICAI chambers & Industry bodies and experts. The core group is supported by two sub-groups (sub-group one which is the Technical group and sub-group two which is CFOs, group) headed by Shri Y.H Malegam, chairman, NACAS and Shri Mohandas Rai, Director, Infosys respectively.

NACAS (NATIONAL ADVISORY COMMITTEE ON ACCOUNTING STANDARDS)

The Central Government constituted the National Advisory Committee on Accounting Standards (NACAS) under the Companies Act 1956. NACAS is a body for the exercise of examining Accounting Standards prepared by ICAI and has adopted the international norms established by the IFRS issued by the IASB.

ROADMAP FOR IMPLEMENTATION IND ASS IN INDIA

The ICAI formulated 35 Indian accounting standards (Ind ASs) converged with IFRS applicable on 1 April 2011.

IFRS IN INDIA

Phase I **1 April, 2011**	**Phase II** **1 April, 2013**	**Phase III** **1 April, 2014**
• Companies, which are part of NSE Nifty 50. • Companies, which are part of BSE Sensex 30. • Companies whose shares or other securities are listed on stock exchanges outside India. • Companies whether listed or not, which have a net worth in excess of Rs.1, 000 crore.	The companies, whether are listed or not, having a net worth exceeding Rs.500 crore but not exceeding Rs. 1,000 crore.	Listed companies, which have a net worth Rs.500 crore or less.

**The companies that will not be following the converged standards are:*

- Non-listed companies, which have a net worth of Rs.500 crore or less.
- Small and medium companies (SMCs).

IMPLEMENTATION OF IND ASS: DAWN IN NEW ERA

On 16 February 2015, the Ministry of Corporate Affairs (MCA) notified companies' rules, 2015. The rules specify the Indian Accounting Standards (Ind ASs) applicable to certain class of companies and date of adoption by such companies are as under:

VOLUNTARY ADOPTION

Companies may voluntarily adopt Ind AS for financial statements for accounting periods on or after 1 April 2015, with the comparatives for the period ending 31 March or thereafter. Once a company adopts the Ind AS, it will be required to follow the same for all subsequent financial statements.

MANDATORY ADOPTION

For the accounting periods beginning on or after 1 April 2016	**For the accounting periods beginning on or after 1 April 2017**
• Companies whose equity and/or debt securities are listed and in the process of listing in the any stock exchange in the India or outside India and having a net worth of Rs.500 crore or more. • Unlisted companies having a net worth of Rs.500 crore or more.	• Listed companies having net worth of less than Rs.500 crore. • Unlisted companies having a net worth of Rs.250 crore or more but less than Rs.500 crore.

• Holding, subsidiary, • Joint venture or associate companies of the listed and unlisted companies covered above. • Comparatives for these financial statements will be periods ending 31 march 2016 or thereafter	• Holding, subsidiary, joint venture, or associate companies of the listed and unlisted companies covered above • Comparatives for these financial statements will be periods ending 31 march 2017 or thereafter.

The roadmap will not be applicable to

- Companies whose securities are listed or are in the process of listing on the SME exchanges.
- Companies not covered by roadmap in the Mandatory Adoption.
- Insurance companies, banking companies and non-banking finance company.

INFLUENCE OF CORPORATE GOVERNANCE ON ACCOUNTING COVERSATION

The financial system & legal system of a country influenced by the corporate governance corporate governance system ensures the stakeholders for effectiveness of accounting reporting. Companies are adopting the IFRS for preparations of financial statements, which lead to good governance and corporate will aim, provide information that indicates the real economic performance. IFRS are principle based accounting standards, which is improving the quality of financial statements. For better legal environment in country, implement the higher principles of corporate governance. In a country, when firms operate with good legal system, then corporate governance system is improving the quality of earnings. The legal system refers to the investor protection, which are directly effect on quality of earnings in a country.

OPPORTUNITIES AND CHALLENGES OF IFRS IMPLEMENTATION WITH REGARD TO CORPORATE GOVERNANCE

The corporate Governance framework is affected on the accounting standards in the financial reporting and determines the effectiveness of the accounting standards. Convergence with IFRS, The corporate governance system is more transparent, reliable, protectable and equitable for all shareholders. IFRS is a single set of a common language for financial statements all over the world, which tend to be principle-based standards. The Corporate governance will be able to contribute in improving the quality of financial reporting with adoption of IFRS.IFRS help to achieve the opportunities of global comparability & accessibility of capital market, investor confidence, listing of cross border and better financial for regulators.

GLOBAL COMPARABILITY

The convergence to IFRS, Indian firms can compare two company financial statements very easily. All the companies prepare their financial statements under a common set of accounting standards, which improve the comparability and quality of financial statements across the world. All the interested parties in the business can easily compare two financial statements in following same reporting procedure. Indian companies provide information, based on comparison of financial statements to global investor for raising funds from overseas capital market.

COST OF CAPITAL

The movement with convergence, in the interest of, the Indian Industry is able to raise capital from foreign markets at lower cost. Due to Adoption of IFRS, the cost of preparation of financial statements has reduced and it creates confidence in the minds of foreign investor that their financial statements comply with Globally Accepted Accounting Standards.

THE ACCOUNTING PROFESSIONALS

Adoption of IFRS, offers the opportunities of the accounting professionals they can able to sell their services across the world as an expert if same accounting practices prevail throughout the world.

INVESTOR

The investor who wishes to invest outside their own country can be made investment in another country very confident after the convergence with IFRS. The investors always choose that company for investment, which prepares their financial statements under global acceptance, based standards. An Investor can take information that is more reliable, relevant and comparable across the jurisdictions.

VOIDING OF MULTIPLE REPORTING

Adoption of IFRS ensures the voiding of Multiple Reporting standards. In India, the largest business house has registered in India and offshore, now; these firms are following a single set of financial statements.

LISTING OF CROSS BORDER

Indian firms expand their business across the world and raising funds for expansion from cross-country capital markets. Indian firms are getting listed in European and American capital markets and their listing, help to provide funds for the expansion plan. Before, the adoption of IFRS, Indian firms if get listed in foreign capital markets then those firms prepare their financial statements in accordance with every foreign country GAAP, which will be very costly and will create confusion for presentation, comparability and understandability of financial statements.

CHALLENGES IN THE PROCESS OF IFRS IN INDIA

In India, accounting professionals and across the world have enjoyed the various benefits of adopting the IFRS, but in India is a difficult task of adoption of IFRS .Few of these have been listed:

TRAINING AND AWARENESS

Professional accountants are responsible for an easy adoption process of IFRS. India has lack of training facilities to train the professionals which carry out this task of adoption of IFRS in India. IFRS is totally, different set of accounting standards, which is difficult to understand in India. The stakeholders like firms, banks, stock exchanges, etc. are not aware of these reporting standards.

LEGAL AND REGULATORY FRAMEWORK

Mainly in India, the companies act 1956 and Indian Generally Accepted Accounting Principles (GAAP) are govern the accounting practice, but existing law, Securities Exchange Board of India Regulation, Indian Banking Laws &Regulations, the Foreign Exchange Management Act also Provide the guidelines for preparation of financial statements but IFRS does not appreciate overriding of provision of these laws. So, here a need to make necessary amendments for easy transition to IFRS.

TAXATION

The financial statement items will get affected by adopting IFRS, making tax liabilities undergoing a change. In present scenario, there is no recognition of accounting standards in Indian tax law. Major challenges faced by Indian lawmakers to amend tax laws, which will help in authorities to recognize duplicity by the IFRS compliant financial statements.

FAIR VALUE MEASUREMENT

IFRS are using the fair value to measure most of the items in financial statements. It creates a lot of volatility and subjectivity in the financial statements. The adjustment to fair value effect the profit & loss statement and balance sheet. In India, financial statement prepared based on historical cost, and then it is too tough shifting to fair value accounting.

REPORTING SYSTEM

The existing reporting system is amending to go with the reporting requirements of IFRS. Various reporting system and act to govern the financial system in India, but not as the principle based standards provided by the IFRS. Indian GAAP should be to prepare in the way for capture new requirement for IFRS.

CONCLUSION

The quality of the financial reporting heavily relied on effective corporate governance. The convergences of Indian GAAP to IFRS are improving the transparency, comparability and information quality of the financial statement in a country. Indian regulators and lawmakers face many difficulties in implementation of IFRS .The regulators and lawmakers have been inaugurating to amend the existing law for smooth transition of convergence with IFRS. IFRS is worldwide got recognition for their acceptance and thus it is creating numerous opportunities for the companies and global investor to access in foreign capital market. The corporate governance has directly affected the accounting conversation at the country level and at the firm level. The Corporate governance system improves the quality of earning of investor protection. Therefore, in forthcoming years MCA seeks to provide better platform and podium to uplift IFRS for its smooth transition.

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