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AUDITORS OPINION TOWARDS PROBLEM OF INTRODUCTION OF IFRS IN INDIA

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ABSTRACT

Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. More than 100 countries have converged or recognized the police of convergence with the IFRS. IFRS is perceived as a high quality accounting standard, compared to most local accounting standards, which can help to foster increased comparability of financial statements by investors. Globalization, increased border-listing, attraction of foreign investment and aids, and other institutional factors have been the motivating factors for IFRS adoption. Though IFRS promises a lot of benefits for financial reporting by adopters, there are many challenges and obstacles which must be overcome. That is why, this paper attempt to study the auditor's opinion towards problems of introduction of IFRS in India.

Key words: *Auditors, IFRS, India, Indian Accounting Standards, problems.*

INTRODUCTION

Accounting as a "Language of Business" communicates the financial results and health of an enterprise to various interested parties by means of periodical financial statements. Like any other language accounting should have its grammar and these sets of rules are Accounting Standards. The objective of Accounting Standards is three fold. Firstly, they help to standardize the diverse accounting policies and eliminate the incomparability of financial statements within an entity and across entities. Secondly, they facilitate the presentation of high quality, transparent and comparable information in financial statements. Thirdly, they reduce to accounting alternatives and thereby eliminate the element of subjectivity in financial statements.

India has a long tradition of framing accounting standards in the country. The Institute of Chartered Accountants of India (ICAI) set up under an act of Parliament had constituted an Accounting Standards Board (ASB) in April 1977 and the ASB has been framing the Indian Accounting Standards for the last three decades.

International financial reporting standards

Globalization of financial markets has meant an increased focus on international standards in accounting and has intensified efforts towards a single set of high quality, globally acceptable set of accounting standards. Financial statements prepared in different countries according to different set of rules, mean numerous national sets of standards, each with its own set of interpretation about a similar transaction, making it difficult to compare, analyze and interpret financial statements across nations.

A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. Needless to mention, internationally accepted accounting standards play a major role in this entire process.

It is in this context that the role of an independent, global standard-setting body such as the International Accounting Standards Board (IASB) is of critical importance. The principal objectives of the IASB are:

a. to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB;

b. to promote the use and rigorous application of those standards;

c. to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and

d. to bring about convergence of national accounting standards and IFRSs to high quality solutions.

Converging to global accounting standards i.e. IFRS facilitates comparability between enterprises operating in different jurisdictions. Thus, global accounting standards would remove a frictional element to capital flows and lead to wider and deeper investment in markets. Convergence with IFRS is also in the interest of the industry since compliance with them would be able to create greater confidence in the mind of investors and reduce the cost of raising foreign capital. It is also burdensome and costly for enterprises operating across several countries to comply with a multitude of national accounting standards and convert them to a single standard for group reporting purposes. Convergence would thus help reduce both the cost of capital and cost of compliance for industry.

In pursuit of its objectives, the IASB works in close cooperation with stakeholders around the world, including investors, national standard-setters, regulators, auditors, academics, and others who have an interest in the development of high-quality global standards. Progress toward this goal has been steady. All major economies have established time lines to converge with or adopt IFRSs in the near future and more than hundred countries require or permit the use of IFRSs.

Though Indian Accounting Standards are framed based on standards issued by the IASB, there are certain differences due to the legal and regulatory environment prevailing in the country, conceptual issues and the economic environment. In 2007 the ICAI decided that India should converge towards IFRS in a definite time frame in the wake of developments taking place in other major jurisdictions which had set up time schedules for migrating towards IFRS.

IFRS issued yet

There are fifteen IFRS yet to be issued by IASB up to 2012. These were converted as Indian Accounting Standards. Table 1 shows the list of those standards.

Table .1: IFRS and Converged Indian Accounting Standard

S. No.	IFRS	Details
1.	IFRS 1	First time Adoption of International Financial Reporting Standards
2.	IFRS 2	Share-based Payment
3.	IFRS 3	Business Combinations
4.	IFRS 4	Insurance Contracts
5.	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
6.	IFRS 6	Exploration for and Evaluation of Mineral Resources
7.	IFRS 7	Financial Instruments: Disclosures
8.	IFRS 8	Operating Segments
9.	IFRS 9	Financial Instruments
10.	IFRS 10	Consolidated Financial Statements
11.	IFRS 11	Joint Arrangements
12.	IFRS 12	Disclosure of Interests in Other Entities
13.	IFRS 13	Fair Value Measurement
14.	IFRS 14	Regulatory Deferral Accounts
15.	IFRS 15	Revenue from contracts.
16.	IFRS 16	Leases

Source: Ministry of Corporate Affairs, website: http://www.mca.gov.in /Ministry/accounting_standards.html.

STATEMENT OF THE PROBLEM

"IFRS poses a great challenge to the drafters of financial statements and auditors". Globalization has helped Indian business look for offshore capital. This necessitated Indian companies desirous of looking for foreign capital to report their accounting procedures in the GAAP of the investing Country. The different disclosure requirement for listing purpose has hindered the free flow of Capital and made comparison of financial statements almost impossible.

The International Organization of Securities Commission has initiated a movement to harmonies diverse disclosure practice. This resulted in a uniform global reporting and disclosure practice called the IFRS. Policymakers in India have realized the need to follow IFRS. This poses a great challenge to the drafters of financial statements and also to auditors. There is an urgent need to understand the nuances of IFRS implementation.

REVIEW OF LITERATURE

Muniraju and Ganesh (2015) describes that the companies will find comfort in using accounting standards converged with IFRS if their accountants, auditors, shareholders and other stake holders along with the rating agencies and investment analysts are conversant with such new standards. It is true that during the transition period some problems may have to be faced by any of the aforesaid persons due to lack of adequate knowledge and experience. But such problems can be mitigated if the professional institutes and industry groups take initiative for imparting intensive training to the accounting and auditing professionals on the practical implications and applications. **Rajan Kumar (2015)** showed that Small and midsized industry would face challenge in terms of scarcity of expertise. Organizations would need to incur additional cost for modifying their current accounting and procedures for meeting the new disclosures and reporting requirements. Costs would also be incurred for upgrading the IT system. Irrespective of various challenges, adoption of IFRS in India has significantly changed the contents of corporate financial statements. **Abhilasha (2014)** Concluded that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended. Transition is not without difficulties as to the proper implementation process which would require a complete change in formats of accounts, accounting policies and also amendments in existing laws and regulations. Therefore, all parties concerned with financial reporting also need to share the responsibility of international harmonization and convergence. **ManojBansal (2014)** described that in the application process of IFRS the difficulties created between the old standard and IFRS norms. The India and IFRS particularly needs to be made keeping these difficulties in front. The process of convergence is very slow but growth has been made continuously. It can be expected to have a common set of IFRS converged standard with a short period of time. **Gurpreet Kaurand Amit Kumar (2014)** proposed that it is very much clear that conversion from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended because the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are creditable and give the positive Idea that the country is ready for convergence. **Mahender and Jignesh (2013)** recognized that the problems and challenges in adoption of IFRS are the regulatory bodies should ensure changes in existing Companies Act 1956, Taxation, Foreign Exchange Management Act, Banking Laws, and Insurance Act etc. these changes will be beneficial to line up Indian Accounting Practices with IFRS. **Kapoor and Jyoti Ruhela (2013)** expressed that although many countries of the world have been benefitted after implementing IFRS, it is both threat and opportunity for India. Indian companies have various challenges and issues to implement IFRS. The biggest challenge in India is to harmonize IFRS with respect to existing laws and regulations. Proper implementation of IFRS will require substantial amendment in existing laws. **Sanjay (2012)** presented that merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure. Researchers are yet to be carried out to understand actual benefits of adoption of IFRS. **Prithul Chakraborty (2012)** founds that Companies will find comfort in using accounting standards converged with IFRS if their accountants, auditors, shareholders and other stakeholders along with the rating agencies and investment analysts are conversant with such new standards. It is true that during the transition period some problems may have to be faced by any of the aforesaid persons due to lack of adequate knowledge and experience. **Chandrakant and Sachin (2012)** developed that IFRS will substantially reduce the administrative costs of accessing the different capital markets. IFRS will also enhance the ability of investors to make informed cross-border investment decisions. It is true that there are still some obstacles to overcome but the pressure of globalization is so strong that it should not take much time to identify methods to overcome on it. **SriVastava and Sanjay Kumar Patel (2009)** observed that irrespective of various challenges, adoption of IFRS in India has significantly changed the contents of corporate financial statements as a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency. The Indian GAAP has conceptual differences with IFRS and our legal and regulatory frameworks need to be amended to adopt IFRS. The bridge to successful IFRS reporting can be crossed only with strenuous efforts of experienced professionals. **A study conducted by Scott Sims (2009)** reflected that the conversion to IFRS is a fundamental change that may well transform and reshape the industry and New government regulations are sure to be implemented in response to the recent scandals and the faltering financial markets, banking system and economy. Through these challenges, accountants who maintain the highest ethical standards seek to understand the new regulatory environment and embrace the new standards and technologies will be leaders in their field in 2014. Advances in technology and the new codification of GAAP will make accountants jobs easier. **Russell Pavera and JamilKhatri (2008)** said that for many banks, convergence with IFRS is expected to have a significant impact on their financial position and financial performance, directly affecting key parameters such as capital adequacy ratios and the outcomes of valuation metrics that analysts use to measure and evaluate performance. **Stephen (2007)** opined that It requires enlightened leadership and commitment from the accountancy profession, including academics, audit firms, partners, and company accountants, as well as from company finance directors and national regulators and other instrumentalities of Government, such as the European Commission, the SEC, and legislators, to overcome these obstacles and therefore promote genuine international convergence and comparability. **Robert and Donna (2004)** proposed that the most frequently noted impediments were limited national capital markets, insufficient guidance on first-time application of IFRS, the lack of existence of transactions of a specific nature (such as pensions and other post-retirement benefits), the tax-driven nature of national accounting regimes (i.e., the alignment between financial accounting and tax reporting) and the complicated nature of particular standards.

OBJECTIVE OF THE STUDY

- To study the problems of introduction of international financial reporting standards in India.

METHODOLOGY OF THE STUDY:

The present study is based on descriptive in nature using both primary and secondary data. Primary data collected through a structured questionnaire containing different questions relating to problems of introduction of IFRS in India. Stratified Random Sampling method has been adopted for selecting the Sample. The total auditors in Visakhapatnam city are 560. Out of this 300 of them are practicing. Rest of them employed in different organizations. The Auditors are classified in to two groups namely practicing, corporate (employed). The total auditors taken for the study is 340. Out of this 200 of them practicing and 140 auditors are employed in different organization. The SPSS 16.0 version was used to interpret and analyze the data. The techniques of frequencies, percentage, Factor Analysis applied to derive the results.

ANALYSIS AND INTERPRETATIONS:

Table.2: Age of the Respondents

Age (in years)	Frequency	Percent
Below - 30 years	108	31.8
31-40 years	128	37.6
41-50 years	24	7.1
Above -51 years	80	23.5
Total	340	100.0

Table .2 presents age wise distribution of the respondents. Out of the total respondents 37.6% are in the age group of 31-40 years, 31.8% are in the age group of below - 30 years. Further, 23.5 per cent are in the age group of above -51 years and 7.1 per cent are aged 41-50 years.

Table.3: Gender of the Respondents

Gender	Frequency	Percent
Male	276	81.2
Female	64	18.8
Total	340	100.0

Table .3 shows the gender wise distribution of the respondents. It can be observed from the sample that majority of the respondents i.e., 276 out of 340 total respondents representing 81.2 per cent belongs to male category whereas the remaining 64 respondents representing 18.8 per cent belongs to female category.

Table.4: Profession of the Respondents

Profession	Frequency	Percent
Practicing	200	58.8

Employed	140	41.2
Total	340	100.0

Table .4 depicts the Profession wise distribution of the respondents. It is observed that the majority of the selected auditors that is 200 (58.8 per cent) are in the practicing category, 52 (41.2 per cent) of the auditors are employed in different organizations.

Table.5: Experience of the Respondents

Experience	Frequency	Percent
Below - 5 years	158	46.5
6-10 years	64	18.8
11-15 years	23	6.8
16-20 years	9	2.6
21 years and above	86	25.3
Total	340	100.0

Table .5 depicts the Experience wise distribution of the respondents. Out of the total sample 158 respondents 46.5 per cent representing their work experience is below -5 Years followed by sample 86 respondents 25.3 per cent representing their work experience is 21 years and above, whereas 64 respondents 18.8 per cent representing and 23 respondents 6.8 per cent representing their work experience is 6-10 years and above and 11-15 years .

Table. 6: Number of companies currently auditing by the auditors

Number of companies currently auditing by the auditors	Frequency	Percent
Below 5 companies	74	21.8
5 to10 companies	46	13.5
10 to15 companies	26	7.6
15 to 20 companies	10	2.9
Above 20 companies	44	12.9
Not applicable	140	41.2
Total	340	100.0

Table .6 presents number of companies currently auditing by the auditors. It can be noted that 34 (22.7 per cent) respondents are auditing below 5 companies, followed by 27 (18.0 percent) respondents are auditing above 20 companies, whereas 20 (13.3 percent) respondents are auditing 5-10 companies.

FACTOR ANALYSIS FOR AUDITORS OPINION TOWARDS PROBLEMS OF INTRODUCTION OF IFRS IN INDIA

Factor analysis is a statistical procedure used to identify a small number of factors that can be used to represent relationships among sets of interrelated variables. Factor analysis is used to know the contribution of each variable. The method used to get the extractions is the principal component analysis using the Varimax with Kaiser Normalization for Factor rotation.

According to Tabachink & Fidell (1996), the minimum value for a good factor loading analysis is 0.5.

Table 7 presents the KMO and Bartlett's test for the variables of problems of introduction of IFRS in India. The KMO value is 0.766. The obtained chi-square value is significant at the .000 level of significance.

Table. 7: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.766
Bartlett's Test of Sphericity	Approx. Chi-Square	4.716E3
	df	231
	Sig.	.000

The results of the principal factors factor analysis using a Varimax rotation yielded four factors with Eigen values higher than 1.00 that explained 67.342per cent of the variance. Table 7 presents the summary of factor analysis.

The first factor explained 18.246per cent of the variance. Nine items were included in this factor like Absence of academic curriculum, require amendments in existing laws and regulations, lack of proper training and guidance program, complex taxation system, volatility and subjectivity due to fair value, inadequate technical infrastructure, translation and use of Accounting terminology can be confusing, rendering the original intent of the standards incomprehensible and irrelevant, difficult to assess the performance of the entity due to flexibility in fair value. The Factor loadings ranged from 0.787 to 0.563.

The second factor explained 13.405 per cent of the variance. This factor was composed of four items including Lack of awareness and responsiveness about international Accounting practices, Require a fundamental change in mindset of Indian Accountants, Lack of trained Accountants and auditors in IFRS, Absence of academic curriculum. Factor loadings ranged from 0.791 to 0.565.

The third factor explained 12.693 per cent of the variance. The two items included in this factor are the Inconsistency of existing laws and regulatory framework and Convergence of IFRS difficult task for small companies. Factor loadings ranged from 0.726 to 0.556.

The fourth factor explained 12.091 per cent of the variance. six items were included in this factor like Modifications are not to suit the Indian context, High cost for adoption of IFRS, Long time required for adopting IFRS in India, Complex nature of IFRS implementation, Transition problems from rule based Accounting to principles-based Accounting , Need to enhance their information system security. Factor loadings ranged from 0.805 to 0.496.

The fifth factor explained 10.906 per cent of the variance and comprised of two statements that are the Initial transition would be a major challenge and Ambiguity in international standards. Factor loadings ranged from 0.766 to 0.528.

Table .8 Result of Factor analysis - Problems

Factor	Eigen value	% Variance explained	Factor loading	Variables included in the factor
1.	7.898	18.246	.565	Absence of academic curriculum.
			.773	Require amendments in existing laws and regulations.
			.761	Lack of proper training and guidance program.
			.787	Complex taxation system
			.692	Inadequate funds
			.588	Volatility and subjectivity due to fair value.
			.563	Inadequate technical infrasture.
			.739	Translation and use of Accounting terminology can be confusing, rendering the original intent of the standard incomprehensible and irrelevant
			.677	Difficult to assess the performance of the entity due to flexibility in fair value
2.	2.412	13.405	.791	Lack of awareness and responsiveness about international Accounting practices.
			.652	Require a fundamental change in mindset of Indian Accountants
			.720	Lack of trained Accountants and auditors in IFRS
			.565	Absence of academic curriculum.
3.	1.801	12.693	.726	Inconsistency of existing laws and regulatory framework.
			.556	Convergence of IFRS difficult task for small companies
4.	1.408	12.091	.735	Modifications are not to suit the Indian context
			.793	High cost for adoption of IFRS
			.805	Long time required for adopting IFRS in India.
			.496	Complex nature of IFRS implementation
			.629	Transition problems from rule based Accounting

				to principles-based Accounting.
			.676	Need to enhance their information system security.
5.	1.296	10.906	.528	Initial transition would be a major challenge.
			.766	Ambiguity in international standards.

FINDINGS OF THE STUDY:

- The study found that out of the total respondents 37.6% are in the age group of 31-40 years, 31.8% are in the age group of below - 30 years. Further, 23.5 per cent are in the age group of above -51 years and 7.1 per cent are aged 41-50 years.
- It is found from the study that 81.2 per cent of the auditors are males and 18.8 per cent are females.
- It is observed that is 200 (58.8 per cent) are in the practicing category, 52 (41.2 per cent) of the auditors are employed in different organizations.
- The study found that 46.5 per cent of the auditors work experience is below five years. Also 25.3 per cent have work experience is more than 21 years and 18.8 per cent have between 6-10 years.
- It can be noted that 34 (22.7 per cent) respondents are auditing below 5 companies, followed by 27 (18.0 percent) respondents are auditing above 20 companies, whereas 20 (13.3 percent) respondents are auditing 5-10 companies.
- The factor analysis generated five factors from a list of 19 statements.

SUGGESTIONS OF THE STUDY:

- To undertake necessary changes require in rules and regulations of various regulatory bodies, drafted recommendations have been placed against Accounting Standard Board.
- In order to resolve several rigid interpretational issues arising in the implementation of new accounting standards, the ICAI issued thirty interpretations of these standards.
- To provide instance guidance on accounting issues and problems, the ICAI has issued guidance notes.
- To facilitate discussions at seminar, workshops, etc., ICAI has issued background material on newly established accounting standards.
- To help its members, the ICAI council has formed an expert advisory committee to respond the queries from its members.
- The government of our country needs to format a separate committee for IFRS process and feedback.
- There is great need of organizing training sessions for academicians.

- Academicians should use of journals, e-journals or books as much as possible so that they cope up with the challenges of convergence.
- It should be overcome the problem of slow pace of conversion in India.
- The company willing to adopt conversion will require thoughtful communication plan for the board of directors, shareholders and other key stakeholders.

CONCLUSION:

IFRS adoption in India is inevitable. Adoption of IFRS in India has significantly changed this content of corporate financial statements as a result of it will enhance the transparency in the reporting financial statements. So it will be beneficial for the country to cope with the concept of convergence with IFRS from April 2011. Convergence to IFRS is time-consuming, challenging and will require complete support and sponsorship of the Board of Directors/Members of Audit Committee /Senior Management. Given the task and challenges, all entities should ensure that their convergence plans are designed in a manner to achieve the objective of doing it once, but doing it right.

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