Report of The Advisory Group on International Accounting and Auditing

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Executive Summary

The Standing Committee on International Financial Standards and Codes (Chairman: Dr. Y.V.Reddy) constituted the Advisory Group on International Accounting and Auditing (Chairman: Shri Y.H. Malegam) to study the present status of applicability, relevance and compliance in India of the relevant standards and codes of international accounting and auditing standards. This Advisory Group in its Report has reviewed the availability of various accounting standards in India and compared them with those of corresponding International Accounting Standards (IAS). The Report is presented in nine sections. In this Report, the Group examined *inter alia* the basic objectives of Generally Accepted Accounting Principles (GAAP), various accounting standards, the *modus operandi* of the International Accounting Standards Committee (IASC), major differences between the Indian Accounting Standards with those of IAS and a comparative analysis of US GAAP, Indian GAAP and IAS. The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) has so far issued 19 standards which are on par with those of International Standards. In the case of two standards, Guidance Notes have been issued and further work is in progress and in the case of other two standards, it is felt that they are not relevant for India as of now. With regard to 11 other standards issued by IASC, corresponding Indian Accounting Standards are under preparation.

The Group also examined the position of Indian Auditing Standards. The Auditing Practices Committee (APC) of the Institute of Chartered Accountant of India has issued 20 statements on Standard Auditing Practices (SAPs) and four additional statements on auditing. Nine standards are in the process of issuance. In addition a number of guidance notes have been issued. The SAPs are anchored on the corresponding standards issued by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC). IAPC has issued 36 standards and 12 statements.

The Report also discusses about the agenda for future and in particular addresses issues pertaining to bridging the gap between the Indian Accounting Standards and IASC, restructuring the Accounting Standards Board, the need for a single standards setting authority, the need for convergence of corporate and tax laws with various accounting standards and how to position an effective implementation procedure for the accounting standards.

I. Introduction

1. Recent developments in the international financial scene, especially in the aftermath of South-east Asian crisis, compelled us to have a thorough re-look at the international financial architecture. International financial institutions like International Monetary

Fund (IMF), World Bank, Bank for International Settlements (BIS), *etc*, have expressed the need for evolving sound standards based on best international practices in fiscal, financial and accounting areas. The members of G-20 countries have also felt the need for having these standards and also for adopting best transparency practices while adhering to codes. In order to monitor the developments in this regard and also to check the availability of these standards and codes in the Indian financial scene, the Reserve Bank of India constituted a Standing Committee on International Financial Standards and Codes with the following terms of reference:

(a) To identify and monitor developments in global standards and codes being evolved especially in the context of the international developments and discussions as part of the efforts to create a sound International Financial Architecture.

(b) To consider all aspects of applicability of these standards and codes to Indian financial system, and as necessary and desirable, chalk out a road map for aligning India's standards and practices in the light of the evolving international practices.

(c) To periodically review the status and progress in regard to the codes and practices; and

(d) To make available its reports on the above to all concerned organisations in public or private sector.

2. In the first meeting of the Standing Committee, it was felt that there are a number of codes across various sectors and hence there was a need for studying them for their immediate relevance and applicability to the Indian conditions. As the time available was short, the Standing Committee decided to have Advisory Groups in various areas and accordingly appointed ten Advisory Groups of which the Advisory Group on International Accounting and Auditing is one. The broad framework of the working of the Advisory Group would include

(i) To study the present status of applicability, relevance and compliance in India of the relevant standards and codes.

(ii) To review the feasibility of compliance and the time frame within which this can be achieved given the prevailing legal and institutional practices in India.

(iii) To compare the levels of adherence in India, *vis-a-vis*, in industrialised countries and also emerging economies particularly to understand India's position and prioritise actions on some of the more important codes and standards; and

(iv) To chalk out a course of action for achieving the best practices.

3. The Advisory Group held six meetings. The list of members is set out in Annexure I. The Group enjoyed working together in addressing various issues in this endeavour. This

Report is the product of combined efforts of all members. The Group wishes to place on record its sincere appreciation of the outstanding assistance provided by Dr. R. Kannan, Convenor, Shri Dhritidyuti Bose, Co-convenor and Shri Sumanth Cidambi of Infosys Technologies Ltd. in the compilation of data and the preparation of this Report.

4. Three standard setting entities are considered in this report. First, the International Accounting Standards Committee (IASC). The IASC, which was formed in 1973, includes all professional accountancy bodies throughout the world that are members of the International Federation of Accountants (IFAC). Second, the United States' Generally Accepted Accounting Principles (US GAAP) which contain a variety of pronouncements governing the preparation of financial statements in the United States, made by the Financial Accounting Standards Board (FASB), American Institute of Certified Public Accountants (AICPA) and Securities and Exchange Commission (SEC). Third, the Accounting Standards Board (ASB) in India which is a Committee of the Institute of Chartered Accountants of India (ICAI). The ASB includes members from professional, industry and various other segments and government agencies.

II. International Accounting Standards and Harmonisation

a) Generally Accepted Accounting Principles (GAAP) and Accounting Standards

5. General purpose financial statements prepared by the business enterprises communicate the results of the business operations during the financial year and the state of financial affairs as at the end of the financial year. These financial statements are used by the investors, lenders and others in taking their economic and business decisions connected with the dealings with such enterprises. The phrase "Generally Accepted Accounting Principles" (GAAP) is a technical accounting term that encompasses the conventions, rules and procedures necessary to define accepted accounting practices at a particular point in time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure presentations in the financial statements. GAAP are the ground rules for financial reporting. These principles provide the general framework in determining what information is presented in the financial statements and how the information is to be presented. The phrase "GAAP" encompasses the basic objectives of financial reporting as well as numerous broad concepts and many detailed rules.

6. A need for accounting standards arises mainly due to the following factors:-

- First, the financial statements are prepared by drawing an artificial line of cut-off at the year end, even though business continues as an ongoing concern and many transactions come to a logical end. In many transactions, one leg of a transaction may be completed, while the other leg of the same transaction may yet remain to take place. For instance, a questions arises as to whether to value unsold goods at the end of the accounting period at cost or realised value and which cost formula to use, which alternative method to use for evaluating depreciated/ amortised value of fixed assets, how to ascertain a number of assets/liabilities, claims and counter-claims and the correct treatment of uncertainties involved in evaluating a particular transaction. Therefore, the need arises for evolving appropriate accounting policies to deal with these questions.

- Secondly, given the fact that a number of accounting policies may emerge for dealing with the same situation, the need arises for accounting standards to narrow down the choice of accounting policies so that the financial statements are prepared in a common language which is clearly understood and which makes the financial statements prepared by different entities reasonably comparable with one another.

7. Accounting Standards can be described as a vehicle whereby the wisdom and experience of the profession emerges as a consensus in a complex and changing economic and business situation in preference to the views of individual compilers of financial statements. 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 (set of rules) and that is Accounting Standards.

b) Harmonization of Different National Accounting Standards

8. Why do national Accounting Standards in different countries differ? Gertrude Stein once said that a rose, is a rose, is a rose. But for financial statements prepared in different countries, it cannot be said so. Financial statements prepared in one country are often not acceptable in other countries. The reason is that the accounting standards are derived from the process that involves legal, economic, social and cultural considerations. Business practices, legal and fiscal framework, economic and social conditions differ in different countries and these differences impact on national accounting standards. Sometimes, even the basic philosophy and principles adopted in preparing the financial statements differ. For instance,

(i)In some countries while determining accounting treatments, form (legal form) of the transaction is given more importance, while in some countries "substance" of transaction is given more importance.

(ii) In some countries historical cost is considered more relevant, while in some other countries present fair value is considered more relevant for valuating various assets. Thus, in some countries revaluations of assets are permitted, while in other countries revaluations are not permitted.

(iii) In some countries creditors' protection is given priority, while in other countries investors'/shareholders' interest is considered more relevant.

(iv) In some countries corporate, tax and fiscal laws have greater influence on selection of accounting treatment than in others.

(v) Rules regarding treatment of exchange differences, treatment of borrowing costs, depreciation of fixed assets, amortization of intangible assets and valuation of investments differ in different countries.

(vi) As discussed earlier, businesses nowadays are involved in transactions which extend over significant time periods, and which have inherent uncertainties associated with them. As a result, at any accounting date there are often significant transactions which have not been completed, and where the final outcome is uncertain. This means that compilers of financial statements must make estimates about future events in order to apportion costs and revenues to the appropriate financial periods. Thus estimates have to be made about future costs and revenues on long term contracts, on future pension costs, assets lives and on many other matters. These are inherently difficult problems. There are not necessarily only one set of "right" answers and it is therefore not surprising that standard setters in different countries deal with these matters in different ways.

9. Globalisation of trade and commerce has removed the barriers between the different countries. Political boundaries are becoming irrelevant for the flow of business transactions and movement of capital and funds. Information Technology, Developments in Communication facilities and E-Commerce have accelerated the process of

globalisation of trade and commerce. These developments have created an urgent need for harmonization of accounting and auditing standards and practices.

10. The compilers of financial statements are required to issue financial statements in conformity with standards established in their country of origin. At the same time, auditors in reporting on the fairness of presentation of financial statements do so within a national framework of auditing standards.

11. Whilst most involved in the financial reporting process would say that like motherhood, international harmonization of accounting standards is a "good thing" and if achieved it would help in the development of international capital markets, there are many road blocks on the way to its achievement. National standards setters are naturally and indeed by their constitution concerned with and limited to the accounting standards subject to laws of their country. The standard setters have to serve the needs of their nation, and their standards therefore develop out of the economic, legal and cultural history and environment, which differ widely in different countries. There are many possible answers and the task is to find the one that best meets all the competing needs. Many standard setters have more than their hands full dealing with domestic issues.

12. For obvious reasons, no individual country has focussed attention on meeting the needs of providers of finance in other countries – their focus has mainly been on meeting national needs. It is against this background of issuers and auditors operating within national frameworks that the international financial and business community needs to look at the requirements of an increasingly large group – the cross border users of financial statements.

13. Recently, the Asian crisis has raised questions about the quality of accounting and auditing in the affected countries. The absence of transparency, harmonized standards and reliable financial information is a particular issue in respect of developing countries but is also an issue in many of the developed countries. The current position, where there is divergence in accounting standards between countries, impairs the quality and efficiency of capital markets and hampers international trade and commerce and puts obstacles in the path of a globalised economy.

14. In the recent past, International Forum on Accounting Development (IFAD) has been established for raising Reporting and Auditing practices worldwide. Such change requires a major role to be played by many different parties including reporting entities, accounting profession, regulators, Government and investors. Each of these parties must be an active and a willing participant in the analysis of the problems and the implementation of the solutions. It is not merely the question of accounting and reporting standards, but inherent in the vision is a generally accepted framework for corporate

governance, for the accounting and auditing profession, for regulation and for education (to create awareness on the part of all the players including investors).

15. The ultimate objective is that all general-purpose financial statements are prepared using a single worldwide framework using common measurement criteria and fair and comprehensive disclosure. This cannot be achieved overnight and will require significant long-term efforts. The process should include the following steps.

(i) National accounting standards should be at par with International Accounting Standards (IAS) as the benchmark or minimum standards.

(ii) All agencies should cooperate for a strong monitoring and oversight process on the implementation of national accounting standards.

(iii) During the transition period, the financial statements need to be supported by the use of an explanatory paragraph in these statements narrating the differences between national and international standards of accounting.

III. Accounting Standards in India

a) The Existing Standards

16. In India, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) is responsible for setting accounting standards (AS). The ASB comprises members of the Central Council of ICAI as well as certain members from the professional , industry and various other segments and government agencies.

17. The ASB of ICAI has issued 19 accounting standards so far. The list of accounting standards issued is given hereunder.

1.	AS - 1	Disclosure of Accounting Policies
2.	AS – 2	(Revised), Valuation of Inventories
3.	AS – 3	Cash Flows Statements
4.	AS – 4	Contingencies and Events Occurring after the Balance Sheet Date
5.	AS – 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6.	AS – 6	Depreciation Accounting
7.	AS – 7	Accounting for Construction Contracts
8.	AS – 8	Accounting for Research and Development
9.	AS – 9	Revenue Recognition
10.	AS – 10	Accounting for Fixed Assets
11.	AS – 11	Accounting for the Effects of Changes in foreign Exchange Rates
12.	AS – 12	Accounting for Government Grants
13.	AS – 13	Accounting for Investments
14.	AS – 14	Accounting for Amalgamations
15.	AS – 15	Accounting for Retirement Benefits in the Financial Statements of Employers
16.	AS – 16	Borrowing Costs
17.	AS – 17	Segment Reporting
18.	AS – 18	Related Party Disclosures
19.	AS – 19	Leases

18. So far, a duty was cast by ICAI on its members engaged in discharging their attest function to ensure that these accounting standards are followed in the preparation and presentation of financial statements. The Companies Act, 1956, was amended w.e.f. 31st October, 1998 requiring statement on non-compliance, if any, of the specified accounting standards in the financial statements. The amendment also requires auditors of companies to make a specific statement on the compliance of accounting standards in the audited balance sheet and profit and loss account. If there is any non-compliance of accounting standards, the fact and impact thereof are required to be disclosed.

19. The amendment to the Companies Act in 1998, envisages the establishment of a National Advisory Committee on Accounting Standards which will advise the Central Government on the formulation and laying down of accounting policies and accounting standards for adoption by companies. The Committee will consist of a Chairperson who is a person of eminence well versed in accountancy, finance, business administration, business law, economics or similar discipline and representatives of the ICAI, the Cost and Works Institute of India and the Institute of Companies Secretaries of India and of the Central Government, the Reserve Bank, the Comptroller and Auditor General of India, educational institutions, Central Board of Direct Taxes, the Apex Chambers of Commerce and the Securities and Exchange Board of India (SEBI). The Central Government has powers to prescribe, in consultation with the National Advisory Committee, accounting standards to be observed by Companies; and until such standards are prescribed, the accounting standards issued by ICAI are deemed to be prescribed standards.

20. Pursuant to an amendment to the Income Tax Act, 1961 in 1995, it has been provided that the Central Government may notify in the official Gazette from time to time accounting standards to be followed by any class of assesses or in respect of any class of income. Two accounting standards *viz*., (1) Disclosure of Accounting Policies and (2) Disclosure of Prior Period and Extra-Ordinary Items and Changes in accounting policies have been issued. These standards are more or less in conformity with the parallel standards issued by ICAI. After 1997, no other standards have been issued. The main reason advanced for the necessity for the amendment of the Income Tax Act was the belief that the standards issued by ICAI permitted alternative treatment in various situations. ICAI has, as explained later, already initiated action to reduce the alternatives.

21. The Reserve Bank of India (RBI) as a regulatory authority also issues directions to banks and financial institutions as also to Non-Banking Finance Companies (NBFCs) on the manner in which certain accounting matters should be dealt with.

22. Accounting Standards Board of ICAI is engaged in the task of formulating and issuing accounting standards since 1977. The accounting standards issued by ASB of ICAI are primarily based on International Accounting Standards (IAS) issued by International Accounting Standards Committee. Necessary modifications are carried out to suit and adjust to the trade, usage, customs, business and economic conditions and laws prevailing in India. Since several International Accounting Standards (IAS) are revised from time to time particularly on account of “Comparability and Improvement Project” carried out by IASC during 1987 to 1993 to reduce the alternatives granted in IAS, it has become necessary for ASB of ICAI to carry out revisions in Indian Accounting Standards (AS) to conform to the revisions in IAS. This process initiated by

ASB of ICAI is required to be speeded up to reduce the gap with IAS and to meet with the challenge thrown open by the globalization of Indian economy for harmonization with International Accounting Standards.

23. Further, the International Accounting Standards Committee has, as a result of an agreement reached with International Organization of Stock Exchanges (IOSCO) to obtain its recognition for International Accounting Standards, revised a number of standards and brought out new standards.

24. In view of the above developments, ASB of ICAI has initiated actions by forming study groups and issuing exposure drafts for issue of new standards and revised old standards to cope up with the changes in the scenario of IAS. It is imperative that this process is speeded up, in view of rapidly changing global scene of accounting standards and fast developing globalization of Indian trade and commerce.

b) Existing Procedure for formulation of Accounting Standards in India

25. The existing procedure for formulating and issuing accounting standards followed by the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) is as follows: -

- ASB determines the broad areas in which Accounting Standards need to be formulated and the priority with regard to issuance thereof;

- In the preparation of Accounting Standards, ASB is assisted by Study Groups constituted to consider specific subjects. In the formation of Study Groups, provision is made for wide participation by the members of the Institute and others;

- The Board considers the draft as submitted by the study group and finalises the same for issue to all members of the Council of ICAI as well as to the bodies listed below for their comments: -

    - Associated Chambers of Commerce and Industry.
    - Federation of Indian Chambers of Commerce and Industry.
    - Institute of Cost and Works Accountants of India.
    - Standing Conference of Public Enterprises.
    - Institute of Company Secretaries of India.
    - Central Board of Direct Taxes.
    - Department of Company Affairs.
    - Comptroller and Auditor General of India.
    - Reserve Bank of India.
    - Indian Banks' Association.
    - Securities and Exchange Board of India.
    - Confederation of Indian Industries

- ASB holds a meeting with the representatives of specified outside bodies listed above to ascertain their views.

- On the basis of the comments received from the Council members as well as the outside bodies the Board finalises the Exposure Draft and exposes it for public comments: -

    - To all members of the profession through the medium of their Journal.
    - To principal Chambers of Commerce and Industry through direct communication.
    - To all recognised Stock Exchanges through direct communication.
    - To the Institute of Cost & Works Accountants of India through direct communication.
    - To the Institute of Company Secretaries of India through direct communication.
    - To the Department of Company Affairs, Central Board of Direct Taxes and the Comptroller & Auditor General by direct communication.
    - To principal Financial Institutions, Reserve Bank of India, Life Insurance Corporation, General Insurance Corporation, Unit Trust of India and Indian Banks' Association by direct communication.
    - To all Regional Councils and Branches of the ICAI by direct communication.
    - To all Council Members.
    - To Securities and Exchange Board of India by direct communication.

- After taking into account the comments received from various quarters, the draft of the proposed standard is finalised by the Board and submitted to the Council for its consideration.

- The Council of the Institute considers the final draft of the proposed Standard, and if necessary, modifies the same in consultation with ASB.

26. The Accounting Standard on the relevant subject is then issued under the authority of the Council.

27. A flow-chart showing the above stages of accounting standards formulation is given in Annexure II.

IV. International Accounting Standards and US GAAP

a) International Accounting Standards Committee (IASC)

28. The IASC was formed in 1973 through an agreement made by professional accountancy bodies from various countries. Since 1983, IASC's members have included all the professional accountancy bodies that are members of the International Federation of Accountants (IFAC). Many other organizations are now involved in the work of IASC and many countries that are not members of IASC make use of International Accounting Standards. Prior to its reconstitution, as explained later, Institute of Chartered Accountants of India had a nominee on the Board of IASC and it has committed to harmonise Indian Accounting Standards with International Accounting Standards.

29. The objectives of IASC as stated in its constitution are: -

- to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance;

- to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements.

New Structure of IASC: -

30. It has been decided in 1999 to have a new structure for the functioning of IASC. Under the new structure, the IASC has been reorganized as a separate foundation governed by Trustees. The trustees are 19 individuals of diverse geographic and functional backgrounds. The Trustees appoint the members of the Board, SIC (Standards Interpretation Committee) and Standards Advisory Council.

31. The new Board will have fourteen members (12 full time members and 2 part time members). The foremost qualification of Board membership will be technical expertise and the Trustees will exercise their best judgement to ensure that the Board is not dominated by any particular constituency or regional interest. At least 5 Board members will have a background as practicing auditors, at least 3 will have a background in the preparation of financial statements, at least 3 will have a background as users of financial statements and at least one will have an academic background. It is expected that the proposed structure will come into effect shortly.

Comparability and Improvement Project: -

32. In some cases, where International Accounting Standards permit more than one accounting treatment for similar transactions and events, one treatment is designated as the "benchmark treatment" and the other as the "allowed alternative treatment". Such identification of "benchmark treatment" out of two alternatives in various standards was

carried out under “Comparability and Improvement” Project carried out during 1987 to 1993 under which 10 core standards were reviewed and revised.

IOSCO – “Core Standards” Programme and Endorsement

33. The International Organization of Securities Commission (IOSCO) is looking to IASC to provide mutually acceptable International Accounting Standards for use in multinational securities offerings and other international offerings. Already many stock exchanges require or allow foreign issuers to present financial statements in accordance with International Accounting Standards. As a result, a growing number of companies disclose the fact that their financial statements conform to International Accounting Standards.

34. In 1995, IASC agreed with IOSCO to develop a set of “Core Standards” as identified in a list developed by IOSCO in 1993. It was agreed that if the completed Core Standards satisfy IOSCO, it would consider endorsing International Accounting Standards for cross-border capital raising and listing purposes in all global markets. By 1999, IASC completed work on the major projects in the work plan agreed with IOSCO. In October 1998, a declaration by the finance ministers and central bank governors of the G7 countries called on IOSCO “to carry out a timely review” of the core standards.

35. First, IASC’s standards were endorsed by the Board Committee and then, subsequently, by the International Organization of Securities Commission (IOSCO) in June 2000. This endorsement is a recommendation to all IOSCO members to permit incoming multinational issuers to use IASC standards to prepare their financial statements for cross border offerings and listings.

36. The IOSCO endorsement allows the individual regulators to require certain supplementary treatments, namely reconciliation of certain items, certain additional disclosure and specified choice between alternatives in IASC’s standards. IOSCO’s endorsement is considered as a landmark for improved global financial reporting.

37. After the significant announcement of IOSCO’s endorsement of International Accounting Standards, the second was the European Commission’s decision to require listed companies throughout the European Union to use IAS from 2005. The benefit of this decision is both European and International. Second, Fourth and Seventh Directives notwithstanding, the European accounting standards remain highly fragmented. The decision of the European Commission provides critical support to the process of bringing European capital markets together, for which comparable and reliable financial data is the lifeblood.

b) US Generally accepted accounting principles (US GAAP)

38. US GAAP have evolved from experience, reason, custom, usage and to a significant extent, practical necessity. US GAAP are contained in a variety of pronouncements which carry different levels of authority.

39. The principal sources are:

- Pronouncements issued by the board of the Financial Accounting Standards Board (FASB). These include Standards, Interpretations and Concept Statements. Also, the staff of the FASB publishes Technical Bulletins and Implementation Guides (Questions and Answers). In addition, the FASB publishes the consensus views of its Emerging Issues Task Force (EITF).

- Pronouncements of the American Institute of Certified Public Accountants (AICPA). These include Accounting Principles Board (APB), Opinions and Accounting Research Bulletins (ARB) issued by the Committee on Accounting Procedures; and

- Pronouncements of the Securities and Exchange Commission (SEC) which issues regulations and pronouncements which govern entities which issue securities to the public and which are listed on stock exchanges. These include: Regulation S-X (for financial statement requirements); Regulation S-K (for non-financial information requirements); Financial Reporting Releases and Accounting and Auditing Enforcement Releases. The staff also issues Staff Accounting Bulletins.

c) US GAAP and IASC

40. The real battle in the world of accounting is between US GAAP and International Accounting Standards. Many big companies would like to tap US financial markets or benchmark their financials statements with US GAAP. However, one essential factor that goes against US GAAP is that they are the standards of one particular country, and have been developed to meet the needs of the business and investor communities of that country. The US standard setters have no mandate to broaden their consideration to the international scene.

41. The International Accounting Standards provide a solution to the above problem faced by US GAAP. International Accounting Standards are formulated after participation of and interaction with the international community. The recent endorsements of International Accounting Standards by IOSCO and the European Commission have given IAS the vital credibility that they needed. Even SEC in USA has invited comment letters on its Concept Release on International Accounting Standards and proposals to recognize financial statements in accordance with IAS subject to certain supplementary treatments like reconciliation of certain items and certain additional disclosures *etc*.

V. Comparison of Indian Accounting Standards and corresponding International Accounting Standards

42. The International Accounting Standards (IAS) serve as a benchmark for comparison with the Indian accounting standards (AS) from the angle of statutory recognition.

43. A list of international accounting standards with comparative position of corresponding existing Indian Accounting Standards or present status of formulation of corresponding Indian Accounting Standards is given below –

a) Comparative Statement of International Accounting Standards and Indian Accounting Standards (as on October 10, 2000)

I. Accounting Standards already issued/formulated by the Institute corresponding to the International Accounting Standards

Sl. No	International Accounting Standards*		Indian Accounting Standards	
	IAS No.	**Title of the Standard**	**AS No.**	**Title of the Standard**
1.	1	Presentation of Financial Statements	1	Disclosure of Accounting Policies
2.	2	Inventories	2	Valuation of Inventories
3.	4	Depreciation Accounting	6	Depreciation Accounting
4.	7	Cash Flow Statements	3	Cash Flow Statements
5.	8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.
6.	10	Events after the Balance Sheet Date	4	Contingencies and Events Occurring after the Balance Sheet Date.
7.	11	Construction Contracts	7	Accounting for Construction Contracts
8.	14	Segment Reporting	17	Segment Reporting
9.	16	Property, Plant and Equipment	10	Accounting for Fixed Assets
10.	17	Leases	19	Leases
11.	18	Revenue	9	Revenue Recognition.
12.	19	Employee Benefits	15	Accounting for Retirement Benefits in the Financial Statements of Employers.
13.	20	Accounting for Government Grants and Disclosure of Government Assistance	12	Accounting for Government Grants
14.	21	The Effects of Changes in Foreign Exchange Rates	11	Accounting for the Effects of Changes in Foreign Exchange

* It may be noted that International Accounting Standards nos. 3, 5, 6, 9 and 13 have already been withdrawn by the International Accounting Standards Committee.

				Rates.
15.	22	Business Combinations	14	Accounting for Amalgamations.
16.	23	Borrowing Costs	16	Borrowing Costs
17.	24	Related Party Disclosures	18	Related Party Disclosures
18.	25	Accounting for Investments (withdrawn from 01.01.2001)	13	Accounting for Investments
19.	40	Investment Property (Effective 01.01.2001)	-	Dealt with by Accounting Standard 13
20.		Corresponding IAS has been withdrawn since the matter is now covered by IAS 38.	8	Accounting for Research and Development.

II. Guidance Notes issued by the Institute on the subjects corresponding to the International Accounting Standards

Sl. No	**International Accounting Standards**			
	IAS No.	**Title of the Standard**	**Remarks**	**Expected date for issuance**
1.	12	Income Taxes	Accounting Standard is being prepared (the draft is being made ready for issuing as an Exposure Draft).	March 2001
2.	15	Information Reflecting the Effects of Changing Prices	As of now, this is not on the ICAI's agenda as it is considered not necessary.	

III. International Accounting Standards not considered relevant for issuance of either Accounting Standards or the Guidance Notes by the Institute for the reasons indicated.

Sl. No	**International Accounting Standards**		
	IAS No.	**Title of the Standard**	**Reasons**
1.	29	Financial Reporting in Hyper-inflationary Economies	The International Accounting Standard is applicable only in those countries where the inflation rate is extremely high, i.e., where hyper-inflationary situation exists. The Institute notes that the hyper-inflationary conditions do not prevail in India. Accordingly, there is no justification to issue an

			Accounting Standard on the subject.
2.	30	Disclosures in Financial Statements of Banks and Similar Financial Institutions.	Covered by the Banking Regulations Act, 1949; also certain disclosure norms have been prescribed by the Reserve Bank of India. Therefore, Accounting Standard on the subject is not considered necessary at present (also refer to paragraph 60 on page 41).

IV. Accounting Standards presently under preparation corresponding to the International Accounting Standards

Sl. No	International Accounting Standards			
	IAS No.	Title of the Standard	Status	Expected date for issuance
1.	27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	Exposure Draft has been issued in December 2000 on "Consolidated Financial Statements"	March 31, 2001
2.	28	Accounting for Investments in Associates.	Preliminary draft is ready.	August 2001
3.	31	Financial Reporting of Interests in Joint Ventures	Under preparation by the Study Group.	October 2001
4.	32	Financial Instruments : Disclosure and Presentation[1]	Under preparation by the Study Group.	December 2001
5.	33	Earnings Per Share	Accounting Standards cleared by the Council of ICAI as AS-20.	January 2001
6.	34	Interim Financial Reporting	Under preparation by the Study Group.	October 2001
7.	35	Discontinuing Operations	Preliminary draft is ready.	August 2001
8.	36	Impairment of Assets	Preliminary draft is ready.	August 2001
9.	37	Provisions, Contingent Liabilities and Contingent Assets	Under preparation by the Study Group.	October 2001
10.	38	Intangible Assets	Preliminary draft is ready.	August 2001
11.	39	Financial Instruments: Recognition and Measurement[*] (Effective 01.01.2001)	Under preparation by the Study Group.	December 2001

V. In respect of International Accounting Standard (IAS 26) on 'Accounting and Reporting by Retirement Benefit Plans', the Institute has decided to prepare a Guidance Note on the subject in view of the fact that at the moment there is hardly any retirement benefit plan apart from LIC and Government run plans which are based upon totally different accounting systems. However, as soon as this sector is open to the private players the guidance note may be converted into an accounting standard.

44. It may be stated that by nature the Accounting Standards can be broadly classified into two types, *viz.*, those where the focus is on the accounting treatment/measurement,

[1] Accounting standard on this subject is under preparation. The following is the present status of issuance of Guidance Notes by ICAI in respect of the financial instruments mentioned below.

(1) Equity Index Futures - Guidance Notes issued
(2) Investments by Mutual Funds - Guidance Notes issued
(3) Equity Index Options - Guidance Notes under preparation.

and those which require more disclosures as additional useful and relevant information in relation to the working of the entities.

b) Major differences between IAS and AS

45. The major differences between AS and IAS in respect of accounting treatment or disclosure prescribed are discussed in Annexure III. A few are highlighted below.

46. Indian practice often differs from that required by IAS because of the absence of specific rules in the following areas:

- parent enterprises are not required to issue consolidated financial statements (IAS 27.7)
- accounting for associates and joint ventures (IAS 28 and IAS 31)
- impairment of assets (IAS 36)
- the capitalization of leases (IAS 17.12)
- discounting of provisions (IAS 37.45)
- the methods to be used when accounting for employee benefit obligations (IAS 19.64/78/83)
- accounting for deferred tax (IAS 12).

47. There are no specific rules requiring disclosures of:

- a statement of changes in equity (IAS 1.7)
- the fair values of financial assets and liabilities, except for quoted investments (IAS 32.77)
- discontinuing operations (IAS 35)

48. There are inconsistencies between Indian and IAS rules that are likely to lead to differences for many enterprises in certain areas. Under Indian rules:

▪ the classification of business combinations as acquisitions or uniting of interest is not based on the ability to identify an acquirer (IAS 22.8)

▪ exchange differences arising on foreign currency liabilities related to the purchase of fixed assets are used to adjust the fixed assets rather than being taken to income (IAS 21.15)

▪ certain research costs can be capitalized (IAS 38.42)

▪ certain expenditures on intangible items that are not assets can be capitalized (IAS 38.56)

▪ revaluations of assets do not need to be kept up-to-date (IAS 16.29)

▪ operating lease payments are generally recognized on the basis of legal arrangements rather than straight-line, and there are no specific requirements on the treatment of lease incentives (IAS 17.25, SIC 15)

▪ the completed contract method may be used to recognize revenues on construction contracts (IAS 11.12)

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(4) Securitisation - Exposure draft of Guidance Note being issued.

- provisions can be created when there is no obligation (IAS 37.14)
- proposed dividends are accrued (IAS 10.11)
- an issuer’s financial instruments are generally accounted for on the basis of their legal form, and compound instruments are not split into liability and equity components (IAS 31.18/23)
- the calculation of earnings per share may use a variety of bases (IAS 33.10/11/20)

VI. Comparison of Indian Accounting Standards and corresponding US GAAP

49. The US GAAP standards often serve as the yardstick for the Indian accounting standards from the point of view of practical perception of the investor. For many major global business enterprises the accounting standards that they are most familiar with, other than their own domestic standards, are those of the USA. This is because many such enterprises have sought to have their capital listed on the stock exchanges of the USA. The USA has over the past many years also been the world's major capital supplier and a company in any part of the world which becomes large has an eye to tap the capital market in USA. Many companies have, therefore, voluntarily, started reformatting their financial statements in accordance with US GAAP and publishing such reformatted accounts as additional information. Some of these companies have plans to get their capital listed on stock exchanges in USA now or in future. Even those companies which do not have such plans in contemplation feel it advisable to present their financial affairs to the shareholders and public compared against the benchmark of US GAAP.

50. Accordingly, a summary analysis of the accounting pronouncements under US GAAP, Indian GAAP and IAS is presented in the table below. A detailed technical Note is given in Annexure IV. The analysis seeks to identify FAS, APB and ARB under US GAAP and the corresponding standard/ pronouncement under Indian GAAP and IAS.

Summary of Analysis of Pronouncements Under US GAAP, Indian GAAP and IAS			
US GAAP		**Indian GAAP**	**IAS**
FAS 2	Accounting for Research and Development Costs	AS 8 Accounting for Research and development	IAS 38 Intangible Assets
FAS 3	Reporting Accounting Changes in Interim Financial Statements`	**No corresponding accounting pronouncement**	IAS 34 Interim Financial Reporting
FAS 4	Reporting Gains and Losses from Extinguishments of Debt	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 5	Accounting for Contingencies	AS 4 Contingencies and Events Occurring After the Balance Sheet Date	IAS 10 Events After the Balance Sheet Date and IAS 37, Provisions, Contingent Liabilities and

		Contingent Assets

FAS 6	Classification of Short-Term Obligation Expected to Be Refinanced	**No corresponding accounting pronouncement**	IAS 1 Presentation of Financial Statements
FAS 7	Accounting and Reporting by Development Stage Enterprises	GN, *Treatment of Expenditure During Construction Period*	**No corresponding accounting pronouncement**
FAS 9	Accounting for Income Taxes-Oil and Gas Producing Companies	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 10	Extension of "Grandfather" Provisions for Business Combinations	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 11	Contingencies – Transition method	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 13	Accounting for Leases	*AS 19 Leases*	IAS 17 Leases
FAS 15	Accounting by Debtors and Creditors for Troubled Debt Restructurings	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 16	Prior Period Adjustments	AS 5 Prior Period and Extraordinary Items and Changes in Accounting Policies	IAS 8 Net Profit or Loss for the Period Fundamental Errors and Changes in Accounting Policies
FAS 19	Financial Accounting and Reporting by Oil and Gas Producing companies	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 22	Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 23	Inception of the Lease	*AS 19 Leases*	IAS 17 Leases
FAS 25	Suspension of Certain Accounting Requirements for Oil	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**

	and Gas Producing Companies		
FAS 27	Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 28	Accounting for Sales with Leasebacks	*AS 19 Leases*	IAS 17 Leases
FAS 29	Determining Contingent Rentals	**No corresponding accounting pronouncement**	IAS 17 Leases
FAS 34	Capitalisation of Interest Cost	*AS 16 Borrowing Costs*	IAS 23 Borrowing Costs
FAS 35	Accounting and Reporting by Defined Benefit Pension Plans	**No corresponding accounting pronouncement**	IAS 26 Accounting and Reporting by Retirement Benefit Plans
FAS 37	Balance Sheet Classification of Deferred Income Taxes	AS 18	**No corresponding accounting pronouncement**
FAS 38	Accounting for Pre-acquisition Contingencies of Purchased Enterprises	AS 14 Accounting for Amalgamations	IAS 22 Business Combination
FAS 42	Determining Materiality for Capitalisation of Interest Cost	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 43	Accounting for Compensated Absences	AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers	**No corresponding accounting pronouncement**
FAS 44	Accounting for Intangible Assets of Motor Carriers	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 45	Accounting for Franchise Fee Revenue	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 47	Disclosure of Long-Term Obligations	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**

FAS 48	Revenue Recognition When Right of Return Exists	AS 9 Revenue Recognition	IAS 18 Revenue
FAS 49	Accounting for Product Financing Arrangements	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 50	Financial Reporting in the Record and Music Industry	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 51	Financial Reporting by Cable Television Companies	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 52	Foreign Currency Translation	AS 11 Accounting for the Effects of Changes in Foreign Exchange Rates	IAS 21 The Effects of Changes in Foreign Exchange Rates
FAS 53	Financial Reporting by Producers and Distributors of Motion Picture Films	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 57	Related Party Disclosures	*AS 18 Related Party Disclosure*	IAS 24 Related Party Disclosures
FAS 58	Capitalisation of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 60	Accounting and Reporting by Insurance Enterprises	**No corresponding accounting standard**	**No corresponding accounting pronouncement**
FAS 61	Accounting for Title Plant	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 62	Capitalisation of Interest Cost in Situations Involving Certain Tax – Exempt Borrowings and Certain Gifts and Grants	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 63	Financial Reporting by Broadcasters	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 64	Extinguishments of	**No corresponding**	**No corresponding**

	Debt Made to Satisfy Sinking-Fund Requirements	**accounting pronouncement**	**accounting pronouncement**
FAS 65	Accounting for Certain Mortgage Banking Activities	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 66	Accounting for Sales of Real Estate	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 67	Accounting for Costs and Initial Rental Operations of Real Estate Projects	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 68	Research and Development Arrangements	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 69	Disclosures about Oil and Gas Producing Activities	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 71	Accounting for the Effects of certain Types of Regulation	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 72	Accounting for Certain Acquisitions of Banking or Thrift Institutions	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 73	Reporting a Change in Accounting for Railroad Track Structures	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**

FAS 78	Classification of Obligations That Are Callable by the Creditor	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 79	Elimination of Certain Disclosures For Business Combinations by Non-public Enterprises	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 80	Accounting for Futures Contracts	*GN Equity Futures, Index – Partly Covered*	**No corresponding accounting pronouncement**
FAS 84	Induced Conversions of Convertible Debt	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 86	Accounting for the Costs of Computer Software to Be Sold,	**No corresponding accounting**	**No corresponding accounting**

	Leased, or Otherwise Marketed	**pronouncement**	**pronouncement**
FAS 87	Employer's Accounting for Pensions	AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers	IAS 19 Employee Benefits
FAS 88	Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans for Termination Benefits	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 89	Financial Reporting and Changing Prices	**No corresponding accounting pronouncement**	IAS 15 Information Reflecting the Effects of Changing Prices and IAS 29, Financial Reporting in Hyperinflationary Economics
FAS 90	Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 91	Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 92	Regulated Enterprises – Accounting for Phase-in Plans	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 93	Recognition of Depreciation by Not-for-Profit Organisations	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 94	Consolidation of All Majority-Owned Subsidiaries	**No corresponding accounting pronouncement**	IAS 27 Consolidated Financial Statement Accounting for Investments Subsidiaries

FAS 95	Statement of Cash Flows	AS 3 Cash Flows Statement	IAS 7 Cash Flows Statements
FAS 97	Accounting by Insurance Cos. for Certain Long-Duration Contracts and Realised Gains and losses on Investment Sales	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 98	Accounting for Leases (an amendment of FAS 13, 66 and 91)	*AS 19 Leases*	**No corresponding accounting pronouncement**
FAS 99	Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organisations	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 101	Regulated Enterprises – Accounting for the Discontinuation of Application of FASB Statement No.71	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 102	Statement of Cash Flows – Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 104	Statement of Cash Flows – Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions	**No corresponding accounting pronouncement**	IAS 7 Cash Flow Statements
FAS 105	Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk	**No corresponding accounting pronouncement**	IAS 32 Financial Instruments: Disclosure and Presentation
FAS 106	Employers' Accounting for Postretirement Benefits Other Than Pensions	AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers	IAS 19 Employee Benefits

FAS 107	Disclosures about Fair Value of Financial Instruments	**No corresponding accounting pronouncement**	IAS 32 Financial Instruments: Disclosure and Presentation
FAS 109	Accounting for Income Taxes	*ED Accounting for Taxes on Income*	IAS 12 Income Taxes
FAS 110	Reporting by Defined Benefit Pension Plans of Investment Contracts	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 111	Rescission of FASB Statement No.32 and Technical Corrections	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 112	Employers' Accounting for Postemployment Benefits	AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers	IAS 19 Employee Benefits
FAS 113	Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 114	Accounting by Creditors for Impairment of a Loan	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 115	Accounting for Certain Investments in Debt and Equity Securities	AS 13 Accounting for Investments	IAS 25 Accounting for Investments
FAS 116	Accounting for Contributions Received and Contributions Made	AS 12 Accounting for Government Grants	**No corresponding accounting pronouncement**
FAS 117	Financial Statements of Not-for-Profit Organisations	**No corresponding accounting pronouncement**	IAS 1 Presentation of Financial Statements (to extent applicable). No specific pronounce-ments
FAS 118	Accounting by Creditors for Impairment of a Loan – Income Recognition	**No corresponding *specific* accounting pronouncement. Guidance Note on**	**No corresponding accounting pronouncement**

	and Disclosures	**Equity Futures Index**	
FAS 119	Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments	GN Equity Futures Index – Partly Covered	IAS 32 Financial Instruments: Disclosure and Presentation
FAS 120	Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long Duration Participating Contracts	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 121	Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of	AS 10 Accounting for Fixed Assets	IAS 36 Impairment of Assets
FAS 123	Accounting for Stock-Based Compensation	SEBI Guidelines on ESOP	**No corresponding accounting pronouncement**
FAS 124	Accounting for Certain Investments Held by Not-for-Profit Organisations	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 125	Accounting for transfers and Servicing of Financial Assets and Extinguishments of Liabilities	**No corresponding accounting pronouncement**	IAS 39 Financial Instruments: Recognition and Measurement
FAS 126	Exemption from Certain Required Disclosures about Financial Instruments for Certain Non-public Entities	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 127	Deferral of the Effective Date of Certain Provisions of FASB Statement No.125	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 128	Earnings per Share	ED Earnings per Share	IAS 33 Earnings Per Share
FAS 129	Disclosure of Information about Capital Structure	Sch VI requirements	IAS 1 Presentation of Financial

			Statements
FAS 130	Reporting Comprehensive Income	**No corresponding accounting pronouncement**	IAS 1 Presentation of Financial Statements
FAS 131	Disclosures about Segments of an Enterprise and Related Information	AS 17 *Segment Reporting*	IAS 14 Segment Reporting
FAS 132	Employers' Disclosures about Pensions and Other Postretirement Benefits	AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers	IAS 19 Employee Benefits
FAS 133	Accounting for Derivative Instruments and Hedging Activities	GN Equity Futures Index – Partly covered	IAS 39 Financial Instruments: Recognition and Measurement
FAS 134	Accounting for Mortgage - Backed Securities Retained after the Securitisation of Mortgage loans Held for Sale by a Mortgage Banking Enterprise	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 135	Rescission of FASB Statement No. 75 and Technical Corrections	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 136	Transfers of Assets to a Not-for-Profit Organisation or Charitable Trust That Raises or Holds Contributions for Others	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
FAS 137	Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No.133 – an amendment of FASB Statement No. 133	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
APB 16	Business Combinations	AS 14 Accounting for	IAS 22 Business

		Amalgamations	Combinations
APB 17	Intangible Assets	Partly covered by AS 8 Accounting for Research and Development AS 10 Accounting for Fixed Assets AS 14 Accounting for Amalgamation	IAS 38 Intangible Assets
APB 18	The Equity Method of Accounting for Investments in Common Stock	**No corresponding accounting pronouncement**	IAS 28 Accounting for Investments in Associates and IAS 31, Financial Reporting of interest in Joint Ventures
APB 20	Accounting Changes	AS 5 Prior Period and Extraordinary Items and Changes in Accounting Policies	IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

APB 21	Interest on Receivables and Payables	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
APB 22	Disclosure of Accounting Policies	AS 1 Disclosure of Accounting Policies	IAS 1 Presentation of Financial Statements
APB 25	Accounting for Stock Issued to Employees	SEBI Guidelines on ESOP	**No corresponding accounting pronouncement**
APB 26	Early Extinguishment of Debt	**No corresponding accounting pronouncement**	**No corresponding accounting pronouncement**
APB 30	Reporting the Results of Operations – Discontinued Events and Extraordinary Items	AS 5 Prior Period and Extraordinary Items and Changes in Accounting Policies. Specific Standard on Discontinuing operations	IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies and IAS 35, Discontinuing

		already undertaken by ASB	Operations
ARB 43	Depreciation	AS 6 Depreciation Accounting	IAS 4 Depreciation Accounting
ARB 43	Property, Plant and Equipment	AS 10 Accounting for Fixed Assets and AS 12 Accounting for Government Grants	IAS 16 Property, Plant and Equipment and IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
ARB 43	Inventories	AS 2 (Revised) Valuation of Inventories	IAS 2 Valuation of Inventories
ARB 45	Long term Construction – Type contracts	AS 7 Accounting for Construction Contracts	IAS 11 Construction Contracts

Note : FAS 1, 8, 12, 14, 17, 18, 20,21, 24,26, 30-33, 36, 39-41, 46, 54-56, 59, 70, 74-77, 81-83, 85, 96, 100, 103, 108, 122 have been superceded.

VII. Implementation of Accounting Standards

51. As the formulation of accounting standards is only a means to an end, the ultimate objective should be the acceptance and implementation of the standards. While the last two decades have witnessed significant efforts in the formulation of accounting standards, meaningful steps for their implementation are of comparatively recent origin.

52. Until recently, implementation was enforced only upon the auditing profession which was subjected to the disciplinary jurisdiction of the ICAI. Under directives issued by the ICAI, auditors were required to report in their audit reports whether the accounting policies followed by the auditee are at variance with the applicable accounting standards. However, there was no obligation cast on the preparer of the financial statements to comply with accounting standards.

53. The amendment to the Companies Act in 1998 has now imposed that obligation. As a result of the amendment, every balance sheet and profit and loss account prepared by a company and laid before its members at the Annual General Meeting is required to be prepared in accordance with the prescribed accounting standards. In the event of a deviation from the standard, the fact of the deviation, the reasons therefor and the financial impact, if any, of the deviation have also to be disclosed. In addition, the auditor is required to report whether in his opinion the profit and loss account and balance sheet comply with the prescribed standards. This is a giant step forward in the implementation of standards. However, as with other provisions, the regulatory authority, *viz.*, the Department of Company Affairs, through the Registrars of Companies remains weak in its ability to enforce compliance and audit qualifications, in this and other matters, abound with little or no regulatory action.

54. An equally significant development is the establishment by the Securities and Exchange Board of India (SEBI) of a Standing Committee on Accounting Standards. This committee monitors the existence of relevant accounting standards and their harmonisation with the corresponding International Accounting Standards. It mandates the adherence to standards and enforces the same through the listing agreements between the companies and stock exchanges. Therefore, atleast in so far as listed companies are concerned, a better enforcement mechanism has been put in place.

VIII. Auditing Standards

55. Auditing standards in India are regulated by the ICAI through the standards issued by its Auditing Practices Committee (APC), guidance notes and other pronouncements issued by it and by the exercise of disciplinary jurisdiction over its members.

56. The auditing standards issued by ICAI – Statements on Standard Auditing Practices (SAPS) – issued to date are given below:-

Statements on Standard Auditing Practices

1.	Statement on Auditing Practices	
	Statements on Standard Auditing Practices:	
2.	Basic Principles Governing an Audit	SAP – 1
3.	Objective and Scope of the Audit of Financial Statements	SAP – 2
4.	Documentation	SAP – 3
5.	Fraud and Error	SAP – 4
6.	Audit Evidence	SAP – 5
7.	Study and Evaluation of the Accounting System and Related Internal Controls in connection with an Audit	SAP – 6
8.	Relying Upon the Work of an Internal Auditor	SAP – 7
9.	Audit Planning	SAP – 8
10.	Using the Work of an Expert	SAP – 9
11.	Using the Work of Another Auditor	SAP – 10
12.	Representations by Management	SAP – 11
13.	Responsibility of Joint Auditors	SAP – 12
14.	Audit Materiality	SAP – 13
15.	Analytical Procedures	SAP – 14
16.	Audit Sampling	SAP – 15
17.	Going Concern	SAP – 16
18.	Quality control for Audit Work	SAP – 17
19.	Audit of Accounting Estimates	SAP – 18
20.	Subsequent Events	SAP – 19
21.	Knowledge of the Business	SAP - 20

57. In addition to the SAPS, the ICAI has issued the following statements on auditing:-

1. Statement on Auditing Practices.
2. Statement on Qualifications in Auditors’ Reports.
3. Statement on the Manufacturing and other Companies (Auditor’s Report) Order 1988 (Issued under Section 227(4A) of the Companies Act, 1956).

4. Statement on Payments to Auditors for Other Services.

58. The SAPS are anchored on the corresponding standards issued by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC). A comparison of the International Standards on Auditing (ISA) issued by IFA with relevant pronouncements of ICAI either as SAPs, statements or guidance notes is given below:-

Comparison of International Standards on Auditing (ISAS), issued by the International Federation of Accountants with Relevant Pronouncements of the ICAI, issued as Statements on Standard Auditing Practices (SAPs) and Guidance Notes			
Sl. No.	**ISA No.**	**Title of the ISA (as of July 1, 2000)**	**Relevant Pronouncement of the ICAI (as of October 31, 2000)**
1.	100	Assurance Engagements	Released recently (in July, 2000)
2.	120	Framework of International Standards on Auditing	Proposed Framework of statements on Standard Auditing Practices and Guidance Notes on Related Services is being finalised for issuance as per the decision of the Council.
3.	200	Objective and General Principles Governing an Audit of Financial Statements	SAP 1 and SAP 2
4.	210	Terms of Audit Engagements	Guidance Note on Audit Engagement Letters
5.	220	Quality Control for Audit Work	SAP 17
6.	230	Documentation	SAP 3
7.	240	Fraud and Error	SAP 4
8.	250	Consideration of Laws and Regulations in an Audit of Financial Statements	The proposed SAP is being finalised for issuance as per the decision of the council
9.	300	Planning	SAP 8
10.	310	Knowledge of the Business	SAP 20
11.	320	Audit Materiality	SAP 13
12.	400	Risk Assessment and Internal Control	Proposed SAP is under preparation (A concept paper on Risk Based Auditing has been published)
13.	401	Auditing in a Computer Information Systems Environment	Basic draft of the Study has been placed for consideration of the APC
14.	402	Audit considerations Relating to Entities Using Service	Proposed SAP is under preparation

		Organisations	
15.	500	Audit Evidence	SAP 5
16.	501	Audit Evidence-Additional Consideration for Specific Items	Separate Guidance Notes on Audit of Investments; Inventories; Debtors; Loans and Advances; Liabilities
17.	505	External Confirmations	Guidance Note on Audit of Debtors, Loans and Advances
18.	510	Initial Engagements – Opening Balance	Proposed SAP is being finalised for issuance as per the decision of the Council.
19.	520	Analytical Procedures	SAP 14
20.	530	Audit Sampling and other Selective Testing Procedures	SAP 15
22.	550	Related Parties	Proposed SAP is under preparation
23.	560	Subsequent Events	SAP 19
24.	570	Going Concern	SAP 16
25.	580	Management Representations	SAP 11
26.	600	Using the Work of Another Auditor	SAP 10
27.	610	Considering the work of International Auditing	SAP 7
28.	620	Using the Work of an Expert	SAP 9
29.	700	The Auditor’s Report on Financial Statements	Proposed SAP is under preparation
30.	710	Comparatives	Proposed SAP is under preparation
31.	720	Other Information in Documents Containing Audited Financial Statements	As per the decision of the Council, the preparation of the SAP has been kept in abeyance for the time being
32.	800	The Auditor’s Report on Special Purpose Audit Engagements	Guidance Note on Audit Reports and Certificates for Special Purposes
33.	810	The Examination of Prospective Financial Information	Guidance Note on Accountant’s Report on Profit Forecasts and/or Financial Forecasts
34.	910	Engagements to Review Financial Statements	Guidance Note on Engagements to Review Financial Statements
35.	920	Engagements of Perform Agreed-upon Procedures Regarding Financial Information	Proposed Guidance Note on Engagements to Perform Agreed-upon Procedures Regarding

			Financial Information is being finalised for issuance as per the decision of the Council.
36.	930	Engagements to Compile Financial Information	Guidance Note Members' duties regarding Engagements to Compile Financial Information
		IPAC STATEMENTS	
37.	1000	Interbank Confirmation Procedures	-
38.	1001	CIS environment-Stand-Alone Microcomputers	-
39.	1002	CIS Environment-Online Computer Systems	-
40.	1003	CIS Environment-Database Systems	-
41.	1004	The Relationship Between bank Supervisors and External Auditor	-
42.	1005	Particular Considerations in the Audit of Small Businesses	-
43.	1006	The Audit of International Commercial Banks	-
44.	1007	Communications with Management	-
45.	1008	Risk Assessments and Internal Control-CIS Characteristics and Considerations	-
46.	1009	Computer Assisted Audit Techniques	-
47.	1010	The Consideration of Environmental Matters in the Audit of Financial Statements	-
48.	1011	Implications for Management and auditors of the Year 2000 issue	Guidance Note on Auditor's Duties in relation to the year 2000 (Y2K) issue

59. In each country, statements on auditing are generally issued by the Accountancy Institute in that country. In the USA, Statements on Auditing Standards (SAS) or Statements of Position – auditing and Attestation (SOP) are issued by the American Institute of Certified Public Accountants (AICPA). A comparison of auditing pronouncements/standards/statements issued by AICPA, ICAI and IFAC organised by topic is given below:-

Comparative Analysis of Auditing Pronouncements/Standards/Statements

Topic	AICPA	ICAI	IFAC
Basic principles governing an audit	✓	✓	✓
Objective and scope of the audit of financial statements	✓	✓	✓
Documentation	✓	✓	✓
Fraud and error	✓	✓	✓
Audit evidence	✓	✓	✓
Study and evaluation of accounting systems and related internal controls in connection with an audit	✓	✓	✓
Relying on the work of an internal auditor	✓	✓	✓
Audit planning	✓	✓	✓
Using the work of an expert	✓	✓	✓
Using the work of another auditor	✓	✓	✓
Management representations	✓	✓	✓
Responsibilities of joint auditors	X	✓	X
Audit materiality	✓	✓	✓
Analytical procedures	✓	✓	✓
Audit sampling	✓	✓	✓
Going concern	✓	✓	✓
Quality control for audit work	✓	✓	✓
Audit of accounting estimates	✓	✓	✓
Subsequent events	✓	✓	✓
Knowledge of the business	✓	✓	✓
Terms of audit engagements	✓	✓	✓
Consideration of laws and regulations in the audit of financial statements	✓	ED	✓
Auditing in a computerized information systems environment	✓	X	✓
Audit considerations relating to entities using service organizations	✓	X	✓
Audit evidence – additional considerations for special items	✓*	✓	✓
External confirmations	✓	X	✓
Initial engagements – opening balances	✓	ED	✓
Related parties	✓	X	✓
Auditor’s report on financial statements	✓	✓	✓
Audit of comparatives	✓	X	✓
Other information in documents containing audited financial statements	✓	X	✓
Special purpose audit engagements	✓	GN	✓
The examination of prospective financial information	✓	GN	✓
Engagements to review financial statements	✓	E-GN	✓
Engagements to perform agreed-upon procedures regarding financial information	✓	E-GN	✓

Engagements to compile financial information	✓	E-GN	✓
Inter-bank confirmation procedures	✓	X	✓
CIS environments – stand alone micro computers	✓	X	✓
CIS environments – online computer systems	✓	X	✓
CIS environments – database systems	✓	X	✓
Relationship between bank supervisors and external auditors	X	X	✓
Special considerations in the audit of small entities	✓	X	✓
Audit of international commercial banks	X	X	✓
Communications with management	✓	X	✓
Computer assisted audit techniques	✓	X	✓
Consideration of environmental matters in the audit of financial statements	✓	X	✓
Implications for management and auditors of the Year 2000 issue	✓	GN	✓
Inquiries of a client's lawyer concerning litigation, claims and assessments	✓	X	X
Association with financial statements	✓	X	X
Reporting on information accompanying the basic financial statements in auditor-submitted documents	✓	X	X
Adequacy of disclosure in financial statements	✓	X	X
Filing under (Federal) Securities Statutes	✓	X	X
Reporting on condensed financial statements and selected financial data	✓	X	X
Consideration of omitted procedures after the report date	✓	X	X
The effects of computer processing on the audit of financial statements	✓	X	X
Reports on the application of accounting principles	✓	X	X
Reporting on financial statements prepared for use in other countries	✓	X	X
Illegal acts by clients	✓	X	X
Communication with audit committees	✓	X	X
Special reports	✓	GN	X
Service organizations	✓	X	X
Interim financial information	✓	X	X
Letters for underwriters and certain other requesting parties	✓	X	X
Compliance auditing considerations in audits of governmental entities and recipients of governmental financial assistance	✓	X	X
Consideration of fraud in a financial statement audit	✓	X	X
Establishing an understanding with the client	✓	X	X
Communication between predecessor and			

successor auditor	✓	X	X
Restricting the use of an auditor’s report	✓	X	X
Auditing derivatives	✓	X	ED
Legend: ✓ – Issued X – Not issued GN – Guidance note on topic issued and in force E-GN – Exposure draft of guidance note issued * – Contained in specific SOPs ED – Exposure draft			

60. It is suggested that the APC should take immediate steps to issue ISAs on the following subjects on which ASAs have not yet been issued by IFAC but for which pronouncements have been issued by AICPA:

1. Illegal Acts by Clients.
2. Communication with Audit Committees
3. Interim Financial Information

61. The ICAI with the membership of over 100,000 of whom over 70% hold a certificate of practice is the fourth largest accounting institute in the world. Established in 1949 under an Act of Parliament, it follows in the footsteps of a profession established in this country for over 125 years. Since the enforcement of compliance with auditing standards rests solely with ICAI, the manner of compliance of auditing standards is conceptually sounder than the manner of compliance of accounting standards.

62. However, in practice, the quality of auditing standards and the degree of compliance will ultimately rest with the talent available with the Auditing Practices Committee (APC), the degree of support provided to it by the technical staff of the ICAI and the vigour with which the ICAI exercises its disciplinary jurisdiction on its members.

IX. The Way Forward

a) Bridging the Gap

63. As has been illustrated earlier there exists a significant gap between the standards issued by IASC and the standards issued by ICAI. As a result of initiatives taken by the Accounting Standards Committee of SEBI and ICAI, four key standards have been issued or are expected to be issued shortly. However, the gap remains pronounced in respect of standards related to financial institutions and it is necessary that ICAI take up on an emergency basis the issuance of standards comparable to (a) IAS 30 "Disclosures in Financial Statements of Banks and Similar Financial Institutions" (b) IAS 32 "Financial Instruments : Disclosure and Presentation" and (c) IAS 39 "Financial Instruments : Recognition and Measurement".

64. With the endorsement which IASC has received from IOSCO and the European Commission and with the reconstitution of the IASC, the gap between International Accounting Standards (IAS) issued by IASC and US GAAP will considerably narrow and IAS will be increasingly accepted by stock exchanges and international lenders and investors all over the world. The accounting standards issued by ICAI are already anchored on the corresponding IAS.

65. It should be the endeavour of the ASB that Indian Accounting Standards should correspond as far as possible to International Accounting Standards. It should therefore be mandatory that if there is a departure in the Indian standard from the corresponding International Standard, there should be a note to the Indian standard which identifies such departure and explains the reason for the departure. This will help identify the causes of difference and can trigger action for remedial action, if required.

b) Restructuring of the Accounting Standards Board

66. Currently, it takes on an average between eighteen months to two years for the issuance of an accounting standard. It will be difficult to clear the back-log and to keep track with the new standards issued by IASC while at the same time maintaining the required quality and the benefit of consultation with various interest groups unless the organisation of the Accounting Standards Board (ASB) is reviewed. The following matters need to be considered in this behalf:-

> (a) The ASB consists of as many as 21 members including 13 members of the Central Council of the Institute and 8 other co-opted members. None of the members are full time members. In addition, there are 6 permanent invitees from concerned bodies like SEBI, UGC, IIM *etc*. In contrast, in USA, the Financial Accounting Standards Board (FASB) has only 7 members who are full time and the reconstituted IASC will have only 14 members of whom 12 will be full time and 2 part time members who will be devoting almost 50% of their time to the work of IASC.

(b) Both the FASB and IASC will be autonomous bodies, with their own independent funding. The ASB on the contrary is a Committee of ICAI. Therefore, it has no independent staff or funding and while it has as co-opted members some individuals who are not Council members and some permanent invitees representing other interests, like any other committee of the ICAI, it is subject to the overall control of the Council.

(c) In both the FASB and the reconstituted IASC, members will be selected primarily for their technical expertise. By the very nature of its constitution, the ASB membership would find it difficult to satisfy this test.

(d) The reconstituted IASC provides for a two-tiered structure *viz*., a Board of Trustees and a Standard-Setting Board. The former presumably will oversee the functioning of the Standards-Setting Board and appoint its members but will not participate in the standard-setting process. The ASB on the contrary combines both functions.

(e) It may therefore be appropriate to consider restructuring the ASB on the following lines:-

i) The ASB should be an autonomous body within the ICAI with its own staff and with independent funding.

ii) There should be a two-tier structure like the IASC with a board which is a small committee consisting of Council members and co-opted members. In addition there should be a Standard-Setting Committee consisting of members who should be selected primarily for their technical expertise. The Chairman of the Committee should be a full-time member.

iii) While the ASB would supervise the functioning of the Board and select the members of the Standard Setting Committee, the Committee would have full autonomy for the standard-setting process.

iv) There should be adequate representation of the regulators *i.e.* Department of Company Affairs, Central Board of Direct Taxes, Securities and Exchange Board of India and Reserve Bank of India on the ASB.

v) The standard setting procedure outlined in Annexure II may be amended as outlined in Annexure IIA.

c) Single Standard Setting Authority

67. It is also necessary that there should be only a single standard setting authority within the country. With the reconstitution of the ASB on the lines suggested above, it should not be necessary to have a National Advisory Committee on Accounting Standards as provided in the Companies Act, or for the Central Government to notify Accounting Standards under the Income Tax Act. Equally, it should not be necessary for the RBI to issue directions on accounting matters to banks and financial institutions and NBFCs in respect of matters which are already covered by the standards. Where there are matters which are not covered by standards or where there are matters of interpretation of

standards or detailed application thereof, the RBI may issue directives, but such directives must not be inconsistent with the standard issued by ICAI. It would also be helpful if the RBI were to monitor the standards issued by ICAI on accounting for financial institutions in the context of parallel standards issued by IASC on the same lines as is done by SEBI's Accounting Standards Committee.

d) Convergence of Corporate and Tax Laws with Accounting Standards

68. Many of the differences between the standards issued by ICAI and IAS arise because of differences in corporate and tax laws in India and in other countries. Many of these have been highlighted earlier. It is necessary that the provisions of the Companies Act be examined to determine whether the relevant provisions of the Act are necessary and whether these provisions can not be suitably amended.

For example,

(a) Section 78 permits the Share Premium Account to be utilised to write off preliminary expenses, to write off the expenses of or the commission paid or discount allowed on any issue of shares or debentures of the company or to provide for premium payable on redemption of preference shares or debentures. International practice is to charge all such items to the Profit and Loss Account.

(b) The form of Balance Sheet and the requirements as to Profit and Loss Account in Schedule VI require that provision should be made for proposed dividends but international practice is to the contrary.

(c) The form of Balance Sheet given in Schedule VI requires that an increase or decrease in liability in respect of foreign currency loans used for purchase of fixed assets consequent on changes in exchange rates should be added to the costs of assets. There are provisions for calculation of cost under Section 43A of the Income tax Act which are similar to the provisions of the Income Tax Act. International practice is to treat such increases or decreases as items of expenditure or income.

(d) Section 211 which deals with the form and contents of Balance Sheet and Profit and Loss Account and Section 212 which requires the Balance Sheet of a holding company to include certain particulars as to its subsidiaries, but does not require the preparation of Consolidated Balance Sheet and Profit and Loss Account although the international practice requires preparation of consolidated accounts.

69. Section 145 of the Income tax Act 1961 provides that "profits and gains of business or profession" or "income from other sources" has to be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee. However, there are other provisions of the Act *e.g.* Section 145A regarding treatment of Modvat, which provide for accounting treatment which is not in consonance with the accounting standards laid down by ICAI and IAS.

70. It is unrealistic to expect voluntary acceptance of accounting standards if such acceptance puts the user to an economic disadvantage. It is, therefore, necessary that tax laws provide for the minimum divergence between taxable income and accounting income particularly if such divergence arises from different accounting methods used for computation of taxable income and for preparation of financial statements. It should, therefore, be provided that for the purposes of section 145 of the Income-tax Act, 1961, the income should be computed in accordance with accounting standards issued by ICAI. Where the standard permits of alternative treatment *e.g.* depreciation under the diminishing balance method and under the straight line method, the Act or Rules thereunder can specify the alternative which would be used for the calculation of taxable income. Such a provision with a minimum of special provisions which over-ride section 145 of the said Act, would also go a long way in reducing litigation and provide for better tax compliance.

e) Emerging Issues Task Force

71. It needs to be recognised that there will always remain a gap, however small, between the standards issued by IASC and the standards issued by ASB. There will also be areas – particularly newly emerging areas – where IASC standards may not have been formulated. For these and other areas where accounting controversies develop, the need for interim guidance arises to ensure that uniform accounting policies are followed. In the U.S., these issues are addressed by the 'Emerging Issues Task Force' (EITF) established by FASB as a high powered committee with representation from different quarters. The EITF deliberates on an urgent basis on any emerging issue or accounting controversy and provides a consensus opinion to nip the controversy in the bud. Similarly, the IASC has a Standing Interpretation Committee which issues interpretations on some of the matters contained in the standard on which clarification is considered necessary. The Institute already has an Expert Advisory Committee. However, this Committee is concerned with answering specific queries referred by institutional members and its pronouncements represent only the individual views of its members and are not binding on the Institute. It is necessary that the ASB appoint a separate committee, consisting solely of persons selected on the basis of their technical expertise, to which committee matters of general concern are referred and whose pronouncements have the authority of interim pronouncements issued by the Institute.

f) Implementation

72. Finally, it is necessary to have a mechanism in place to ensure compliance with the standards. In the U.S., the Securities Exchange Commission (SEC) carries out scrutiny

of all public filings and enters into a lengthy dialogue with companies filing financial statements to ensure total compliance to its satisfaction. If the changes suggested by SEC are not carried out, the filing is not permitted. In the UK, there is a Financial Reporting Review Panel which is charged with the responsibility of policing company accounts. Since the Panel was introduced in the early 1990s there has been a 'fall-off' in the number of cases examined by the Panel and it is argued that the mere existence of the Panel has served as a deterrent to those who might adopt an accounting treatment which is not in accordance with accounting standards. There has been a contrary view that the 'fall-off' is evidence that as the Panel adopts only a reactive approach – examining only those cases where it receives complaints – serious cases of violation may be escaping its attention. It may be necessary to establish such a body-either within the ICAI or outside – to monitor compliance with accounting standards. The requirement in the Companies Act that departures from accounting standards must be disclosed in the financial statements and that auditors must report whether accounting standards have been followed provides a mechanism for the identification of violations. What needs to be further provided is for an obligation on auditors to report directly to the Panel all cases of violation. But this by itself may not be sufficient and the Panel may need to examine on a test-check basis a few of the financial statements where no violation is reported.

g) Conclusion

73. The need for a speedy integration of Indian accounting standards with International Accounting Standards cannot be over-emphasised. India today enjoys a very small share of the international funds ear-marked for emerging markets. There is a growing realisation that these funds will increasingly flow to those markets which are strongly regulated and which have an ethical base. Assurance that financial statements are prepared in accordance with internationally accepted accounting standards and audited on a basis comparable with international practice is a key plank in the system of regulation. Apart from this, international investors and lenders will be willing to provide funds only to those enterprises whose financial statements are prepared on lines with which they are familiar. But regulation alone cannot achieve the desired goal. If internationally accepted accounting standards are to be speedily introduced and implemented in this country, what is needed is the voluntary acceptance of such standards by the preparers of financial statements, the users of those statements, the accounting profession, the regulators and the various departments of the Government responsible for corporate and fiscal legislation. Each of these must be prepared to make the individual sacrifices which will ultimately result in the common good.