

Session 3

International Standards and Practice for Accounting, Audit and Non-Financial Disclosure – Recent Developments.

Mr. Kamlesh Vikamsey, Past President, Institute of Chartered Accountant of India

Mr. Parikh is a Fellow Chartered Accountant and a Company Secretary. He has extensive knowledge in the field of finance, taxation and Company law and carried with him the experience of over four decades. He is holding Directorship in Kesoram Industries Ltd. and a number of B. K. Birla Group companies. He is also a Trustee of a number of Trusts engaged in philanthropic work in the society.

Presentation:

Mr. S. K. Parikh, Executive Director, Kesoram Industries Ltd

Respected members on the Dias, distinguished delegates, distinguished Ladies, Gentlemen and friends. Good Afternoon.

It is a great pleasure for being invited for discussion on 2006 Policy Dialogue on Corporate Governance in India. For a person like me, in the presence of such eminent and knowledgeable persons who are probably more qualified, more experienced in these fields. Here, I may add that by temperament I believe to listen than to speak because I know that by listening, you will get better knowledge than by speaking, however, I am associated with B. K. Birla Group, which is one of the pioneers in bringing and upholding the ethical value and good corporate governance practices in India.

Moreover, having spent more than forty years in industry and being a professional accountant and Compliance Officer of Kesoram Industries Ltd., a listed company of the group, I would like to share my views, which can broadly be categorized in three parts.

Ladies and Gentlemen, as a Chief Accountant and Company of said company, now I deal with the past, going through a copy of 46th Annual Accounts for the year ended 31st March 1965 of the above referred company, I observed that during those days, the Managing Agency system was prevalent, the disclosure was made then to the shareholders, being a listed company and the explanatory statement to the proposed regulation and the annual report of that year may not reflect, in terms of all regulations and disclosure that are required today but the basic principles of disclosure, whether statutory or not were made by our company and I feel also by other companies, even forty years ago, as well as, which to summarize, may be as follows.

In the said annual accounts, we had disclosed the name of selling agents and commission paid to each and sole agent, the name of distributors of the company and the commission that they were entitled to, whether there has been any change in the commission, structure for the agents, distributors during the year, under review.

The remuneration paid to the management agents, disclosure in terms of purchases, sales and exports, disclosure in terms of operation of each unit and plants that the company was operating at that point of time. Also, there was relevant information, which the company's board felt desirable to disclose for the benefit of the shareholders. If we go towards the annual report, the annual report also contained the summarized financial performance of the company for last five years. The auditor's report, we get the same today, the report for that year, contained the following observation on the main audit report itself by Pricewaterhouse, our auditors – 'certain detailed records of the textile factory are not available for our inspection as the same, we are informed, were destroyed in

a recent fire'. If we go through the present scenario, it is even after forty years, similar disclosures are being made by the auditors. On the face of audit report, for example, in the year 2004-05, it was like this –'on the basis of examination of the inventory record, in our opinion, the company has maintained proper records for inventory other than 'work in progress'.

My only intention by referring the above is to bring to your knowledge that disclosure norms prevalent at those years hold good even today and I am now, under circumstances, trying to glorify the past of the company, therefore now let us come to the present.

The Accounting Standard Board in India was constituted and it has come with 29 standards so far as they are necessary, keeping in view, liberalization, globalization trend in our country and which are being complied with by Indian corporate world generally. In the meantime, to improve the existing non-financial disclosure on the basis of KumarMangalam Birla Committee, the first formal regulatory disclosure was listed for the listed companies, specifically for the corporate governance was established by SEBI in 2000 by directing the Stock Exchanges to incorporate a new clause 49 in the listing agreement.

It is worth praising the SEBI for further periodical steps taken by it. In other words, tremendous changes have been taken place and specially, I will say, in the matter of the auditors, directors audit committee, I would term it as a regulation than to call it mere changes. The development in computerization, information technology, networking, internet, e-business, outsourcing have affected the business world but sadly the world has also witnessed major financial disasters like South Asian financial crises, the collapse of Barrings Bank, Enron, World Com, the collapse of one of the largest accounting firm in the world, financial inflow and outflow through electronic transfer resulting in ill-gotten money being diverted to terror medium and narcotics. Nude dimension of risk and fraud that have been detected on account of change in IT system, to only name a few.

Friends, all this has resulted in complicating the disclosure norms, corporate governance ethical business practices. In India, the standards of financial as well as non financial disclosures are prescribed by the Company Act, SEBI, ICAI, ICSI to serve the following purposes, to ensure that all the stakeholders get proper information about the working of their companies to ensure that the wealth of stakeholders invested in corporation is not wasted by the management, to ensure that all the statutory rules and regulations are being observed and followed by these corporations.

Moreover, the present era has also witnessed stock option, financial derivatives so without really going into details of comparing the international non financial disclosure with Indian non financial disclosure and how they are similar or different from one another, it is my personal opinion that today, in 2006, bearing

the least developed nations that are still closed to the world, majority of the nations which probably comprises 70% or more of the total global trade have quite similar non-financial disclosure and corporate governance norms at macro level except for the legal angle which varies from country to country. The difference of legal system from country to country can easily be understood with the help of experts like you who are present in this august gathering and efficiently conduct gap studies, effectively report and disclosure norms between a financial statement of a country and another. Resultingly, necessary standards could be formulated for the above gaps. Of course, keeping in view the applicability and desirability of the Indian business conditions.

Challenge for future. Business is continuous process and any hindrance in the continuity affects its growth, which is undesirable.

Now, I would like to share with you, some of the interesting issues relating to problems which a corporate company faces. As you know, there are more and more requirements prescribed for compliance by the industry whereas the privileges are made available to the shareholders only. We have got 80,000 shareholders. Out of that, 70,000 or 65,000 hold only 10 shares. We make two time offer of buy-back because one folio costs 32 rupees, we offered them that you sell it, we will purchase it but no one came forward except 2 to 300 shareholders. With this background, kindly take it, what I am saying now.

Recently, more and more shareholders are taking the AGM as a profession by holding qualification shares, to earn a right to speak at the said meetings for unlimited time, aimlessly and the Chairman of the AGM has no right to stop them. Further, management always informs the shareholder by way of notice to send their queries in advance but no compliance is made to that whereas they insist for information in the very said meeting or after the meeting is over. The Company Act allows only availing of certain information and inspection of certain documents as prescribed in the Act like, inspection of charge register, shareholders debenture holder register, contract register, loan, guarantee and investment register, director's register and their shareholding register but it is silent on other financial statements of the company. What information they are entitled to, what information the management should give?

Although the shareholders have got every right to complain against the company with the Company law department but the management should also have similar right to complain against such professional shareholders who do not allow to conduct the meeting in a graceful manner and prevent the genuine shareholders to speak and put forward their views for the benefit of the company and investor at large. These kind of professional shareholders do not have any obligation or accountability, whatsoever.

Unparliamentary language is used in the speeches. Undesirable actions witnessed in the meetings and otherwise, which will be clear from the following

example. A company 'A' receives a notice in December 2005, requesting the company to remove the Chairman, the allegation appeared to be only that, that reply to the shareholder letter is not signed by the Chairman but by some junior officer. After that, one month, again a letter is received from the same shareholder, which reads as under 'please refer to my letter dated such and such, giving the notice under the Company's Act for removal of the Chairman of the company in the forthcoming Annual General meeting. I hereby withdraw the said notice unconditionally and request you, not to take any action in respect of said notice. I have full faith in the able leadership of Shri. so and so, the Chairman of the company.' You can easily understand, what is the motto? It is not out of place to mention that company has not taken any action in respect of this episode. I think, most of the companies being represented here must be facing similar experience, so my humble suggestions are, why a code of conduct should not be prescribed for such professional shareholders? What about the code of conduct or behavior of the shareholders at the AGM.

Further, I feel it, it is necessary that some norms should be laid down by ICSI, ICAI or any other authority for the AGM in respect of time a shareholder is entitled to speak, for supplying the information about the annual accounts, his right to get the information other than what is prescribed under the Company's Act after the shareholder meeting is over. Further, in order that the standards, non financial disclosure, corporate governance are implemented in substance, a more proactive role of ICAI, ICWAI and SEBI is necessary. It is highly desirable that seminars, workshops, training programs are organized regularly so that Executives get opportunities to express clearly and practically difficulties and participate in the process to help to improve the quality of efficacy of such companies. Some of the items of Section 49 on corporate governance still require immediate attention like, there is one provision, periodic reviews of the compliance report of all the laws applicable. So far, I have been able to identify 75 laws. How many are applicable, how many are not applicable, how to implement, what should be done?

Risk management and minimization procedures, basis on which CEO or CFO should rely while confirming to the Board that for necessary compliance and there must be some defined back to back comfort mechanism. The certificate was placed before the audit committee. Audit committee's question was, Mr. so and so how you have verified that these laws have been duly complied with. No reply.

Corporate India is in favour of transparency and implementation of all financial and non financial disclosures including Corporate governance norms that regulators desire. These corporations and business groups have always followed and have never objected to any legislation, which is practicable and for the benefit of stakeholders but always brought forward in front of relevant authorities, the difficulties faced for implementing their impractical, illogical legislature. The issues raised by me are being raised only on account of

practical difficulties experienced by the industry and it is for the benefit for the entire industry. Here I would also like to give an example. Our group had decided that audit committee meeting should also be held at plant level, at least two meetings in a year so that all the senior executives of the plant are present there, they give their views, the directors are able to take the round of the factory and they can give their suggestions and I inform you that, that experience is very well appreciated, that report we have shown to the bankers, that report we have shown to the other authorities and they have appreciated that independent directors have given their report about the working of the company.

It will be unfair on my part, if I don't put forward the problem of the industry before this august gathering. Wherever the eminent experts are present and many are presiding over their various technical sessions to substantiate my point of view barring a few 'fly by night' operators, a vast majority of industry has been in existence for business nearly a century now, so challenges are many in front of the learned audience but take it from me that an octogenarian like me, I am a firm believer that the future is great, I am sure that the gatherings like this will bring forward and better and more transparent and practical norms, which must of course ensure that all stakeholders interest are protected and just do not remain as a legislation or guidance. The industry welcomes such new thought processes as it always has been open and acceptable to the changes, new ideas, which benefits all the stakeholders including regulators.

Thank you.

**Presentation by Mr. T. Manoharan, President, Institute of Chartered Accountants of India
(Not done as requested)**

Question & Answers:

Question:

My name is Louis from the OECD. I have two technical questions. I have learnt earlier today that you have now got 28 IAS standards. This morning we learnt that they are to be adopted as of the 01 of April this year. So a concern from OECD perspective, how are you going to implement this and in particular, you can say, okay, that is to be adopted as of 1st of April but that means huge effort has to be undertaken by whom. Not only the companies but also by the supervising institutions, so my question is, how is that going to be contemplated and second, by whom, by which institutions which will secure the quality and then almost different topic, we have seen, also in Asia and in some countries that there is this tendency to have this mandatory rotation of auditors every five years or every three years or every seven years. Is there a similar initiative being considered by the Indian Policy makers.

Response:

The first question is about the modus operandi as to the implementation from 01st April, since it is notified. In India, there will be no difficulty in such an implementation for the simple reason that all the standards have been in vogue, formulated from time to time since 1977. They were recommendatory, to begin with, even to the professionals. Then in 1991, we made them mandatory for the professionals, Chartered Accountants but it did not have statutory backing under any law. It was the Institute's formulation and imposing on the members who were reporting on the financial statements. Then in 1999, the Ministry of Company Affairs amended the Company's Act and said, we will have to give the standards a statutory backing so that it is not only the professionals who will enforce these standards, even the corporates will follow the standards, will be mandated to follow the standards and since this process is bound to take time, to fine tune it, they said, for the time being, let the standards of the Institute of Chartered Accountants of India, which is already existing shall be applicable to the companies so in 1999 itself, the Ministry was gracious enough to say, let there be no void or a gap, let them be applicable so it gave a deeming statutory backing. Now what is being done is, it is being formalized by clear vetting by an independent authority, National Committee for Accounting Standards Advisory Committee, so they have vetted it. Infact, when we formulate standards, we get views from various stakeholders and interest groups and fine tune it or modify it, same way, NCAS also has applied its mind, vetted it and suggested to us, certain fine tunings, certain modifications, which has been done. So these standards as modified, which are the accounting standards applicable on the professionals, were also deemed to be applicable to companies now gets absolute statutory backing with the Government's notification, as it comes, so therefore, there is no additional cost of compliance because they are already being complied. Now with more statutory backing, it will be monitored.

Now, who will do this? Effective implementation is your supplementary question. As far as the professionals, Chartered Accountants who are attesting our

concern, the Institute will monitor that any deviation from accounting standards are properly reported to the stakeholders by the members of our profession, failing which, we will take action against them. If corporates are not complying, the Ministry will take action against the corporates, so the responsibility is divided but joint and we will do it in a cohesive manner.

Now, as per your second question, as to the rotation of auditors is concerned, here also the debate started five years ago as to the stand to be taken and after analyzing the pros and cons because rotation has certain advantages and it also has its disadvantages of destabilizing the firm, which has domain knowledge of that business and a newcomer taking time to get to know that business before he starts auditing and management, which is not comfortable with a good firm can destabilize that firm by using rotation, so there are pros and cons. We thought, to begin with, we must consider only, rotation of partners, not rotation of firms. So this is the recommendation made by Naresh Chandra Committee to the Government also and the new Company Law bill is in the reformation stage, so this is the line of thinking at present.

Question:

I am a Professor of Accounting currently visiting Indian School of Business. My question is about principle verses rule-based standards. Lot of commentators have indeed said that Enron was caused by rules but it also has been the experience that principle-based standards have not worked well like the standard about revenue recognition. It was in the US. It was a nice principle-based standard, revenue should be recognized when they are earned and when they are realized or they are reliable but there were lot of abuses, particularly by the Dotcoms and then the ICC with the staff accounting bulletin, which has a lot of very specific guidance. So will you comment on the contrary viewpoint.

Response:

No, just as I mentioned, rule-based has its disadvantages and I just gave an illustration. With reference to any philosophy, in any field, there may be certain strings attached. There may be certain inherent weaknesses attached but which one is capable of being monitored more effectively with lesser perils or lapses is the question so on a comparative analysis, I do not disagree with you that principle-based, there could be an element of, when I say, professional judgment, it is possible that somebody exercises that judgment with some amount of discretion and therefore he deviates and all that and still tries to justify but on a comparative basis, I am of the opinion that principle-based approach has less pitfalls as compared to rule-based approach.

Question:

We did a study in Amsterdam, looking at the number of countries that have adopted and we found that 27 only adopted and then we plotted the so called GDP and found that there is not enough of a push so when do we expect the convergence to happen or who is going to do the pushing to get all the countries to make this harmonization, so that's one question.

Second question is, in Russia, at least in the Round Table, we have tried to implement a few of these measures and it is really very hard because without the authorities having the incentive in clear simple rules was difficult like for related party transactions, the assumption would be, maybe a year or two but infact, the regulator found that it may take, maybe three or four because of the complexity so sometimes, rules are simpler when you have poor incentives and in transparent regulators so that's a question, I am wondering, this experienced different and that's not an issue in the 27 countries we are talking about.

Response:

Now as far as the convergence to be carried forward to its logical conclusion among the global nations, who will do it, who has to pioneer it, while all the agencies here will march towards that line of thinking, I think, the actual initiative has to be pushed by the IASB, International Accounting Standards Board, which is the standard setter for the IFRS. As far as the auditing standards, it will be the IFAC, the International Federation of Accountants, which will have to get that accomplished through the mandate to be given to the member bodies because 163 accounting bodies are members of IFAC drawn from 122 countries and the Institute of Chartered Accountants of India is a founder member of IFAC and is in the governing body of the IFAC represented by Shri. Kamlesh Vikamsey is IFAC Board member so IFAC is taking the initiative for the convergence of auditing standards across the globe and I am sure, on the same lines, IASB also is, infact IASB is saying that we are having open mind as far as IFRS is concerned. If any national standard setting body is deviating from IFRS, we are open for a dialogue or a discussion. Either you convince us to modify IFRS or we will convince you to modify your standards at par with IFRS so with that mechanism of negotiation dialogue, I think, world over the community should march towards convergence.

Now, as far as the other aspect, you have also supplemented the earlier speaker saying that when it comes to certain transactions like related party transactions, maybe rule-based is simpler and all that. As I said, it is a matter of opinion as to which one is better but by historical experience, we find that principle-based gives room for evaluating it in an objective manner whereas rules might be simpler but they also become sometimes easy to overcome or difficult to exercise your judgment in an objective manner, that is where the itch arises but it is a debate, which has to continue. Infact the agreement entered by standard setters of US GAP with IASB, the clear indication is that, even the US GAP standard setters are moving towards principle-based. They seemed to have realized that it may be in the larger interest on a holistic approach, principle-based is better than rule-based and they have given a road map by 2009, the US standards GAP also will move towards IFRS, the cost of compliance has gone up phenomenally making some of the corporates not to go for NASDAQ or New York Stock Exchange but to go to UK stock exchange or European markets, so these things must have made the US standard setters also that maybe it is in the larger interest better to have convergence and they also seem to be thinking of

abandoning the rule based approach and moving towards the principle based approach.

You mentioned about the countries, which have now converged and you said that there is an inverse relationship of GDP with the countries which have adopted IASB but of course, the development of the European Union is a very significant development, which has accepted the IASB, the IFRS plus the Australian economy has accepted. China, we are told, so David was here in India last month in one of the international conferences, which the ICAI had organized and he made a public statement that even China is willing to negotiate talk, Japan is willing to negotiate and talk, India of course, we are open to the idea of a dialogue provided of course, there are some standards where we have our own opinions, which we are going to share with the IASB and of course, thereafter, the road map is there for convergence but of course, you would agree that the need for having a one global standard, it has become a compulsion in terms of how the businesses are operating now across the various borders and therefore there is definitely a need for one set of international standards, that cannot be wished away, with the kind of scenario in which we are living in today.

Question:

My name is Professor Ram, specialise in the area of accounting and finance from Venkatesra University, Triupati, Andhra Pradesh. My question is, the whole world is moving towards information technology and there is no exception for India also. We are extensively utilizing information technology in the sphere of the accounting and we are thinking in terms of paperless job and paperless work and paperless accounting and so and so forth. While preparing the entire account in the electronic form and getting it audited through Internet and other things, is there any specific standard you are specifying clearly as a professional body in order to maintain transparency and quality of information, particularly with regarding to financial disclosure as well as corporate governance disclosure practices in our country, not only in our country but throughout the world.

Sir, my question is, to what extent you are going to maintain the quality as well as the factual information through the internet and other related website based information system. Is there any specific measures or standards you are suggesting or you are thinking of in terms of having a sound and fool proof accounting standard in this regard.

Response:

In developed countries, the XPRL is being implemented, Extend Civil Business Reporting Language is the software that has been developed whereby if the entity uploads its financial statements and other details into that reporting language, it automatically gets translated into the standardized format which is understandable to all stakeholders and users because that is the level and quality of the software that has been developed and now that is spreading across the globe to different countries so this XPRL is also taking initiatives in India because what happens is, in every country, some authority, some agency, some

body has to assume jurisdiction to monitor and implement XPRL so that the regulators also get the facility of that language so that the comparability becomes easier, the crucial data becomes readily traceable and acceptable by press of one button so that XPRL is already in vogue, what you have in mind, is already in vogue but the successful implementation of that is taking time because again the acceptability across the country has to take place and the implementation in terms of jurisdictional issues need to be addressed and I request Chairman to further elaborate.

Well, as far as the IT platform is concerned, you are right, most of the accounting is now done on IT platform. Infact, large companies, why talk of large companies, even SMEs are now going towards ERP packages, maybe not the large ones but smaller ones. Looking at the profession, let me just inform you that we also train our members to do auditing on the computers through various audit tools. Infact, we have introduced a specialized course, which is called the CAATs, computer aided audit techniques, whereby we train our members, how to do an audit on the computer straight instead of going around the computers and doing an audit. We have also launched a course on 'Information Systems Audit', which is basically an audit of not necessarily financial statement but the systems as far as the IT environment is concerned, weaknesses and controls, how to plug those weaknesses so these kind of trainings are being imparted to our members, even at the student's level, we have now started imparting training on IT. This is of course a very important question, which you have raised on the IT platform and yes, everything must move towards IT, that goes without saying and because the world is moving towards IT, world is digitizing and digitizing at a very fast pace, it is very important that we as a profession also keep track of things, what are happening, so of course, it is a very good suggestion, which you have given and we are alive to that.

Question:

I have an observation for Mr. Parekh. If I understood you correctly, you are not quiet happy with the way the annual meetings nowadays go and that you had the idea of perhaps putting up some kind of code of conduct for these shareholders. I can tell you, it is for the Chairman and the Articles to deal with this and we have long experience with shareholders in Germany, in particular who take a long time for all their questions and what not but you will have to live with it. You can try and give them some examples but you cannot enforce it. More the Chairman of the meeting and some good rules in the Articles but if you have your shares in the public, you have to suffer through this, there is no way to complain afterwards that so and so wasn't overly appreciative of all your efforts and particularly, if the performance isn't good enough, you got to listen to these fellows, so I am afraid, I have to disappoint you, this code of conduct, to have everybody nice and dandy wont' work.

Response:

Question is, I am not in favour of restricting their rights. They are welcome. The question is, the question or the information, which they want should be of interest

to all the shareholders, not to one and moreover the Act or the rules are silent that to which information they are entitled to. Moreover, they put the question, gentleman, here the word 'Mr.' has been used and somewhere 'Shri' has been used so why the accounts should not be not passed, these type of things, to create the problem. What happens Sir that those genuine stakeholder, they want to give their suggestion, they get only one time in the year, where they can put up their views before the directors that is lost. How long they can go on. One thing, they go on repeating, repeating. Only from that angle, if there can be a code of conduct for the Board, there is a code of conduct for the directors, there is a code of conduct for the senior executive, why not a code of conduct for shareholders. I am only equalizing them. Someone put a question, how you can make a code of conduct for directors, you are under us . Still a code of conduct has to be prepared and that responsibility is there. Similarly, I say that some institution or Government or someone has to say that yes, this is the code of conduct for the shareholder, you can only ask for this information, you send a notice well in advance, that should be made available. If they are not satisfied, Company Law department is there to take the action.

The practical solution, which I have seen in such cases is that companies have their registered offices in remote locations so I know of a company where we had 80,000 shareholders and only 5 shareholders attended the AGM so all resolutions were passed without any objection.

I think, that's not a very healthy kind of a thing because in a democracy, even when there are stakeholders, I mean, obviously, you must give them opportunity

Do you think Sir, this will be fair in the interest of the shareholders. My only question is, we want to follow a system which is fair to both, the management and the shareholder otherwise you can pass all the resolutions by ballot.

It is a question of balancing. Let's not destroy the corporate democracy. Infact, corporate democracy must work in this country also

it will be of interest to you. My Chairman has never missed Annual General meeting because the moment the people come to know that he is out of India, even if we have to defer the date because they say, it is only one occasion in a year that the shareholder who have faith in the board, they are able to meet him.

Question:

While we are discussing convergence of IFRs with Indian standards, I have one or two very small doubts on which I need your clarifications since we have got the opportunity. What happens when there is a contradiction between IFRS and the corresponding Indian standard on a particular situation. The second is whether what happens when Indian standard is silent and there is a relevant IFRS available to meet a particular situation and the third and the last one is when both are silent. Is it a situation like, we have table A and Articles of

Association, we have some standard procedure to be followed to deal with the internal management situation vis-à-vis this table A and Articles of Association and related question also. What about the qualitative aspects of certain activities of the corporate which cannot be quantified. Are their accounting standards or their proposals to have accounting standards, for example, comment of the auditor on the quality of manpower of the company, quality of the senior management of the company, which cannot be quantified.

Response:

Standards are nothing but best accounting principles codified so these are codified best practices and therefore the process of codifying more and more best practices into standard is an ongoing process so where there are no standards, what ever is considered appropriate or best needs to be followed. Number two, where there is no accounting standard in India on a particular subject, then that particular industry is expected to follow, whatever is adoptable to that particular industry so as to present a true and fair view to the stakeholders. It is not as if only the standards pronounce the best accounting principles, the accounting principle fundamentals are already in place and they are also pronounced in the form of guidance notes, technical guides, which we come out from time to time. Infact, what I can say, what is initially bought out as a guidance only transforms into an accounting standard and wherever the industry is emerging newly into a stronger base of operation in the economy, we immediately come out with that kind of a guidance to the business entities and to the stakeholders.

You asked about a situation where it is conflict between international and Indian, it depends on the jurisdiction under which the corporate entity has to report or has to submit, so as far as the Indian jurisdiction is concerned, our standard is binding and operating and if they are reporting to regulatory authority in a nation where IFRS is binding, then they will have to translate the same accounts into IFRS mode, that is why you find some of the entities, like Infosys translating their financial statements into 18 accounting standards because they are governed by regulators in 18 different countries so this is how it operates.

The scope of reporting by a professional is not all encompassed. It is with reference to the true and fair view of the statements. Now, therefore the scope of general audit is confined to the evaluation of the compliance of the standards vis-à-vis the disclosure presentation requirements.

Now we are yet to come out with this human resources accounting or evaluation and so on and so forth, that is unknown. Till such time, it is not yet evolved, that is not an area, which is commented upon but if it could be a special audit or an investigation audit, then the scope could be different and based on the terms of reference, the professional is expected his opinion or objective evaluation on those aspects also.

Just to supplement the reply to Mr. Parekh that the question, which was raised, the gentleman was out of context because he perhaps referred to the problem, which is about the professional shareholders. These are limited to very few numbers. In the AGM of 1500 shareholders who are attending, only 5 or 6 persons who are common to every AGMs are creating these kind of problems. This is reference to that particular shareholders only.

Concluding remarks:

We have had a very healthy discussion on the international standards, on the Indian standards, Mr. Manoharan gave a very broad overview of the Indian standards, Mr. Parekh very nicely came out with the evolution of the disclosure and accounting principles over the last more than four decades, he has vast experience on the subject.

I would only briefly make certain few comments and thereafter conclude the session. In an international conference it was mentioned that if anybody has understood IAS 39, he has not understood. That is the statement which Sir David the Chairman of IASB made himself. He mentioned that these have been borrowed from the US rule-based kind of a thing and therefore, the standard is very lengthy and very complicated, the financial institutional standard, we are grappling with it. We want to bring it in India as soon as possible, we want to put it into place but we want to carry all the regulators, the Ministries into that particular exercise of adopting that particular standard.

Now, as far as training is concerned, very important. The ICA Institute is taking it very seriously. Infact, we hold considerable amount of continuing professional educational programmes, as Mr. Manoharan rightly pointed out, we have several publications of the Institute like guidance notes, the study on various standards where we try to explain the standards when we try to say, how the standards have to be applied but training of course, as far as the user point of view is concerned, also is very important. Training inside the companies who actually do the accounting and training the auditors, who actually go and audit and see whether those standards have been followed or not. We take it up very seriously and we would see that we would enhance the levels of training, which are required to implement these standards.

Enforcement, most important because you may have the best of standard but if it is not enforced and nobody looks at it, it is not a very happy situation and therefore as far as the ICAI is concerned, we have taken it upon ourselves the fact that, number one, as I mentioned, peer review are very important exercise and FRRB, which are the most important, that statements in public domain which have several qualifications and we have seen several financial statements being qualified by auditors and of course a stage will come when the regulators and Ministry may say, no qualifications, one should go and explain the auditors, auditors will enforce whatever may, their professional judgment on the standards but this is a very important aspect, which we need to work on.

Well, friends, we have had a very good discussion and I must thank the Ministry and OECD and National Foundation for Corporate Governance for organizing this programme and keeping this very important subject of financial reporting standards topic for discussion in this conference. What we would do is, we would send our feedback to the Ministry from the discussions, what we had with the participants.

Thank you very much.