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A STUDY OF IMPACT OF IFRS ON CORPORATE GOVERNANCE OF COMPANIES

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Abstract

Corporate governance is a structure or system created in corporate for fair and transparent governance. Corporate governance ensure smooth functioning of top level management and in right direction. Corporate governance is based on three pillars viz., Accountability, Transparency and fairness. Financial reporting is one of the important aspect of corporate governance. Fair, transparent and regular disclosure of financial information about of organisation is expected. Indian firms have adopted Indian accounting standards (convergence version) for financial disclosure. Financial disclosure can provide relevant and important information to all stockholders. Higher quality accounting disclosures may bring transparency in reporting. Disclosures of earning, estimation of earning and distribution of earning with IFRS can be disclosed more precisely and more relevantly. International Financial reporting standards deals with effect of changes in foreign exchange, related party transaction and investment in associate's entity. Disclosure of accounting policies and procedure in case of IFRS is more relevant and transparent as compare to the Indian accounting standards. Decision making process and treatment of various delicate issues can be reflected in most appropriate manner. Hence one can easily have an idea about working of governing body.

Hence, by adoption of IFRS one can have better picture of organisation. As well as we can come to know that what is role of top level management in such issues. Present research paper is investigating the impact of IFRS on corporate governance. Adopting IFRS may provide better information to various stakeholders of the company. The present research work is explorative in nature. We have made an attempt to compare reporting aspect of selective IFRS with reference to IAS from the view point of better corporate governance.

Key Words: *IFRS, IAS, Corporate Governance*

INTRODUCTION

Financial reporting standards provide principles for preparing financial reports and determine the types and amounts of information that must be provided to various users of financial statements, including investors, regulators, employees, government and creditors, so that they may make informed decisions. Reporting standards makes reporting uniform. Over and above treatment to various financial transactions will be uniform. Understanding of the underlying framework of financial reporting standards, which is broader than knowledge of specific accounting rules, will allow an analyst to assess the valuation implications of financial statement elements and transactions—including transactions, such as those that represent new developments, which are not specifically addressed by the standards.

India has not adopted International financial reporting standards fully. India has adopted convergent edition of international financial statement standard. However such adoption make reporting more transparent and relevant to certain extent. Indian financial reporting standards are in the line of IFRS to certain extent. However there are several difference in the interpretation of selected aspects of financial reporting.

Adoption of New Standards of reporting imposes additional responsibility on the head of board.
One of the basic features of IFRS is that it is a principle-based standard, unlike US GAAP, which is rule based. IFRS involves extensive use of judgement in selection of appropriate accounting policies and alternative treatments, including at the time of adoption. Also, IFRS requires valuations and future forecasts, which involve use of estimates, assumptions and management's judgements. It has been observed that the combination of all these factors can have a significant impact on the reported earnings and financial position of an enterprise. So far, audit committees and board of directors largely had an oversight role on accounting matters. With IFRS, this role is set to get enhanced considerably.

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Therefore, audit committees and boards in India have to specifically focus on how well companies are geared for the transition to IFRS. The members responsible for governance should spend considerable time in ensuring appropriate convergence of Indian GAAP with IFRS. Further, board members must understand the impact of convergence on significant accounting matters and their likely effect on financial statements.

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LITERATURE REVIEW

Campbell and Wang (2012) has examined impact of corporate governance, earnings management after adoption of IFRS in Chinese company. It has been observed that adoption of IFRS has not impacted earnings of the company but it has improved corporate governance. The study reveals that top level management of the company adopted a practice of appointment of independent director in the company.

Musteen, Dutta and observed (2010) that firms with greater proportion of independent director or outside directors along with longer association with the board provides better reputation to the firm.

Research Methodology

Research Objective

To compare Indian and International financial reporting standards in the context of corporate governance and find out scope of improvement.

Research Design

The said research is explorative in nature. An attempt has been made to compare three Indian financial reporting standards and International financial reporting standards. Discrepancy in such standards has been explored in the context of corporate governance reporting aspects of company.

Scope of Research

Present research work is restricted to three accounting standards only viz. Ind As24 and Ind 27 and relevant international financial reporting standards for the same area.

Analysis of selected areas of reporting:

Related Party Transactions

1. Related party transactions has been treated more conservative way by Indian Accounting standard as compare to IFRS. According to Indian Accounting standard related party means and includes relative of director of company. It includes relative with blood relatives. According to Indian Accounting Standard related parties mans and include:
   - Individual's domestic partner and children
   - Children of the Individual's domestic partner and
   - Dependents of the individual or the individual's domestic partner

IAS has not considered any other relative in this case. Hence they have not considered any other person who having influence over the board of directors of company.

There may be many other person who are not relative of the member of board but having influence over the individual.

IFRS has taken a broad view in such case. IFRS has interpreted "related party" as any other person. "The closest members of the family of a person who may be expected to influence, or be influenced by, that person in their dealings with the entity….." Thus IFRS has taken into account every other person who have significant influence on the member of the board to whom company has transferred resources.

One should consider the word "influencer" in very broad term. It must include all types of influencer other than "family members".

Transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged or not….. -This phrase made scope of related party interpretation very large.
Indian Accounting standards need to change text to make it international and make it truly professional. Here in this case Indian Accounting standard includes only nearby relatives of the board member. This interpretation dilute level of transparency and integrity also.

Consolidated Statement of Accounts:
Ind AS 27 prescribes specific format for presentation of consolidated financial statements or as near thereto as circumstances admit, where parent is a company. It sets out the minimum requirements for disclosure on the face of

- 'Consolidated Balance Sheet' at the end of the period and a 'Consolidated Statement of Changes in Equity' for the period as a part of the 'Consolidated Balance Sheet',
- 'Consolidated Statement of Profit and Loss' for the period, and
- Notes to accounts.

However, IAS 27 does not prescribe any specific format for presentation of consolidated financial statements.

IFRS has not given any clarification of presentation of consolidated statement of accounts. Consolidated financial statement is one of the key area of reporting. Consolidated statement provide information of entire group. It discloses overall profitability of the organisation. In such reporting user of the financial statement should obtain relevant and necessary information. Impact of working of all the subsidiary company can be easily observed in case of consolidated reporting on the holding company. Consolidated financial statement provide information about solvency of entire group along with its profitability. However there is no clarification from governing body who is issuing IFRS. This may leads to lowest disclosure on the part of group disclosure. Holistic view of the organisation is very important. Such view can be obtained from consolidated statement only. IFRS should provide an appropriate format for the reporting so that one can obtain holistic information.

Indian financial reporting standard recommend to give a statement of changes in working capital. This statement shows detail aspects of fund available from the owners and any increase in such. Over and above utilisation of various reserves which areas belonging to the owners of the company also disclosed. This it provides detail aspects of changes in the capital of the company.

Scope of Improvement:
Reporting of financial statement of the Organisaiton in the consolidate form should be accompanied by the corporate governance report of respective holding company and subsidiary company.
In case of changes in working capital statement if disclosure about ownership of the shares by directors or board members can give more detail about interested director and independent director.

FINDINGS

1. Ind As has adopted conservative approach in interpreting "related party" transaction. It has been observed that IFRS has considered broader view in interpreting the term "related party" as compare to Ind AS. Thus, IFRS has considered more boarder view in corporate governance also as compare to Indian standards.
2. Influencer to the member of the board is more relevant interpretation for related party rather than person who is family member.
3. Consolidated reporting is more effective as per IndAS as compare to IFRS. IndAS has recommended one more statement along with balance sheet and profit and loss account for more transparent reporting of equity share capital.
4. Governance report is most important aspect in the Corporate Reporting. Hence it must be regularised in more systematic and more precisely. Due importance of such reporting should be given to corporate governance report. Reporting of most important aspect of corporate entity is not covered in the current reporting standard need to be addressed.
5. Respective regulating authorities need to adopt synchronised approach for the reporting of financial aspects as well as corporate governance aspects. Hence interest of all stakeholders can be taken care of at one place.
6. Financial aspects included in the corporate governance need to be highlighted. Any type of misconduct or negligence on the part of members of the board should be reported along with possible or current loss to the company.
7. Financial aspects of the company is managed by governing body of the company. Through currently reporting of governing body's working is not regulated. Present system of corporate governance need to be standardise.

8. Coverage of reporting of Corporate Governance in the accounting stands may give more effective information to the users of financial statements. Governance of the organisation gives direction. The present financial result of the organisation is also due to current governance of the organisation. However corporate governance is considered to be separate area of reporting.

9. Integration financial reporting along with reporting of corporate governance of company need to be developed with the help of various regulatory body. This will serve purpose of 360 degree reporting of financial statement as well as reporting of financial controller of the organisation.
10. Reporting of corporate governance of subsidiary companies is not covered separately in the reporting standard. Reporting of corporate governance of subsidiary companies are also important. However such area is not clearly addressed.
11. Movement or changes in the board of directors of the company is necessary to be reported. Addition of different directors of company or removal of directors and expulsion of director in the board need to be reported. Hence one can come to know about reasons for changes in the composition of brad.
12. Since last couple of years corporate shenanigan had been increased phenomenally. For such situation governing body of company is responsible in general and Audit committee in specific way. However there is no guideline for disclosure of such matter either in corporate governance or in Indian Accounting standards or even in IFRS.
13. Currently different companies are reporting about board of company information in the form of list of directors. However one can't come to know typo of directorship at a glance. One need to check director's report in detail for such information.
14. Uniform reporting method of disclosing different directors with their directorship nature is more useful for understanding structure of the governors. Over and above one should show composition of different committees just after list of directors.

Challenges in development and implementation of Indian AS

India has adopted a step towards convergence with IFRS, but with certain 'carve-outs' (and 'carve-ins') to ease adoption and temper IFRS to be more acceptable in the local marketplace. The fundamental question remains: how will India participate (if not influence) in the future development of IFRS? Will the inclusion of significant differences between Ind AS and IFRS mute India's voice relative to fully converged territories?

IFRS committee has adopted most flexible and realistic approach towards changes in the IRFS. Committee has decided to meet at regular interval of time and make necessary changes in the standard. Such adoptive approach ensures reporting of financial aspects of company more accurately and precisely. Unlike Indian Accounting standards it does not emphasis on the just legal compliance but also emphasis on spirit and intention with which it has implemented.

Development of standards after considering reporting corporate governance is need of hour for better and holistic reporting. Different stakeholder's interest with performance of governing body can be easily evaluated from integrated standards.

The biggest challenge for members charged with governance will be to manage stakeholder expectations in terms of meeting targets and key performance indicators, declaring dividends and explaining variations and volatility in earnings on a quarterly basis. This is a challenging task even now, but with the arrival of IFRS, the challenge is set to assume a different dimension. Audit committees and board members should start preparing for this challenge now.

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