Interview with Mr. Nilesh Vikamsey, Vice President, Institute of Chartered Accountants of India (ICAI)

Q: With Quarter 1 results less than 3 weeks away, do you think that the Ind AS rollout will be largely smooth?

Mr. Nilesh Vikamsey: This is first quarter where Ind AS will be implemented and luckily by and large, for a majority of the companies it will be limited review result. Assuming that there are some hiccups, still some time will be available, down the line during the year to sort it out. There are huge changes in some of the standards.. for eg. - IndAS 109 (Financial Instruments). Since IndAS is applicable currently to the larger companies with net worth more than 500 crores, I am confident that they will be reasonably geared up with professionals amongst them, for a generally smooth rollout.

Q: Which are the few common industry issues which are likely to bother the Corporates?

Mr. Nilesh Vikamsey: The first and the foremost issue will be Revenue Recognition. The revenue recognition standards are slightly more stringent in Ind AS than the current GAAP. That could cause some impact on the industry. For eg. separating the service and credit component on sales could reduce the Revenue of sale of goods whilst increasing Revenue of Services or Interest Income as the case may be.

"***First time adoption of Fair Value will have operational and practical challenges***."

Second could be concerns on Fair Value especially vis-à-vis Ind AS 109 Financial Instruments.

Financial Instruments standard may not impact the manufacturing or other sectors as much. Ind AS are not yet mandated to Banks, NBFCs & Insurance

Companies; they are a couple of years away fromInd AS implementation. However, in case of conglomerates, where they have underlying NBFCs or Insurance Companies as subsidiaries, there could be multiplicity of accounting. For purpose of Consolidation, they may have to adopt Ind AS, and for purpose of standalone reporting to IRDA or Ministry of Corporate Affairs, they will have to follow the existing GAAP as required by the regulator.

Q: Is India Inc prepared for Fair Value?

Mr. Nilesh Vikamsey: First time adoption of Fair Value will have operational and practical challenges . But the same will be true whether it's now or after one year or after five years. We will have to identify these issues and issue guidances as required. I am aware that RBI is also aware of some of the practical challenges and we will engage with them to see how we can help in mitigating the challenges.

"The concept of Cost or Market Value, lower of the two, is embedded in us. So there is a need for some unlearning and changing mindset …"

Q: Let's talk about ICAI's role in facilitating Ind AS implementation; How is the ICAI helping professionals gear up for Ind AS?

Mr. Nilesh Vikamsey: ICAI has been proactive and geared up with regard to Ind AS implementation, right from 2011. ICAI has rolled out IFRS/Ind AS certification courses and workshops and seminars ,few thousand of people across industry & in practice have attended and benefited from these courses.

We had the foresight and created the Ind AS Implementation committee which will focus on implementation issues, identifying issues, escalating them and giving guidance. They are also coming out with implementation guides for standards.

Q: Is the ICAI planning to issue more FAQs/ Guidance Notes?

Mr. Nilesh Vikamsey: Ind AS Implementation committee is geared up with excellent team members. Sub-groups have been formed to identify and tackle implementation issues and issue implementation guidance. Some of the implementation guides issued will need to be updated since they have been issued based on 2011 standards notified.

The Research Committee of ICAI also has decided to revise its existing Guidance Notes in the Ind AS context. This would be completed at an early date.

Q: Will this sub-group be active for a couple of years?

Mr. Nilesh Vikamsey: This year is most critical, and then depending on the need this committee will continue. The committee may be needed at least till 2018-19, to assist in Ind AS implementation for Banks, Insurance companies and NBFCs. Having said that the Council has the powers to relook at the committees as also how the needs can be delivered to the profession and other stakeholders.

Q: If Companies want to seek clarification on certain Ind AS or certain transactions, should they approach Ind AS Transition Facilitation Group (ITFG) or the EAC?

Mr. Nilesh Vikamsey: Even the EAC will be geared up. But initially, since there is a specialised committee created to facilitate Ind AS implementation, ideally issues should be highlighted first to Ind AS implementation Committee to look into and do the needful.

Q: What would be your advice to professionals?

Mr. Nilesh Vikamsey: To the best of my knowledge, most of the firms who will be auditing Companies to whom Ind AS is applicable are geared up or gearing up. Firms are training partners, and qualified and other staff with internal and external training sessions. There is no choice; one will have to be geared up.

This is a huge opportunity especially for the youngsters, with more than 140 countries adopting IFRS. We are opening world of opportunities for professionals with Ind AS knowledge. My Advice to youngsters is to gear up, get yourself trained, equip yourself with adequate knowledge of Ind AS standards and gain practical experience on Ind AS implementation side.

Q:Ind AS is a sea of change from the historical cost accounting that we have been following for so long. Does Ind AS need a radical change in mindset for auditors?

Mr. Nilesh Vikamsey: The concept of Cost or Market Value, lower of the two, is embedded in us. So there is a need for some unlearning and changing mindset.

On how to look at fair value & estimates, members will need to have reasonable understanding of SA 540"Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures".

Internationally ISA 540 auditing standard is undergoing a change. Incidentally, our past chairman of AASB, CA Abhijit Bandyopadhyay is part of the working group of IAASB (International Auditing & Assurance Standard Board) which is revising this ISA 540.

"Basically, we are trying to keep up to date with the international auditing standards."

I would advise members to look at this standard; it will help them in auditing fair value and estimates.

Q: Disclosures are very detailed for several Ind AS. Do you think Institute needs to publish some illustrative financial statements with standard text to be used for notes to accounts?

Mr. Nilesh Vikamsey: Till date, we have not done this; even when the Revised Schedule VI had come in. It is a good idea and we can take it forward and see if we could come up with standard template. I will escalate the same.

The Research Committee has taken up a project on disclosures under Ind AS for compliance purposes.

Q: ICAI is also updating the old IGAAP standards with an intention to reduce the GAAP differences between Ind AS and IGAAP standards; how soon are you likely to complete this?

Mr. Nilesh Vikamsey: Even presently the standards we are following are based onthe International accounting standards, only the periodicity of updation was not as frequent.

It is a conscious decision now taken that even the other standards will be absolutely similar to Ind AS or IFRS, except that complex areas like Fair value accounting or IRR or Discounting, will be removed for the benefit of Small & Medium Enterprises and practitioners. All the standards are being reworked to remove in principle the major complexities.

The idea is that the Small & Medium Enterprises adopting these standards can easily migrate to accounting required for larger entreprises as and when they grow in size. Similarly migration will be easier when professionals auditing these Small & Medium Enterprises move to larger corporations. There is a work plan in place. Few standards are already revised keeping the objective in mind. And others are being revised.

Q: Comments on the ICAI's recent revision of five Auditing standards?

Mr. Nilesh Vikamsey: Basically, we are trying to keep up-to-date with the international auditing standards. Whenever any new or revised auditing standard is issued internationally by IAASB, our Auditing & Assurance Standards Board, takes a looks at it, and takes a decision to adopt /converge with it or not. Unless there is a specific reason not to adopt, the international auditing standards are adopted and changes made when deemed necessary.

We are almost aligned with international auditing standards; there are no major differences in our auditing standards except for one standard SA 600.

Q: Comment on the SEBI amendment to its regulations changing the format of qualified opinion reporting?

Mr. Nilesh Vikamsey: Just to give you background, SEBI set up a Qualified Audit Report Committee (QARC) in 2012-13 to analyse the Form Bs of companies. There are two forms to be submitted with SEBI; Form A was unqualified audit opinion and Form B was qualified audit opinion. Incidentally, I was the first ICAI nominee and then went on to become the Chairman of the Qualified Audit Report Committee (QARC) of SEBI.

"The revenue recognition standards are slightly more stringent in Ind AS"

SEBI is a very progressive regulator and started looking at the audit qualifications. They took a decision that if the audit qualification was very material, they would ask the companies to re-state the results filed with the stock exchanges to the extent of impact of the audit qualifications. In 2012-13, about 280 companies were reviewed and about 74 were asked to restate the financial statements filed with stock exchange.

This was an exhaustive process. Prima facie view was taken by QARC, material comments were referred to the Financial Reporting Review Board (FRRB) of

ICAI. The Institute also had two levels of review, first the expert group and then FRRB would review, and refer it back to QARC for whether the Qualification is Justified or not based on available facts.

There was a time lag, reports came in after audit process in July- August, review would begin say in October, and which would take few months to complete. So the amendments to the financial statements would happen mostly in the next financial year. Therefore, to make this more contemporary, based on the experience gained in QARC, SEBI felt it better that what is required by investors is the immediate impact of the Audit Qualifications and hence the change in report.