

Sebi may let cos switch to int'l accounting norms

Listed Cos Can Prepare Consolidated Statements Using IFRS; Indian GAAP To Continue For Standalone Financials

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CAPITAL markets regulator Sebi will soon offer listed companies the option of switching over to the International Financial Reporting Standards for improved corporate governance, but is yet to take a decision on allowing quarterly audits, due to stiff opposition from companies themselves.

The move to adopt the International Financial Reporting Standards, or IFRS, a globally-accepted accounting standard, will soon see companies disclose interpretation of accounting rules and describe adverse opinions in footnote statements, including the likes of financial derivatives which had impacted a lot of companies' profitability last year.

Sebi's move to offer the option to companies to switch is also in line with the mandatory requirement for public interest entities in India to comply with the IFRS from 2011.

According to a Sebi executive privy to the development, listed companies will be shortly given the option to prepare their consolidated financial statement using IFRS while for standalone financials, the Indian GAAP will continue.

The implementation of IFRS was discussed at a recent meeting of the Sebi committee on disclosures and accounting standards, which also discussed other vital topics related to increased disclosures by companies. The Sebi committee, however, didn't take any final decision on quarterly audits and on an earlier-reported move to consider rotation of audit firms, implying that a strong opposition to such concepts from companies, may have discouraged the market regulator.

Sebi was considering to replace the current practice of a limited review at the end of each quarter, with a full-fledged audit process, but had to cancel such a proposal, as it would have led to high audit costs and would have also disrupted daily functioning of companies. Although a limited review is also conducted by auditors, it is a service that is less exhaustive than a complete audit and only provides part assurance to stakeholders on the reliability of the financial data of the company.

"However, a large number of big companies have been doing quarterly audits voluntarily in a bid to provide accurate financial information to investors," said a partner of a large accounting firm that had conveyed its opposition on quarterly audits, to Sebi. He requested not to be named.

The market regulator has also not taken any decision on the concept of rotation of audit firms. This proposal was mooted in the aftermath of the Satyam fraud to avoid any single audit firm from having an extended association with a company. Satyam's auditor, Price Waterhouse, is being probed for its alleged involvement in the fraud at the software major that grossed more than Rs 7,000 crore and resulted in imprisonment of its chairman B Ramalinga Raju and his close associates.

According to senior auditors, rotation of audit firms would raise risk levels and also prompt such firms to become marketing entities, as the end of each term would push them to solicit new clients. "Instead, it would be better to

change partners from the same firm as that would increase transparency," said one auditor at one of India's largest accounting firms.

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