

Ind AS considerations for Boards and Audit Committee



Board and Audit Committee members play a critical role in the effective functioning of the capital markets. Their oversight and experience assists company management team navigate rough waters, capitalize on opportunities, operate effectively, and of course, provide timely, reliable financial information to investors.

In order to support these important Board and Audit Committee activities, and to help directors stay current, this publication provides an important emerging topic for Board and Audit Committees.

The Finance Minister in his last Budget Speech in July 2014 stated that Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1 April 2015 and mandatorily from 1 April 2016.

On 2 January 2015, the Ministry of Corporate Affairs (MCA) has issued a Press Release "Road Map Revised for Implementation of Indian Accounting Standards for Companies Other Than Banking Companies, Insurance Companies and NBFCs..." that sets out the revised roadmap for implementation of Ind AS. Ind AS are the Indian Accounting Standards that are converged with the IFRS subject to a few carve outs/carve ins.

As of the date of this publication, National Advisory Committee on Accounting Standards (NACAS) has approved and submitted all the revised / new Ind AS to MCA for its approval. It is expected that the Government will issue shortly the detailed roadmap on implementation of Ind AS and the revised / new Ind AS for use by entities.

The key recommendations of the revised roadmap are as follows:

Voluntary adoption

Companies may voluntarily adopt Ind AS for financial statements for accounting periods beginning on or after 1 April 2015, with the comparatives for the periods ending 31 March 2015 or thereafter. Once a company opts to follow the Ind AS, it will be required to follow the Ind AS for all the subsequent financial statements.

For the accounting periods beginning on or after 1 April 2016 (phase 1)	For the accounting periods beginning on or after 1 April 2017 (phase 2)
<ul style="list-style-type: none"> The following companies will have to adopt Ind AS for financial statements from the abovementioned date: <ul style="list-style-type: none"> Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India (listed companies) and having net worth of Rs. 500 crores or more. Unlisted companies having a net worth of Rs. 500 crores or more. Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above. 	<ul style="list-style-type: none"> The following companies will have to adopt Ind AS for financial statements from the abovementioned date: <ul style="list-style-type: none"> Listed companies having net worth of less than Rs. 500 crore. Unlisted companies having net worth of Rs. 250 crore or more but less than Rs. 500 crore. Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above.
<ul style="list-style-type: none"> Comparative for these financial statements will be periods ending 31 March 2016 or thereafter. 	<ul style="list-style-type: none"> Comparative for these financial statements will be periods ending 31 March 2017 or thereafter.

Applicability to companies listed on SME exchanges and other companies not covered by the roadmap

The roadmap will not be applicable to:

- Companies whose securities are listed or in the process of listing on SME exchanges.
- Companies not covered by the roadmap in the “Mandatory adoption” categories above.

These companies would need to continue to apply existing Accounting Standards prescribed in Annexure to the Companies (Accounting Standards) Rules, 2006, unless they opt for voluntary adoption.

Mandatory adoption

It is expected that a notification on the above lines will be issued shortly, and changes to the regulations will take place in the coming months so as to make transition to Ind AS a smooth journey.

Accordingly, in preparation for the deadlines to be achieved with minimum problems, Board and Audit Committee members should consider:

- The Company’s readiness for a new basis of accounting that has greater reliance on managements judgment
- The time needed to prepare for a transition
- Management of implementation costs
- The need for Audit Committee and Board education

Conversion project considerations

1. Potential impact of Ind AS on the entity’s business

The adoption of Ind AS will impact more than your entity’s accounting and financial reporting function.

Consider both core and collateral impact and the enablers that support value creation.

Core Impact (Accounting and Reporting):

This includes primary impact areas of the Ind AS implementation process. Changes to this process are significant, and re-engineering of the process might be necessary.

Extended Impact (Tax, Controls, and Process & Systems):

This includes secondary impact areas of the Ind AS implementation process. Changes to affected processes may be partial and may not have an impact on all three enablers.

Enablers (Training, Communication, and Project Management Office):

Enablers support effective execution in core and extended impacted areas. Any impact resulting from Ind AS conversion to the core or extended areas will require consideration of the impact on each of the key enablers.

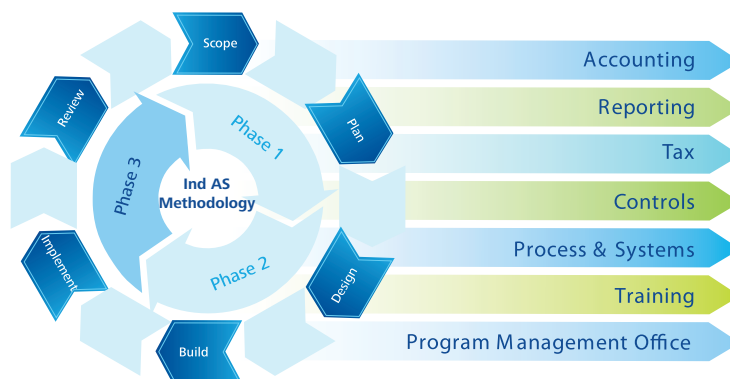


2. Select key areas to consider when planning

- How to apply Ind AS 101 (opening balance sheet)
- Assessment, design and implementation of Ind AS
- Communication on the possible impact of Ind AS
- Education/ training
- The impact on accounting policies
- Information systems
- Availability and capability of resources

3. Suggested approach to Ind AS conversion project

Project phases are key groupings of activities that follow a progression through the project lifecycle.



Financial reporting considerations

4. Management reporting

The Ind AS conversion has significant implications on strategic decision making and financial communication with the Board of Directors, the Audit Committee and other stakeholders. Management needs to be aware of any fundamental changes and understand the Ind AS conversion impact on their management reporting to facilitate internal and external communications.

5. Other financial reporting considerations - industry peers and competitors

Consider the accounting policies selected by competitors and the industry peers when selecting own accounting policies. Understand and manage potential impact of own policy choice to assess comparability to competitors and overall impact on industry specific accounting.

6. Apply Ind AS consistently throughout the group

Assess compliance of individual entities within the group with the overall group accounting policies early on to ensure that inconsistencies are addressed appropriately to result in financial information fully compliant with group accounting policies in accordance with Ind AS.

7. Tax reporting and tax filing

Consider tax implications on adoption of Ind AS when preparing qualitative and quantitative disclosures during transition and the opening balance sheet upon adoption of Ind AS.

8. External financial reporting

Areas of consideration	Comparative year: 2015-16
1. Journey through Ind AS 101	<ul style="list-style-type: none"> • Prepare opening balance sheet • Select exemptions to retrospective application • Comply with exceptions to retrospective application • Select optional carve outs provided in Ind AS • Prepare Ind AS 101 reconciliation (interim and annual)
2. Increased disclosure requirements	<ul style="list-style-type: none"> • Assess qualitative and quantitative disclosure requirements • Assess impact of overall Ind AS disclosure requirements on financial reporting including other key areas of the business including IT systems • Prepare draft proforma financial statements (interim and annual)
3. Transparency and comparability	<ul style="list-style-type: none"> • Ensure consistency of application – both current and comparative periods • Ensure consistent application of the group accounting policies throughout the group
4. Stakeholder communications	<ul style="list-style-type: none"> • Increase stakeholder communication before and after transition

9. Financial information needs for 2015-16 – (mandatory conversion dates for companies covered under phase 1 of the roadmap)

Transition Date: 1 April 2015	Comparative year (2015-16) Q1 Q2 Q3 Q4	Changeover year end	First Ind AS reporting year (2016-17) Q1 Q2 Q3 Q4	End of first year of adoption
Prepare opening balance sheet, restate all balances and transactions and record opening adjustments	<ul style="list-style-type: none"> • Issue interim financial statements under existing notified Accounting Standards • Restate each interim period to Ind AS including completion of required Ind AS reconciliations (do not issue publicly) 	<ul style="list-style-type: none"> • Complete audited annual financial statements under existing notified Accounting Standards and complete Indian GAAP reporting • Record Ind AS adjustments in system and start reporting publicly using Ind AS 	<ul style="list-style-type: none"> • Issue interim financial statements with Ind AS comparatives for each period, Ind AS 101 note including all required reconciliations • Draft MD&A with comparative information which has been restated for Ind AS – consider impact on nature of disclosure, key performance indicators, trends, etc 	Issue Ind AS compliant audited financial statements

Non- Financial reporting considerations

10. Ind AS training considerations

After assessing the impact of converting to Ind AS, a priority for management will be to establish a training program to meet their conversion needs. Management should ensure that their key financial personnel have the appropriate resources and training available to them to implement and monitor their Ind AS convergence plan and meet the targeted Ind AS conversion deadlines as outlined in introduction above. Also consider educating the Audit Committee and the Board of Directors on the potential impact of Ind AS on the entity's business.

11. Information system considerations

In many instances, software suppliers may provide modules that assist in converting general ledger systems to Ind AS compatible systems. In other cases it may be necessary to hire outside consultants to convert IT structures into Ind AS compatible packages. Reporting changes will most likely impact the financial, treasury and human resources systems. Develop amended system documentation and procedures manuals to address the increased data requirements resulting from Ind AS compliance.

12. Treasury and finance considerations

If a treasury or finance department has the responsibility for managing the entity's relationships with sources of financing, they should be included in the collateral group. Changes in ratios and balances may impact compliance with covenants. It is important to be proactive and review contracts in advance of transition to Ind AS to identify any potential issues early, and where necessary, begin those discussions with financial lenders to renegotiate the debt covenant terms.

13. Significant risks of Ind AS conversion project – identify and mitigate

As Ind AS is an entity wide conversion project, this pervasive impact may increase the risk of misstatement or error. Management needs to ensure control processes are sufficiently robust to address the Ind AS conversion project without impeding the ongoing effectiveness of internal and disclosure controls. Management should consider a structured approach on how to manage the risks arising from the Ind AS conversion project as well as any issues that may interfere with the timely execution of an Ind AS conversion.

Identified significant risks associated with the Ind AS conversion can be mitigated by the following:

- Corporate wide-risk management
- Enterprise risk and style of management
- Risk management system

14. Other key risks associated with Ind AS conversion project

- Poor communication of the Ind AS requirements to all stakeholders
- Unable to obtain and retain the appropriate level of resources
- All entities within the group not compliant with group accounting policies
- Incur additional costs as a result of poor planning

15. Capitalizing on the Ind AS conversion opportunities

Implementing the Ind AS conversion project provides management the opportunity to assess their business processes on an entity wide level; whereby management improve the entity wide efficiencies and effectiveness of existing procedures and processes to increase stakeholder value. Assess which accounting policy choices under Ind AS best align with the entity's strategic direction and build this into the Ind AS conversion project. Accessibility to global markets provides the entity with a wealth of business development opportunities.

16. Considering and managing stakeholder expectations

Consider keeping the various stakeholders informed of the entity's Ind AS conversion plan and expected impact to ensure that their expectations are met in a satisfactory manner. Both informal and formal communication to build awareness on the resulting impact of the transition to Ind AS will assist in preventing negative perception from the market upon transition. Effectively manage stakeholder expectations by ensuring that proper financial reporting procedures are in place to provide a balance between the relative merits of timely reporting and the provision of reliable information.

17. Building awareness for the Board of Directors and the Audit Committee

Ensure that the directors maintain their financial literacy level in the context of financial reporting in accordance with Ind AS. This may require awareness sessions and training sessions tailored to their needs to ensure they are aware of the Ind AS conversion deadlines, the impact of the Ind AS conversion on the financial reporting and other key areas of the entity's business.

Thinking Ahead

Although converting to Ind AS will present challenges, we believe it will be worth the effort. Capital markets do not function effectively without a solid foundation of trust and confidence. Comparable, transparent, and reliable financial reporting provides a fundamental pillar of trust that enables global markets to function more effectively, and facilitating international investments.

The significance of the responsibility of Audit Committee and Board members to "lead from the top" during transition to Ind AS cannot be overstated. To ensure that you and your company are ready, start asking questions today

For more information, please contact – ingiosindia@deloitte.com



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