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Research Paper

Analysis of perceptions of auditors/chartered accountants' on selected Indian accounting standards

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Abstract

Indian accounting standards are not only principle based but also based on users' perceived ethical notions on professional ethics and compliance with professional code of conduct that are issued by the Institute of Chartered Accountants of India (ICAI).Codes of conduct for accountants give guidelines for proper behavior in the profession. The present study attempts to understand the perceptions of practicing auditors and professional Chartered Accountants (CAs) on the Indian accounting Standards and adherence to the professional code of conduct issued by the ICAI. The study is based on a survey conducted among a sample of qualified CAs. On the basis of the findings, the study concluded that ethical accounting standards are fundamentally necessary for accountants to produce quality financial reports free from material misstatements.

Keywords: *Accounting Standards; Auditor's Perception; Code of Conduct; Ethical Code; Professional and Practicing Accountants.*

1. Introduction

The move towards harmonization of Indian accounting standards with IFRS, could be well served, if the implementation and application aspects of the Indian accounting standards are not only principle based but also based on users' perceived ethical notions on professional ethics and compliance with professional code of conduct that are issued by the Institute of Chartered Accountants of India (ICAI).Codes of conduct for accountants give guidelines for proper behaviour in the profession. The present study attempts to understand the perceptions of practicing auditors and professional Chartered Accountants (CAs) on the Indian accounting Standards and adherence to the professional code of conduct issued by the ICAI. The study is based on a survey conducted among a sample of qualified CAs mainly located in Tamil Nadu, India.

1.1. Need for the study

The present study attempts to respond to this need, taking both practicing Auditors and professional accountants who are Chartered Accountants (CAs) as study samples. In spite of several of the above researches conducted, where most of them conducted in the western countries, but not many studies could be referred to as related to Indian accounting scenario. Hence, the present study attempted to understand the first-hand opinion of practicing auditors and professional chartered accountants on the level of acceptance and adherence to the Indian Accounting Standards by corporates and client business firms and the extent to which the work values of professional work-ethics is followed and how independent variables such as professional commitments and professional environment values have been influencing them in this regards.

1.2. Objectives of the study

Specific objectives of the study are:

1) To identify and examine the perceptions of Auditors and Accountants (CAs) on the level of acceptance and adherence to selected Indian accounting Standards issued by the ICAI.
2) To find out the differences among Auditors and Accountants (CAs) and analyse the impact of demographic and professional work environment related variables on acceptance and adherence to selected Indian accounting Standards as well as work values.

2. Research methodology

The quality of data is inextricably tied to the method and technique used for collection. Hence, survey method through structured questionnaire was adopted for this study, as it was found to be suitable for this research.

Sampling frame: - Primary data needed were collected through questionnaires issued to practicing auditors and professional accountants (CAs), who constitute the sample for the study. They represented a wide spectrum of CA firms/ corporate entities located mainly in Madras and some in different parts of Tamilnadu, India. Sample consists of Auditors who are either individuals or joint-partners of CA firms and professional accountants are CAs at different managerial levels like junior, middle and senior management categories. 'Purposive Judgment sampling' was adopted considering the availability and approachability of Auditors and Professional accountants for the purpose of data collection efforts.

Questionnaire design :- Questionnaires for sample survey of Auditors and Accountants were distributed among selected sample of Chartered accountants who were either practicing CAs (Auditors) or Professional CA';s (Professional accountants). A Sample of 307 respondents took part in the survey and it took approximately eleven months for distribution of questionnaires and collection of data from the respondents. The questionnaire used for data collection is a structured one, and it contains FIVE scales representing major variable Accounting Standards with 27 dimensions – represented by selected Indian accounting standards, covered in 87 statements.

3. Review of literature

Many research studies attempt to relate perception on accounting standards from different perspectives.

Psaros, patel, & warnakulasuriya (2003) had researched on Australian auditors' interpretation of selected key 'uncertainty expressions', such as virtual certainty, expected, reasonable assurance and possible outcomes, contained in Australian accounting and auditing standards, by a questionnaire survey study.[1] (Kanukuntla & Rao, 2004) , found that proper practice of accounting standards was very significant, as it led to the effective disclosure and consequently good corporate governance programs. Hence, the practice of proper accounting standards was more relevant issue of good corporate governance in the present competitive era as the standards provided a useful mechanism to restructure the core corporate values.[2] Haribhakti, (2008) , had examined that the forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses expand across borders, the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards.[3]. H S Bajpayee, (2009), had researched that accounting standards had been and were being formulated at different levels. For different countries, the accounting standards were formulated by duly recognized and constituted authority keeping in mind the disclosure practices in India by Indian companies by dividing them into three levels as per the Institute of Chartered Accountants in India norms and further a questionnaire survey had been conducted to reach a conclusion that up to what extent Indian companies were complying with the Indian as well as international accounting standards.[4] Dr. Samiksha Ojha, (2012), had surveyed that Indian Banks were currently following the prudential norms of Reserve. The paper analyzed the impact of the new accounting system involving a major shift from prescriptive norms (based on accounting standards) to the system involving greater judgment. The paper elaborated the preparedness on Indian Banks to adopt the new accounting system, the challenges before it and the areas on which the banks must focus on to adopt the system. [5] Nyor,(2012), in his study recommended the adoption of the International Financial Reporting Standards by Nigerian companies in order for them to take advantage of the globalization effects.[6]

4. Data analysis and interpretations

Analysis of demographic profile and profession related characteristics of professional and practicing CAs.

The demographic and profession related characteristics reveal certain significant features of the sample respondents, which may be summarized as follows:

Table 1: Table Showing the Demographic Profiles of Respondents

No.	Particulars	No. of Respondents	Percentages
I	AGE		
	Below 30 years	14	4.6
	30 to 40 years	80	26.1
	40 to 50 years	87	28.3
	Above 50 years	126	41.0
	Total	307	100
II.	GENDER		
	Male	262	85.3
	Female	45	14.7
	Total	307	100
III.	MARITAL STATUS		
	Single	14	4.6
	Married	293	95.4
	Total	307	100
IV.	FIELD OF SPECIALIZATION IN AUDITING		
	Tax Audit	80	26.1
	Corporate Audit	48	15.6
	Revenue Audit	19	6.2
	Any other Audit	9	2.9
	All the above	151	49.2
	Total	307	100
V.	NO. OF YEARS EXPERIENCE IN THE FIELD		
	Less than 5 years	6	2.0
	5 years to 10 years	77	25.1
	10 years to 15 years	56	18.2
	Above 15 years	168	54.7
	Total	307	100
VI.	AVERAGE ANNUAL INCOME		
	Less than 5 lacs	39	12.7
	5 lacs to 10 lacs	102	33.2
	10 lacs to 20 lacs	85	27.7
	Above 20 lacs	81	26.4
	Total	307	100
VII.	CATEGORISATION OF RESPONDENTS		
	Professional Chartered accountants	175	57.0
	Practicing Chartered accountants	132	43.0
	Total	307	100
VIII	TYPE OF ORGANISATIONS-PROFESSIONAL CAs EMPLOYED		
	Private Sector (India)	103	58.8
	Private Sector (Multinational)	62	35.0
	Government /Public Sector	10	6.2
	Total	175	100
IX	FUNCTIONAL AFFILIATION OF PROFESSIONAL CAs		
	Accounts Dept	22	12.5
	Finance Dept	55	31.3
	Costing	10	5.7
	Corporate	18	10.2
	Any other	9	5.1
	All the above	61	35.2
	Total	175	100
X	STRUCTURE OF CLIENT FIRM OF PRACTISING CAs		
	Individual	36	27.2
	Partnership	66	50.0
	Joint stock company	3	2.3
	All the above	27	20.5
	Total	132	100
XI	NATURE OF CLIENT BUSINESS OF PRACTISING CAs		
	Trading	23	17.5
	Manufacturing	13	9.8
	Service Industry	5	3.8
	All the above	91	68.9
	Total	132	100

Source: Primary data

Important demographic characteristics are presented below, based on the sample survey of professional and practicing CAs as shown in the above table.

1) Age group: 59% of the CAs are less than or equal to 50 years of age.
2) Gender: 85.3% of all CAs are males and 14.7% of all CAs are females.
3) Marital status: 95.4% (293) of the respondent CAs are married
4) Field of specialization: 49.2% have specialized in all three major types of audit namely Tax audit, corporate audit and Revenue audit.
5) Years of Experience: 72.9% have an experience of over 10 years in the field.
6) Annual Income: 73.6% have an average annual income below Rs.20 lakhs.
7) Categorization of CAs: Professional CAs and Practicing CAs 43%.
8) Organization Employment: 93.8% of the Professional CA respondents are employed in Private sector Organizations.
9) Functional affiliation: 35.2% of the Professional CAs have functional affiliation to all four major functions of accounts, finance, costing and corporate affairs.
10) Client Organization structure: Of the practicing CAs' 27.3% have clients' as sole proprietors, 50% have clients' firm -partnership and 2.3% have clients' of joint stock company and 20.5% have clients' in all three forms.
11) Nature of client business: Of the practicing CAs'17.4% have clients' of trading, 9.8% have clients' of manufacturing, 3.8% have clients' of service industry and 67.4% have clients' in all three types of businesses.

Classification based on mean score for respondent perceptions of accounting standards.

Table 2: Showing the Perceptions of Accounting Standards Based on Mean Score

Accounting Standard	Description	Mean	Rank	Remarks
AS-26	Intangible assets Reporting	73.6482	1	AA
AS-28	Impairment of Assets	71.4658	2	AA
AS-3	Cash flow statements	71.4007	3	AA
AS-2	Valuation of Inventories	70.5972	4	AA
AS-27	Financial Reporting of Interest in JVs	69.1422	5	AA
AS-13	Accounting for Investments	69.0771	6	AA
AS-29	Accounting. for Provisions, Contingent Liabilities & assets	68.8599	7	AA
AS-17	Segment reporting	68.4256	8	AA
AS-18	Related party disclosures	67.7307	9	AA
AS-1	Disclosure of accounting policies	67.5733	10	AA
AS-12	Accounting for Govt. Grants	67.2964	11	AA
AS-15	Accounting for employee benefits	66.8621	12	AA
AS-19	Accounting for Leases	66.7752	13	AA
AS-9	Revenue Recognition in the books	66.645	14	AA
AS-21	Consolidated Financial Statements	66.4061	15	AA
AS-16	Accounting for Borrowing costs	66.1455	16	AA
AS-25	Interim Financial Reporting	65.8198	17	BA
AS-24	Discontinuing Operations	64.582	18	BA
AS-4	Contingencies & post balance sheet events	63.8654	19	BA
AS-7	Construction contract accounting	63.6048	20	BA
AS-30	Accounting for Financial Instruments	63.3388	21	BA
AS-22	Accounting for taxes on income	62.1716	22	BA
AS-5	Prior period items & change in accounting policies	61.987	23	BA
AS-23	Accounting for investment in associate Co's.	61.3518	24	BA
AS-14	Accounting for amalgamations	60.76	25	BA
AS-20	Computation of Earnings per share	59.9131	26	BA
AS-11	Effects of changes in Foreign Exchange Rates	59.2157	27	BA

AA: Above average BA: Below average

The ranking of accounting standards on the basis of mean-score values indicate the following results:-

i) The average of the mean-score value is 66.098. Of the 27 standards taken for the study 16 standards have the mean score above the average mean score with their combined average of 68.628 and 11 standards whose average is below the average mean-score, their combined average is 62.725.

ii) The ranking of accounting standards on the basis of the value of mean score indicate the following top-5 ranked accounting standards':

Accounting standards	mean score
AS-26 (Intangible assets)	73.648

AS-28 (Impairment of assets)	71.466
AS-3 (Cash-flow statement)	71.400
AS-2(Valuation of inventory)	70.597
AS-27(Financial Reporting of Interest in JVs)	69.142

The respondents high mean-value score for the above standards indicate that are presumed to be the most remembered and used accounting standards by the CAs in their professional career.

iii) Similarly the following are the accounting standards with least mean-score values:

Accounting standards	mean score
AS-11 (Effects of changes in F/Exch. rates)	59.215
AS-20 (Computation of EPS)	59.913
AS-14 (Accounting for amalgamation)	60.760
AS-23 (Accounting for investment in associate Co's.)	61.351
AS-5 (Prior period items/change in a/c policies)	61.351

The respondents' low mean-value score for the above standards indicate that are presumed to be the least remembered and used accounting standards by the CAs in their professional career.

Analysis of perception on accounting standards based on demographic variables

Personal characteristics are likely to influence the perceptions on accounting standards of the CAs. Hence, by applying ANOVA (F test), the differences in levels of accounting standards among the CAs are tested on the basis of selected demographic variables. The results and their significance are explained below.

Table 3: Analysis of Perception on Accounting Standards Based on Demographic Variables

Variable	Mean Value	F- Value	P- Value	Level of Significance
Age	65.01	3.629	.000**	Significant
Gender	65.13	1.072	.301	Not-Significant
Marital Status	66.86	1.349	.246	Not-Significant
Field of specialization in Auditing	66.15	1.969	.000**	Significant
Years of experience	66.00	3.050	.000**	Significant
Annual Income	65.46	2.318	.000**	Significant
Nature of work	65.81	.307	.580	Not-Significant
CAs' employment Organization type	68.39	1.777	.004**	Significant
functional affiliation	66.17	1.523	.025*	Significant
type of client organization	65.36	1.734	.014*	Significant
type of client business	67.44	3.315	.000**	Significant

Source: Primary data

** Highly Significant at 1% Level.

* Significant at 5% Level.

5. Findings

1) With the advancement of age, individual's perceptions towards the accounting standards show a significantly higher level among CAs.
2) Male and female CAs are high in their perception on accounting standards and irrespective of the gender, they are not significantly different in their perceptions on accounting standards.
3) Single and married CAs were high in their perception on accounting standards and they are not significantly different in their perceptions on accounting standards. But single status respondents being younger in age than married respondent, by means of their acquaintance with updates on accounting standards shows marginally higher mean value in the perception than married group.
4) CAs grouped and analyzed on the basis of field of specialization in auditing exhibit a high levels of perception and shows significantly different perceptions towards accounting standards.
5) CAs with less than 10 years of experience shows decreasing level of the means as compared to CAs' with more than 10 years of experience and in general shows significantly different perceptions towards accounting standards.
6) The mean scores show that higher the income level, higher will be the level of awareness and so higher the level of perception on accounting standards.
7) A high levels of perception on accounting standards among the group of Professional CAs as compared to the group of Practicing CAs., and both groups show not-significantly different perceptions towards accounting standards.
8) A high levels of perception on accounting standards among the CAs employed with Govt. / Public sector undertakings as compared to the other type Organizations where professional CAs are employed in general show significantly different perceptions towards accounting standards.

9) CAs grouped and analyzed on the basis of functional affiliation, those who are affiliated to the function of Corporate-accounts and Accounts in general exhibit a high levels of perception on accounting standards and CAs who are affiliated to all functions like finance/accounts/corporate accounts generally exhibit low level of perception towards accounting standards as compared to those who are affiliated to any one of the functions. Also CAs, being classified on basis of the functional affiliation in the organization employed in general show significantly different perceptions towards accounting standards.
10) CAs' perceive that accounting standards are more adhered and followed by joint stock companies and partnership firms than sole-proprietor firms and CAs who are affiliated to clients with all types of organization generally exhibit low level of perception towards accounting standards as compared to those who are affiliated to any one of the type of client organization structure and in general show significantly different perceptions towards accounting standards.
11) CAs affiliated to the clients in trading and Service industry adhere and follow accounting standards as compared to manufacturing firms. Also Professionals CAs, being classified on basis of the client in general business show significantly different perceptions towards accounting standards.

Implications of the study

The study focuses on the differential perceptions of professional and practicing CAs which imply the following revelations.

a) CA's 'age' is an important factor influencing the perception on accounting standards of CAs, as normally a person's perception and emotional intelligence level first increase with the age and reach at a peak and then start decreasing, as suggested in many researches.
b) Irrespective of the gender group, the adherence to accounting standards roles are mandatory for professional and practicing CAs.
c) CAs with different years of experience in auditing in general shows significantly different perceptions towards accounting standards.
d) CAs with different range on annual income in general shows significantly different perceptions towards accounting standards.
e) The high mean value between professional and practicing CAs shows that both groups were having good knowledge on accounting standards and there is no significant difference in the same. But the relative knowledge varies depending upon the type of organization the employed in.
f) The reason for the varying level of perception when the respondents were classified on basis of functional affiliation was due to the different type of job assignments handled and difference in the departments and its policies.
g) CA's perceptions were influenced by nature of the client organization and type of firm-structure and its policies and hence the existence of the Level of significance being significant. Thus for the knowledge of Accounting Standards the type of their client organization influence was substantial.
h) When the respondents, being professional CAs were classified on basis of their organization type, their perceptions were influenced by nature of the organization and type of business carried over and its policies and hence the existence of the Level of significance being significant.

6. Discussion

(Personal opinion summary of CAs)

Further, summarized general observations of sample respondent CAs on the Indian Accounting Standards, professional code of conduct and ethical work life etc., and their expectations are given below.

Sample respondent CAs expect on accounting standards:-

- Practical adoptability of accounting standards required very much among the professional.
- Uniform accounting standards must result in uniform accounting practices
- Accounting standards some-what difficult to follow- (It could be due to interpretation of the rules)
- Accounting standards are useful to professional CAs, especially those who apply them in their entities.
- Practical adoptability of accounting standards is possible only with active participation of all concerned
- Absolutely mandatory, must achieve 100% IFRS
- In-depth knowledge is called for on the part of companies to ensure greater compliance
- Calls for lot of adoptable and convergence efforts.
- Accounting standards are objective- opinion differs
- Requires lot of awareness and support at the top management and training for the employees in the clients' entity for proper appreciation and preparation of accounts as per GAAP
- Medium and small firms need to be sensitized and made aware of these standards and their importance.
- Interpretation and practical application warrants clear understanding of the basic principles, for which AS have been developed.

- Most of the accounting standards are adopted well in companies.
- For small enterprises, a separate set of standards ought to be evolved after through research especially after taking into account the views of CAs in mofussil areas.
- Some standards such as the ones on financial instrument may not always be practical.
- Miles to go! As the objective of accounting standards was to bring uniformity, which according to me has not been obtained. The users of financial statements find it difficult to actually get clear picture of the financial statements especially the ones who have les knowledge about accounting.
- Accounting standards are well researched and well thought of, must be adhered to at all times.

7. Conclusion and recommendations

ICAI must develop different strategies to comply with the issues related to 'accounting rules and standards' and compliance with 'professional code of conduct 'related aspirations of the member CAs based on their performance effectiveness and their needs. But this should be preceded by a good , positive and conducive work environment both for professional and practicing CAs and recognition of their functional , emotional and managerial competency related problems, immediate addressing of their grievances and difficulties by providing better opportunities and forum to express the same will certainly keep them develop more their faith and practice of better adherence to the accounting standards and more vigorous compliance with professional code of conduct..

For this purpose, more innovative programs are to be implemented by ICAI like:-

a. Corporate Governance transparency, through information technology
b. More interactive training sessions especially covering attitude studies for member CAs in well conducted workshops and seminars on Systematic problem solving techniques, case study analysis and exposure to modern auditing practices and develop more ethical based client relationships.
c. ICAI should establish ethics departments to ensure that activities adhere to the codes of ethics including the financial reporting process, accountants and accounting officers in corporate entities and practicing auditors should adhere to the International Financial Reporting Standards (IFRS) in the reporting structure to reduce the failure symptoms in the industry.

8. Specific suggestion of auditors

Practical observations made by CAs in the survey (related to accounting standards) reveal the following:-

- Uniform accounting standards must result in uniform accounting practices.
- Practical adoptability of accounting standards is possible only with active participation of all concerned,
- Awareness and support at the top management and training for the employees in the clients' entity for proper appreciation and preparation of accounts as per GAAP is required.
- Medium and small firms need to be sensitized and made aware of these standards and their importance.
- For small enterprises, a separate set of standards ought to be evolved after through research especially after taking into account the views of CAs in mofussil (suburb) areas.
- Accountancy profession has high public value.

To conclude, it shall be stated that, perceptions of CAs on accounting standards and professional ethics need not be viewed as independent elements, but are composite in nature. Both are affected by the factors of work environment and professional commitment like work values and how the management personnel view their experiences in work life situations and in respective work organizations. The study highlights that work environment and professional work values together with the chances to achieve professional excellence in organizations influence the level of adherence to accounting standards and compliance with professional code of ethical conducts. On the basis of the findings, the study concluded that ethical accounting standards are fundamentally necessary for accountants to produce quality financial reports free from material misstatements.

9. Scope for future research

More behavioral studies are needed to understand the accounting standards and professional ethical aspects and related perceptions of CAs, both auditors and accountants. More studies related to professional ethical practices of corporate professional accountants, the impact of dimensions of organizational structure and culture dimensions such as formalization and centralization etc., must be made. Replicate studies also will be necessary to establish the generalizability of the present results. Relevance of perception on accounting standards phenomena can also be studied in relation to specific organizations and/or specific functional group of CAs, in addition to demographic and structural relationships. Research studies exclusively on women CAs and professionals in corporate organizations to probe ethical code of conduct compliance integrating their achievement of professional potential goal and value needs are also

important, as a growing number of women are found in many specialized functional disciplines like finance, auditing, corporate and management accounting legal, secretarial and banking etc.,

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