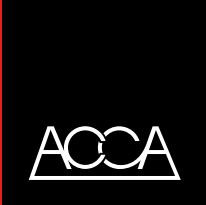


India:
international accountancy
and the future



Executive summary

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing global professional accountancy body with 296,000 students and 115,000 members in 170 countries. ACCA has recently conducted an independent survey of international issues on accounting and the development of the profession in India. Carried out as part of an international research series, the survey investigates the key issues facing accountants and organisations in India today, and looks at the challenges for India in establishing itself as a leading player in the global economy.

The research covers a number of issues:

- India and globalisation
- opportunities and challenges for businesses in India
- attitudes to financial reporting and corporate governance in the corporate sector
- perspectives on the skills, training and development of finance professionals
- international accounting and its relevance to the Indian economy.

Globalisation has become a much-used term in recent years. Nor has it been universally welcomed as a trend. However globalisation is evident in many guises: technology, consumer brands, long-distance travel, politics, sport, food and wine, languages and economics.

In the context of business and finance, globalisation is to be found in many spheres: cross-border mergers and acquisitions, international marketing, foreign direct investment, mobile workforces and international HR management, and outsourced operations.

Alongside this, there have been significant developments in accounting in the international domain. These include developments in international standards regarding, financial reporting, auditing, education and training, professional development, ethics, practical experience requirements, corporate governance and sustainability reporting, driven by bodies such as the International Federation of Accountants, the International Accounting Standards Board and the Global Reporting Initiative. And global business has called for international skills in accounting, finance and management.

And this is not just an agenda of business. It is an agenda inspired by students and employees around the world who aspire to develop skills and acquire qualifications which will support their career goals, and position them well to obtain their chosen roles in an increasingly competitive recruitment market. One of the features of accountancy globally is the need for increased specialisation. Accountants increasingly

act as business advisers and strategic managers in view of the unique skills in analysis and financial management which they bring to their work. However, the complexity of legislation and regulation frequently requires the development of specialist expertise, as well as exposure to and experience of broad business and financial issues. The role of the modern finance manager (and the number of roles in which their expertise can lead to fulfilling careers) is increasingly complex.

Looking specifically at accounting and finance, change has characterised the profession in recent years: convergence with international accounting standards; public oversight in regulation; increased emphasis on ethics and continuing professional development.

However, these developments have had varying impacts on different countries around the world in terms of relevance and application. This survey attempts to identify some of the issues relating to globalisation of accounting and finance as they are perceived by senior finance managers in India, which is characterised by a fast-developing economy.

The report coincides with a visit of the Lord Mayor of London to India and its findings are consistent with the Lord Mayor's drive to promote the value of UK education. "Professional skills that are hallmarked 'Made in UK' are hugely valuable to aspiring business people around the world because they offer a career boost that is hard to beat – in effect, a passport to the growing global industry of financial services", Lord Mayor John Stuttard has said. "There is growing demand in countries and regions such as China, India, the Gulf and Eastern Europe for professional training and business education of the quality provided by UK organisations and working together we can achieve a win-win for all."

KEY FINDINGS

This survey provides an overview of opinions relating to accounting and finance – at national and international level – among finance leaders in India. The findings provide insights into the development of the international accountancy profession in India and demonstrate that senior managers in a range of organisations see the benefits of investing in their finance professionals, and enhancing and broadening their core accounting skills as part of their professional development.

Strong positive opinions were repeatedly expressed about the importance of ethics, both in the training of finance professionals and in the impact of ethical codes and behaviour on business.

There was strong recognition of the need for training and development, and of how continuing professional development plays an important role as well as access to additional qualifications. CFOs clearly understand how important it is for future finance leaders to demonstrate excellence in more than core accounting skills, particularly strategic and management skills, and the ability to apply international standards in the national context.

The role of accountants is seen as being centred around financial management, but alongside international developments in accounting, there was a strong acceptance that accountants increasingly play a pivotal role in the growth of the economy on the international stage.

ABOUT ACCA

ACCA's role as a global professional accountancy body will be effective in supporting businesses in India as they increasingly have an international outlook and seek to adopt international standards in accountancy. It is clear that businesses in India are recognising the importance of ensuring financial and management skills support their plans for commercial development, including attracting international shareholder capital. And as the global 'war for talent' continues to develop, organisations will increasingly wish to adopt international training and qualifications as a core component of their human capital management strategies.

ACCA's new global professional accounting qualification has been developed following consultation with 30,000 stakeholders around the world. The research demonstrated that the demand for internationally-trained accountants is fast growing and that there is a shortage in many countries. ACCA's broad-based finance qualification focuses not just

on core accounting skills, based on international accounting standards, but also puts professionalism and ethics at the heart of accounting. It is also grounded in comprehensive practical experience requirements, based on competences and the achievement of work-based objectives.

ACCA also offers access to other qualifications, aimed at people who wish to augment their international skills. For those wishing to demonstrate their proficiency in financial English, ACCA has developed a partnership with Cambridge ESOL to offer the Cambridge International Certificate in Financial English (Cambridge ICFE). In addition, ACCA provides a diploma and certificate in international financial reporting, for those who wish to add knowledge of international finance to their existing skills based on national qualifications.

The sample

One hundred senior accountants and company directors were interviewed, with chief responsibility for company financial management and selected at random from businesses based in key financial centres across India (Mumbai, Dehli and Bangalore). Three quarters of the sample are professional accountants.

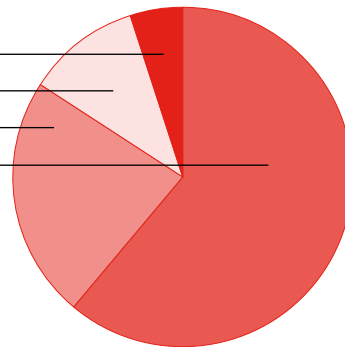
The survey was conducted by telephone by an independent UK-based research agency. All interviews were conducted in April 2007.

The sample included small/medium and large companies, operating on a national and a regional level and also as part of multinational groups. Over 50% of organisations are nationally based companies, and more than a third are part of multinationals. Just under half of organisations had more than 250 employees based in India and nearly one fifth had at least 2,000 employees locally. 40% of the sample had turnovers of more than 500crs and over 10% had more than 2,500crs.

The survey sample

Number of employees (in India)

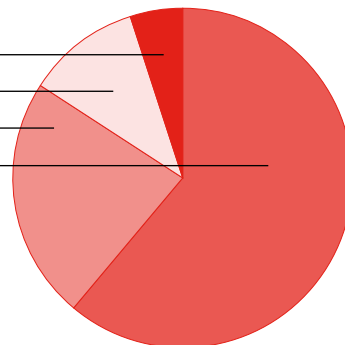
- 5% – Over 10,000
- 11% – 2,001–10,000
- 23% – 250–2,000
- 61% – less than 249



Turnover

Note: All figures are expressed in Crores (crs) of Rupees.
1 Crore = 10,000,000 Rupees

- 11% – More than Rs2,500crs (\$562m)
- 5% – Rs1,000crs – Rs2,500crs (\$224–562m)
- 23% – Rs500crs – Rs1,000crs (\$113–224m)
- 61% – Less than Rs500crs (\$113 million)



Globalisation and business in India

The prospect of 'globalisation' is seen to be an increasing feature of business worldwide. In this survey we were interested to know to what extent businesses in India see the opportunities brought by globalisation as beneficial to them and to identify the challenges they face as a consequence.

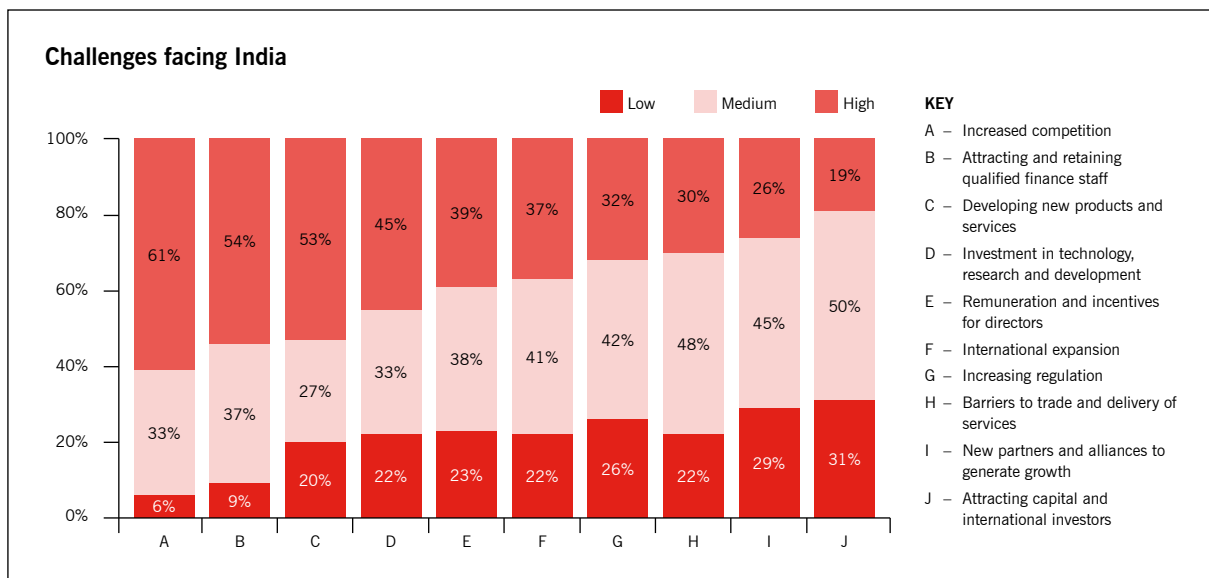
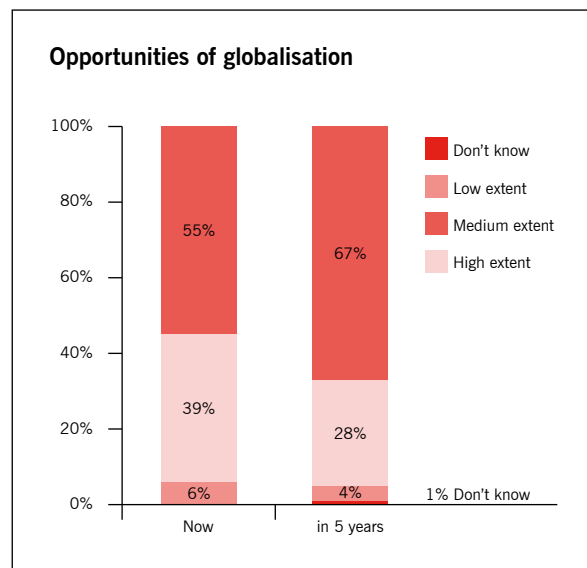
OPPORTUNITIES

The overwhelming view from respondents is that globalisation is already bringing a high level of opportunity to businesses in India. Only 6% of respondents considered that globalisation currently offers a low level of opportunity. Going forward, confidence increases significantly. Over two thirds of respondents believe that globalisation will offer a high level of opportunity to organisations in India – an increase of 12% on the picture today.

CHALLENGES

Perhaps most obviously, increased competition is put forward as the most significant challenge, alongside the difficulty of attracting and retaining qualified finance staff. More than 90% of respondents agreed that these issues are medium to high challenges. Developing new products and services and generating investment in technology are also seen as large challenges by over half of the respondents. Conversely, respondents considered that issues around generating growth and attracting capital and investment were less challenging – around one third considered them to be of low importance.

The research highlights that people, products and innovations are key to ongoing development in an increasingly competitive market. India is an attractive market for investment and has a rapidly growing economy, but companies need excellent people in order to sustain this level of growth.



Financial reporting and corporate governance

Accurate and transparent financial reporting is at the heart of good accounting. We asked accountants to consider what the most significant barriers to developing best practice in this area over the next five years, and how well the mechanisms for delivering good financial reporting operated within their companies.

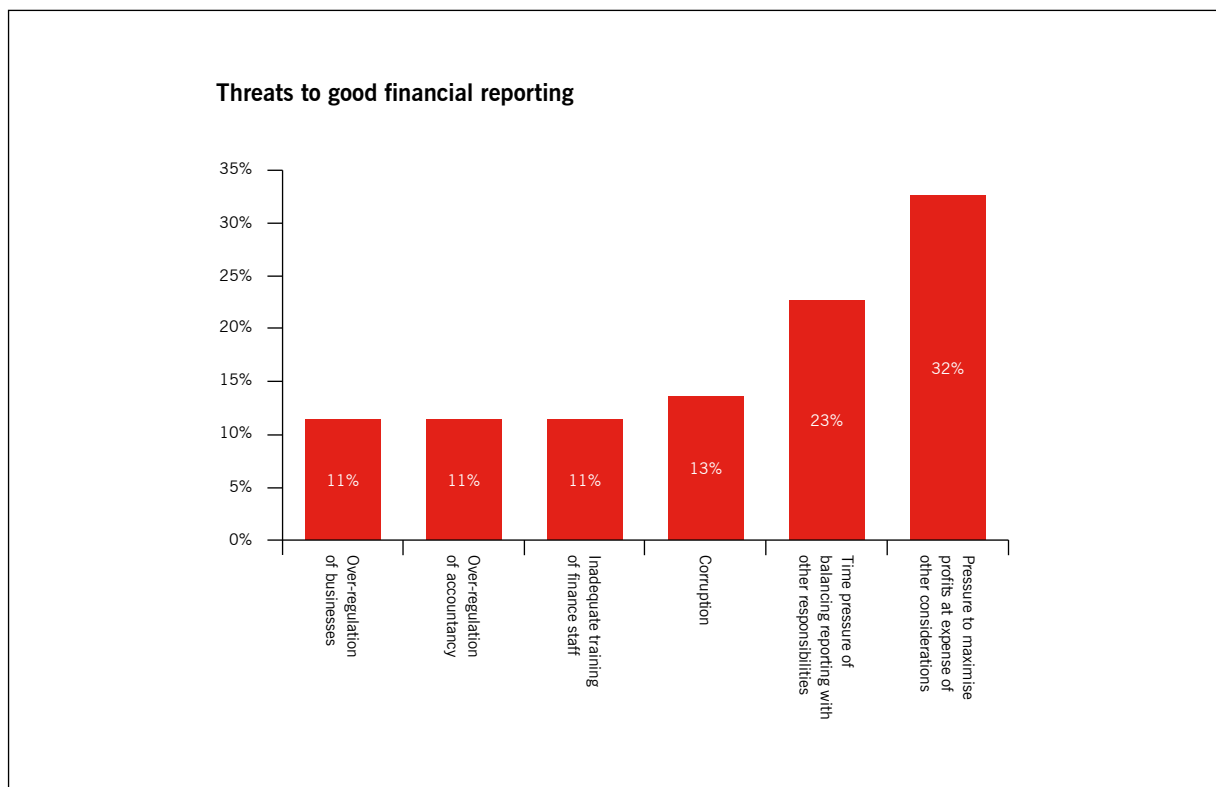
Respondents ranked the barriers in order of importance. The most significant threat to good financial reporting was the overall pressure to maximise profits at the expense of other business considerations, where 32% ranked it as the most important. Ranked second, time pressure of balancing reporting with other responsibilities was seen as the highest barrier by nearly a quarter. Corruption, inadequate training of finance staff and areas of over-regulation were seen as less significant barriers by most accountants, but were still each selected as the most important by more than 10% of respondents.

The emphasis on the importance of maximising profits highlights the pressure on finance departments to contribute to company performance – the bottom line will always be viewed as a driving force for business.

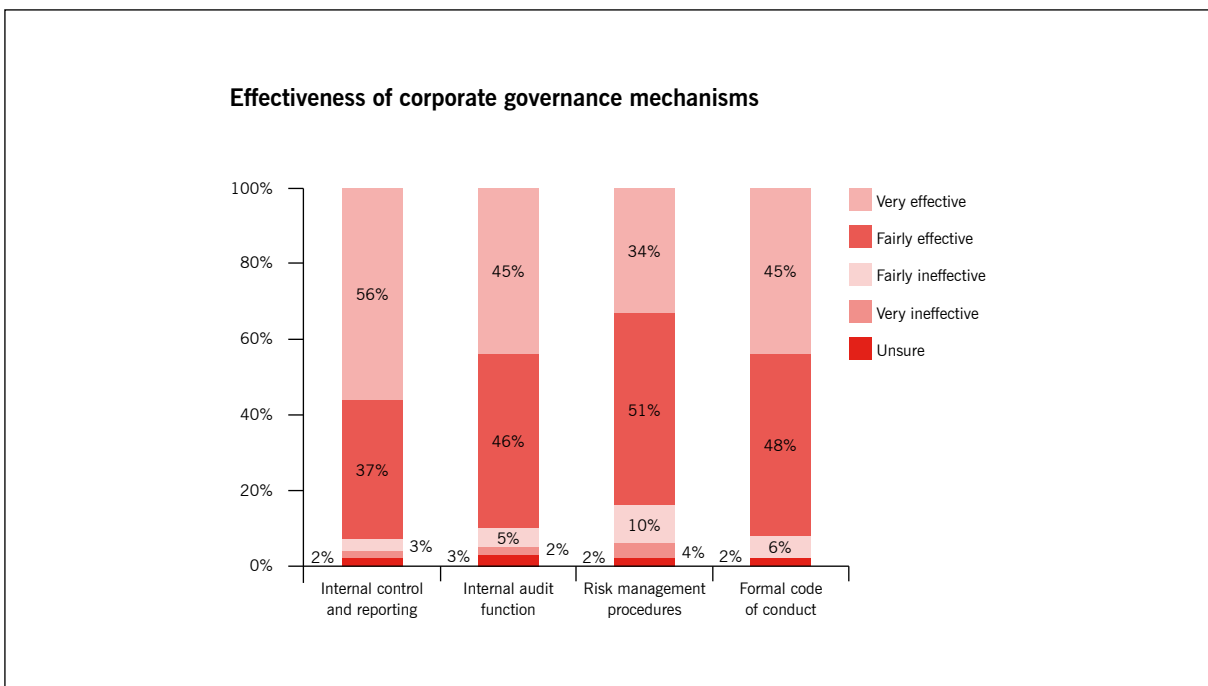
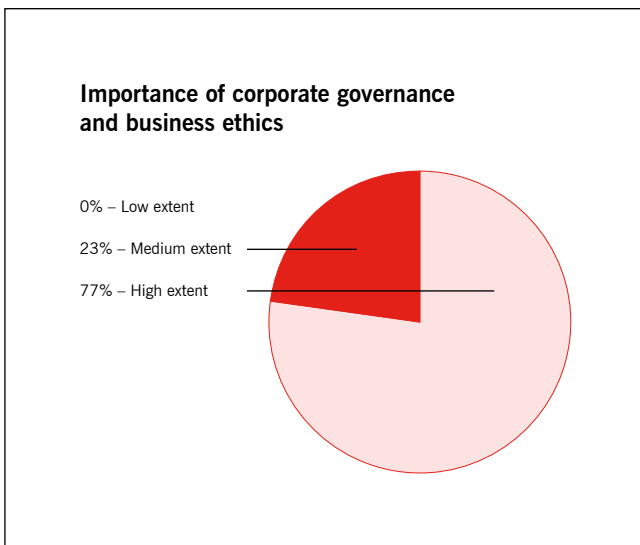
CORPORATE GOVERNANCE AND ETHICS

Globally, corporate governance and business ethics are areas of growing significance, both to listed and non-listed companies. A number of ACCA surveys have shown that awareness of corporate governance is increasing in many regions – including Europe, Asia and South America. And good governance is seen to be of increasing importance in enhancing shareholder relations and in promoting the public interest. The results show overwhelmingly that corporate governance is seen as important, with over three quarters believing that it is an essential issue in India today.

As well as measuring the overall importance of corporate governance in India, respondents were asked about the effectiveness of their organisations' systems in supporting and delivering good governance. Indian



accountants view internal control and reporting mechanisms as their strongest governance tool, with 56% considering them to be very effective and a further 37% fairly effective. They are also confident of the benefits of having an internal audit function and formal code of conduct. But respondents were least confident about the effectiveness of risk management procedures, with 14% viewing them as ineffective.



Perspectives on skills, training and development of finance professionals

As competing in a global marketplace becomes more important, an organisation's success in enhancing the quality and skills of its finance professionals becomes an increasingly important issue. The survey aimed to identify what the skills barriers are for Indian organisations in developing their presence in the global economy, and to understand what potential skills gaps or challenges there are in the current training and development of finance professionals.

BARRIERS TO INTERNATIONAL GROWTH

Reactions to three main barriers were explored in the survey, asking respondents to indicate to what extent these are perceived as a difficulty. Skills gaps in finance staff were seen as the highest barrier with nearly 90% of respondents considering them a medium or high barrier to growth, and economic development. Respondents' individual comments also suggested that skills gaps and the general availability of financial expertise are issues – several respondents noted that finance staff do not have the required skills and knowledge needed relating to international financial reporting standards.

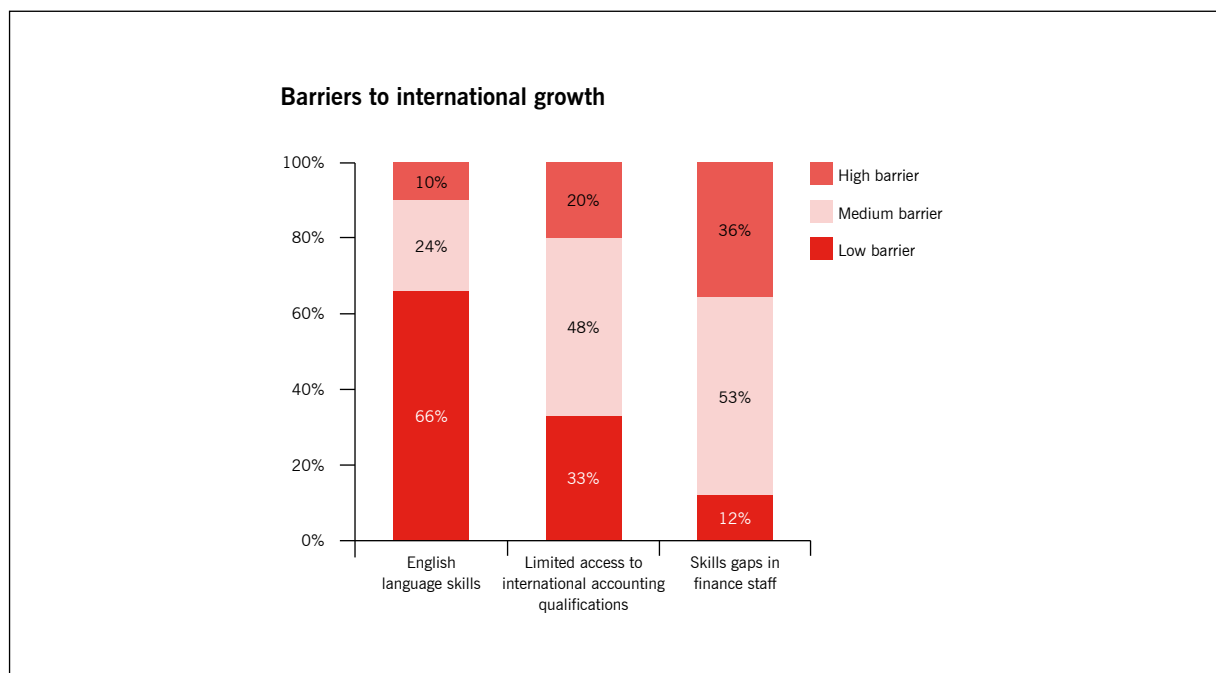
Respondents were also clear that the limited access to international accountancy qualifications is a barrier in the drive for international growth. Almost half of respondents thought it was a medium barrier and a further fifth a high barrier. These are areas where

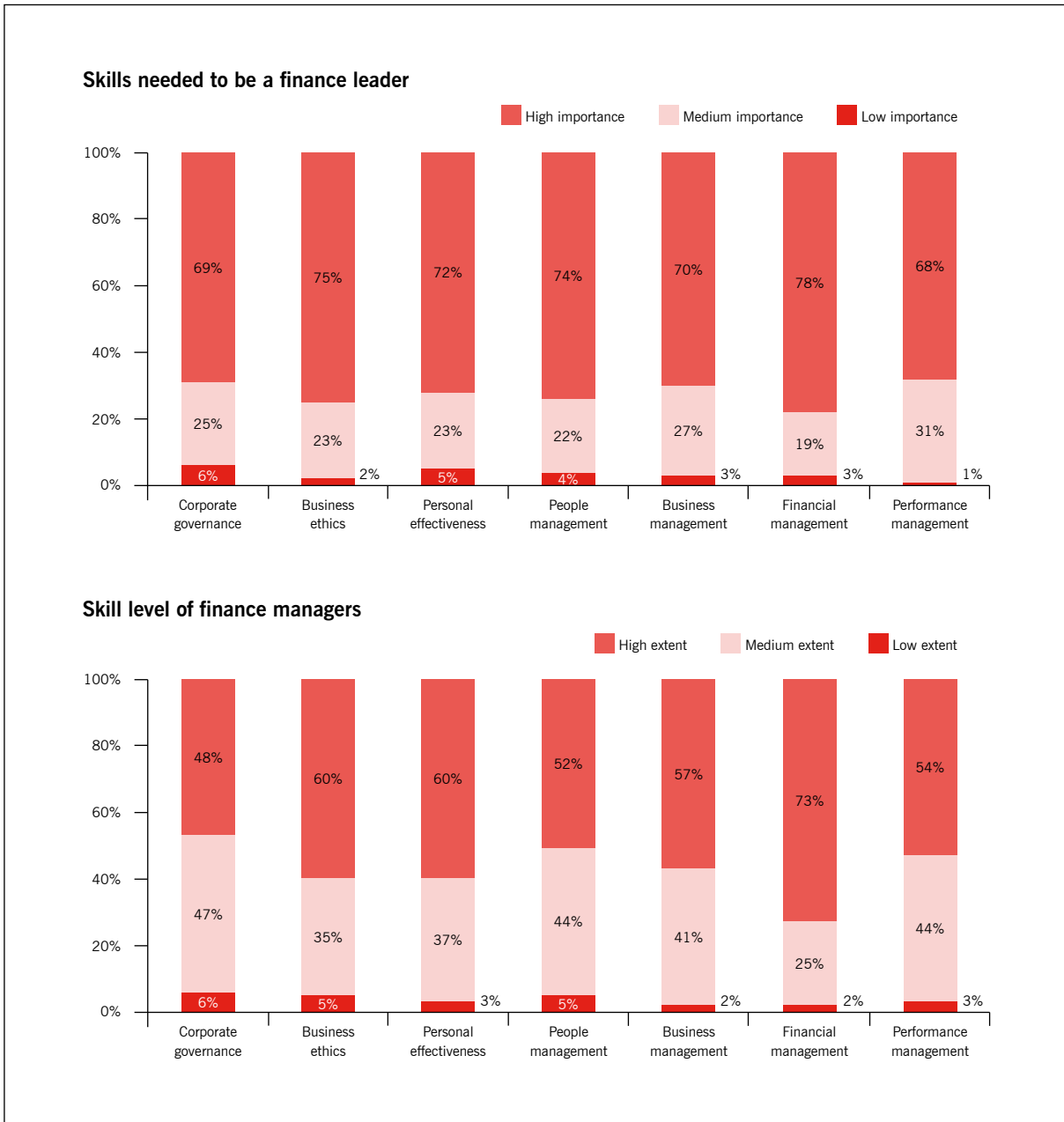
international accountancy bodies such as ACCA can help to support the development of finance staff by offering internationally-recognised qualifications to complement core national accountancy qualifications.

English language skills were not seen as a particular barrier. Comments suggested that the level of English is very good in India overall. However, one third of respondents would see a potential benefit for improvements in English language skills.

FINANCE LEADERS

Successful leaders of the finance function in any organisation need more than excellent core accounting skills. Finance leaders today have wide-reaching responsibilities, and are expected to contribute to strategy and the forward development of the company rather than just balancing the books. The survey looked at which additional skill areas are thought to be the





most important to become a business finance leader in India, and whether the finance managers of today can meet those skill requirements.

Understandably, most areas were considered to be important skills but financial management, business ethics and people management came out on top, with three quarters of respondents labelling them as

very important skills for finance leaders. Performance management and corporate governance were considered slightly less important although results still showed them as key skills.

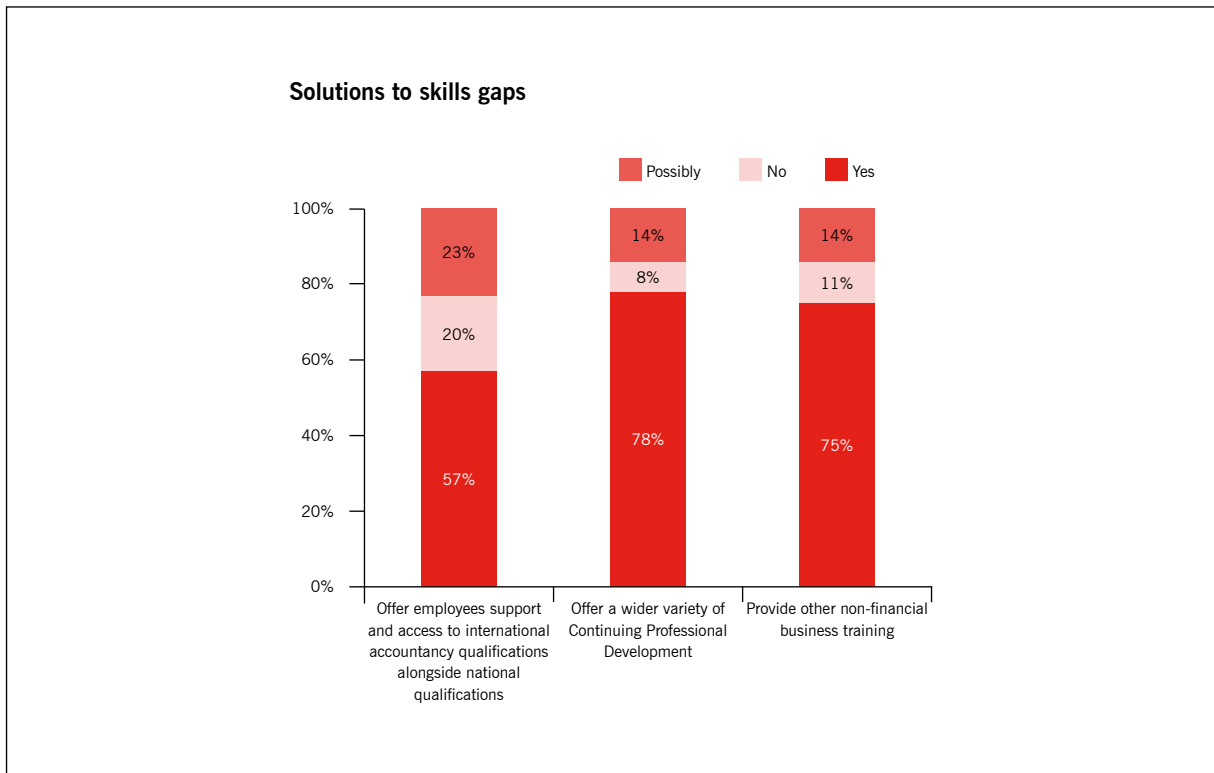
Comparing the skills needed to be a finance leader with perceptions of the performance of today's finance managers highlighted some of the skills gaps which

could be filled by broader international accountancy qualifications. Overall, finance managers were thought to meet the skills demands at least to a medium extent but, significantly, in areas that came out as very important for the finance leaders of tomorrow, there are definite skills gaps. For example, 75% of respondents considered business ethics to be essential but only 60% believed that finance managers are well equipped in that area.

BRIDGING THE SKILLS GAP

Where there are skills gaps, there are a number of potential solutions which could enhance the development of finance professionals in India and help create a talent pool of potential finance leaders. The survey aimed to determine how much interest there might be in exploring these solutions.

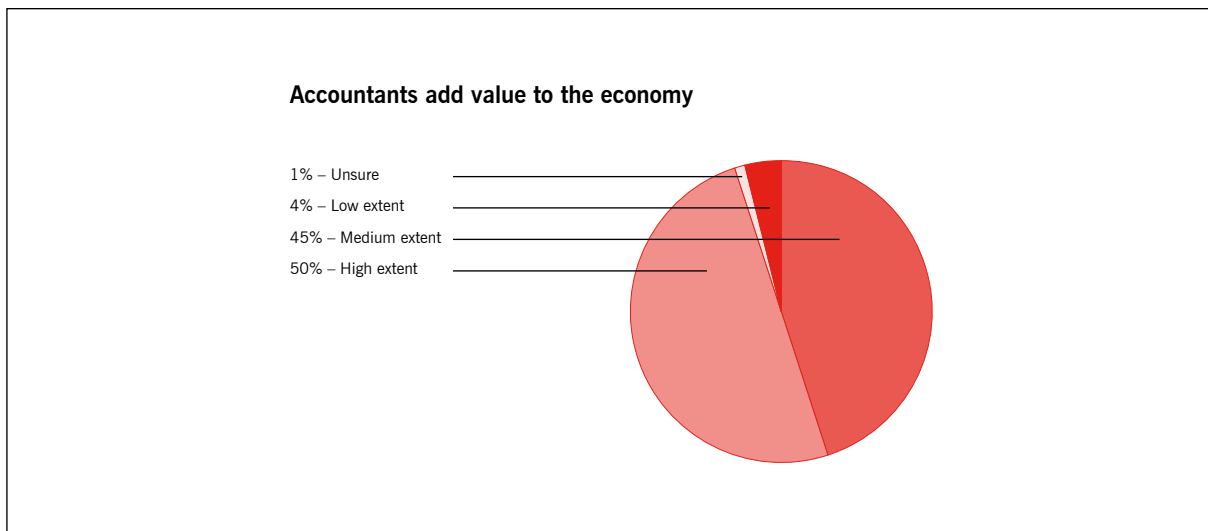
Over three quarters of respondents were keen to offer a wider range of Continuing Professional Development and other business training to their finance employees. Significantly, nearly 60% of respondents were also interested in offering finance employees access to, and support for, international accountancy qualifications.



Accountancy and the national economy

The research looked at the specific ways in which accountants in India add value, not only to their profession but also the national economy.

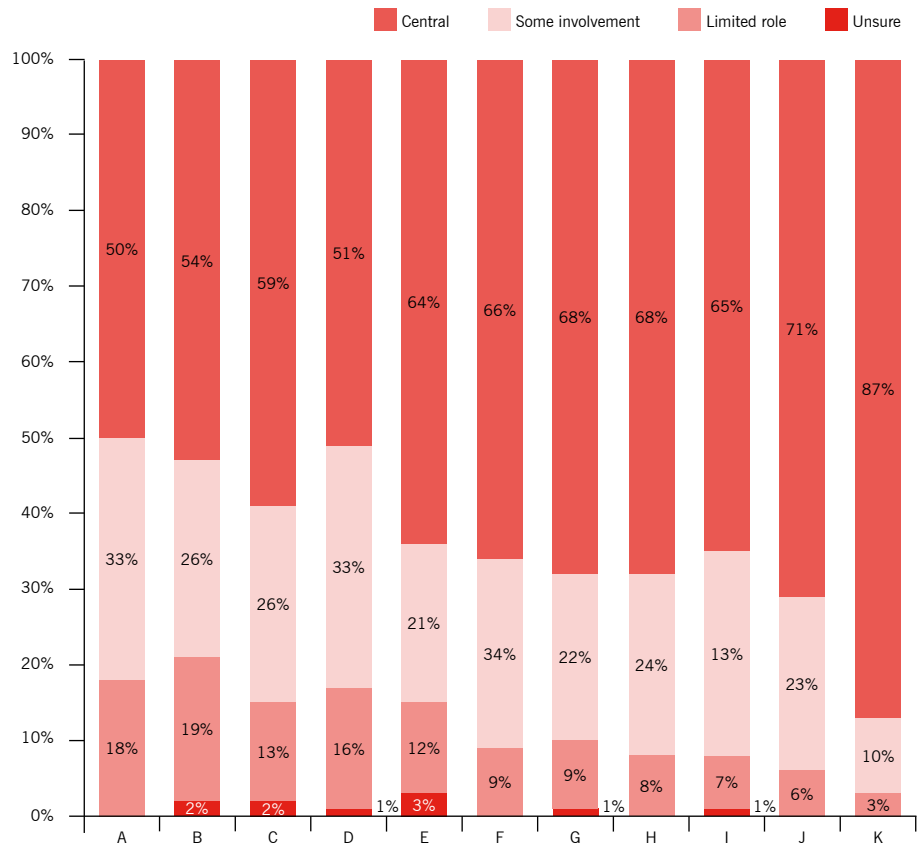
Results showed a huge majority of Indian accountants (95%), felt that their role is beneficial to the national economy. Half of these said that they believe professional accountants underpin India's economic development by providing assurance in financial reporting.



ROLE OF ACCOUNTANTS IN GENERATING GROWTH

Respondents are clearly aware of their importance and the value they help to create, but they were also asked to consider what level of involvement accountants in India have in key areas of growth and stability. Accountants were expected to have at least some involvement in most areas. Of the areas in which accountants were believed to have a central role, management reporting, financial efficiency and structuring financial transactions were top. In addition, ethical decision-making, internal controls and risk management are very important to promote stable growth and development. Accountants in India see themselves as having a key part to play in these areas with nearly 70% stating that they have a central involvement. By contrast, nearly one fifth of respondents think that accountants have a limited role to play in providing appropriate conditions for investment and countering fraud and corruption. These are areas in which the scores for central involvement were perhaps lower than expected, and where accountants in India have an opportunity to play a more central role.

Ways in which accountants add value to their economies



KEY

- A - Overall
- B - Providing appropriate conditions for investment
- C - Capital market stability
- D - Anti fraud/corruption
- E - Guarantors to investors of financial accuracy
- F - Developing long-term financial stability
- G - Ethical decision-making
- H - Analysis, risk-management and internal controls
- I - Accountability to shareholders and stakeholders
- J - Structuring financial transactions to generate growth and investment
- K - Management reporting and financial efficiency

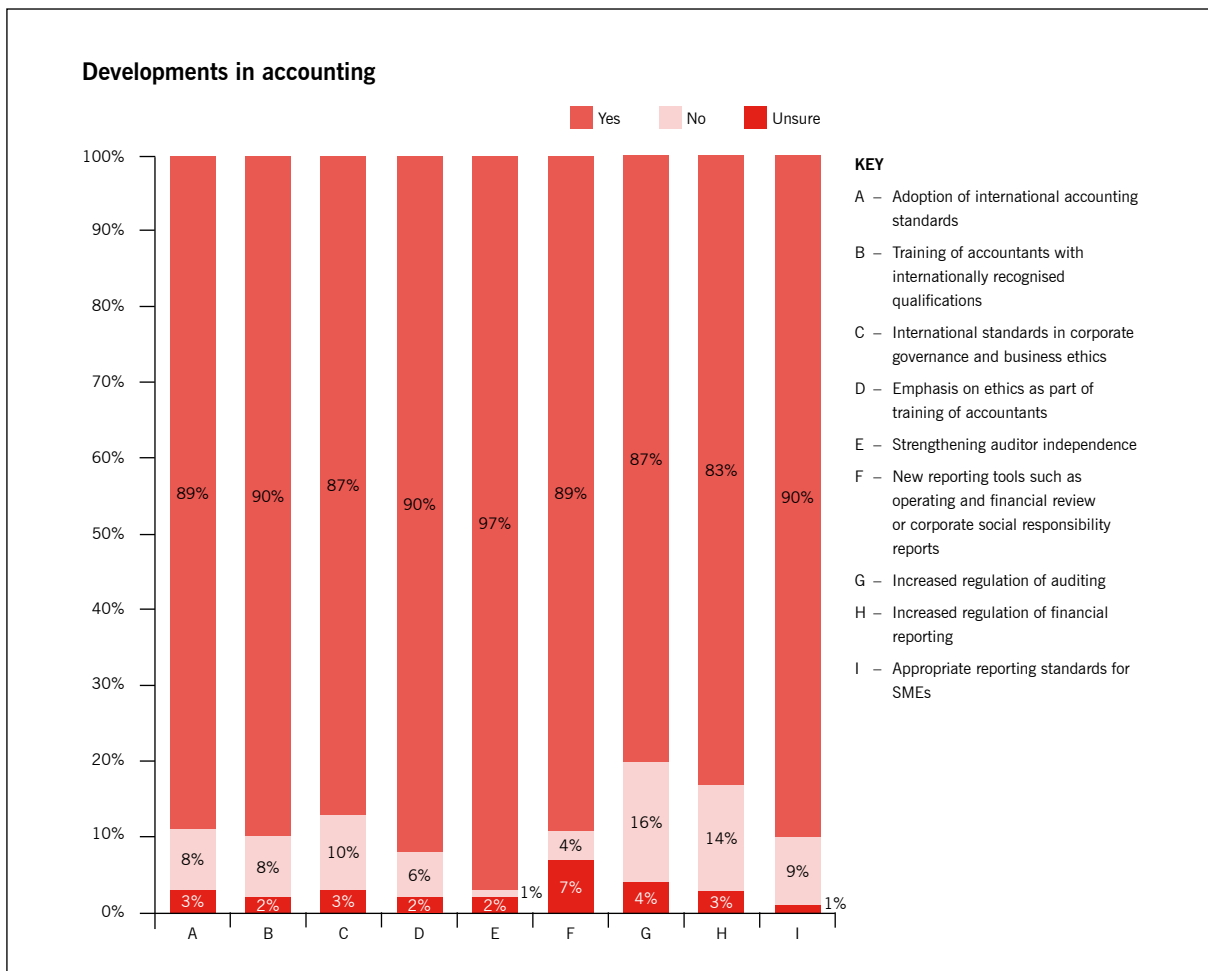
International accounting

There have been many developments in international accounting in recent years, including the increasing adoption of international financial reporting and auditing standards and the advent of codes of best practice in areas such as ethics, corporate governance, corporate and social responsibility, and sustainability. The survey aimed to measure how important some of these developments are in India, in terms of improving public confidence in the profession and in what support global accountancy bodies should be offering.

PUBLIC PERCEPTION

Respondents were asked to identify whether particular developments in the global accountancy profession would enhance public confidence in the perception of the role of accountants and financial reporting, as well as strengthening India's role in the global economy.

The results show leading finance professionals in India agree that most of the developments in global accounting would be beneficial to the reputation of accounting in India. In particular, 97% agreed that moves to strengthen auditor independence would enhance public confidence in the profession.



92% believed that emphasis on ethics as part of the training of accountants would be very beneficial.

Furthermore, around 90% of respondents can see the potential for improvements if:

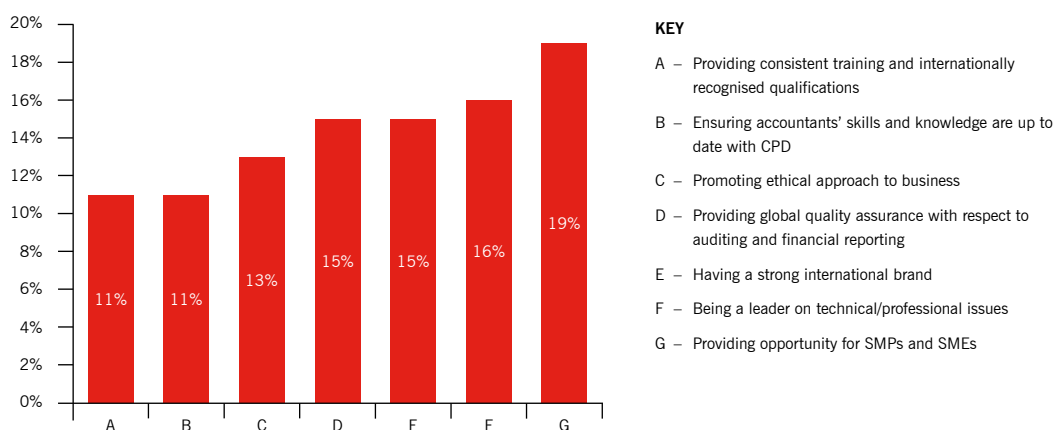
- there was wider access to internationally recognised qualifications
- there were appropriate reporting standards for SMEs
- India fully adopted international accounting standards
- new tools such as OFR and CSR reports were introduced.

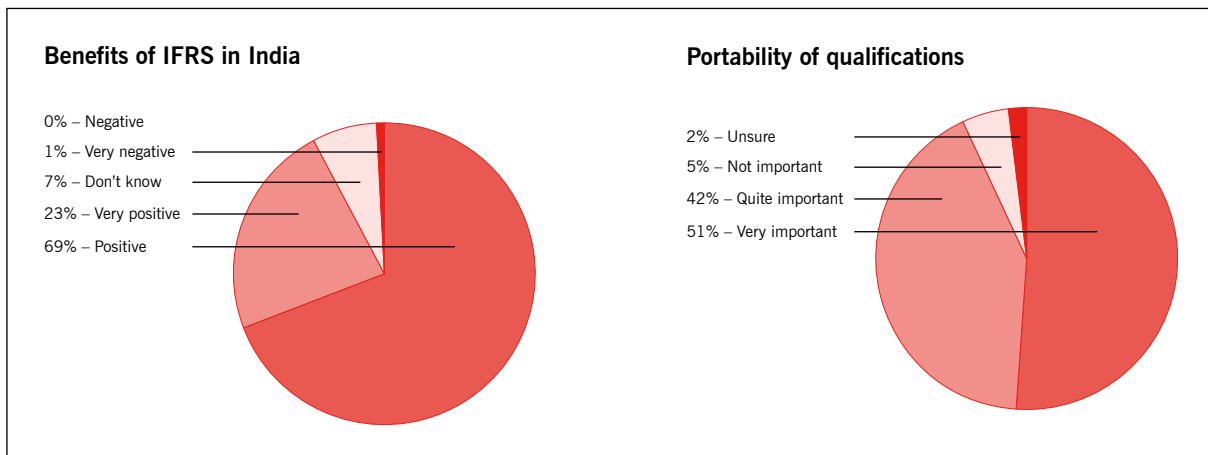
Although the majority of respondents were in agreement, around one fifth disagreed that increased regulation of financial reporting and auditing would be particularly helpful in improving public confidence.

ROLE OF INTERNATIONAL ACCOUNTANCY BODIES

The survey asked respondents to rank, in order of importance, the role of international accountancy bodies for organisations in India. Noticeably, CFOs agreed that accountancy bodies' main concern should be the delivery of consistent accountancy training and internationally-recognised qualifications – one fifth ranked this as the most important. Again ethical issues and the promotion of global ethical best practice are seen as key to accountants in India. Although over 10% of respondents ranked them as a top priority, having a strong international brand and providing opportunities for Small Medium Enterprises/Small Medium Practices (SMEs/SMPs) were considered less of a key attribute for accountancy bodies looking to support India's global development.

International best practice





In the context of key international developments, the survey also asked specifically about the effects of the implementation of IFRS. Only 1% of respondents believe that fully adopting IFRS in India would have a negative effect on their businesses. Nearly a quarter think that it would have a very positive effect and a further 70% agree it would be positive. 7% of respondents were unsure of the potential effects. Clearly the benefits of IFRS have been well communicated in India and businesses feel ready to take the opportunities offered from being part of international initiatives.

Finally, in the context of international accounting issues, respondents were asked how important global mobility of accountants is in helping support India's role in the global economy.

CFOs are very clear that portable, internationally-recognised qualifications would be beneficial for finance professionals and for India. Over 50% think they are very important and over 40% think they are quite important. This reinforces the overall benefits that finance leaders see in having greater international focus in the development of finance professionals and how this will have an overall positive effect in India.

This report is based on a survey of finance managers in India, conducted by an independent, UK-based research agency. While every effort has been made to reflect the views of respondents accurately, ACCA takes no responsibility for and accepts no liability for the accuracy of the report. ACCA is a global professional accountancy body, headquartered in the UK, which provides a broad-based accounting qualification relevant to a broad range of roles in finance and business. ACCA members are not authorised or licensed to carry out protected assignments or roles in accounting in India, such as signing public accounts or carrying out audits. For further information, readers are referred to provisions in relevant national legislation relating to the practice of accountancy in India.

