



Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh

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Abstract

The adoption of IFRS around the world is occurring rapidly to bring about accounting quality improvement through a uniform set of standards for financial reporting. However, accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides. This paper documents the prospects of IFRS adoption and their impact on the financial reporting environment of Bangladesh considering the underlying institutional and economic factors. It argues about trade-off between the scale advantage of IFRSs (designed globally by the highly sophisticated authority) and the local advantage of decentralized adaptation. It is also an effort to focus on the problems relating to adoption of IFRS in Bangladesh and to reach some concluding remarks for better applicability of accounting standards in ensuring transparent information environment.

Keywords: IFRS adoption, IAS, Accounting quality, ICAB, Bangladesh

1. Introduction

International accounting literature provides evidence that accounting quality has economic consequences, such as costs of capital (Leuz and Verrecchia, 2000), efficiency of capital allocation (Bushman, Piotroski, & Smith, 2006; Sun, 2006), and international capital mobility (Young and Guenther, 2002). Also, economic changes are likely to have similar consequences as Land and Lang (2002) document that accounting quality has improved worldwide since the beginning of the 1990s, and suggest that this could be due to factors such as globalization and anticipation of international accounting harmonization. Accounting theory argues that the purpose of financial reporting is essentially to reduce information asymmetry between corporate managers and parties contracting with their firm (Watts, 1977; Ball, 2001) and financial reporting reduces information asymmetry by disclosing relevant and timely information (e.g., Frankel and Li 2004). Because there is considerable variation in accounting quality and economic efficiency across countries, international accounting systems provide an interesting setting to examine the economic consequences of financial reporting.

Improvement in the information environment following change to IAS (Note 1) and IFRS is contingent on at least two factors. First, improvement is based upon the premise that change to IFRS constitutes change to a GAAP that induces higher quality financial reporting. For example, Barth, Landsman, & Lang (2006) find that firms adopting IFRS have less earnings management, more timely loss recognition, and more value relevance of earnings, all of which they interpret as evidence of higher accounting quality. Second, the accounting system is a complementary component of the country's overall institutional system (Ball, 2001) and is also determined by firm's incentives for financial reporting. La Porta, Lopez-De-Silanes, Shleifer, & Vishny, (1998) provide the first investigation of the legal system's effect on a country's financial system. They find that common law countries have better accounting systems and better protection of investors than code law countries.

Other factors associated with financial reporting quality include the tax system (Guenther and Young, 2000; Haw et al.; 2004), ownership structure (Ball and Shivakumar, 2005; Fan and Wong, 2002), the political system (Leuz and Oberholzer-Gee, 2006), capital structure (Sun, 2006), and capital market development (Ali and Hwang, 2000). (Note 2)

The Institute of Chartered Accountants of Bangladesh (ICAB), which is an apex body for the development of accounting profession in Bangladesh, has been working for the adoption and improvement of accounting standards. The

ICAB has a program to adopt IAS as Bangladesh Accounting Standards (BAS). The Securities and Exchange Commission (SEC) of Bangladesh requires the issuers of listed securities to prepare financial statements in accordance with the requirements laid down in the Regulation and the IASs as adopted by the ICAB.

This work concentrates on the importance of adoption and application of IFRS and problems relating thereto in a developing country like Bangladesh.

2. Objectives of the Study

The main objective of the paper is to focus on the adoption and application of IFRS and problems relating thereto. The specific objectives are-

- To portray the role of IFRS for quality accounting information;
- To study the problems regarding the adoption and application of IFRS in the context of Bangladesh.
- To present some policy recommendations for adoption and implementation of IFRS for ensuring good financial reporting.

3. Methodology of the Study

The study has been conducted mainly on the basis of literature survey and secondary information. Various journals and research papers, diagnostic study reports and newspaper articles have been surveyed in making this study. Few qualified accountants (Chartered Accountants and Cost and Management Accountants) have been personally consulted with in order to have their thoughts on the problems and solutions in this regards.

4. Overview of Adoption of IFRS

IFRS are accounting rules ("standards") issued by the International Accounting Standard Board (IASB), an independent organization based in London, UK. Before the inception of IASB, international standards were issued by the IASB's predecessor organization, the IASC, a body established in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. Up to 2000, the IASC's rules were described as "International Accounting Standards" (IAS). In fact, in 1997 after nearly 25 years of achievement, IASC recognized that to continue to perform its role effectively, it must find a way to bring about convergence between national accounting standards and practices and high-quality global accounting standards. In late 1997 IASC formed a Strategy Working Party that published a discussion paper in December 1998 and final recommendations in November 1999. The IASC Board approved the proposals in December 1999, and the IASC member bodies did the same in May 2000. The new standards-setting body was named as International Accounting Standards Board (IASB) and since April 2001, it has been performing the rule-making function. (Note 3) Components of IASB structure contain- IASB, IASC Foundation, International Financial Reporting Interpretations Committee (IFRIC), previously Standing Interpretations Committee, SIC under IASC), Standards Advisory Council (SAC) and Working Groups. The IASB is better funded, better-staffed and more independent than its predecessor. (Note 4) The IASB describes its rules under the new label "International Financial Reporting Standards (IFRS), though it continues to recognize (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC).

Over the years the business community has admitted that the accounting is "the language of business" and financial information is a form of language. And undoubtedly, to ensure its usefulness, financial information should not only be intelligible, but also be comparable so that investment and credit decisions can more readily be taken. Over the past few decades, the accounting profession has been facing the pressure of globalization and continuously seeking the way to present financial situations using unique accounting procedures which can be understood by the entire business community. Due to the fact that this process followed the global trends, and the globalization is first of all a political process; the starting point in creation of a unique accounting system needed to pass a difficult process where the main accounting systems will litigate to impose their accounting policies and practices. (Belkaoui,1994). Despite the difficult process Anderson (1993) said "a set of international accounting standards will allow new horizons of evolution due to the fact that comparative analysis of the rates of returns established based on the balance sheets and profit and loss account between the companies being in competition become relevant". The comparison, as the basic form of economical judgment can be realized only if the accounting system is unique for all the companies involved in the analysis. Also harmonization is absolutely necessary because national standards of financial statements are virtually useless; financial markets in more regulated countries are threatened with a loss of market share; and multinational corporations must prepare multiple reports for different nations they do business in. (Nobes and Parker 1991). In order to accomplish this target the accounting profession developed the solutions like: the American solution GAAP or the European solution (British solution to be read) IAS/IFRS. On the backdrop of getting a single set of international accounting standards (since October 2002, the IASB and FASB have been working systematically toward convergence of IFRS and U.S. GAAP), IFRS is rapidly gaining acceptance as over 100 countries have recently moved to IFRS

reporting or decided to require the use of these standards in the near future and even the U.S. Securities and Exchange Commission (SEC) is considering allowing U.S. firms to prepare their financial statements in accordance with IFRS. (Note 5)

In particular, the European Union now requires publicly traded companies (with the exception of some firms) to present consolidated financial statements in conformity with IFRS since the financial year starting on or after 1 January 2005. Earlier since the late 1990s, firms in some European countries were allowed to use IAS as a substitute for domestic accounting standards (Soderstrom & Kevin, 2007). Other countries with prominent capital markets such as Australia, Hong Kong, Singapore and South Africa have also decided to adopt IFRS or have already adopted an accounting regime that is essentially equivalent to IFRS. The SEC has also now scheduled a timeline of transition to IFRS for US firms that want to start reporting under IFRS. (Horton et al., 2008). Many countries are replacing their national standards with IFRSs for some or all domestic companies while other countries have adopted a policy of reviewing IFRSs and then adopting them either verbatim or with minor modification as their national standards. The International Organization of Securities Commissions (IOSCO), the international organization of national securities regulators, has recommended that its members permit foreign issuers to use IFRS for cross-border securities offerings and listings. The IASB has been indefatigable in promoting IFRS at a political level, and its efforts have paid off substantially in terms ranging from endorsement to mandatory adoption, notwithstanding the doubt on converting political action into actual implementation. Many believe accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007). However, clear empirical evidence of the economic consequences from mandatory adoption of IFRS has been limited (Daske et al., 2007).

IASs have become an integral part of the legal framework of Bangladesh from 1997 by the insertion of section 12(2) into the Securities and Exchange Rules 1987. The ICAB has so far adopted 29 out of 34 IASs as Bangladesh Accounting Standards (BAS). The latest summarized positions as of 17th March 2005 are as follows:

Insert [Table 1] Here

Insert [Table 2] Here

5. IFRS and Quality of Accounting Information

The fundamental economic function of accounting standards is to provide “agreement about how important commercial transactions are to be implemented” (Ball, p. 19). Ensuring disclosure quality of financial information is also mandatory for reducing information asymmetry and solving agency problem in corporate sector.

Existing literatures document improvements in accounting quality following voluntary IFRS adoption (e.g., Barth et al., 2006; Gassen and Sellhorn, 2006; Hung and Subramanyam, 2007; Barth et al., 2008) to reduce information asymmetry between managers and shareholders and it can be evidenced by proper assets and earnings management, lower cost of capital, and high forecasting capability by the investors about firm’s future earnings. Gordon (2008) listed the benefits from adaptation of IFRS over the world as-

- Better financial information for shareholders;
- Better financial information for regulators;
- Enhanced comparability;
- Improved transparency of results;
- Increased ability to secure cross-border listing;
- Better management of global operations; and
- Decreased cost of capital.

Barth et al. (2006) suggest that accounting quality could be improved with elimination of alternative accounting methods that are less reflective of firms’ performance and are used by managers to manage earnings. They compare earnings management for firms that voluntarily switch to IFRS with firms that use domestic accounting standards. They find that after IFRS adoption, firms have higher variance of changes in net income, a higher ratio of variance of changes in net income to variance of changes in cash flows, higher correlation between accruals and cash flows, lower frequency of small positive net income, and higher frequency of large losses.

Barth et al. (2006; 2008) also found that an international sample of firms that voluntarily adopted IFRS up to 2003 exhibits lower levels of earnings management and more timely loss recognition than a matched sample of firms using local GAAP. As an extension of these findings, Daske et al. (2007) focus on the heterogeneity in the consequences of voluntary IFRS adoption and find that on average capital markets respond modestly to voluntary IFRS reporting. Overall the evidence on the association between voluntary IFRS adoption and accounting quality is mixed, although papers applying more recent data generally find relatively better accounting quality among the firms that adopt IFRS. (Christensen et al. 2008). A common feature of these studies is that, much of the previous studies on IFRS compliance

relates to voluntary adopters, which by definition suffer from selection bias (Asbaugh 2001). This raises the question as to whether we can attribute the improved quality to the application of IFRS per se. That is, does the application of IFRS have an incremental effect on accounting quality, or is the observed quality improvement a result of other changes implemented simultaneously by the adopting firms? In a concurrent study, Daske et al. (2007) examine the capital market effects of mandatory IFRS adoption. They find evidence that is consistent with reduced information asymmetry in association with mandatory IFRS adoption. They argue that the effect could be driven by network effects rather than accounting quality improvements. In a similar spirit, Lee et al. (2008) argue that if IFRS matters, then firms in countries that had lower disclosure quality and dependence on equity financing prior to mandatory IFRS should experience a greater impact after mandatory adoption. However, using implied cost of equity capital as an indicator, they find no effect among such countries even after two years under the new accounting standards.

By eliminating many international differences in accounting standards, and standardizing reporting formats, IFRS eliminate many of the adjustments that analysts historically have made in order to make companies' financial information more comparable internationally. IFRS adoption therefore could make it less costly for investors to compare firms across markets and countries (e.g., Armstrong et al., 2007; Covrig, Defond, and Hung, 2007). Thus, a common set of accounting standards would reduce information asymmetries among investors and/or lower estimation risk by increasing comparability between lower and higher quality firms. The gain would be greatest for institutions that create large, standardized-format financial databases. Similarly, accounting diversity could be an impediment to cross-border investment (Bradshw, Bushee, and Miller, 2004). Thus, reducing international differences in accounting standards assists to some degree in facilitating international integration of capital markets (Covrig, Defond, and Hung, 2007) by removing barriers to cross-border acquisitions and divestitures, which in theory will reward investors with increased takeover premiums (See Bradley, Desai and Kim, 1988).

Bushman, Piotroski and Smith (2006) report evidence that firms in countries with timelier financial-statement recognition of losses are less likely to undertake negative-NPV investments. The increased transparency and loss recognition timeliness promised by IFRS therefore could increase the efficiency of contracting between firms and their managers, reduce agency costs between managers and shareholders, and enhance corporate governance. Increased transparency causes managers to act more in the interests of shareholders.

To signify the effect of IFRS on investors' ability to forecast earnings; some researchers argue that better accounting standards make reported earnings less noisy and more accurate, hence more "value relevant." (e.g., Ashbaugh and Pincus (2001), Hope (2003)). Other things equal (for example, ignoring enforcement and implementation issues for the moment) this would make earnings easier to forecast and would improve average analyst forecast accuracy. Though some researchers (e.g. Ball, Kothari and Robin (2000) and Ball, Robin and Wu (2003)) thought oppositely that managers in low-quality reporting regimes are able to "smooth" reported earnings to meet a variety of objectives, such as reducing the volatility of their own compensation, reducing the volatility of payouts to other stakeholders (notably, employee bonuses and dividends), reducing corporate taxes, and avoiding recognition of losses. In contrast, earnings in high-quality regimes are more informative, more volatile, and more difficult to predict. This argument is bolstered in the case of IFRS by their emphasis on "fair value accounting" (FVA). FVA aims to incorporate more-timely information about economic gains and losses on securities, derivatives and other transactions into the financial statements, and to incorporate more-timely information about contemporary economic losses ("impairments") on long term tangible and intangible assets. IFRS promise to make earnings more informative and therefore, paradoxically, more volatile and more difficult to forecast.

In a developing economy like Bangladesh, we can figure out the following prospects that may accrue by the adoption of IFRS:

1. The adoption may have some direct impact on the corporate sector. Agency problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders (see Watts, 1977; Watts and Zimmerman, 1986). The increased transparency promised by IFRS also could cause a similar increase in the efficiency of contracting between firms and lenders. The increased transparency and loss recognition timeliness promised by IFRS could increase the efficiency of contracting in debt markets, with potential gains to equity investors in terms of reduced cost of debt capital.
2. The vulnerability of small investors is a long time established problem and undoubtedly it is a big impediment for the stock market development in Bangladesh. Small investors are less likely than investment professionals to be able to anticipate financial statement information from other sources. IFRS adoption could reduce the cost of investors of processing financial information. Improving financial reporting quality allows the small investors to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional (known as "adverse selection"). (Note 6)
3. Another improvement of adopting IFRS to reduce information asymmetry in the corporate sector can arise due

to its emphasis on fair value accounting (FVA). Most economists argue that fair value incorporates more information into the financial statements than historical costs. Though other conditions in Bangladesh are not favorable for implementing FVA (like achieving observable market prices or independently observable, accurate estimates of liquid market prices that cannot be materially influenced by managers due to less perfect market liquidity), still FVA can make financial statements more informative, with potential advantages to investors, and if enforceable more useful for purposes of contracting with lenders, managers and other parties (see Ball, Robin and Sadka (2006). IFRSs are instilled into FVA. Particularly as listed (Ball 2005):

IFRS 2 requires share-based payments to be accounted at fair value;

IFRS 3 provides for minority interest to be recorded at fair value;

IAS 16 provides a fair value option for property, plant and equipment;

IAS 36 requires asset impairments (and impairment reversals) to fair value;

IAS 38 requires intangible asset impairments to fair value and some others;

IAS 39 requires fair value for financial instruments other than loans and receivables that are not held for trading, securities held to maturity; and qualifying hedges (which must be near-perfect to qualify); (Note 7) and IAS 40 provides a fair value option for investment property.

4. Apart from these, adoption of IFRS in Bangladesh can reduce accounting diversity thus will encourage the foreigners for cross border investment which in turn may improve the liquidity of the capital markets and enlarge firm's investor base to improve risk-sharing and lowers cost of capital (e.g. Merton, 1987).
5. Prevailing local GAAP is not enough to ensure proper disclosure quality and there are ambiguities among numerous rules, guidelines and notifications that are often self-contradictory and perplexing to one another. Mandatory adoption of IFRS will reduce such vagueness and create more binding on the firms to perform their disclosure responsibility (e.g., Ding et al, 2007; Bae, Tan and Welker, 2008 evidence that IFRS are more comprehensive than most local GAAP).

Since the early 1980s, various bilateral and multilateral agencies have been playing an active role in the diffusion of Western accounting standards to the developing world (see Rahaman and Lawrance, 2001; Neu et al., 2002). Bangladesh, as a country hugely dependent on foreign aid and also a participant of globalization trend, has been facing the urgency of different global community for adopting IASs/IFRSs to ensure accountability and transparency in financial reporting.

Accounting profession is seeking to adopt all applicable IASs (see Institute of Cost and Management Accountants of Bangladesh, 1999, p. 12) but such decision is continually driven by institutional legitimization rather than careful appreciation of the differing contextual variables in Bangladesh (see, Susela, 1999; Points and Cunningham, 1998). In fact, after a long period without any involvement or interference with the practice of accounting, the government of Bangladesh, in response to the immense pressure by the international lending/donor agencies to standardize financial reporting, has started lobbying the accounting profession to adopt all applicable IASs/IFRSs for use in Bangladesh (ICMAB, 1999). The accounting profession in Bangladesh is mainly controlled by two main accounting professional bodies, the Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) established in 1973 and 1977 respectively whose structures are "modeled on the United Kingdom" system (Parry and Grooves, 1990, p. 119). Both organizations have the vision of establishing standard accountancy practices in Bangladesh through developing and recognizing highly qualified professional accountants in the country.

The next section focuses on some prevailing problems that are deterring IFRS adoption in Bangladesh or hindering the achievable benefits from IFRS after being adopted.

6. Problems with IAS Adoption Process

In Bangladesh, the IASs adoption process was initiated in August 1999 following a World Bank grant to the Bangladeshi Government for the development of Accounting and Auditing Standards in Bangladesh. The grant was targeted at enhancing the institutional capacity of the ICAB for the adoption of IASs in the country. The Government then delegated the process to the Securities and Exchange Commission (SEC) as the main institution responsible for overseeing the process.

Although it appears like the adoption of IASs was kicked off by SEC, actually effort was initiated by the international agencies and the whole process eventually transformed into a political exertion (See Mir et al, 2005, p. 826). The SEC empowered the ICAB to adopt those standards specified by the SEC and the Government of Bangladesh. At present, a committee named "Research and Technical Committee (TRC)" under the ICAB is working to give acceptance to the IASs for adoption in Bangladesh. The committee comprises of thirteen members and all of them are Chartered

Accountants. That means, despite the existence of two professional bodies in the country the ICAB is recognized “as the sole authority in Bangladesh for adoption of International Accounting Standards and International Standards on Auditing” (ICAB Circular 1/15/ICAB – 99, September 1999). The ICAB’s stand on this regard can be clearly obtained in the statement:

The ICAB was one of the first Institutes in the South Asia region to start adopting IASs. Over the years, the ICAB has followed a regular approach to adoption of new Standards, after a process of stringent technical review and considering their applicability to Bangladesh. (Note 8)

It may be noted that in many countries (the USA, the UK, India, Sri Lanka etc.) of the world, different concerned groups like professional accountants, bank representatives, academicians, employed accountants, representatives from chamber of commerce and industry, representatives from different regulatory bodies etc. are involved in the development and/or acceptance process of accounting standards. Even if we discard the fact that inclusion of different interest-groups into the committee could bring significant improvement to standards adoption/development process and believe that ICAB as a sole authority is performing well, the problem does not end here. As the general perception is:

After standards are reviewed and adopted, the ICAB labels them “Bangladesh Accounting Standards (BASs)” notwithstanding that most of these standards are carbon copies with the same numbers as the original IASs. (Mir et al, 2005, p. 826)

General remarks of the highly interested but non-inclusive groups (e.g., cost and management accountants, academics, and business leaders) also support the statement. A common view among them was that wholesale importation of the highly sophisticated rules like IASs is not suitable for the less sophisticated economic and regulatory structure of Bangladesh (See Mir et al, 2005, p. 835). Most of chartered accountants we consulted with also expressed their doubt on suitability of wholesale adoption of IFRS in Bangladesh but showed their favor for ICAB as a sole authority for such adoption.

Another problem lies on ambiguity of role and responsibility of the SEC and the ICAB. Once the adoption process is over the SEC then has the responsibility, as delegated by the Government of Bangladesh, to monitor compliance with these standards by listed companies. According to the Sec 12 (2) of the Securities and Exchange Rules 1987, ‘the financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the Schedule and the International Accounting Standards/IFRSs as adopted by the Institute of Chartered Accountants of Bangladesh’. That is, all the responsibilities of IAS adoption process lie with the ICAB. The SEC does not participate in the process though it is the top regulatory body in Bangladesh for enforcement of IASs/IFRSs in the listed companies. Here it may be noted that the US SEC has the authority to set accounting standards for companies, but always has delegated the responsibility to the accounting profession, a strong and independent standards setting body like FASB. Most importantly, the US SEC delegated only the responsibility, not the authority, to set standards and if it does not agree with a particular standard issued by the private sector, it can force a change in the standard (See Spiceland et al, 2004, p. 9). It is clear that, in Bangladesh, SEC lacks expertise to formulate standards which led them to delegate the responsibility to the ICAB.

From a diagnostic review carried out in Bangladesh on accounting and auditing in January –March 2003, the World Bank’s Report on the Observance of Standards and Codes (ROSC) Bangladesh states that, the accounting and auditing practices in Bangladesh suffer from institutional weaknesses in regulation, compliance, and enforcement of standards and rules. In many cases, the preparation of financial statements and conduct of audits are not consistent with IASs and international auditing practices. (Note 9) About standard setting and auditing standards this report reveals:

As the professional body of accountants, ICAB regulates its members; however, it has no legal mandate for setting accounting standards. Despite that, ICAB develops and issues BAS, which are not legally binding by corporate management. The ICAB expects its members, who prepare and audit financial statements, to observe the local standards.

That means though SEC in Bangladesh is directing the listed companies to follow IASs adopted by the ICAB vide Sec 12 (2) of the Securities and Exchange Rules 1987, such direction is not creating any legal binding on the corporate management, as evidenced by the ROSC.

The ROSC revealed the necessity of enacting of “a new Financial Reporting Act and the repeal of the provisions on accounting, auditing, and financial reporting in Companies Act 1994, Bank Companies Act 1991, Insurance Act 1938, and other related regulations.” This recommendation is appreciable because such initiative may substantially eliminate all conflicting issues among the prevailing regulations and pronouncements and undoubtedly, it will be easy to update accounting, auditing, and financial reporting requirements from time to time by simply amending the single act for financial reporting. The ROSC advocated that the proposed Financial Reporting Act should focus on making legal arrangements to “fully adopt IAS/IFRS/ and ISA without modification and ensure mandatory observance of these standards” (ROSC, 2003, p.11).

The ROSC also recommended establishment of a Financial Reporting Council under the proposed Financial Reporting Act in order to adopt, without modification, all IASs, and ISAs, and IFAC-issued Code of Ethics for Professional Accountants, for observance by the public interest companies with respect to financial reporting” (ROSC, 2003, p.12). Ensuring mandatory observance of IFRS and ISA will be beneficial but the issue of carbon copy adoption of all IAS/IFRS and related interpretations issued by the IASB without modification calls for consideration. As Wallace and Briston (1993, pp. 216-217) argued that accounting and accountability problems would be unique to each developing country and donor agencies should collaborate more closely with the recipient country to ensure that their assistance is delivered only in accordance with the respective national accounting development plans.

In October 1999, the Ministry of Commerce issued a memorandum proposing the establishment of Bangladesh Accounting and Auditing Standards Monitoring Board which should involve all interested parties (ICAB, 1999, p. 19; ICMAB, 1999, p. 12). This proposal was rejected by ICAB which perceives itself as “the only competent legal authority in the country to adopt IAS . . . and there was no justification whatsoever for formation of the proposed Bangladesh Accounting and Auditing Standards Monitoring Board”, (ICAB Annual Report, 1999, p. 19). This proposal is still under consideration by the government of Bangladesh and the ICMAB have started to actively lobby the World Bank Team for the establishment of the Board. (ICMAB, 2003, pp. 31-33). Some members of the ICMAB expressed dissatisfaction on grounds that the responsibility for adoption of IASs should have been delegated to an accounting standard setting committee, as in most countries, with representative members from both bodies and other interest groups such as academics and corporate leaders. (See Mir et al, 2005, p. 829).

8. Recommendations and Concluding Remarks

Ensuring high-quality corporate financial reporting environment depends on effective enforcement mechanisms. Merely adopting international accounting and auditing standards is not enough. Three important links exist in the enforcement sequence: (a) directors and top management must ensure that financial statements are prepared in compliance with established standards; (b) auditors must act independently and judiciously to ensure that financial statements comply with applicable accounting standards and represent a true and fair position of the enterprise’s financial condition; and (c) regulators, both self-regulatory organizations and statutory regulators, must implement arrangements for efficient monitoring of regulatory compliance and consistently take appropriate actions against violators. (ROSC, Sri Lanka-Accounting and Auditing; P 14). To do these we have the following recommendations.

- **Establishment of Financial Monitoring Board:** The government is under the process of establishing an independent oversight body named “Financial Reporting Council” to shoulder the responsibility of setting accounting and auditing standards, monitoring compliance with accounting standards, reviewing auditors’ practice and reviewing reporting practices and enforcing sanctions for violations. The government should ensure capacity and effectiveness of this regulatory regime to provide a real sense of security to stakeholders. The board should focus on technically qualified personnel, practical training of inspectors/reviewers, administrative support, and necessary logistics arrangements. The IFRS enforcement bodies (the SEC and the Bangladesh Bank) should immediately enhance their expertise.
- **Inclusion of other interested parties:** A system for adoption of standards and monitoring should be developed that can work on a consensus view of all the interested parties. Apart from that, Exposure Drafts are to be circulated for comments from various professionals and the general public at large. This often has the result of minimizing dissension and thus increasing acceptance of accounting standards developed by the committee (Hove, 1990).
- **Encouraging the firms for adopting IFRS:** On the basis of proper compliance of IFRS, the regulatory authorities can provide significant benefits (like, firms reporting regularly complying IFRS and other necessary requirement will have relax listing criteria or incentives in either monetary or non-monetary forms).
- **Role of government:** The government should introduce an awareness program for improving the degree of compliance with accounting requirements by specified business enterprises. Authorities like the ICAB, the ICMAB, the SEC and Bangladesh Bank should work jointly to design an awareness program on the importance of compliance with accounting and auditing requirements.
- **Upgrading accounting education:** In order to ensure a minimum quality standard in teaching accounting and auditing courses in all Bangladeshi universities, an initiative is necessary for curriculum development and training-the-trainers activities.

We must determine the area of trade-off between the scale advantage of IASs (designed centrally/globally by the highly sophisticated authority) and the local advantage of decentralized adaptation. (Note 10) Government should take a bold step. From regulatory perspective, self-regulation is the answer which will ensure de jure and de facto compliance. Awareness should contribute to that process. Only enforcement mechanism will not help the procedure if some firms are forced to do something against their will. In fact, the adopters must change their intuitive behavior of following a “tick-box” attitude (Daske et al., 2007) and also must not adopt IFRS just like a costless free good.

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Notes

- Note 1. IASs were issued between 1973 and 2001 by the International Accounting Standards Committee (IASC). In April 2001 the International Accounting Standards Board (IASB) took over the roles of the IASC and adopted all IAS and continued the development, calling the new standards IFRS. Terminologically, IAS(s) and IFRS(s) are often used in an interchangeable way.
- Note 2. There are many alternative definitions and measures of quality in the accounting literature. For example, Francis et al. (2004) summarize seven common earnings attributes that are often associated with earnings quality (associating these attributes with firms' cost of capital). We do not offer an exhaustive summary of this literature since there are a number of excellent recent surveys, including Schipper and Vincent (2003) and Dechow and Schrand (2004).
- Note 3. The IASB is organized under an independent Foundation named the International Accounting Standard Committee Foundation (IASCF) which is a not-for-profit corporation created under the laws of the State of Delaware, USA, on March 2001.
- Note 4. The background and chronology of IASB structure can be found at <http://www.com/restruct/restruct.htm>
- Note 5. www.sec.gov/news/press/2007/2007-145.htm
- Note 6. See Glosten and Milgrom (1985), Diamond and Verrecchia (1991) and Leuz and Verrecchia (2000), Verrecchia (2001), Lambert, Leuz and Verrecchia (2007).
- Note 7. Available-for-sale securities are to be shown at Fair Value in the Balance Sheet only.
- Note 8. See Bangladesh Financial Reporting Standards (BFRS), Vol-1, October 2008, published by the ICAB, Foreword by the president of the ICAB Md. Humayun Kabir FCA.
- Note 9. See Executive Summary of Report on the observance of standards and codes (ROSC), Accounting and Auditing, May 16, 2003. Can be retrieved from http://www.worldbank.org/ifa/rosc_aa_bgd.pdf
- Note 10. "The analogy with McDonald's is instructive: the corporation designs the basic rules centrally (product line, logos, packaging, service and cleanliness standards, etc.) and the store managers and franchisees implements them locally (hiring and firing employees to satisfy service standards, etc.)" (Ball, 2008)

Table 1. Summary of adoption of IASs in Bangladesh

Sl. No.	Subject	IASs in Number	IASs Number
1	Existing number of IASs developed by IASC, IASB	34	
2	Withdrawn by IASB	01	IAS-15
3	IASs not applicable to Bangladesh Context	01	IAS-29
4	Total effective IAS	32	
5	IASs adopted in Bangladesh as BAS	31	1,2,7,8,10,11,12,14,16,17,18,19,20,21,23,24,26,27,28,30,31,32,33,34,35,36,37,38,39,40 & 41.

Sources: The Institute of Chartered Accountants of Bangladesh (ICAB).

Table 2. Adoption status of IFRSs

IFRS No.	BFRS No.	Effective Date
IFRS 1	BFRS-1: First-Time Adoption of Bangladesh Financial Reporting Standards	An entity shall apply this BFRS if its first BFRS financial statements are for a period beginning on or after 1 January 2009.
IFRS 2	BFRS-2: Share-based Payment	For annual periods beginning on or after 1 January 2007. Effective date of 2008 amendments (paragraph 21A and 28A) will be 1 January 2010.
IFRS 3 (supersedes IAS 22)	BFRS-3: Business Combination	On or after the beginning of the first annual reporting period beginning on or after 1 January 2010. If an entity applies this BFRS before 1 January 2010, it shall disclose that fact and apply BAS 27 (as amended in 2008) at the same time.
IFRS 4	BFRS-4: Insurance Contracts	For annual periods beginning on or after 1 January, 2010.
IFRS 5	BFRS-5: Non-current Assets Held for Sale and Discontinued Operations	For annual periods beginning on or after 1 January 2007.
IFRS 6	BFRS-6: Exploration for and Evaluation of Mineral Resources	For annual periods beginning on or after 1 January 2007.
IFRS 7	BFRS-7: Financial Instrument: Disclosures (This BFRS supersedes BAS 30 Disclosures in the Financial Statements of Bank and Similar Financial Institutions)	On or after the beginning of the first annual reporting period beginning on or after 1 January 2010.
IFRS 8	BFRS-8: Operating Segments. (This BFRS supersedes BAS 14 Segment Reporting)	On or after the beginning of the first annual reporting period beginning on or after 1 January 2010.

Source: The Institute of Chartered Accountants of Bangladesh (ICAB).