

The organization and operations of business enterprises, particularly the global ones, are obviously quite complex, but the regulations concerning the reporting on these operations are even more complex. We have managers or investors complain that they do not fathom the operations of companies, but the complexity of them, even those with accountants, lamenting that recent accounting standards and the consequent changes on financial reporting and their comprehension. The number and complexity of the statutory requirements for financial reporting is a major contributor to its deteriorating usefulness. Counterintuitively, regulatory complexity often enhance the complexity of the regulated entities or structures.

THE NEW FINANCIAL REPORTING REGULATORY LANDSCAPE AND THE ACCOUNTING INFRASTRUCTURE:

The Path Forward for Professional Accountants



Swapan Kumar Bala, Ph.D., FCMA *

Abstract

The Financial Reporting Act (FRA) has been passed in September 2015 and more than one and a half years have already been elapsed without the establishment of the Financial Reporting Council (FRC), although legal creation of FRC has already been in April 2016. This paper has highlighted a chronological development of the enactment of FRA 2015 and has outlined the functional responsibilities of FRC, the super regulator of accounting infrastructure. With the establishment of FRC, it will have far-reaching implications on accounting discipline and its followers. As the members of accounting profession, it is expected that we should be much more cautious not to be changed with the regulatory changes to be a prey of enforcement by the super regulator, rather we have to be "change-master" to master the changed regulatory landscape of accounting infrastructure in harnessing our real capability and competency in accounting as well as to prove ourselves as the members of the most dignified profession with high ethical standards being the protectors of public interest for all sorts of entities in case of providing the most valuable product (accounting information) to run an entity with utmost relevance and reliability.

Keywords: Financial Reporting Act, Accounting profession, and Audit service.

** The author is a Commissioner of Bangladesh Securities and Exchange Commission (BSEC), and a Professor (on deputation) at Department of Accounting & Information Systems, Dhaka University, Dhaka.*

The views expressed here are of his own and not linked with his institutional capacities.

Introduction

Infrastructure usually refers to the fundamental facilities and systems needed for the operation of a society or enterprise. However, when it is linked with a discipline of social sciences, it signifies the building blocks on which the discipline stands up and also the structures and systems through and around which the discipline evolves and continues to grow fulfilling the societal expectations. From the practitioners' perspective, accounting infrastructure is "the basic systems and services that are necessary and required to support a viable and functional accounting service delivery-well developed professional accounting bodies, advanced accounting standard setting body and strong legal framework for supporting accounting practice" (Lyoha and Oyerinde, 2010: 362). Chicago University's Sidney Davidson Distinguished Service Professor of Accounting Ray Ball (2001) has delineated "infrastructure" required by a "public financial reporting and disclosure system" as follows:

An economically efficient public financial reporting and disclosure system requires the following infrastructure: training an audit profession of adequate numbers, professional ability, and independence from managers to certify reliably the quality of financial statements; separating as far as possible the systems of public financial reporting and corporate income taxation, so that tax objectives do not distort financial information; reforming the structure of corporate ownership and governance to achieve an open-market process with a genuine demand for reliable public information; establishing a system for setting and maintaining high-quality, independent accounting standards; and, perhaps most important of all, establishing an effective, independent legal system for detecting and penalizing fraud, manipulation, and failure to comply with standards of accounting and other disclosure, including provision for private litigation by stockholders and lenders who are adversely affected by deficient financial reporting and disclosure. The scope of these requirements is unavoidably wide, because the accounting infrastructure complements the overall economic, legal, and political infrastructure in all countries" (Ball, 2001: 128).

In the words of Lee (1987: 79):

The accounting infrastructure is comprised of the facilities of information production, the framework of information diffusion, and the foundation of information monitoring and contract enforcement. Four basic elements make up the accounting information infrastructure: 1) the information producer and final user; 2) the information intermediaries; 3) the laws and regulations that govern the production, transmission, and usage of information; and 4) the legal entity that monitors and implements the laws and regulations.

Lee (1987) continues to give examples on these four basic elements of accounting information infrastructure: (1) the information producer being primarily the firm's management and the final user being the shareholder; (2) the information intermediaries being the auditors, financial analysts, securities underwriters, bankers, and lawyers, who provide value added to the primary information supplied by the management; (3) information-related laws and regulations being the securities laws and the Generally Accepted Accounting Principles (GAAP); and (4) information regulators being the securities regulator, the public accountancy body, the accounting standard setting body and corporate regulators (Lee, 1987: 79-80).

An omnibus bill under the title "The Accounting Infrastructure Reform Bill"¹ has been placed in the New Zealand parliament in December 2013 for amending a number of statutes to address a number of issues which are related to extended scope of being statutory auditor, incorporation of audit firm as company, expanded scope of financial reporting and independent assurance thereto, and allowing foreign auditors for domestic audit service. The main purpose of the bill is to allow the accounting and audit industry to be more efficient and effective. Thus, accounting infrastructure is here the founding legal structure of the accounting and audit industry, the reform of which will make it more efficient and effective.

Accounting infrastructure in Bangladesh has entered into a new regulatory landscape after the enactment of the Financial Reporting Act 2015 (FRA 2015) in September 2015. This paper has

¹ Accounting Infrastructure Reform Bill was introduced in the New Zealand parliament on 02.12.2013 and is now at Third Reading (i.e., at a stage of final debate and vote, and if successful, the bill will be passed) after the vetting by Committee of Whole House on 28.10.2014 (vide <http://www.legislation.govt.nz>).

given a brief overview of the historical background of the FRA 2015 and some reflective assessments of the possible implications on the accounting infrastructure in Bangladesh.

FRA 2015: A Historical Note

Financial reporting in Bangladesh started being standardized with the observance of the International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS) in preparing financial statements and independent auditing of those financial statements following the International Standards on Auditing (ISA) by the external statutory auditors. Although since 1984 the Institute of Chartered Accountants of Bangladesh (ICAB) has been adopting IASs/IFRSs as BASs/BFRSs (ICAB, 1984), but it has not adopted all the applicable IASs/IFRSs to date. In Bangladesh, the International Accounting Standards (IASs) as adopted by ICAB are mandatory for companies listed with stock exchanges in Bangladesh under rule 12(2) of the Securities and Exchange Rules 1987 (SER 1987) since October 22, 1997 (BSEC, 2015). But ADB's 2005 assessment in its CMDP I (first Capital Market Development Program) was skeptic:

Notwithstanding the progress in adopting IAS as well as the tightened disclosure requirements for listed companies, market confidence in financial statements remains low, partly due to the lack of qualified accountants and auditors (ADB, 2005: 20).

Qualified accountants are still few in number as shown in Table-1. Statutory corporate auditors (practicing chartered accountants) are also miserably lower (359 on 01.07.2013, 368 on 01.07.2014, 372 on 01.07.2015, and 366 on 01.07.2016), which is on an average only around 24 percent of total CAs. Practicing CMAs (Cost and Management Accountants) who can work as cost auditor are also insignificant (168 practicing CMAs out of total 1202 CMAs, i.e., only 14 percent of total members as on July 1, 2016) (same source of Table-1).

Table-1: Professional Accountants (PAs) in Bangladesh

| Date | Members of ICAB | | | Members of ICMAB | | | Total PAs |
|------------|-----------------|-----|-----------|------------------|------|-----------|-------------|
| | FCA | ACA | Sub-total | FCMA | ACMA | Sub-total | |
| 01.07.2013 | 838 | 578 | 1416 | 649 | 439 | 1088 | 2504 (16.3) |
| 01.07.2014 | 862 | 637 | 1499 | 720 | 405 | 1125 | 2624 (16.8) |
| 01.07.2015 | 906 | 629 | 1535 | 777 | 380 | 1157 | 2692 (17.1) |
| 01.07.2016 | 973 | 610 | 1583 | 812 | 390 | 1202 | 2785 (17.4) |

Sources: Membership data taken from ICAB's Annual Reports 2013 to 2016 and ICMAB's Members and Practising Firms 2013 to 2016. Figures in parentheses in last column represent professional accountants per million of population. Year-wise population data were taken from <http://www.tradingeconomics.com/bangladesh/population>.

Throughout the world, audit profession is under self-regulation of the professional accounting bodies, of which the public accountants are the members. The question of 'audit regulation' by a separate body arises when the self-regulation fails to work. As mentioned by Baumeister and Heatherton (1996), self-regulation has three ingredients: *standards, monitoring, and ability to bring about the desired change* (Baumeister and Heatherton, 1996: 2). Self-regulation can break for underregulation and misregulation. Underregulation occurs because people lack stable, clear, consistent standards, because they fail to monitor their actions, or because they lack the strength to override the responses they wish to control. Misregulation occurs because they operate on the basis of false assumptions about themselves and about the world, because they try to control things that cannot be directly controlled, or because they give priority to emotions while neglecting more important and fundamental problems (Baumeister and Heatherton, 1996: 13).

Table-2: Trends of Audit Regulators around the Globe (up to September 2015)

| Region | No. of Countries | No. of Audit Regulators | 1970s | 1980s | 1990s | 2000s | 2010s |
|---------------|------------------|-------------------------|--------------|--------------|--------------|---------------|---------------|
| | | | (1970-79) | (1980-89) | (1990-99) | (2000-09) | (2010-15) |
| Australasia | 2 | 2 (3.9) | -- | -- | -- | 1 | 1 |
| Europe | 28 | 31 (60.8) | -- | 1 | 4 | 22 | 4 |
| Africa | 4 | 4 (7.8) | -- | -- | -- | 3 | 1 |
| North America | 2 | 3 (5.9) | -- | -- | -- | 1 | 2 |
| South America | 1 | 1 (2.0) | 1 | -- | -- | -- | -- |
| Total | 46 | 51 (100.0) | 1 | 1 | 5 | 34 | 10 |
| | | | (2.0) | (2.0) | (9.8) | (66.7) | (19.6) |

Source: Website of International Forum of Independent Audit Regulators (www.ifiar.org); accessed on 25.09.2015. Turkey in Europe and UAE in Asia (one in Dubai and another one in Abu Dhabi) have 2 regulators each and three UK territories (Gibraltar and Jersey in Europe and Cayman Islands in North America) have separate regulators. Figures in parentheses represent the percentage of total.

On the basis of surveying website of the International Forum of Independent Audit Regulators (IFIAR), it is found that independent audit regulation has been started first in South America in 1976 in Brazil. As evidenced in Table-2, up to September 2015, there are 51 organizations from 46 countries, which are member of IFIAR. In our part of SAARC (South Asian Association for Regional Cooperation) region, Sri Lanka has enacted a statute in 1996 to establish the Accounting and Auditing Standards Monitoring Board, but the Board has been established in 2000.

As per membership of the International Forum of Independent Audit Regulators (IFIAR) up to September 2015, South American country Brazil is the first country, which declared Comissao de Valores Mobiliarios Securities (CVM) [Securities

and Exchange Commission of Brazil] as the regulator of the auditors in 1976 and Hungary is the last country that has established the Auditors' Public Oversight Authority (Ministry for National Economy) in 2013. After Enron accounting and auditing scandal and Enron's fall² in 2001, the US Congress enacted the Sarbanes-Oxley Act (SOX) in 2002 and established the Public Company Accounting Oversight Board (PCAOB).³ After PCAOB, out of 51 audit regulators (shown in Table-2), 42 audit regulators were established. Thus the post-Enron fear based on audit scandals of Enron's auditor Arthur Andersen⁴, there was a surge of creating independent audit regulators around the globe.

A chronological history of enactment of the Financial Reporting Act and the attempt to establish an oversight body on accounting profession and practice has been delineated below.

| Year | Events relating to the enactment of the Financial Reporting Act (FRA) and the establishment of the Financial Reporting Council (FRC) |
|------|--|
| 1998 | <p>22 August 1998: Prime Minister Sheikh Hasina announced in the inaugural ceremony of the 13th SAFA (South Asian Federation of Accountants) Conference that her government would consider setting up a regulatory body to monitor accounting standards and practices in the country (The Daily Star, 23.08.1998).</p> <p>13 October 1998: In line with the Prime Minister's announcement, ICMA wrote a letter to the then Commerce and Industry Minister Tofail Ahmed to form the Bangladesh Accounting Standards Board (Source: ICMA).</p> <p>23 August 1999: In continuation with earlier communication, ICMA wrote a letter to Commerce Secretary to establish the Bangladesh Accounting Standards and Auditing Standards Monitoring Board and a draft Act (Bangladesh Accounting Standards and Auditing Standards Act, 1999) was attached with the letter (Source: ICMA).</p> |
| 2003 | <p>The policy recommendations of the World Bank's ROSC (Report on the Observance of Standards and Codes)⁵ report (May 16, 2003) included: (a) To "improve the statutory framework of accounting and auditing" with a view to fully protecting the public interest through the enactment of a new 'single' Financial</p> |

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| | <p>Reporting Act and the repeal of the provisions on accounting, auditing, and financial reporting in Companies Act, Banking Companies Act, Insurance Act, and other related regulations, with a focus on making legal arrangements for the following: (i) fully adopt IAS/IFRS and ISA; and (ii) develop a simplified financial reporting framework for small and medium enterprises; (b) To "establish an independent oversight body to monitor and enforce accounting and auditing standards and codes," under the proposed Financial Reporting Act which may be called Financial Reporting Council (FRC) without any domination by the accountants in public practice in the FRC's operations and management and its Governing Body, and with the main focus of FRC's activities as: (i) setting accounting and auditing standards, (ii) monitoring compliance with accounting standards, (iii) reviewing auditors' practice, and (iv) enforcing sanctions for violations (World Bank, 2003: 11-13).</p> |
| 2005 | <p>The Operations Evaluation Mission (OEM) of the Asian Development Bank (ADB) in its CMDP I (first Capital Market Development Program) for Bangladesh identified the need to strengthen the oversight function of the accounting and audit profession. With the support of the World Bank, a plan was under consideration to establish an Accounting Standards and Audit Oversight Board. The OEM supported this initiative (ADB, 2005: 22).</p> |
| 2008 | <p>09 June 2008 (Budget Speech): Steps have been taken to formulate Financial Reporting Ordinance, 2008 to constitute a Council to regulate and oversee the financial reporting activities of the Public Interest Entities (PIEs) including corporate sector entities (Islam, 2008: 12).</p> <p>28-30 December 2008: The Financial Reporting Ordinance, 2008 (Ordinance No. LXIV of 2008) was promulgated by the Honourable President on 28 December 2008 and published in the official Gazette on 30 December 2008 (GOB, 2008). The Financial Reporting Ordinance, 2008 (Ordinance No. LXIV of 2008) was the 106th ordinance out of 114 ordinances (42 in 2007 and 72 in 2008) promulgated during the regime of the caretaker government led by Mr. Fakhruddin Ahmed from January 11, 2007 (popularly known as 1-11) to January 5, 2009, the day before Mrs. Sheikh Hasina was sworn in as Prime Minister on January 6, 2009 after a massive winning by the alliance headed by Sheikh Hasina (263 seats in the 300-seat parliament) in the national election held on December 29, 2008. The Awami League-led government was handed over power along with the fate of the 117 ordinances (including 3 ordinances promulgated by President Iajuddin Ahmed-led caretaker government from October 29, 2006 to January 10, 2006) to be decided about in the first 30 days in parliament, i.e., by February 23, 2009 (first session of the parliament started on January 25, 2009) (The Daily Star, 07.01.2009; Reuters, 2009). But the Financial Reporting Ordinance, 2008 (FRO) was not placed in the parliament within 30 days and thus it was not effective at all, although under section 1(2) of the FRO, it was immediately effective, i.e., 30 December 2008 and under section 4(1) of the FRO, a Financial Reporting Council would be established along with the introduction of the FRO (GOB, 2008).</p> |

² On October 16, 2001, Enron announced that restatements to its financial statements for years 1997 to 2000 were necessary to correct accounting violations (that reduced 23% of reported profits during the period, increased 6% of reported liabilities and reduced 10% of reported equity at the end of 2000). On October 19, 2001, SEC launches that it was investigations on several suspicious deals struck by Enron, characterizing them as "some of the most opaque transactions with insiders ever seen". On December 2, 2001, Enron filed for bankruptcy and its \$63.4 billion in assets made it the largest corporate bankruptcy in U.S. history until WorldCom's bankruptcy the next year (https://en.wikipedia.org/wiki/Enron_scandal; accessed on 12.03.2017).

³ With President Bush's signature on July 30, 2002, the Sarbanes-Oxley Act became law, and an unprecedented oversight organization Public Company Accounting Oversight Board (PCAOB) was created. The SEC named the founding members of the Board on October 25, 2002. The founding Board members opened the doors of the PCAOB's first offices on January 6, 2003. The Board held its first public meeting on January 9, 2003 (PCAOB's 2003 Annual Report, p. 4).

⁴ Former Enron auditor, Arthur Andersen LLP (founded in 1913 in Chicago), said on January 10, 2002, it destroyed tons of Enron documents. On March 14, 2002, Andersen was indicted for destroying Enron-related documents to thwart investigators. On April 9, 2002, David Duncan, Andersen's former top Enron auditor, pleaded guilty to obstruction for instructing his staff to destroy documents as per company policy. On June 15, 2002, Andersen was convicted. Thereafter Licenses of Certified Public Accountants surrendered in 2002. As from the 1st of March 2017, through a French initiative, Arthur Andersen is reconstituted, with 26 offices on 5 continents and in 16 Countries. They still do audit but with the exception of Statutory Auditors (www.nytimes.com; <http://arthurandersenco.com/en/>; accessed on 12.03.2017).

⁵ The Report on the Observance of Standards and Codes (ROSC) initiative was launched in 1999 as a prominent component of efforts to strengthen the international financial architecture. The ROSC initiative is administered by the World Bank and International Monetary Fund (IMF), which have recognized international standards in 12 policy areas. The World Bank focuses on three of these: Accounting and Auditing; Corporate Governance; Insolvency and Creditor Rights (<http://www.worldbank.org/en/programs/rosc>; accessed on 12.03.2017).

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| 2010 | <p>The Financial Reporting Ordinance, 2008 was placed in the Parliament as the draft Financial Reporting Act, 2010. Later on the government decided to prepare the Act newly and a committee was formed in relation thereto (Finance Minister's comment on Financial Reporting Act; vide the Prothom Alo, 13.09.2013).</p> <p>Draft Financial Reporting Act, 2010 was sent to stakeholders including ICAB and ICMAB for comments (GOB, 2012).</p> |
| 2011 | <p>09 June 2011 (Budget Speech): Government was considering a plan to establish a Financial Reporting Council to oversee the audit and accounting standards and their transparency (Muhith, 2011: 134).</p> |
| 2012 | <p>09 May 2012: A meeting of stakeholders was held under the chairmanship of Dr. Moshir Rahman and 12.06.2012 (GOB, 2012).</p> <p>29 May 2012: Opinions on the draft Financial Reporting Act, 2010 were sought from the stakeholders by 12.06.2012 (GOB, 2012).</p> <p>07 June 2012 (Budget Speech): A draft of Financial Reporting Act was prepared and after necessary scrutiny, Finance Minister hoped to present the Act in the Parliament for approval next fiscal year, i.e., 2013-14 (Muhith, 2012: 21).</p> |
| 2013 | <p>Recommendation in 2003 ROSC Report to establish an independent oversight body (to be known as the 'Financial Reporting Council') to monitor and enforce accounting and auditing standards and codes was drafted as the Financial Reporting Act 2013 (World Bank, 2015: 22).</p> <p>06 June 2013 (Budget Speech): "Preparing Financial Reporting Act and establishing Financial Reporting Council" was a work in progress (Muhith, 2013: 135).</p> <p>19 August 2013: The Cabinet approved, in principle, the draft Financial Reporting Act, 2013 (ICAB, 2013: 1) and was sent for vetting of the Ministry of Law.</p> <p>12 September 2013: The 2010 committee for finalizing the Financial Reporting Act (FRA) was pressurized by the chartered accountants (CAs) and thus it took a period of four years to form the structure of the FRA. The draft FRA was prepared in consultation with the CAs (Finance Minister's comment on Financial Reporting Act; vide the Prothom Alo, 13.09.2013).</p> <p>18-19 September 2013: As opined by the ICAB, there was no discussion with ICAB on the draft FRA 2013, rather confidentiality was maintained. Almost nothing from ICAB's opinions or recommendations given on the draft FRA 2010 was accepted. In comparison to the FRA 2010, the draft FRA 2013 included a significantly additional number of illogical, inconsistent and conflicting sections. If the proposed Act was enacted keeping the inconsistent, irrelevant, unrealistic and conflicting sections, its successful implementation could not be possible, rather it would have reverse impact on the economy. It was mentionable that there was no regulatory body like FRC in SAARC countries and there was no such illogical and unrealistic statute like the proposed Act anywhere in the world (Opinion of ICAB on the Finance Minister's comment on Financial Reporting Act; published as an advertisement in the Daily Star and the Financial Express on 18.09.2013 and in the Prothom Alo, 19.09.2013; ICAB, 2013: 6).</p> |
| 2014 | <p>05 June 2014 (Budget Speech): "Preparing Financial Reporting Act and establishing Financial Reporting Council" was a work in progress (Muhith, 2014: 116).</p> <p>10 November 2014: Conditionality of ADB under CMDP II: The Borrower [Bangladesh government] shall submit to its parliament a bill on financial reporting, which shall include provisions for (a) establishment of an independent financial reporting council to adopt international accounting and auditing standards for public interest entities, and to monitor and enforce them; (b) licensing of auditors and accountants; and (c) establishment of independent administrative tribunal to hear appeals on the decisions of the financial reporting council. The status of compliance was:</p> |

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| | <p>Substantially complied with. A Bill on the Financial Reporting Act was approved by the Cabinet on 10 November 2014 for submission to Parliament (ADB, 2015a: 22).</p> |
| 2015 | <p>26 January 2015: The Financial Reporting Bill was placed in the Parliament by the Finance Minister and sent thereafter to the Standing Committee on Ministry of Finance (SCoMoF). The Bill was published in the official Gazette also on the same date as Bill No. 04/2015.</p> <p>11 February 2015: First meeting of the SCoMoF was held on the Financial Reporting Bill.</p> <p>10 March 2015: Second meeting of the SCoMoF was held on the Financial Reporting Bill.</p> <p>07 July 2013: Financial Reporting Bill was scheduled to be passed in the Parliament, but Finance Minister sent back the Bill to the parliamentary standing committee for further scrutiny (<i>The Financial Express</i>, 07.08.2015).</p> <p>06 August 2015: Finance Minister met with key stakeholders on the proposed Financial Reporting Bill 2015. The meeting was attended, among others, by Mr. Abdul Matlub Ahmad, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Mr. Hossain Khaled, president of the Dhaka Chamber of Commerce and Industry (DCCI), Syed Nasim Manzur, president of the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI), Mr. Masih Malik Chowdhury, president of the Institute of Chartered Accountants of Bangladesh (ICAB), Mr. Abu Sayed Md. Shaykhul Islam, president of the Institute of Cost and Management Accountants of Bangladesh (ICMAB) and senior officials of the Ministry of Finance. Finance Minister expressed his willingness to bring necessary changes in the proposed Financial Reporting Bill 2015 by accommodating suggestions and opinions of the stakeholders (<i>The Financial Express</i>, 07.08.2015).</p> <p>12 August 2015: ICAB's five-member delegation participated in the Hearing of Parliamentary Standing Committee regarding ICAB's Review Appeal on FRA Bill 2015 at Parliament Secretariat. In the Chair of the Parliamentary Standing Committee on Finance Dr. Abdur Razzak, MP, all the Committee Members including the Finance Minister were present. ICMAB's president also made their arguments and placed their submissions on FRA Bill in the meeting (ICAB, 215: 95).</p> <p>06 September 2015: The Financial Reporting Bill was passed in the Parliament.</p> <p>09 September 2015: The Financial Reporting Act, 2015 (FRA) was published in the official Gazette as the 16th Act of 2015.</p> |
| 2016 | <p>23 April 2016: The Financial Reporting Council (FRC) has been established under section 3(1) of the FRA 2015 through the Gazette Notification (Finance Division's SRO No. 100-Ain/2016, dated 19.04.2016; SRO was issued by Treasury, DSL⁷ and Equity Management Branch, Treasury and Debt Management Wing, Finance Division, Ministry of Finance).</p> <p>23 April 2016: The 3-member Search Committee to recommend 2 persons for the Chairman of the FRC has been formed under section 10(1) of the FRA 2015 through the Gazette Notification (Finance Division's SRO No. 101-Ain/2016, dated 19.04.2016).</p> <p>23 April 2016: The 4-member Search Committee to recommend 2 persons for each of the four Executive Directors of the FRC has been formed under section 10(1) of the FRA 2015, read with sub-section (2) of section 10, through the Gazette Notification (Finance Division's SRO No. 102-Ain/2016, dated 19.04.2016).</p> <p>02 June 2016 (Budget Speech): Government has been working for a long time to form a Financial Reporting Council to bring financial reporting system of public interest bodies including banks and financial institutions under a regulatory framework, and to develop standards for accounting and auditing professions as well as ensure compliance, implementation and supervision of these standards. It is pleasing to note that we have enacted the Financial Reporting Act, 2015 for establishment of the aforesaid council. It has not yet been formed. The Council will be constituted within FY 2016-17 (Muhith, 2016: 67).</p> |

⁶ SRO stands for 'Statutory Rules and Order'.

⁷ DSL stands for 'Debt Service Liability'.

Changing Contents of the Financial Reporting Statutes: Some Basic Issues

There have been several versions of the Financial Reporting statute since 2007. The statute saw the legal enactment as an Ordinance in 2008 by the then caretaker government. Thereafter the statute had a 2010 version, which was not publicly available. On 19 August 2013, the Cabinet approved, in principle, the draft Financial Reporting Act, 2013, which was almost similar to 2010 version. Then due to strong interventions of ICAB, it was redrafted and finally, the statute was placed in the Parliament as the Financial Reporting Bill in January 2015. Then ICMAB also strongly attempted to revise the Bill. Thus, it is interesting to note some of the changes in the different versions of the statute, which are available publicly.

| Issues | FRO 2008 (30.12.2008) | Bill on FRA 2015 (26.01.2015) | FRA 2015 (09.09.2015) |
|---|--|---|---|
| Number of Chapters <input type="checkbox"/> | 12 <input type="checkbox"/> | 10 <input type="checkbox"/> | 10 |
| Number of Sections <input type="checkbox"/> | 81 <input type="checkbox"/> | 72 <input type="checkbox"/> | 73 |
| No. of pages <input type="checkbox"/> | 24 <input type="checkbox"/> | 30 <input type="checkbox"/> | 31 |
| Other Acts amended | 6 statutes: Bangladesh Chartered Accountants Order, 1973 (P.O. No. 2 of 1973); Cost and Management Accountants Ordinance, 1977 (Ordinance No. LIII of 1977); Banking Companies Act, 1991 (Act No. XIV of 1991); Financial Institutions Act, 1993 (Act No. XXVII of 1993); Companies Act, 1994 (Act No. XVIII of 1994); and Insurance Ordinance, 2008 (Ordinance No. XXXXVII of 2008). | 5 statutes: Bangladesh Chartered Accountants Order, 1973; Banking Companies Act, 1991; Financial Institutions Act, 1993; Companies Act, 1994; and Insurance Act, 2010 (Act No. XIII of 2010). | 7 statutes: Bangladesh Chartered Accountants Order, 1973; Cost and Management Accountants Ordinance, 1977; Banking Companies Act, 1991; Financial Institutions Act, 1993; Companies Act, 1994; Micro Credit Regulatory Authority Act, 2006 (Act No. XXXII of 2006); and Insurance Act, 2010. |
| Structure of FRC | A body with maximum 11 members under section 6: Governor of Bangladesh Bank (BB) being the Chairman of FRC, Chairman of Securities and Exchange Commission (SEC), Chairman of Insurance Control Authority (ICA), Chairman of National Board of Revenue (NBR), two experienced professional accountants (one Chartered Accountant from ICAB and one Cost and Management Accountant from ICMAB), Executive Officers (not more than four in number) and Chief Executive Officer (CEO) being the Member Secretary of FRC | A body with 11 members under section 5: Chairman of FRC appointed by government being the Chief Executive, one Additional Secretary from any of the Divisions under Ministry of Finance nominated by the government, one Additional Secretary nominated by Ministry of Commerce, one representative nominated by the Comptroller and Auditor General (C&AG) of Bangladesh, one Member nominated by the Chairman of NBR, one Commissioner nominated by the Chairman of Bangladesh Securities and Exchange Commission (BSEC), President of ICAB or a professional accountant (PA) nominated by him, President of ICMAB or a PA nominated by him, one professor from the Department of Accounting of a public university nominated by the government, President of Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) or a representative nominated by him, and one Executive Director (ED) being the Member-Secretary of FRC nominated by the FRC's Chairman. | A body with 12 members under section 5: Chairman of FRC appointed by government being the Chief Executive, one Additional Secretary from any of the Divisions under Ministry of Finance nominated by the government, one Additional Secretary nominated by Ministry of Commerce, one Deputy C&AG nominated by the C&AG of Bangladesh, one Deputy Governor nominated by the Governor of BB, one Member nominated by the Chairman of NBR, one Commissioner nominated by the Chairman of BSEC, President of ICAB, President of ICMAB, one professor from the Department of Accounting of a public university nominated by the government (for a prescribed term), President of Federation of FBCCI, and one Executive Director (ED) being the Member-Secretary of FRC nominated by the FRC's Chairman. |
| Types of membership in FRC | 4 permanent members (Governor of BB, and Chairmen of SEC, ICA and NBR), 2 part-time members for a 4-year term (2 professional accountants) and maximum 5 full-time members (CEO and 4 Executive Officers) | 2 full-time members (Chairman and one Executive Director for a 4-year term and eligible for appointment for consecutive two terms, but up to the age of 65 years); 6 nominated members until further replacement (Additional Secretary from Ministry of Finance, Additional Secretary from Ministry of Commerce, C&AG's representative, BSEC's Commissioner, NBR's Member and public university's professor from the Department of Accounting), and 3 permanent members (ICAB's President or his nominee, ICMAB's President or his nominee and FBCCI's President or his nominee) | 2 full-time members (Chairman and one Executive Director for a 4-year term and eligible for appointment for consecutive two terms, but up to the age of 65 years); 6 nominated members until further replacement (Additional Secretary from Ministry of Finance, Additional Secretary from Ministry of Commerce, Deputy C&AG, BB's Deputy Governor, NBR's Member, and BSEC's Commissioner), 1 nominated member for a prescribed term (public university's professor from the Department of Accounting) and 3 permanent members (ICAB's President, ICMAB's President and FBCCI's President); Executive Director has also voting right and Chairman has right of second casting vote in case of equality of votes. |

| Issues | FRO 2008 (30.12.2008) | Bill on FRA 2015 (26.01.2015) | FRA 2015 (09.09.2015) |
|--|---|--|--|
| Voting right of FRC's members | Every member has voting right except 4 Executive Officers; Chairman has right of second casting vote in case of equality of votes. | Every member has voting right including Executive Director; Chairman has right of second casting vote in case of equality of votes. | Every member has voting right including Executive Director; Chairman has right of second casting vote in case of equality of votes. |
| Quorum in FRC's meeting | 5 members except Executive Officers | At least one-third of total members | At least one-third of total members |
| Definition of 'Professional Accountant' | Any person included in the list of members of a professional accountancy institute [sec. 2(15)] | 'Chartered accountant' as defined in Article 2(1)(b) of Bangladesh Chartered Accountants Order, 1973 (P.O. No. 2 of 1973) [sec. 2(18)] | Members of both the Institutes mentioned under section 2(19), and in case of performing functions, members of ICAB shall be run under the Bangladesh Chartered Accountants Order, 1973 and members of ICMAB shall be run under the Cost and Management Accountants Ordinance, 1977 [sec. 2(18)] |
| Definition of 'Professional accountancy institute' | The Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) [sec. 2(14)] | The Institute of Chartered Accountants of Bangladesh (ICAB) established under Bangladesh Chartered Accountants Order, 1973 (P.O. No. 2 of 1973) [sec. 2(18)] | The Institute of Chartered Accountants of Bangladesh (ICAB) established under Bangladesh Chartered Accountants Order, 1973 (P.O. No. 2 of 1973) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) established under the Cost and Management Accountants Ordinance, 1977 (Ordinance No. LIII of 1977) [sec. 2(19)] |
| Definition of 'Auditor' | Any audit service providing person individually or as an employee or partner of an audit firm [sec. 2(11)] | Any individual person, or owner or partner of an audit firm or any person employed therein involved in audit service activities, who is registered as a member of a professional accountancy institute [sec. 2(13)] | Any individual person, or owner or partner of an audit firm or any person employed therein involved in audit service activities, who is registered as a member of a professional accountancy institute [sec. 2(13)] |
| Definition of 'Audit firm' | A firm providing audit service [sec. 2(10)] | Any enterprise or firm run individually or through joint partnership, whether registered or not, providing audit service [sec. 2(15)] | Any enterprise or firm run individually or through joint partnership, whether registered or not, providing audit service [sec. 2(15)] |
| Definition of 'Audit service' | No separate definition given; audit service is included in definition of "professional accounting service", which means services provided by a professional accountant on subjects related to accounts, audit, tax system, management advisory or financial management [sec. 2(16)] | Services provided by a professional accountant on subjects related to accounts, audit, tax system, management advisory or financial management and these shall include the Explanation mentioned in sub-article (2) of Article 2 of Bangladesh Chartered Accountants Order, 1973 (P.O. No. 2 of 1973) [sec. 2(16)] | Service provided in accordance with sections 210 to 220 of the Companies Act, 1994 (XVIII of 1994) and equivalent service performed under other statutory acts [sec. 2(16)] |

What will FRC do?

In the 'Preamble' of the Financial Reporting Act, 2015, it has been mentioned as "an Act for the purpose of making provisions for establishing a council with a view to bringing public interest entities' financial reporting activities under a well-regulated structure, setting standards for the accounting and auditing profession, proper compliance, implementation, supervision and execution of other activities relating thereto."

In accordance with section 7 of the FRA 2015, general objectives of the Financial Reporting Council (FRC or Council hereinafter) shall be the following:

- (a) Setting standards of accounting and auditing profession, standards relating to ethics, etc.;
- (b) Improving qualitative standards of accounting and auditing services;
- (c) Developing of accounting and auditing

profession;

- (d) Ensuring the highest level of standard of accounting and auditing activities of the auditors enlisted with the Council;
- (e) Enhancing the reliability of the financial reports;
- (f) Ensuring integrity and transparency of professional activities of accounting and auditing and giving cooperation in increasing the capability thereto; and
- (g) Motivating public interest entities in preparing high standard report of financial and non-financial information.

Section 8 of the FRA 2015 has provided the provisions on the power and functions of the Council. Under sub-section (1) of section 8, with a view to executing its functions properly, the Council, subject to the provisions of this Act, shall apply all necessary powers and shall execute its functions. Under sub-section (2) of section 8, the

Council, without violating the totality of sub-section (1), shall apply its powers with respect to following issues and shall execute its functions:

- (a) Setting standards and implementing them in consideration of the perspective of socio-economic condition of Bangladesh and after keeping consistency with internationally accepted and quality financial reporting and auditing standards;
- (b) Ensuring compliance with internationally accepted quality standards set by the International Accounting Standards Board (IASB), International Auditing and Assurance Standards board (IAASB) or related other international bodies;
- (c) Ensuring effective compliance, monitoring and enforcement of financial reporting and auditing standards set by the Council;
- (d) Setting necessary rules, regulations, standard guidelines and codes and ensuring their enforcement for the purpose of ensuring of qualitative standard of financial reporting, accounting and auditing;
- (e) Monitoring auditing practice and exercise of auditors for the purpose of maintaining high standard of professional conduct;
- (f) Giving advice on activities in relation to accounting and auditing and providing information related services as central information storage;
- (g) Enlisting auditors and maintaining related information in register and publication thereof;
- (h) Ensuring compliance of reporting requirement prescribed under any other Act;
- (i) Giving recommendations on academic certificates, courses and various teaching, training, internship, articleship and research activities run by professional accounting bodies and providing assistance in development;
- (j) Observing professional development activities run by professional accounting bodies for the purpose of fulfilling the objectives of the FRA;
- (k) Encouraging and where applicable, financing research on such a subject by which the financial report, accounting, auditing and corporate governance system can be enforced more effectively and efficiently by the Council, professional accountancy bodies or any other entity concerned;
- (l) Making necessary rule or regulations for conducting accounting and auditing activities properly;
- (m) Conducting investigation and activities in

relation thereto under the FRA;

- (n) Taking suitable procedure or scheme and implementing those for achieving the objectives and performing the functions of the Council;
- (o) Engaging or where applicable, executing memorandum of understanding and agreement, with such local or international institutional initiatives which are related to the objectives and functions of the Council or helpful thereto it;
- (p) Fixing charge and fee on services provided by the Council;
- (q) Imposing fine under the FRA and rules made thereunder;
- (r) Giving recommendation or advice to the government about financial report, non-financial report, financial statement, annual report, accounting and auditing or subjects related thereto; and
- (s) Doing such other activities, which the Council deems fit, for the purpose of implementing its general objectives and functions with a view to fulfilling the objectives of the FRA.

Under section 22 of the FRA 2015, with a view to fulfilling the objectives of the FRA, working divisions of the Council shall be formed by incorporating following divisions each of which headed by an Executive Director: (a) Standards Setting Division; (b) Financial Reporting Monitoring Division; (c) Audit Practice Review Division; and (d) Enforcement Division.

How Parties to Accounting Infrastructure will Be Affected by FRC

Under the FRC regime, any person related to financial reporting (as preparer or authenticator or communicator) will be under civil and criminal punishments. Under section 48 of the FRA 2015, when any person obtains registration as an auditor violating any condition mentioned in the FRA or rules, regulations, guidelines, standards or directives made thereunder, or through dishonest means or providing false information or infringes any provision of the FRA, then it shall be an offence and for the said offence he shall be penalized with an imprisonment of not exceeding 5 (five) years or a fine of not exceeding 5 (five) lac taka or both. Under section 33 of the FRA 2015, due to punishment u/s (under section) 48, the enlistment of an auditor may be withheld or cancelled, which

will be publicized through the FRC's website. Under section 50(1) of the FRA 2015, when any enlisted auditor refuses or fails to carry out any order or directive of the Council made under the FRA, in that case the Council may impose upon the said enlisted auditor an administrative fine through such procedure and at such an amount of money as prescribed under the rules. Under section 50(2), this administrative fine shall be realizable as Public Demands under the Public Demands Recovery Act, 1913 (Act No. III of 1913).

The statutes governing the professional accounting bodies (ICAB and ICMAB) have been amended by the FRA 2015 (the Bangladesh Chartered Accountants Order, 1973 u/s 59 and the Cost and Management Accountants Ordinance, 1977 u/s 64) as follows:

- The functions of both the Institutes shall be subject to the public interest oversight of the FRC in accordance with the FRA 2015, which shall ensure that each Institute meets its responsibilities to maintain high professional standards and develop the accounting profession [new section 13A of Bangladesh Chartered Accountants Order (BCAO) and new section 14A of the Cost and Management Accountants Ordinance (CMAO)]
- Both the Institutes shall ensure that all members of the Institute shall comply with the Financial Reporting Standards and Auditing Standards issued by the FRC pursuant to section 40 of the FRA 2015 [new section 8A of BCAO and new section 14B of CMAO].
- A person shall not be entitled to have his name entered in or borne on the Register if he has been removed from the membership of the Institute on being found on inquiry not to have complied with the Financial Reporting Standards and Auditing Standards issued by the FRC pursuant to section 40 of the FRA 2015 [new sub-clause (vii) of section 9 of BCAO and new section 14C of CMAO].

Thus, it is evident that all the four elements of accounting infrastructure are directly or indirectly subject to the compliance regime of the FRC under the regulatory authority emanated from the FRA 2015. The information producer directly being

the preparer of financial reports and final user being the members of ICAB or ICMAB will be affected. The information intermediaries are under direct monitoring and enforcement (auditors directly as a licensee; others being a violator of any provisions of FRA). The FRA itself and the rules, regulations, orders, directives, and guidelines to be framed under the FRA are expected to be a burdensome accumulation of the laws and regulations that govern the production, transmission, and usage of information. Finally, the FRC will be the added legal entity that will monitor and implement the laws and regulations.

Conclusion

As coined by Woolf (1912: xix), as one of the oldest disciplines, accounting is called as the "child of commerce," and the "grandchild of civilization."⁸ But the increasingly complex regulatory landscape of accounting infrastructure has been creating further complexity. Baruch Lev and Feng Gu, the authors of the book titled *The End of Accounting and the Path Forward for Investors and Managers*, have rightly argued as follows:

The organization and operations of business enterprises, particularly the global ones, are obviously quite complex, but the regulations concerning the accounting and reporting on these operations exceed even business complexity. We have never heard managers or investors complain that they don't fathom the business environment or the operations of companies, but we've heard plenty of them, even those with accounting degrees, lamenting that recent accounting standards and the consequent disclosures (e.g., on financial institutions' risk) are beyond their comprehension. ... The numbing complexity of the statutory corporate financial information system, constantly on the rise, is a major contributor to its deteriorating usefulness ... Counterintuitively, regulatory complexity often enhance the complexity of the regulated entities or structures" (Lev and Gu, 2016: 221-222).

In this respect, ICAB's concerns may be mentioned (taken from the document of September 2013 on proposed FRA, which have mostly been remained in the FRA 2015) about the contradiction, ambiguity and dualism of the FRA on the matters such as formation of the Council, qualification of

⁸ "... civilization is the parent of commerce, and accountancy is the child of commerce, and therefore the grandchild of civilization" (Woolf, 1912: xix).

chief executive, dual registration of auditors, setting accounting and auditing standards, audit practice review, enforcement of penalty and imprisonment for auditors, and framing Super Regulatory Body instead of Oversight Body (ICAB, 2013: 10). The World Bank also in its "2014 update to the Report on the Observance of Standards and Codes-Accounting and Auditing (ROSC A&A)" recommended establishing the proposed FRC as an Oversight Body. The specific recommendation was:

If GoB⁹ proceeds with the cabinet-approved Financial Reporting Act and establish a Financial Reporting Council, it is recommended that the body adopts the principles set by the International Forum of Independent Audit Regulators (IFIAR) and aims to be its member in order to benefit from international collaboration on issues regarding audit regulation (World Bank, 2015: 52).

Soll (2014) has mentioned accounting as "the basis of building businesses, states, and empires" (Soll, 2014: xi) and "(t)he delicate interplay between accounting and accountability can decide the fate of a company or, indeed, a nation" (Soll, 2014: xvi). Since the passing of FRA in September 2015, we have passed a long time (more than one and a half years) without the establishment of FRC (although legal creation of FRC already in April 2016) and the Chairman of FRC is yet to be finalized although two persons have already been selected by the Search Committee for the Chairman of the FRC about two months ago (Faruque, 2017: 1). But due to some capital market related development partner's strong vigilance on the government commitment to make the FRC functional, we possibly will see in near future the existence of FRC with all its effective and efficient operations. Then as accounting professionals, we should be much cautious to prepare ourselves how to master the changed regulatory landscape of accounting infrastructure to harness our real capability and competency in accounting. We have also to prove ourselves as the members of the most dignified profession with high ethical standards with a view to protecting public interest for all sorts of entities in case of providing the most valuable product (accounting information) to run an entity with utmost relevance and reliability. This proof should be not only "in fact" but "in appearance" also. 

As the members of accounting profession, it is expected that we should be much more cautious not to be changed with the regulatory changes to be a prey of enforcement by the super regulator, rather we have to be "change-master" to master the changed regulatory landscape of accounting infrastructure in harnessing our real capability and competency in accounting as well as to prove ourselves as the members of the most dignified profession with high ethical standards being the protectors of public interest for all sorts of entities in case of providing the most valuable product (accounting information) to run an entity with utmost relevance and reliability.

⁹GoB stands for "Government of Bangladesh".

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The individual investor should act consistently as an investor and not as a speculator.

- Ben Graham