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URGE FOR AN EFFECTIVE FRC UNDER FRA, 2015

Country's recurrent financial scandals have given birth to questions on transparency and accountability in transactions of financial matters in different spheres. It is true that knowingly or unknowingly the auditors were made scapegoat. The management of the company makes public the audited financial reports and in this process, the role of auditors is to give their opinion on the fairness of the accounts applying the International Standards on Auditing as adopted in Bangladesh. Responsibility for preparation and presentation of financial statements lies with the management while the auditor performs audit based on audit sampling, applying professional judgment within a stipulated timeframe to formulate independent audit opinion with reasonable assurance. Although auditors cannot avoid their responsibility to some extent in case of wrong audit opinion where there is material mistake due to management fraud and error, it may not be always possible for them to give a true and absolutely correct opinion verifying all the transactions in such a stipulated time frame. In fact, audit sampling and application of professional judgments are the suggested guidelines in case of assurance services where for differences in sample selection and due to different judgments audit opinion may differ from auditor to auditor.

It was lack of transparency and accountability which paved the way for committing such financial

irregularities. We believe the main hindrances to establish the transparent accounting system in the country are lack of proper professional knowledge on the part of management in preparation of financial reports, together with lack of corporate good governance and application of financial accounting and reporting standards. These cannot be resolved over night, nor could we be able to eliminate these in a year or so, no matter how hard we try. The country's existing regulatory bodies like Bangladesh Securities and Exchange Commission (BSEC), DSE, CSE, RJSC, NBR, OCA, Bangladesh Bank, ICAB and relevant ministries need to work harmoniously, for example, by forming a joint technical task force to resolve these issues. These views are also echoed in the World Bank's Report on the Observance of Standards and Codes (ROSC) Update 2014.

It is commendable that ICAB is a strict compliant of Statement of Membership Obligations (SMOs) of International Federation of Accountants (IFAC) which covers the quality assurance of audit and assurance firm, professional education in line with International Accounting Education Standards, International Standard on Auditing, Code of Ethics, International Public Sector Accounting Standards, Investigation Procedures and Disciplinary Measures and International Financial Reporting Standards. ICAB is now following the curriculum of Institute of Chartered Accountants in England & Wales, UK. It has thus advanced

in many folds in the area of education and training, as well.

As a regulator, the Institute is relentlessly working to upgrade the quality of financial reporting as well as training other regulatory bodies, preparers and stakeholders on quality, compliance and transparent reporting system. For many years, ICAB has been reviewing, adopting, disseminating the latest International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA) in Bangladesh as Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Standards on Auditing (BSA). The BFRSs are mandatorily applicable for all listed entities as per BSEC regulations. But appropriate application of these reporting standards in any corporate sector will ultimately depend on technical expertise, knowledge and wisdom of the management of the entities. In Bangladesh, only ICAB has the world class professional curriculum & tuition and also the facilities in providing hands-on training on application of those standards through the audit firms. So involving more chartered accountants in corporate sector especially in listed entities and other regulatory bodies is vital for assuring quality financial reporting system that will ensure a transparent and accountable corporate culture with good governance.

In this backdrop, on 6 September 2015 the Jatiya Sangsad (JS) passed the much-talked-about Financial Reporting Act 2015 under which

Financial Reporting Council (FRC) will be formed for ensuring more transparency and accountability in financial reporting activities.

The FRC will monitor the functions of auditors and ensure transparency and accountability in accounting and auditing of the public interest entities including various governments, autonomous and non-government institutions. Ever since, ICAB has been playing these roles having recognized reputation.

A good number of both developed and developing countries do follow identical laws and have councils or authorities to regulate the activities of the audit firms and ensure accountability and transparency in financial reporting. While reviewing the Sarbanes and Oxley Act- 2002 in USA, FRC in UK, Australia, Nigeria and India (proposed), it is observed that the provisions on auditors and corporate houses to ensure professional services and corporate disciplines are implemented through the CAs, being and heads of executive departments as well as part of council of these oversight bodies.

In the provision of Companies Act 2013 of India, it is said that the central government may, by notification, constitute a National Financial Reporting Authority to provide for matters relating to accounting and auditing standards under this Act. The Chairperson and the members, who are in full-time employment with the National Financial Reporting Authority, shall not be associated with any audit firm (including related consultancy firms) during the course of their appointment and two years after ceasing to hold such appointment but most of them shall be selected from Chartered Accountants even including the Chairman.

Such provision was not considered in the proposed Financial Reporting Council in Bangladesh. As per FRA 2015, the council will be

comprised of 12 members led by a Chairman appointed by the government. Moreover, the council will be a statutory body with members from various government bodies, institutions and professional groups. It is of great concern that without having adequate number of chartered accountants being expert on financial reporting, how the council will deal with the highly technical matters like monitoring and implementation of the financial reporting standards.

Surprisingly, there is a provision for the punishment for any deviation of rules of this Act which is ambiguous and needs clarity. If an auditor's wrong perception is reflected as the audit opinion and then it will be considered as charge of criminal offence. How far will it be compatible with the principle of law that a quasi-judicial body like FRC will be able to award up to 5 years imprisonment or so? Is it not fact that the area of auditing and accounting service is civil in nature and whereas, this area has been unnecessarily drawn into the area of criminal jurisdiction. Again, there are criminal offence like fraud, etc.

which is perception based. Thus the FRC will award punishment taking it as criminal offence. Does the offence define in Code of Criminal Procedure (CrPC)? The FRA is far from being comprehensive.

Under this Act, activities of the FRC will be accomplished through the following four divisions: (1) Standards Setting Division, (2) Financial Reporting Monitoring Division, (3) Audit Practice Review Division, and (4) Enforcement Division. Now the head of these Division should possess recognized accounting qualification accompanied with effective leadership quality and management and policy skills, if FRC is to succeed. Incumbent should have wide technical expertise in auditing and financial reporting matters and in line with international accounting

and auditing standards and should have a thorough understanding of regulatory frameworks for standard setting, monitoring and enforcement. Incumbent should be capable to monitor effectively the accountancy and audit sector; and secure compliance with, and enforce good governance guidelines, rules and regulations, are we thinking in that line?

Undoubtedly, a vast technical expertise and knowledge to formulate and adopt standards like IFRS/IAS, ISA are required for effective functioning of this FRC. FRA would ultimately fail to yield any better results if shortcoming in certain matters still remains - expertise in relevant field, guidance for professional enrichment, and corporate discipline are not ensured.

Since the fulfillment of basic requirements from users are essential, for better outcomes of FRC, highly-qualified chartered accountants with professional integrity and honesty are instrumental in its management and operation.

Dear readers, you would find a reflection of those in this issue of our Journal October-December 2015. Needless to say that ICAB always supports the government's initiatives that expedite development of the economy of the country and will to do so in the days ahead.

We think consultation with related stakeholders while preparing FRA rules of business and formation of FRC will be worthy.

Best Regards,



Md Abdus Salam FCA, FCS
Chairman, Editorial Board and
Council Member & Past President-ICAB



ICAB: AHEAD WITH THE CHANGES

Throughout the year 2015 the Editorial Board has fully dedicated its time & efforts to timely bring out the ICAB quarterly Journal 'The Bangladesh Accountant'. I owe my special thanks and gratitude to the Editorial Board for their punctual, relentless but successful endeavor. The distinguished contributors cultivated and nurtured their intellectual thoughts harnessing knowledge for the Journal. It has become a platform of sharing knowledge through manifestation of current issues. This issue has concentrated on financial reporting regulations which are very much pertinent to our country's present context. The Secretary of the Editorial Board deserves my high appreciation for leading the publication to be brought out on time through out the year.

In 2015 our endeavor towards professional development was instrumental and ceaseless. Although the path was not even, we sailed through it quite well. In the offshoot of our concerted efforts, a suitable ground has been created where from true professionals of excellence should be rewarded.

A large number of training programmes, both for professionals and outsiders, were

held earning laurels have made the year eventful. We have created a mutual working area with Regulators like Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC), IDRA among others. Three working group meetings were held with these regulators to discuss the limitations, scope and loopholes in core functional areas and the way forward. We also had built strong ties with, NGOAB, OCAG, NBR, and World Bank, etc.

The presentations on ROSC Updates under Work Bank program in October this year, has vividly depicted the present scenario of accountability & transparency of the financial sectors in national and international arena. The ROSC updates concluded that only joint collaboration between the Regulators like office of the Registrar of Joint Stock Companies and Firms (RJSC), Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Bank (BB), Insurance Development & Regulatory Authority (IDRA), Institute of Chartered Accountants of Bangladesh (ICAB), Monitoring Cell of the Ministry of Finance and the National Board of Revenue (NBR), is urgently required to ensure proper accountability & transparency in financial sector. It also stressed for mechanism &

automation for enforcement of rules & regulations.

Mention may be made that Dr. Javed Siddique, Sr. Lecturer, Manchester Business School, UK has penned off an excellent presentation titled Audit Profession Regulation: Challenges & Way Forward. He presented it in the program very eloquently and earned instant laurels from the floor. The presentation divulged the true picture of FRC & the audit profession of the country, making FRC questionable in Bangladesh context.

ICAB's relentless efforts towards financial accountability cannot be ignored. In December 2015 ICAB successfully published BFRS volume I & II under the arrangement between ICAB and IFRS Foundation which empowers this task to ICAB only in Bangladesh. That is all such publications for development and publication of Bangladesh Financial Reporting Standards (BFRS), Bangladesh Accounting Standards (BAS) and BFRS for SMEs are solitary rights of ICAB.

Two top notch Ministers of Government honorable Finance Minister Mr. AMA Muhith as Chief Guest and honorable Commerce Minister Mr. Tofail Ahmed, MP as Special Guest were present in 15th ICAB National Award Giving



ceremony. Their presence has illuminated us immensely. We were all overwhelmed & enriched by their deliberation in the program. ICAB's endeavor is to create awareness in the corporate sector about the value of timely publishing audited Financial Statements were successful, we can claim.

For strengthening the knowledge catered with appropriate application and compliance of auditing and corporate reporting standards, it may be pertinent to improve ICPE to further heights. Additionally developing an 'ICAB Digital Repository' can be a prioritized initiative of ICAB. This would enable the students as well as the professionals to access the

learning contents at anytime, from anywhere. This will hopefully result to develop a "learning environment" through ensuring smooth flow of information.

ICAB already has submitted three proposals for establishment and development of Inclusive Technical & Research Center at ICAB (ITRCI) and ICAB Digital Repository (IDR) to the Ministry of Commerce, GoB.

ICAB has always been striding for excellence as regulator. I believe, Chartered Accountants are instrumental and technically sound in professional services, especially when economic development is in progress in a sustainable manner. Bangladesh is

in 6.51% + GDP growth route. Very few countries of the world are now consistently maintaining this growth rate. Being one of the NEXT-11, Bangladesh will be the pivot of development experience for the rest of the world in coming decades.

Our journey ahead will be historic and it will attract enormous attention from the world!

Thank you dear fraternity!

Best Regards,

Masih Malik Chowdhury FCA
President-ICAB



Financial Reporting Regulations Global Practices

M. Idris Ali FCA



Perspective of Enacting The Financial Reporting Act 2015 in Bangladesh

Accounting and auditing profession in Bangladesh had been monitored and conducted by the Institute of Chartered Accountants of Bangladesh (ICAB) for over 40 years since independence. ICAB has been successfully performing its task except in a very few cases where due to oversight or negligence of the auditors some frauds or misstatements were left undetected in the audited Financial Statements which led to a vital question as to who will audit the auditors. ICAB is a self-regulated authority like other global regulatory bodies. It has an investigation and disciplinary committee which had been penalizing some of the firms who were found to have been negligent or careless in carrying out their audit. It has a twinning arrangement with ICAEW through which members are trained to improve their professional skill and knowledge. ICAB has also a Quality Assurance Department which ensures quality of audit by carrying out inspection of audit firms periodically. ICAB is a member of the international Federation of Accountants (IFAC) which is the international Architect of Accounting and

has to comply with the Statement of Membership Obligations (SMO) in dealing with Quality of Audit, Education, disciplinary procedure and code of professional ethics. IFAC's program is supported by International development community through the Memorandum Understanding to Strengthen Accounting and Improve Collaboration (MOSAIC) program. ICAB is member of South Asian Federation of Accountants (SAFA). Despite all these arrangements for perking up the profession, the share market crash of 2010 in the country put some audited Financial Statements under question. Meanwhile after Enron scandal USA created Public Company Accounting Oversight Board (PCAOB), UK enhanced the power and authority of its FRC, and Australia created FRC in 2002. Many other African and Asian countries also established FRC vesting oversight authority over the accounting and auditing regulatory bodies. In the context of global phenomenon and insistence and recommendation by Donor agencies like the world Bank, IMF for bringing an oversight body for financial reporting into being, ICAB could not sustain the pressure of Government to postpone creation of Financial Reporting Council (FRC). At last FRC Act was passed in the parliament in Sept., 2015.



Objectives of FRC

Objectives of all FRCs globally, are as below:

- Setting high quality standards and codes for accounting, auditing and actuarial practices in respect of listed and other entities with the aim of supporting investor, market and public confidence in financial and governance stewardship.
- Setting and promoting the highest quality of corporate reporting and governance.
- Direct monitoring of financial reports and audits of public interest entities;
- Oversight of the regulation of the audit, accountancy and actuarial professions by their respective professional bodies;
- Monitoring, oversight, investigative and disciplinary functions for major public interest cases involving auditors, accountants and actuaries

- Setting and maintenance of technical actuarial standards and oversight of regulation of actuaries by the Institute or Faculty of actuaries.
- Research and thematic studies.

Technical Competence of FRC, Bangladesh

Globally FRCs are accountable to the shareholders and investors in public and hence ultimately accountable to the Parliament through the relevant Ministry. ICAB is a Self - regulatory Authority of Public Accountants and yet authorities like SEC, NBR, DSE, B.Bank etc have been raising complaints against it for errors, frauds and misstatements. As such how can the complainants be a part of FRC? If these authorities are included as members of FRC but do not have the technical knowledge, how can they detect the defects and frauds in Financial statements? how can they set, adopt, develop or monitor or oversee the implementation of BFRSs, codes, BSAs and so on? The degree of competence of exercising supervisory, monitoring

“ SO INCLUSION OF ONE CA ONLY AS MEMBER OF FRC IS NOT ENOUGH OR PRACTICAL. INDIA HAS KEPT THE CHAIRMAN OF FRC AS CA, 3 MORE CAs HAVE BEEN INCLUDED AS MEMBERS. PHILIPPINE HAS DECIDED TO SELECT ALL MEMBERS OF FRC AS CAs. UK HAS KEPT 6 MEMBERS AS CAs IN THE FRC. MALAYSIA HAS INCLUDED 6 MEMBERS AS CAs IN THEIR FRC. WHY THEN IN BANGLADESH ONLY 1 CA HAS BEEN INCLUDED IN THE FRC? ”



and oversight expertise of FRCs depends upon its structure and components.

Let us review the structure and professional competence of the FRCs of various countries.

Composition of FRCs of Various Countries

Bangladesh: 12 members Committee comprising 9 members to represent MOF, MOC, CAG, B.Bank, SEC, NBR, 1 professor of accountancy from public University, 2 members from Accountancy profession (Ex-officio) and one Chartered Accountant (CA).

U.K: 15 members including 6 non-practicing CAs, 1 actuary, 2 former CEOs, 1 former secretary of Government, current chairman is a former banker.

India: Chairman CA, 3 more CAs from accounting, auditing and enforcement and President ICAI (total 5 CAs), Representatives from MCA, RBI, SEBI and a retired Chief Justice.

Philippines: All members must be CAs.

Malaysia: Chairman must be ICAA (Australia), 3 practicing CAs, 1 CA and 1 ACCA from industry, 1 professor (ACCA with Ph.D),

Government nominees from AG, Stock Exchange, Board of Revenue, all 3 CAs.

How Fruitful will be the Creation of FRC in Bangladesh

It appears that the regulatory and functional activities of FRC would be dual or overlapping over those of ICAB. As per CA order 1973 ICAB controls the profession of Accountancy by way of teaching, rendering practical training, holding examinations of the students, issuing certificates, issuing practicing license to qualified eligible chartered Accountants, ensuring the quality of audit, developing the standard, disciplining the negligent practitioners, operating professional development programs and so on. FRC Act provides that license of practice, renewal thereof will be issued by FRC if it is satisfied. Getting license for an eligible CA is a right, not a question of satisfaction of FRC. FRCs in other countries are not involved with this primary task. Moreover setting, adopting, developing, monitoring or overseeing the implementation of BFRSs, codes, BSAs and examining the Financial Statements is a highly technical job which cannot be performed by non-Accountants. So inclusion of one CA only as

member of FRC is not enough or practical. India has kept the Chairman of FRC as CA, 3 more CAs have been included as members. Philippine has decided to select all members of FRC as CAs. UK has kept 6 members as CAs in the FRC. Malaysia has included 6 members as CAs in their FRC. Why then in Bangladesh only 1 CA has been included in the FRC? Who will perform the technical tasks of examining the Financial Statements, detecting misstatements, frauds, setting, adopting, developing, monitoring or overseeing the implementation of BFRSs, codes, BSAs? Auditing the Auditors' works or regulating the regulators' premises or faculties is not as easy as merely forming FRC. The aim of the Government in passing FRC act to regulate the regulators on accounting and auditing, as the government claims, is to discipline the financial reporting regime and thereby enhance its credibility, ensure highest standards for the auditors, improve the financial reliability of the listed companies and promote development of accountancy as a profession. Notwithstanding all good intentions however, at the end of the day delivery of service is what matters most. There are many mismatches, inappropriate and unjustified clauses in the FRC Act and these need to be revisited for assessing its gravity and consequences. It is necessary for



the concerned authorities to have in-depth knowledge about this profession and review the entire matter before they enact such a law. Without taking Chartered accountants into confidence, no law or regulations relating to accounting and auditing profession will achieve its desired goals. Overlapping of activities in the same area by various regulators may give rise to further confusion. The regulatory stream should not be like flow of a school administration, viz. student, teacher, headmaster and inspector. FRC should be a highly responsible regulating, controlling and oversight authority, ultimately answerable to the Parliament. But capability and expertise of its members in achieving its objectives seems to be inadequate. As a result FRC is very likely to flop or if FRC imposes unjustified obligation or penalties the ICAB

may become dysfunctional. This may jeopardize the vital profession. As a remedy following 3 alternative suggestions are given:

- a) Majority of the members of FRC should be from practicing and non-practicing CAs who may form a Technical Committee or act as Technical members. They may present their findings, innovation and recommendation on all technical issues to the Chairman for implementation.
- b) The technical members may be deputed as advisers or observers to the Council of ICAB which, under leadership and/or joint efforts of the Technical members of FRC may bring about amazing innovation and findings. The Chairman of FRC may take all finding, innovation and

recommendation of the joint teams into confidence. This may produce expected result of monitoring and oversight of the accountancy and audit profession.

- c) There may be a clear line of demarcation as to which functions will be performed by ICAB and what role of monitoring and oversight will be done by FRC. In this case, ICAB's principal functions may be technical matters, education of students, professional training of members, improving quality of audit, disciplinary issues etc and FRC may perform monitoring, administrative functions and formalities.

The Author is a Fellow Member, ICAB



FRC: Accounting Profession Faces a Challenge

Dr. Javed Siddiqui



The Jatiya Sangsad passed the Financial Reporting Act, 2015 (FRA) on Sunday (September 06, 2015). Among other things, the FRA requires the establishment of a new oversight body, referred to as the 'Financial Reporting Council (FRC)'. The main purpose of the FRC will be to regulate the financial reporting process followed by the companies.

As per the FRA, the FRC will be a 12-member body, comprising of representatives from the government, the Bangladesh Bank, the Bangladesh Securities and Exchange Commission (BSEC), the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), the academia, and the professional accounting bodies. The council will be headed by a full-time chairperson who will be appointed by the government through a panel of experts. In addition, the FRC will have a full-time chief executive. The FRA identifies four major functions of the council, namely, accounting and auditing standard setting, financial reporting monitoring, audit practice review, and enforcement of disciplinary actions.

Judging by the initial reactions as published in the local media, this initiative appears to have a wide support from a number of important stakeholder groups.

Especially, the investors seem to be optimistic about the capability of the FRC to bring a degree of discipline in the financial reporting and auditing process, and subsequently, strengthen the capital markets. From that perspective, this is a populist initiative.

To a more inquisitive observer, however, there are reasons to be sceptical about the efficacy of the proposed FRC. The purpose of this article is, therefore, to initiate a debate on these possible shortcomings so that the FRC can actually achieve its objectives.

Composition of FRC

To start with, the composition of the FRC is likely to be a potential problem. There is hardly any dispute regarding the competence of the representatives from the ministries of finance and commerce, the Bangladesh Bank, the BSEC, the Comptroller and Auditor General's (CAG) office, and the National Board of Revenue (NBR) in their related fields. However, much of FRC's function would involve overseeing the work of professional accountants, who have years of practical experience in their field. In addition, the FRC would also be responsible for the adoption of International Financial Reporting Standards (IFRS) and the



International Standards on Auditing (ISA). Understandably, carrying out these functions will warrant high degree of professional expertise in the area of auditing and financial reporting. Interestingly, out of 12 members of the council, the FRA requires only one member to possess a professional financial reporting and auditing qualification (there will also be one member from the Institute of Cost and Management Accountants of Bangladesh, but membership of ICMAB does not require professional experience and expertise in auditing). It is hard to imagine that the non-accountant members sitting in the FRC would have adequate expertise to make decisions on adoption of international accounting and auditing standards or monitor the activities of professional accountants in public practice. In addition to seriously undermining the role of the professional accountants in Bangladesh, the structure of the FRC, therefore, can significantly affect its capability to carry out its stated functions. To highlight the apparent

ridiculousness of the scenario, let us put this in the context of other professions: can the activities and professional judgments of medical doctors be monitored or questioned by non-physicians? Would you allow non-physicians to write prescriptions (synonymous with accounting and auditing standards in this case) for you?

Resource Commitments

The second function of the FRC will be to monitor if the international accounting and auditing standards, as adopted by the FRC, are being properly implemented by the companies. The implementation of IFRS and ISA is a challenge for many companies. From that perspective, it is a welcome initiative. However, at the same time, this is a mammoth task that will require significant resource commitments. In the context of Bangladesh, the BSEC, even after 25 years of existence, still struggles to monitor the implementation of IFRS in listed public companies due to

“ WITH THE PASSING OF THE FRA IN PARLIAMENT, THE FRC HAS NOW BECOME A REALITY THAT THE AUDIT PROFESSION WILL HAVE TO DEAL WITH. FOR THE TIME BEING, THE FRC APPEARS TO BE A THREAT TO THE PROFESSION, AS THE COUNCIL WILL TAKE AWAY MOST OF THE POWERS EXERCISED BY THE ICAB. HOWEVER, WITH EVERY ADVERSITY COMES AN OPPORTUNITY. THE ICAB, THEREFORE, NEEDS TO ENSURE THAT THE FRC ACTS IN A MANNER SO THAT THE PROFESSION IS BENEFITED. ”



resource constraints. Is there any reason for us to be optimistic that the FRC, another government-funded body, will receive significantly high resource allocations from the government, so that it can have an impact on the financial reporting scenario?

A pertinent, but usually overlooked point regarding the implementation of IFRS in Bangladeshi companies, is the absence of sufficient number of qualified professional accountants who could facilitate such implementation. For a country with a large population, Bangladesh has a surprisingly small number of professionally qualified accountants in the area of financial reporting and auditing. As of July 01, 2015, the Institute of Chartered Accountants of Bangladesh (ICAB), the only professional accountancy body offering financial reporting and auditing qualifications in Bangladesh, had only 1,536 members, a significant number of which are either deceased, retired

or live abroad. This means that a vast majority of the accountants working in the corporate sector (especially in small and medium-sized companies) may not have sufficient skills and expertise to oversee the implementation of IFRS in their respective entities. In such a scenario, what would be the point of the FRC devoting so much resource in monitoring implementation? Rather, wouldn't such resource be better spent in providing training to the accountants, and possibly setting up second-tier accountancy bodies?

Quality Control

The third stated function of the FRC is to perform a quality control review of the practising auditors. According to the FRA, each practising audit firm will be inspected by the FRC one in every three years. Presumably, such inspection would involve looking at the performance of the auditors

as well as questioning their judgements in individual audit assignments through detailed inspection of working papers. Again, this would require substantial resource commitment as FRC would need to hire professional accountants for such review. Already, the existing salary offered in competing regulatory bodies (such as the BSEC) is not sufficient for attracting high quality professional accountants. Also, similar quality control reviews are currently undertaken by the ICAB, and it is difficult to see how the FRC would be more competent compared to a professional accounting body, such as the ICAB, in inspecting the work of professional accountants. Based on such quality review, the FRC can recommend actions against auditors. Alarming, this includes a maximum punishment of five years' imprisonment for the auditors.



Disciplinary Action

FRC's power to take disciplinary actions against auditors can be viewed from two perspectives. Firstly, this takes away the self-regulatory aspects of the profession. Since its inception, the ICAB has been in charge of monitoring the activities of its members. Arguably, the professional body has not been very proactive in taking actions against its members. Also, a few actions have been affected by the lengthy judicial process. However, before taking such actions, the professional judgements of the auditors would need to be evaluated, and due process would need to be followed in order to establish, without any doubt, that the auditors, despite possessing the skills and the expertise, intentionally issued a wrong audit report. The investigators would thus require high degree of experience and expertise in the area of auditing and corporate

affairs. This will require significant resource commitments by the FRC. Secondly, given the socio-economic environment of the country, we cannot rule out the risk of potential abuse of such disciplinary powers for undue economic benefits. In such a case, the establishment of the FRC may end up as counterproductive for the corporate sector.

There are reasons for the policy makers and other interested parties to be concerned about the state of financial reporting and auditing practices in Bangladesh. The ICAB, despite its recent efforts, has not been able to create sufficient confidence regarding its capability to monitor its own members. Consequently, perceptions regarding the quality of audit have remained poor, perhaps compelling the policy makers to offer the FRC as a regulatory alternative.

Poor Level of Fees

However, a close look at the state of audit profession would identify the single most important factor that affects quality of audit in Bangladesh: the appallingly poor level of fees offered to the auditors. The fees paid to the auditors in Bangladesh are significantly low even compared to neighbouring India and Pakistan. This is mainly due to the corporate culture in Bangladesh where the value of audit is not appreciated, as opposed to more 'tangible' services, such as legal and tax services. The fees are so low that many audit assignments result in losses for the audit firms, forcing the firms to look for other sources of revenue, including the provision of various non-audit services (many of which have now been prohibited by the BSEC order on corporate governance, 2006, squeezing the revenue stream further). Consequently, many audit firms have to be economically

dependent on their clients for their own survival, compromising audit independence, and eventually, audit quality.

The appallingly low levels of audit fees have failed to attract the internationally reputed Big 4 audit firms to consider Bangladesh as a potential market. At present, only one Big 4 firm operates in Bangladesh, whereas in neighbouring India, Pakistan and Sri Lanka, these firms have a more prominent presence. Arguably, the training offered in Big 4 firms could have raised the overall quality of audit in Bangladesh.

Thus, the main problem with auditing in Bangladesh lies with poor audit fees rather than the adoption of international financial reporting and auditing standards. Unfortunately, the FRA does not address the issue of audit fees. Rather, it requires auditors to register with the FRC in order to be able to continue public practice,

hence, potentially increasing the cost of audit further. Given the reluctance of the Bangladeshi corporate sector to pay higher audit fees, it is likely that such increase in the cost of audit would not be matched by a corresponding increase in fees, eventually lowering the quality of audit.

With Every Adversity Comes An Opportunity

With the passing of the FRA in parliament, the FRC has now become a reality that the audit profession will have to deal with. For the time being, the FRC appears to be a threat to the profession, as the council will take away most of the powers exercised by the ICAB. However, with every adversity comes an opportunity. The ICAB, therefore, needs to ensure that the FRC acts in a manner so that the profession is benefited. To start with, this will require devoting substantial efforts

to convince the government to appoint professionally qualified persons in the positions of chair and chief executive of the FRC. Also, as a first step, the FRC can start reviewing the levels of audit fees offered to auditors in Bangladesh, and perhaps engage in discussions with practising auditors to determine a mandatory minimum level of audit fees, at least for publicly listed companies. Once this is ensured, the FRC can then devote its time and resources in taking actions against auditors for professional malpractice. After all, the finance minister has justified the recent pay-hike of the public servants by stating that such increase is likely to be followed by subsequent decrease in corrupt public practices. The same logic should work for the auditors as well!

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Global Financial Reporting Regulation

The Model, Applicability and its Effectiveness

Dipok Kumar Roy ACA



The Backdrop of Global Regulation

With a view to bringing uniformity of global financial reporting, International Accounting Standard Board (IASB), a standard setting body of IFRS foundation, emerged (formerly International Accounting Standard Committee, IASC) for issuing globally accepted International Financial Reporting Standard (IFRS). The world is a global village and as such, the business network has been easier and extensive across the globe. The global uniformity in accounting has been essential for understanding and analyzing the financial statements for decision of investment, trade and business for all over the world. In April 2001, the former IASC was converted to IASB with a view to issuing IFRS instead of International Accounting Standard (IAS) and since then all standards will be issued as IFRSs and all existing IASs (IAS 1-41) will be termed as IFRSs unless otherwise superseded or replaced by new IFRS. These IFRSs are widely accepted all over the world except the local GAAP (Generally Accepted Accounting Principles) especially of USA and UK for using locally. Both USA and UK are moving from their GAAP to IFRS for global uniformity. GAAP is used principally in the United States, although the Security and Exchange Commission is

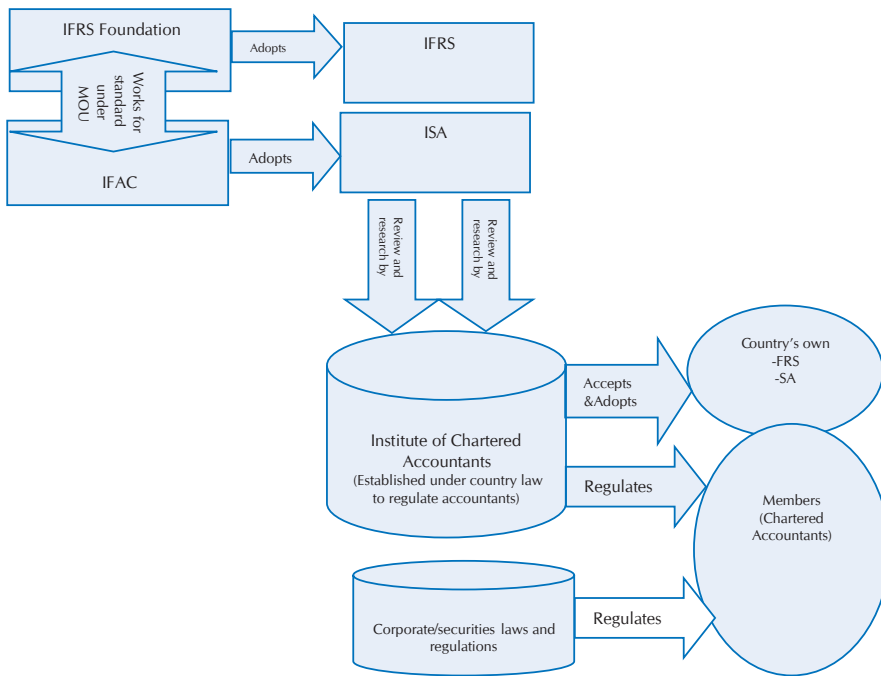
looking to switch to IFRS by 2015, the system used in the European Union and many other countries. International Financial Reporting Standards (IFRSs) have been a part of financial reporting in the United Kingdom since 2005 when EC Regulation 1606/2002 ('the IAS Regulation') came into effect. The United Kingdom has already adopted IFRS for the consolidated financial statements of all companies whose securities trade in a regulated market in 2005. The United Kingdom has used the option under the IAS Regulation of EU for all companies whose securities do not trade in a regulated market. UK GAAP has been adopted with limited disclosures based on IFRS for SMEs. So, IFRSs are only global standards of accounting for financial reporting to bring uniformity globally.

Generally the Institute of Chartered Accountant (CA) or Certified Public Accountant (CPA) of a country, whatever the term is, being a member of IFAC (International Federation of Accountants), would act as regulator of accounting profession for that country and adopts the national accounting/reporting standards in line with socio-economic status after review and research of IFRSs issued by IASB. IFAC and IFRS work together under MOU (Memorandum of Understanding) to enable the development of high quality global standards by IASB and promote,

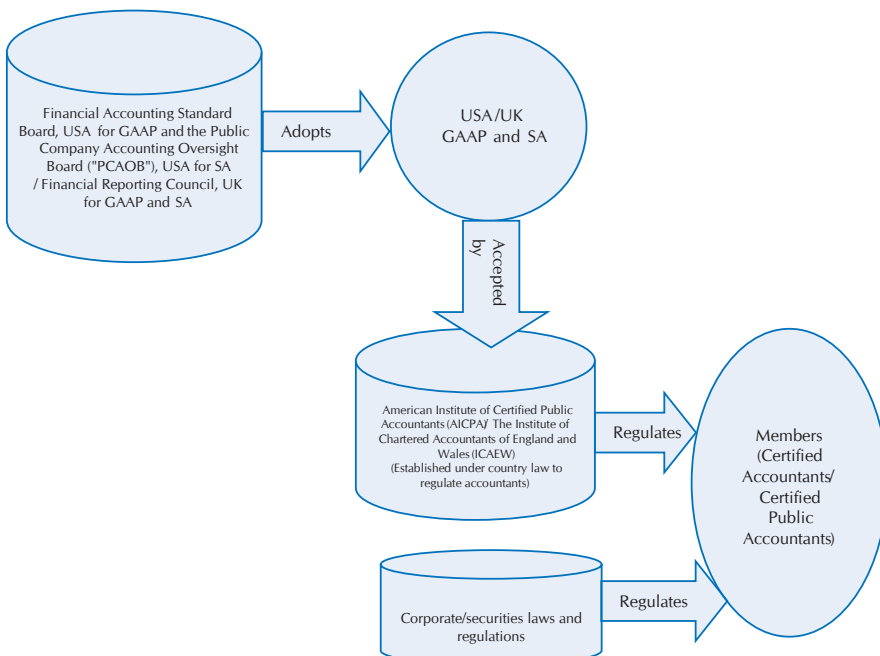
adopt and implement of those standards in addition to Internal Standard on Auditing (ISA) and other standards. The institute of CA or CPA is regarded as national institute and controls the members of the institute rendering

professional services of accounting and auditing. So, the model of global regulation of accounting profession (both for accounting and auditing) for most of the countries could be presented in the following diagrams:

Financial Regulation Model other than UK and USA



Regulation Model in USA and UK



“ IN BANGLADESH, THE MAIN FUNCTIONS OF FRC UNDER FINANCIAL REPORTING ACT, 2015 HAVE BEEN DESIGNED IN LINE WITH UK MODEL EXCEPTING THE ROLE OF ACTUARY. THE ACT FOCUSES ON ISSUING STANDARDS AND POLICIES ON ACCOUNTS, AUDIT, CORPORATE GOVERNANCE ETC. AND ACTIONS ON AUDIT QUALITY REVIEW, CORPORATE REPORT REVIEW, PROFESSIONAL OVERSIGHT, PROFESSIONAL DISCIPLINE AND PENALTIES. THE BANGLADESH FINANCIAL REPORTING ACT, 2015 DOES NOT CONTAIN THE DETAILS PROVISIONS ON THE ABOVE. WE HAVE TO WAIT FOR (A) THE GUIDELINES AND STANDARDS TO BE ISSUED BY FRC FOR THESE PURPOSES AND (B) EFFECTIVE IMPLEMENTATION PROCESS BY FRC TO MEASURE THE ACTUAL OUTCOME.”

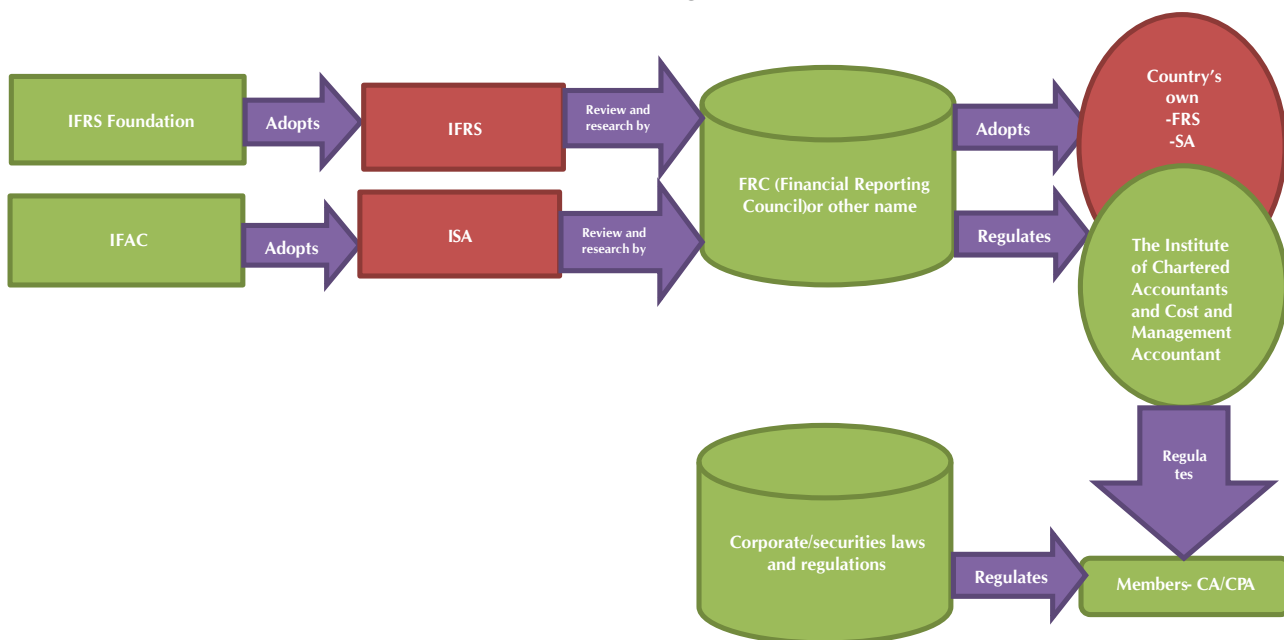
In USA and UK, a separate standard setting body is there to set GAAP or Standards in line with IFRS. In other countries those standards are adopted by a committee of the Institute of CA or CPA delegated for this purpose. Upon raising the financial scandals day by day, both the auditors and their regulating institute came under question on quality of services and responsibility as external auditors and regulator. The CAs or CPAs failed to bring into notice of user a lot of financial scandals while auditing the financial statements of different companies in different countries especially in UK and USA. Some cases, the auditors deliberately escaped the fact or unintentionally missed important issues to cover under audit due to lack of professional due care and competence. In those cases, they issued the unqualified or inappropriate opinion and subsequently, it was found the negligence of auditor in auditing and direct fraudulent activities of the management concern especially of CFOs and CEOs. The institute of CAs or CPAs, the

regulator of auditors, was not much active and serious to enrich professional capacity and quality and, to bring the auditors under legal punitive measures for the lack of professional due care and deliberate fraudulent acts. As such, the era of self-regulating of accounting profession ended up and the first Financial Reporting Act was enacted in 1990 in UK with a separate regulatory body- Financial Reporting Council (FRC). Upon the financial scandal of some reputed organization like Enron, WorldCom, Peregrine Systems, Tyco in USA, a new act, sponsored by Senator Paul Sarbanes and Representative Michael G. Oxley, was enacted titled Sarbanes and Oxley Act, 2002 (termed as SOX) with a view to conducting oversight the audit practice and ensuring good corporate governance. Since then, the self-regulation of accounting profession ended up in USA and the Public Accounting Oversight Board (PCAOB) took the role of regulating auditors by conducting oversight the audit practice and monitoring the financial reporting in addition to ensuring

management role, corporate governance and auditor independence by the said act. Under the SOX, Financial Accounting Standard Board (FASB) adopts the GAAPs/Standards as earlier before enacting the SOX. Subsequently, the other countries like New-Zealand, Mauritius, Nigeria, Malaysia, Sri Lanka and finally in Bangladesh has adopted the new model of regulation of accounting profession for ensuring effective role of external auditors.

The Revised Financial Regulation Model

As it was required to change the self-regulating model and establish a separate agent for better regulation, many countries adopted new act in different names to set up an independent agent to regulate accounting profession. Considering this new regulatory body, the general framework of revised regulation of accounting profession excepting USA may be presented as follows:



In case of USA, the accounting standards are generally adopted by Financial Accounting Standard Board (FASB) and the auditing standards are adopted by the Public Company Accounting Oversight Board (PCAOB) like FRC in the above diagram. In the SOX act of USA, the regulation has got very significant dimension by focusing specially on management certification, management report on internal control, accelerated reporting of insider trading, disclosing code of conduct for finance officer, whistle blower protection, public company oversight board and auditors independent. In addition to penalties, the initiatives and efforts over and above oversight of audit practice focus to ensure a stronger corporate culture by ensuring good corporate governance with a view to aligning the filed for presenting transparent financial reporting. In UK, the FRC has two sets of jobs on (a) code of standards and (b) professional conduct covering accounts, actuary and audit & assurance. In Bangladesh, the main



functions of FRC under Financial Reporting Act, 2015 have been designed in line with UK model excepting the role of actuary. The act focuses on issuing standards and policies on accounts, audit, corporate governance etc. and actions on audit quality review, corporate report review, professional oversight, professional

discipline and penalties. The Bangladesh Financial Reporting Act, 2015 does not contain the details provisions on the above. We have to wait for (a) the guidelines and standards to be issued by FRC for these purposes and (b) effective implementation process by FRC to measure the actual outcome.

We may review the focused issues in the new law in USA, UK and Bangladesh

Sarbanes - Oxley Act, 2002 (Area of Emphasis)				
Management Reporting - Management Certification - Management Report on Internal Control	Board Governance - Audit Committee Standard - Prohibitions of loans to Directors and Officers	Management and Board Conduct - Accelerated reporting of insider trading - Disclose code of conduct for finance officer - Whistleblower protection	Enforcement and Penalties - Public Company Oversight Board (PCAOB) - Criminal Penalties for known untrue certifications	Auditor Independence - Audit Committee pre-approves all audit or services - Lead audit partner limited to 5 years
UK Financial Reporting Act, 1991 (Area of Emphasis)		Bangladesh Financial Reporting Act, 2015 (Area of Emphasis)		
Code of Standards - Accountants - Audit and Assurance - Actuary - Corporate Governance	Conduct - Audit Quality Review - Corporate Report Review - Professional Oversight - Professional Discipline	Code of Standards - Accountants - Audit and Assurance - Corporate Governance	Conduct - Audit Quality Review - Corporate Report Review - Professional Oversight - Professional Discipline and Penalties	

The contents of the act may bring the expected outcome if it is applicable to implement considering the business structure and environment and implemented by the FRC effectively and efficiently. In other way, the success of this act will depend on its applicability i.e., whether it is the best fit with the economy and culture and its effectiveness i.e., the degree of performance compared to desired outcome over the years.

The Applicability

As stated earlier the self-regulating model are not effective enough for ensuring due professional care in conducting audit assignment to the publicly interest entity (PIE) due to limitation of self-regulation. As such, the regulation by an agent under a law has been a model of regulating accounting profession for ensuring effective professional services and public interest from the service of auditors. Generally the model of a separate regulating agent titled Financial Reporting Council (FRC) under Financial Reporting Act is applicable and effective model where: (i) corporate governance system is stronger and effective and concerns continuing improvement (ii) more than one professional accounting body/institute appear in the market prominently involved in auditing services by their members (iii) the auditors and the regulating institute of the auditors fail to render professional services with due care by auditors and to ensure public interest by the institute (iv) the financial scandals are common features in the market and audit fails to address those either unintentionally or deliberately (v) the professional competence is up to the mark of satisfaction and financial scandals come from the lack of professional due care as stated earlier (vi) the professional

fees are adequate to ensure audit quality (vii) the existing laws, rules and regulations are aligned and the application of rule of law is in line with effective public interest (viii) the FRC is constituted with a set of competent and experienced professional members to contribute time for professional enrichment and advancement instead of focusing punishment (ix) the business is run ethically and bears strong ethical corporate culture (x) The state-governance align all persons and institute to be respectful and bow to the laws for transparency of operation of business so that the auditors can act independently without any fear of intimidation (xi) the market is emerging or developed and the effective role of accountant is essential for public interest with a view to accelerating the economic growth (xii) the role of regulators like Central Bank, Securities and Exchange Commission (SEC), controller of insurance companies etc. are strong and effective enough professionally with adequate capacity (xiii) the new model of regulation is cost effective and the public interest is visible (xiv) implementation of regulation process will not be cost burden for small and medium companies for their growth in phases (xv) the foreign companies will not be discouraged to set up business and listing in capital market due to bureaucratic process and cost of compliance (xvi) the new regulation will trickle down the benefit of all stakeholders including auditors.

The Effectiveness

In the developed countries the corporate and state environments and rule of laws are much better than Bangladesh and the aforesaid regulating act can be easily enforceable as the financial scandals or financial misreporting

comes from the lack of professional due care. So, the auditors need to bring under scanner for their effective role. Still we see, the new regulating law bears criticism on performance and sometimes it is called as a failed law to ensure financial reporting transparency and public interest and consider as obstacle of corporate and economic growth.

SOX, the USA financial reporting act, is under question to address properly the financial reporting transparency and a lot of criticisms on SOX performance and its existence amongst experts of USA. Referring to Wall St. Journal Wikipedia mentions:-"A December 21, 2008 Wall St. Journal editorial stated, The new laws and regulations have neither prevented frauds nor instituted fairness. But they have managed to kill the creation of new public companies in the U.S., cripple the venture capital business, and damage entrepreneurship. According to the National Venture Capital Association, in all of 2008 there have been just six companies that have gone public. Compare that with 269 IPOs in 1999, 272 in 1996, and 365 in 1986." (According to Hoover's IPO Scorecard, however, 31, not six companies went public on the major U.S. stock exchanges in 2008, a year when the economy was much worse than 2007 (when 209 companies went public) or 2006 (205 IPOs). A 2012 Wall St. Journal editorial stated, "One reason the U.S. economy isn't creating enough jobs is that it's not creating enough employers... For the third year in a row the world's leading exchange for new stock offerings was located not in New York, but in Hong Kong... Given that the U.S. is still home to the world's largest economy, there's no reason it shouldn't have the most vibrant equity markets—unless regulation is



Global Financial Reporting Regulation

holding back the creation of new public companies. On that score it's getting harder for backers of the Sarbanes-Oxley accounting law to explain away each disappointing year since its 2002 enactment as some kind of temporary or unrelated setback." Referring to the Public accounting oversight board Thomas M. Brehmer states in an article on SOX, "A recent report from the federal accounting industry watchdog agency, the Public Company Accounting Oversight Board, found that the incidence of deficient audits performed by the Big Four accounting firms doubled in 2010, reaching a somewhat horrifying 33 percent."

More than fourteen years ago corporate America was in disorder and enfolded by financial scandals at companies like Enron and WorldCom that significantly battered public confidence in U.S. commerce that led to enacting the Sarbanes-Oxley Act (SOX) as stated earlier. The law forced change in corporate accounting practices and imposed stiff penalties on company officials who react against whistleblowers. Has SOX overcome the situation of USA from financial reporting scandal? The Answer is -Certainly not! Even after Sarbanes-Oxley Act, US whistleblowers, the authority raising wrongdoing activities, face

dilemma. Gordon Massie, the head of the Leveraged Finance Group with management responsibility for 60 investment professionals and nearly \$20 billion of invested assets and the whistleblower for American International Group (AIG), discovered that the company, the 18th largest company in the world, was actively covering up accounting fraud from 2002 to 2005. The AIG collapsed and SOX has failed to protect this. After SOX other than AIG, some serious accounting scandal was found in USA as per Wikipedia like Royal Ahold (inflating promotional allowances), HealthSouth Corporation (income overstated in certain fiscal years by as much as 4700% and assets overstated by 10% of the Company's total assets), Chiquita Brand International (illegal payments violating US anti-terrorism laws), Lehman Brothers (failure to disclose Repo 105 transactions to investors), Autonomy Corporation (a subsidiary of HP causing serious wrong accounting or financial impropriety) etc. With some of the above scandals, the offices of UK of the said companies were directly involved in spite of having FRC in UK since 1990.

In addition to the above, some major findings on performance on SOX as assessed by different

experts are (i) cost associated have prevented public companies from reporting higher profit (ii) Small and Medium Companies are looking to leave capital market due to additional layer of bureaucracy and cost of compliance (iii) Foreign Companies inclined to leave capital market or not interested to list for cost of compliance and conflicting with own rule of regulations like EU allows workforce in the Board but SOX mandates independency of the Board. (iii) Lower level of talent in the Companies.

If we review the above findings on performance of SOX and grounds of applicability of financial reporting act in Bangladesh, we will find some issues to be aligned and developed for effective implementation of the act and ensuring the expected outcome. These are- (i) arranging and ensuring good corporate governance practice (ii) constituting the FRC with more professional or business leaders for quality services for the development of the professional practices and implementation of the act (iii) ensuring rule of law by the Government to bring all defaulters including the directors, top management and influential other persons under law for any non-compliance of law about financial presentation of operation

in addition to auditors. (iv) enriching the professional capacity and quality in conducting audit (v) designing a standard fee structure to cover the cost of audit for quality audit services (vi) ensuring ethical business and corporate culture (vii) Strengthening the role of regulators with capacity etc. (viii) focusing professional upside instead of downside oriented punishment (ix) resolving the legal contradiction and ambiguity of the financial reporting act like the definition of Public Interest Enterprise (PIE) which should cover such organizations that avail a large amount of bank loan, i.e., the public money. (x) having commitment with adequate capacity to adopt and issue the required standards and guidelines in time to implement in timely manner to make it consistent with world's presentation (xi) Keeping FRC free from political influence and biasness (xii) upholding the professional dignity and ICAB image for talent hunting for good leadership of the profession (xiii) adopting the law for protecting whistleblower.

As I stated earlier in my another article 'an overview of Draft Financial Reporting Act 2010' that the act reflects a traditional attempt to control, in the name of public interest oversight, financial reporting, accounting and auditing profession in the country as if we are tightening the mouth of a jar keeping thousands of leaks on its body. We need to repair the leaks and then tighten the mouth of jar to avoid of being empty. We do

not need to follow and go forward blindly without judging its effectiveness and expected outcome. The existing Companies Act, securities laws, taxation laws are defective to protect corporate scam. Both the Companies Act and securities laws are weak to address standard framework of corporate governance for providing transparent financial reporting. The Board and the management significantly play a great role to create corporate scam abusing the laws that leads to misleading financial statements. We need to update the Companies Act, securities laws, Bank Company Act and other applicable laws for making liable the all corporate players like board & management for their duties & responsibilities in the corporation and the auditors for their professional fraud, manipulation or misconduct. In order to protect the whistleblower, the whistleblower protection measures should be adopted to secure the massive disaster in corporate. If those acts are sharp and enforcement thereof is strongly effective by regulators, the good corporate culture will be evolved resulting financial reporting transparency. So, the thing we need strongly and intensely for transparency of financial reporting is good corporate culture evolved from good Corporate Governance encompassing (i) good board practice (ii) effective control process including internal control systems in use (iii) transparent disclosures and (iv) protection of shareholders' right (v) Board's commitment to their duties and

responsibilities. To improve the corporate governance in order to get transparent corporate culture, the attempt we should have first (i) to reform the Companies Act and securities laws to make it contemporary & standardized removing all ambiguity, contradictions and shortcomings with a view to catering standard corporate governance framework (ii) to introduce national code of corporate governance for all types of companies based on which SEC, BB and other regulators may introduce the guidelines for their members (iii) to make mandatory by law or by the code that every company must have corporate governance principles in writing as approved by the Board in line with national code and to submit to the regulator (iv) to strengthen capacity of regulators like SEC, BB, RJSC and IRDA with review and monitoring framework making them equipped professionally, technically and technologically for enforcement of corporate governance. If the above actions could be effective, the corporation would get a directive pathway and the regulators & accounting professionals would be more active watchdog with keen eyes with responsibilities and liabilities. All functions will be aligned towards financial reporting transparency and thus, the financial reporting transparency would come by the systems and efforts of all level.

***The Author is an
Associate Member of ICAB***

Financial Reporting Regulations Go Global

A Cerebral Review

M Jalal Hussain FCA



Introduction

Despite the challenges of inequality, culture and flight of capital beyond borders, economic and financial globalization took place in the present competitive world. The stakeholders, politicians and economists have accepted the globalization concept by the great hope, optimism, development and progress. As businesses go global with new rhetoric phrases like “moving forward” or “moving on”, the importance and necessity of uniform financial reporting regulations have greatly been felt by the entrepreneurs, investors, accounting professionals, leaders and wise politicians around the globe. To meet the committals and challenges of rapid globalization of industries, business and commerce, tremendous pressure is there to adopt an acceptable, a resilient and spick-and-span financial reporting regulations world-wide. Globalization that distends economic integration and interdependence of regional, national and international economies and exacerbates beyond-border movement of goods, services, capital and technologies, is a major issue that determines the future of financial reporting systems and standards.

The International Accounting Standards Board (IASB) strived to pull together one

set of global standards for financial reporting with the U.S. Financial Accounting Standards Board (FASB). Both IASB and FASB cordially agreed to catechize convergence of U.S. standards with international standards. Given this situation, many accounting researchers and practitioners in developed and developing countries spent a large amount of their time considering the implications of a set of global financial reporting regulations that comprise of uniform sets of accounting for recording global transactions, financial statements, financial reports on environmental issues, economic viabilities and so on. International Financial Reporting System (IFRS) had been developed by IASB to bring the global financial reporting regulations under one umbrella enabling the global investors to understand the performance of their investments strewed around the whole world.

Many listed companies in the developed and developing countries successfully introduced IFRS but non-listed companies in developing countries are still far behind in implementation of IFRS.

The perception for fundamental reforms to private and public sector financial reporting are mounting gaudier and becoming more pervasive as the level of

cognizance of the potential benefits of such reforms locally and globally upsurges. The swift acceptance of IFRSs by countries around the globe, the prospect of keeping a single set of high-quality global accounting and financial reporting regulations for the use by private and public companies in all countries become more tangible and more pulsating. The need for a standard set of global accounting and financial reporting regulations has been necessitated by the global financial crisis started from USA to Asia to Europe, which indorsed the interconnectedness of the world's financial reporting systems, regulations and standards and italicized the demand for translucent and agnate financial information within the countries of the present time.

Challenges to Implement of Financial Reporting Regulations Globally

The existing financial reporting practices, standards and regulations are controlled and navigated mostly by two international bodies, viz., IASB and FASB. IASB has introduced IFRS as a standard reporting systems and many countries in Europe implemented IFRS as backed by legal authorities. FASB on the other hand has been following Generally Accepted Accounting Principle (GAAP) especially in US and local GAAP has been followed by many countries in Asia, Africa and Latin America. Many challenges are there that hinder the swift implementation of global financial reporting regulations. The location of the country, its culture, tradition, the education and skill of the people, financial and economic creditworthiness of a country are the determinants for smooth implementation of uniform financial reporting standard. There

are plethora of challenges and bottlenecks but these can be summarized under three categories as bounded rationality, process and technical challenges.

Putting IFRS into practice needs educated and skilled accountants and auditors and these are in short supply in many countries in Africa and Asia. As a result these countries face climacteric problems in implementing IFRS. Technical capacity is a basic requirement for effective implementation of IFRS. "Countries that implement IFRS face a variety of capacity-related issues, depending on the approach they take. One major challenge encountered in the implementation process is the shortage of skilled accountants and auditors who are technically competent in implementing IFRS and ISAs" said United Nations Report.

Transactional frailties are imbedded in the presence of scarce resources, poor skill performance and raunchy application management. Process and technical impairments also oscillate with the convolutions of IFRS technical accounting and reporting standards. The overlap of local and international regulatory considerations, the required conversion across business units and countries are considered as mordant obstacles to execution of IFRS. Many countries lack the level of information technology (IT) set-up required in the organization and the scarcity of IT professionals with IFRS technical knowledge who can construe and convert IT applications for IFRS. Other notable challenges faced by third world countries in application of global financial reporting regulations are meretricious resource deployment, inadequate staff, etiolated training, enfeebled management, bereaved legal, political and state

“ **MANY LISTED COMPANIES IN THE DEVELOPED AND DEVELOPING COUNTRIES SUCCESSFULLY INTRODUCED IFRS BUT NON-LISTED COMPANIES IN DEVELOPING COUNTRIES ARE STILL FAR BEHIND IN IMPLEMENTATION OF IFRS.** ”



ALERT

sustenance.

IFRS vs. U.S. GAAP

The contrariety about the adoption of IFRS in the U.S. has reeked in the past few years. U.S. is considered as the world power and one of the most developed nation in the world and as such all disquietudes are on U.S. The U.S. has not approbated and implemented the IFRS in as much as it champions for the adoption of IFRS in other countries. It has preferred to keep using the US GAAP. There are a lot of resemblances and divergences between the US GAAP and the IFRS and few though over-riding differences between the US GAAP and the IFRS such as the accounting treatments on inventory and intangible assets. There have been talks between the setters of both standards on the possible convergence for many years now. However, adoption of IFRS is yet to see the light at the end of the tunnel in US.

The Boards of Directors from FASB and the IASB, as they work unruffled on the most significant metamorphoses between US GAAP and IFRS have pinpointed the nine most significant dissimilarities that are summarized by Ernst & Young as below:

- Financial periods are

specifically required.

- Balance Sheet and Income statement layout is different.
- There MUST be the clear presentation of debt (current vs. non-current).
- Classification of deferred tax assets and liabilities.
- Classification of expenses on the income statement.
- Income statement – extraordinary items.
- Income statement – discontinued operations.
- Disclosure of performance measures.
- Third balance sheet.

Why Do We Need Global Financial Reporting Regulations?

The world interchanges very fast with the globalization of businesses and industries. Globalization has prompted more and more investors to open their business doors to foreign investments and expand their businesses to cross-border countries. Private and public sector investors want to acquiesce the

benignities and recompenses of having a uniform and commonly understood financial reporting standards reinforced by strong global accounting and financial reporting regulations. Globalized financial reporting system brings together material information about a multi-national organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it functions. It provides a succinct and synoptic representation of how an organization enucleates sustenance and how it generates and withstands value in the long run.

Global corporate bodies that practice the same standards, regulations and practices to prepare their financial reports can be compared to each other more accurately and precisely. This is particularly important when comparing the performances of different companies located in different countries, as they might otherwise be using different rules and methodologies to prepare their statements and financial reports. IFRS have become the de facto global standard for financial reporting. Its quality has been validated by almost a decade of use by markets in both advanced and developing economies. The

United States has not yet espoused IFRS and other countries continue to hold out as well. This makes accounting and financial reporting problematic by foreign-based companies that do business with America as they often have to prepare financial statements using IFRS and another set using American GAAP. IFRS uses a be-all and end-all-based, rather than rules-based viewpoint. This gives companies the freedom to acclimatize IFRS to their specific situation, which leads to more straightforwardly and useful financial statements.

Where Do We Stand Now on Global Financial Reporting?

Lots of on-going discussions took place between most of the nations on the present globalized world that desired a more globally uniform financial reporting system since the 1960's. During that decade, 1966 saw the formation of

the Accountants International Study group, followed by the first International Accounting textbook in 1967. The International Association of Accounting Standards Committee (IASC) was established. This group was established by the U.S. American Institute of Certified Public Accountants (AICPA) in 1973. The Financial Accounting Standards Board (FASB) became a member of the IASC and voiced support for Internationalization of Standards in 1988. By 1991, FASB issued its first Strategic Plan for International Activities, also involving United States Congress and the Securities and Exchange Commission (SEC). A breakthrough occurred in 2002. FASB and IASB completed "The Norwalk Agreement" at a joint meeting on September 18, 2002 in Norwalk, Connecticut.

As on September 30, 2015 more than 120 countries across the globe have adopted fully or partly the globally accepted IFRS as the global financial reporting standards

that can ensure a common and uniform reporting system. Most of the EU member countries adopted IFRS in listed or publicly traded companies. Many non-listed or private companies didn't implement IFRS although implementation of IFRS is mandatory for both listed and non-listed companies in EU. In Asia, Africa and Latin America, most of the listed companies could not fully implement IFRS and thousands of non-listed companies remain outside the prerogative of IFRS.

The United States of America, as of August 2012, has not officially adopted IFRS as their financial reporting standard. US GAAP remains the current financial reporting standard in US. "The IASB, whose guidelines are used in more than 120 countries mainly in Asia, Europe and Africa, and the

U.S. FASB has been locked in talks to fine-tune their standard rules for many years. The work has become

Worldwide IFRS Adoption Map-For Public Companies



Source: Deloitte

bogged down in technical debates and pressure from auditors – such as KPMG, PwC, Deloitte and Ernst & Young – to take time to get it right, but policymakers are losing patience as investors are left waiting” (Jones, 2012). The US SEC preliminary plan which would require US-listed companies to report under international accounting rules no earlier than 2015. The IASB has reported that over 120 countries have adopted IFRS, without the United States in the list. Other major countries, including China, Japan, and Singapore have yet to undertake; and are waiting for the US to entwine, which in turn would bolster them that America has fully committing to IFRS.

Currently, IFRS profiles are completed for 140 countries and other publications including the G20 jurisdictions plus 120 others. The 140 profiles cover all areas of the world:

Region	Number of Jurisdiction	Percent of Total
Europe	43	31%
Africa	19	14%
Middle East	9	6%
Asia & Oceania	32	23%
Americas	37	26%
TOTAL	140	100%

Source: IFRS, June 2015

What’s the Envision of IFAC and IASB on Global Financial Reporting Regulations?

The vision of global accounting standards has been overtly supported by many international organizations, including the G20, the World Bank, the International Monetary Fund, the Basel Committee, International Organization of Securities



Commissions and the International Federation of Accountants (IFAC). The world body of accountants (IFAC) and accounting and financial reporting regulations setter (IASB) have the phantasm to provide “for-profit” public and private sector entities of the global world a common, comprehensive and high-quality global financial reporting standards. The recent cases for fraudulent reporting range from Enron of US and WorldCom of US to Global Crossing of Bermuda, to Polly Peck of UK, Parmalat of Italy, to Satyam of India, to Olympus of Japan are just a few names to mention. Even the Lehman Brothers case can be related to fraudulent financial reporting as there was a failure to disclose Repo 105 to investors. Financial reporting frauds caused colossal losses to the stakeholders and also begrimed the goodwill and grandiosity of professional organizations that upsurges the vision, mission and responsibilities of the SEC, IFAC and IASB towards founding a strong and effective global financial reporting standards.

It’s witnessed by the professional accountants on different international events that the

accounting and financial reporting standards set by IASB and FASB still conflict on many cases and become more complex over the last few years. Standard setters and regulators are acutely aware that investors can be jumbled and preparers overwhelmed by the complexity of accounting standards and by the content and volume of information presented in financial statements. “Complexity in accounting is costly for both investors and companies,” FASB Chairman Russell Golden said in December at the AICPA Conference on Current SEC and PCAOB Developments. “For investors, overly complex financial reports often obscure important information they need to make sound capital allocation decisions. For preparers, a complicated, unclear, hard-to-understand standard obscures its meaning. And even when an accounting treatment is clear, applying it can be lengthy, difficult, and expensive.” The apparition of IFAC, SEC, IASB and FASB should be to make the global financial reporting standards simple, clear and easy-to-understand by the users at national and global level.

Conclusion

Global financial Reporting Standards are collocated in IFRS for practice by all countries in the present world. IFRS have prefigured the dawn of a new era in modern-day accounting and financial reporting systems globally. IFRS have been widely adopted in all the corners of the world-East, West, South and North. The innumerable benefits of adopting the IFRS far outweigh the relevant costs. Prudently all individual companies are reinvigorated to adopt the IFRS as they present new progressive developments such as the preparation of high quality financial statements; harmonization of the underlying accounting bases; cost savings to companies on translations of financial statements; opportunities for retrieving a larger pool of credit; acceleration of cross-border listing and ease of comparability. Global Financial Reporting Regulations have macro-economic benefits to a country as they improve on the financial reporting

framework, thereby enhancing economic output.

There is a mounting acceptance of IFRS as a basis for financial reporting across the world. This momentum represents a fundamental change for both national and global accounting systems and professions. Since establishment, the number of countries that require or allow the use of IFRS for the preparation of financial statements by publicly traded companies has continued to increase. Proactive efforts and strong support of the governments of the countries that couldn't implement global financial reporting systems, are a must. Financial and technical assistance of IMF, ADB, IFAC are sine qua non for adoption of global financial reporting regulations. Those days are not far away when the global practices will be guided, controlled and regulated in all countries –developed, emerging, developing and underdeveloped, by a high-quality and a uniform financial reporting regulations.

To recap, as of September 2015, over 120 countries have been using these international standards (IFRS). Since the current US Government and the SEC avouched plan to adopt IFRS in 2015 and the United States is an axiomatic part of the global financial mise en scene, it would be a great obligingness for US and other countries doing business with US, if the United States join these countries and adopt IFRS as swiftly as possible. Adoption of global financial reporting regulations by all countries including USA will concatenate and ensconce the global practices and will bring a revolutionary change in the fraud-prone and malfeasance global world by providing uniformity, reliability, transparency and comparability of global financial reporting.

The Author is the CFO of a private group of companies and a Fellow Member, ICAB

FRAUD

Accountability of Bank Management in USA for Fraudulent Reporting

Iftekhar Hossain FCA



The US Securities and Exchange Commission (SEC) website shows that Trinity National Corp. and its wholly owned subsidiary, Los Alamos Bank, have agreed in September 2015 to pay \$1.5 million to settle charges of accounting fraud.

Trinity Capital Corporation is a New Mexico corporation headquartered in Los Alamos, New Mexico, USA. Trinity is the holding company of Los Alamos National Bank, a national banking organization with \$1.4 billion in assets. Trinity's common stock is registered with the Commission.

As the economy declined during the financial crisis, Trinity Capital Corporation and its wholly-owned subsidiary, Los Alamos National Bank (collectively, "Trinity" or "the Bank"), experienced an increase in problem loans and a decrease in the collateral values supporting its loan portfolio and other real estate owned ("OREO"). In response, certain former members of the Bank's management caused the Bank to engage in false and misleading accounting and reporting that concealed the Bank's delinquencies and declining collateral values and to hide the true nature of its loan and OREO portfolio.

In its quarterly and annual filings with the SEC for 2010, 2011 and the first two quarters of 2012, Trinity materially misstated its provision for loan losses and its allowance for loan and lease losses. In 2011, it reported profit of \$4.9 million instead of a loss of \$25.6 million, understating its net loss available to common shareholders by \$30.5 million. According to its restatement, Trinity's provision for loan losses was understated by \$6.8 million (25%) in 2010, \$22.3 million (73%) in 2011, and \$4.5 million (68%) in the first quarter of 2012. Trinity overstated its provision for loan losses for the second quarter of 2012 by \$2.3 million (31%).

According to the SEC's complaint, the fraud was directed by Trinity's

- Former chief executive officer (CEO), William Enloe,
- Former chief credit officer (CCO), Jill Cook, and
- Former senior lending officer (SLO) Mark Pierce.

The complaint also alleges that former

¹ <http://www.sec.gov/litigation/admin/2015/34-75999.pdf>

- Chief financial officer (CFO) Daniel Bartholomew, and
- Vice president of internal audit (VP-IA) Karl Hjelvik

failed to implement sufficient internal accounting controls and failed to ensure that the bank's books and records were reasonably accurate.

Trinity, CEO, CFO, and VP-IA agreed to settle the SEC's charges, while the litigation continues against CCO and SLO.

Trinity and CEO consented to an order to cease and desist from violating the antifraud, reporting, books and records, and internal controls provisions of the federal securities laws. Without admitting or denying the SEC's findings, Trinity agreed to provide ongoing cooperation and to pay a \$1.5 million penalty, which takes into account the company's significant remedial measures and cooperation during the investigation. CEO Enloe agreed to pay a \$250,000 penalty and also agreed to be barred from serving as an officer or director at a public company for five years. CFO Bartholomew and VP-IA Hjelvik consented to charges of books and records, reporting, and internal control violations, and entered into cooperation agreements with the SEC to assist in the litigation against Cook and Pierce.

"Trinity was facing dire financial straits but rather than accurately report its losses, we allege that the firm's executives grossly misreported its income to shareholders and regulators," said Andrew J. Ceresney, Director of the SEC's Division of Enforcement. **"We will hold senior executives liable when they misstate the company's performance and fail to come clean with shareholders."**

The alleged fraud was motivated, at least in part, by the bank's desire to be released from a formal supervisory agreement between the bank and the Office of the Comptroller of the Currency.

Summary Details of the Scheme

As laid out in the SEC's complaint filed in federal court, and the settled administrative proceedings, the fraudulent activities included:

- CEO Enloe, CCO Cook, and SLO Pierce
- Directed Trinity's loan department to engage in a variety of conduct that kept the bank from properly recording losses on its financial statements, such as not downgrading loans that were delinquent and making delinquent loans appear to be paying on time; not identifying loans for which the bank was not going to be paid in full; and not properly measuring individual loans for impairment.
- Extended credit to troubled borrowers that was used to make required payments on existing debt, which would result in the borrower appearing current on loan payments when, in fact, the bank was not actually making any collections from the borrower.
- Failed to identify loans where it was probable that the bank would be unable to collect all amounts due under the loan agreement. In some instances, documents were intentionally drafted to avoid triggering a review of the transactions as troubled loans.

“ WITHOUT ADMITTING OR DENYING THE SEC'S FINDINGS, TRINITY AGREED TO PROVIDE ONGOING COOPERATION AND TO PAY A \$1.5 MILLION PENALTY, WHICH TAKES INTO ACCOUNT THE COMPANY'S SIGNIFICANT REMEDIAL MEASURES AND COOPERATION DURING THE INVESTIGATION. ”



- Knew that collateral was worth significantly less – sometimes millions of dollars less – than the amounts used in impairment measurements, yet they did nothing to correct the inaccuracies.
- CEO and CFO instructed employees to reject and not use appraisals that indicated lower values on the bank’s collateral and other properties.
- SLO drafted and reviewed loan memoranda that were false and misleading and, together with CEO Enloe and CFO Cook, permitted them to be presented to outside auditors and others when they knew, or were reckless in not knowing, that the information hid the troubled nature of various loans.
- CFO Bartholomew and VP-IA Hjelvik knew or should have known that certain impairment measurements were not correct and that some appraisal valuations were significantly overstated. In addition, neither of them took action to implement adequate internal accounting controls.
- As a result of this and other conduct, Trinity failed to downgrade loans on a timely

basis; identify individually impaired loans; and measure impairments properly and take appropriate losses on real estate owned by the bank.

The website contains the three separate administrative proceedings against (i) Trinity Capital Corporation, (ii) William C. Enloe -former CEO, and (iii) former CFO Daniel Bartholomew and former Vice President of internal audit Karl Hjelvik.

The proceedings , inter alia, state the following:

1. Facts - Relevant Accounting Guidance and Bank Policies

1.1. Banks carry loans on their balance sheets as assets and generally record interest income on the loans on their income statements. According to Generally Accepted Accounting Principles (“GAAP”), estimated loan losses must be accrued when it is probable that losses have been incurred and the amount of the loss can be reasonably estimated. These loan losses are recorded on the balance sheet as the ALLL (allowance for loan and lease losses). The Bank’s ALLL includes two components:

- (1) The allowance required for loans not individually assessed for impairment, which is based on grouping by loan grade and type and collectively evaluating the pools for impairment; and
- (2) The allowance required for individually impaired loans, which is based on an individual loan level measurement of impairment.

Any increase in the ALLL must be accompanied by the recording of a provision for loan losses on the income statement, thereby increasing reported losses.

1.2. GAAP requires that OREO be valued upon receipt at fair value less costs to sell and on an ongoing basis measured at the lower of its carrying amount or fair value less cost to sell. GAAP and Rule 9-04 Item 14(d) of Regulation S-X required the Bank to record on its income statement any loss on OREO.

2. Facts-The Bank Failed To Measure Collective Impairments Properly

2.1. The Bank’s material misstatements regarding the

first component of the ALLL primarily stemmed from the Bank failing to properly grade hundreds of loans. During the Relevant Periods, the Bank's loan policy provided for seven loan grades: pass1, pass2, pass3, special mention, substandard, doubtful, and loss. Throughout the Relevant Periods, the Bank's loan portfolio included numerous loans that were graded as pass, but should have been downgraded to special mention or substandard. These grading errors resulted in the Bank understating its ALLL because lower graded loans carry a higher loan loss estimate, thereby increasing the first component of the ALLL.

2.2. Pursuant to the Bank's loan policy, loans were to be graded special mention when they had potential weaknesses that deserved management's close attention. Loans were to be graded substandard when they demonstrated well defined weakness. Internal Bank training further elaborated on the characteristics of substandard loans, including those that are seriously past due (60 days or more) and those with inadequate future cash flow potential, insufficient cash flow, unprofitable operations and/or inadequate debt service coverage, questionable repayment source, and advances to fund interest payments.

2.3. During the Relevant Periods, the Bank's loan department operated under a culture that discouraged downgrading loans to special mention or substandard. Loan officers were under pressure from

certain members of management to avoid having any "bad loans" in their loan portfolios, including any loans that were graded below pass and loans that were more than 30 days past due. As a result, the Bank's loan department ignored and hid loan weaknesses that required downgrades and waited as long as possible to downgrade loans below pass, which sometimes included waiting until the loan was at or over 90 days past due, or until the loan was selected for review by a third party and was therefore at risk for being identified as a grade "miss."

2.4. The Bank's loan department undertook steps to prevent downgrades on certain loan relationships, including authorizing checking account overdrafts and the extension of additional credit to borrowers who were unable to make their required principal and interest payments on their existing debt. Sometimes this additional credit would be granted using loans referred to as "ABC Loans," which stood for "Additional Balance Club Loans." The additional credit was used to make required payments on the existing debt, which would result in the borrower appearing current on loan payments when, in fact, the Bank was not actually making any collections from the borrower.

2.5. Certain former members of the Bank's management and loan department employees circumvented and ignored internal accounting controls by failing to downgrade troubled loan relationships. For example, one instance, a former member of the Bank's

management backdated documents to make it appear as if additional credit had been extended prior to Trinity's internal audit department downgrading a loan relationship to substandard. In other instances, credit was extended to borrowers without the required credit analyses being completed. In one instance a borrower's loans were downgraded from pass to substandard by the internal audit department in late March 2011, were then updated to pass at the direction of former members of management in early April 2011, and were then again downgraded to substandard in May 2011 when the borrower appeared on a list of loans to be reviewed by a third party.

3. Facts - The Bank Failed to Identify Troubled Debt Restructurings (TDR) and Other Individually Impaired Loans

3.1. The Bank's failure to identify individually impaired loans, including TDRs, led to material misstatements regarding the second component of the ALLL. GAAP provides that a loan is impaired when it is probable that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement. When loans are changed, for example by a restructure, extension or other modification, GAAP requires the transaction be evaluated to determine if the change constitutes a TDR. If a loan is determined to be a TDR, GAAP considers the loan individually impaired and requires the amount of the

impairment to be measured based on the individual impairment guidance.

3.2. During the Relevant Periods, the Bank failed to identify hundreds of Individually impaired loans, understating the loans that should have been considered individually impaired by more than \$50 million or more than 70% during the Relevant Period. Many of the newly identified impaired loans were also TDRs. In identifying impaired loans, the Bank's loan department ignored GAAP and failed to identify certain loans as impaired until all potential means of repayment, were exhausted which in certain cases included the Bank granting numerous concessions to the borrower. In some instances, the Bank's internal loan documents were intentionally drafted to avoid triggering a review of the transaction as a TDR.

4. Facts-The Bank Failed To Measure Individual Loan Impairments Properly

4.1. The Bank also made material errors regarding the second component of the ALLL by failing to measure properly the loss for individually impaired loans. If a loan is individually impaired, the amount of impairment must be measured and recorded as an expense with a corresponding amount recorded to the ALLL. GAAP permits the impairment to be measured using the fair value of the underlying collateral if the loan is collateral dependent, which is the method the Bank typically utilized. GAAP requires that the best information available in the circumstances be used to determine fair value.



4.2. It was the Bank's practice to order annual appraisals on loans graded special mention, substandard, or worse. Among other things, these appraisals were used to value the Bank's collateral that was used to measure the loss on impaired collateral-dependent loans. The Bank's appraisal department used a standard engagement letter that required appraisers to value properties in their current state ("as-is"). On properties still under construction and completed properties generating income, the Bank also ordered appraisals that would provide the value of a property at the time construction was complete ("as-completed") or when the property reached stabilized net operating income ("as-stabilized"). For purposes of measuring the impairment on a collateral dependent loan, the Bank was required to consider the current condition of the property, which can be accomplished by using an

"as-is" appraisal value. However, in at least two instances, certain former members of the Bank's management directed the use of the higher "as stabilized" or "as completed" values in measuring impairment losses when an as-is appraisal should have been used.

5. Facts-The Bank Failed To Take Appropriate Losses On OREO (Other Real Estate Owned)

5.1. During the Relevant Periods, it was the Bank's practice to order appraisals on properties that were moving into OREO and annual appraisals on properties that remained in OREO. In 2011, the Bank failed to properly value and account for impairments to its OREO by not using appraisals that indicated that the value of OREO properties had decreased and that a decrease in the net carrying amount of OREO was required.

Additionally, subsequent event appraisals received after the end of a quarterly or annual period, but before the financial statements were filed, that provided a better estimate of the fair value of the OREO at the end of the prior period end, were not always used, as required by GAAP, in the Bank's OREO accounting.

6. Facts-The Bank failed to Devise and Maintain a System of Internal Accounting Controls

- 6.1. The material misstatements and the conduct by certain former members of Bank management was facilitated by the intentional circumvention of internal accounting controls, but were also aided by the Bank's failure to devise and maintain a system of internal accounting controls.
- 6.2. During the Relevant Periods, the Bank lacked sufficient internal accounting controls over the periodic review of loans to ensure loans were accurately graded and to identify troubled and impaired loans. Further, the Bank's internal audit department was not independent from management and, as a result, the Bank's Audit Committee was not always provided with complete and independent audit findings. The Bank's internal audit department also lacked a formalized risk assessment process and, as a result, did not sufficiently consider risks in financial reporting in establishing audit procedures.
- 6.3. The Bank also lacked sufficient internal accounting controls over the use of ABC Loans and the analysis of TDRs. For example, the Bank's internal loan approval and credit review processes failed to require an analysis of whether a loan modification or extension was a TDR. Similarly, in some instances, feedback and working papers from independent, third-party loan reviews indicated that a TDR analysis should be performed on specific loans; however, there were no controls in place to confirm that this feedback was reviewed, noted, and acted upon. Further, during the Relevant Periods, TDRs were rarely discussed within the loan department, and employees were not properly instructed as to how and when to analyze modifications as potential TDRs. Finally, numerous loans should have been evaluated as TDRs because a new loan was provided to pay interest or principal due on an existing loan. The Bank's loan policy failed to consider whether this situation resulted in a "concession."
- 6.4. The Bank lacked sufficient internal accounting controls over its accounting for impaired loans in conformity with GAAP. Loan department personnel calculating the impaired loan losses did not possess sufficient accounting expertise and there was not adequate involvement or review by the accounting department. As a result, errors occurred in the calculation of impaired loan losses.
- 6.5. The Bank also lacked sufficient internal accounting controls over appraisals. While the appraisal process was to be separate and independent from the loan department, in practice, loan department employees were charged with determining when appraisals would be ordered on classified loans and OREO properties. Further, at the direction of certain former members of the Bank's management and loan department, appraisals were sometimes not ordered timely, delayed, or ordered without the standard request for an "as-is" fair value. The accounting department was not automatically notified when appraisals were received, which meant that they were not always aware of appraisals relevant to impairment measurements or OREO write downs.
- 6.6. Additionally, appraisals received after the balance sheet date were not always considered, as required by GAAP, in the Bank's loan and OREO impairment accounting. The Bank was aware of this internal control issue by at least 2009 when the Bank's outside auditor found a \$2.2 million subsequent event accounting error. Nonetheless, the Bank failed to implement controls to adequately address this issue and, throughout the Relevant Periods, the Bank's internal audit and accounting departments continued to stumble across appraisals that had not been factored into the Bank's accounting.
- 6.7. The Bank also lacked sufficient internal accounting controls over the Bank's processes and computerized systems that housed appraisals and loan information. Controls were inadequate to ensure all received appraisals were preserved in the Bank's database. Numerous



employees, including loan officers, had edit rights to these systems allowing them to alter or delete data about loans, appraisals, collateral values and customers. Because of these inadequacies, employees could delete appraisals or change collateral values without documenting why the alterations were made. When appraisals and collateral values were deleted, the result was that information was not made available to the OCC and other third parties, as well as other Bank employees.

7. The proceedings against the CEO, CFO and VP-IA contained, inter alia, the following

7.1. From 1994 to February 1, 2013, Enloe served as Trinity's CEO. Enloe is now employed by a private company.

Misleading Statements to Accountants - Enloe also made, or caused to be made, misleading statements to the Bank's accountants. For

example, Enloe was aware of false and misleading information in impairment memos that were provided to internal accountants and the external auditors, including incorrect impairment calculations on loans that understated losses. Enloe was also aware of material information regarding the Bank's loan portfolio that was not provided to the external auditors, including evidence of significant borrower relationships where the borrowers were delinquent or had indicated an inability to pay and yet the Bank did not downgrade the loans below pass or designate the loans as impaired.

Enloe Controlled and Directed Trinity's Violations - Enloe, as the CEO of Trinity, had management authority over Trinity, and did in fact control and direct Trinity's loan and OREO accounting. Further, as set forth above, Enloe orchestrated and was directly involved in Trinity's fraudulent financial report

7.2. While serving as the Bank's Chief Financial Officer, Daniel Bartholomew failed to implement adequate internal controls over, among other areas, impaired loan loss calculations, troubled debt restructurings ("TDRs"), subsequent events, OREO, and appraisals. In some instances, Bartholomew was also a cause of Trinity's false books and records and the submission of inaccurate reports because he was on notice of certain transactions that failed to comply with generally accepted accounting principles ("GAAP"), but he failed to correct the accounting errors.

7.3. While serving as the Bank's head of Internal Audit, Karl Hjelvik was directly responsible for testing the Bank's internal accounting controls and compliance with GAAP. When Hjelvik became aware of issues in the way in which loans were accounted for under the direction of the Bank's management, he failed to report his concerns to the Bank's audit committee, and in

some instances, he failed to take action to remedy inaccurate reports and books and records as required by the Bank's policies and procedures. Hjelvik also failed to ensure that effective internal controls were in place over impaired loan loss calculations, TDRs, subsequent events, OREO, and appraisals.

In determining to accept the Offer of the Respondents, the Commission considered remedial acts undertaken by Respondent and cooperation afforded the Commission staff.

Respondents acknowledge that the Commission is not at this time imposing a civil penalty based upon their agreement to cooperate in a related enforcement action. However, pursuant to this Order,

Respondents agree to additional proceedings in this proceeding to determine what, if any, civil penalties pursuant to Section 21B(a) of the Exchange Act against Respondents are in the public interest. In connection with such additional proceedings: (a) Respondents agree that they will be precluded from arguing that they did not violate the federal securities laws described in this Order; (b) Respondents agree that they may not challenge the validity of this Order; (c) solely for the purposes of such additional proceedings, the findings of the Order shall be accepted as and deemed true by the hearing officer; and (d) the hearing officer may determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence.

Learning for Bangladesh

The general perception in Bangladesh is that collusive fraud by Directors and Top Managerial personnel are prevalent in many banks in Bangladesh. News media also report frauds by employees in bank branches. Given the gigantic backlog of cases in the judicial system, it takes years for the legal process to be completed. Adoption of the above process where the Regulator (SEC and/or Bangladesh Bank) can penalize the fraudster based on his cooperation and agreement to additional civil penalties, if any, in the public interest will go a long way in acting as a deterrent to potential crimes. It will also force the banks to further improve the internal accounting and control systems.

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Financial Reporting in Bangladesh

Tofazzul Hussain FCA



Introduction

Writing an article on Financial Reporting is a daunting task mainly because of the jargon and technical terms involved; they are much heard, seen and used. Readers as well as the writer are likely to feel bored and withdrawn from the topic for straight forward and delicate expressions of the editorial. Hardly there is any space to put some reader-enticing humors while filling in the account owing to the fact that an essay on such a topic usually revolves around: real life accounting cases; stigmatizing scandals; squabbling about who is to be ultimately blamed for the protection of investors' money and for any unfortunate financial debacle; and volumes of related books on rigid rules, regulations and abstract principles of the financial reporting regime. So the article is destined to be an informative literature with some yawn producing prosaic elements, but on the other hand it is a delight both for me and the readers who are avid learners and who take financial reporting business seriously. Throughout the article I have used the terms and facts from authoritative sources and footnoted the references on relevant pages. Needless to say, I had been torn between elaborating the article and keeping it to a

precise size to attract readers' attention. For making it precise some information might be implicit or isolated; I am responsible for any limitations in this piece of writing on Financial Reporting.

Importance of Financial Reporting

It is an old cliché that 'Financial Reporting' (FR) provides useful information to a wide range of users in making their economic decisions. Nonetheless, the term, FR, is being uttered too often by the people in economic game. Following the Enron, WorldCom, Sunbeam, Parmalat, Global Crossing, Halliburton, Nicor Energy and many other cases of real life corporate accounting scandals¹ which preceded the ongoing global recession²—originated in 2007 in the USA partly from a creative accounting and reporting of notorious sub-prime mortgages known as derivatives— and the recent Stock Market Crash in Bangladesh, market regulators and various users of corporate financial information are now clamoring for quality financial reporting after being badly hurt by the devastating effect of the financial disasters. Bangladesh Stock Market plunge particularly has caused bewildering financial loss and embarrassed people

¹ <http://www.forbes.com/2002/07/25/accountingtracker.html>

² http://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932008

from all walks of life including the government. Financial reporting is blamed in those instances as there are ostensible claims that the reported financial information could have saved the damage to some extent, though not entirely. The cited cases are classic examples of Corporate Crime or White-collar Crime³ which in its own right entails several misdeeds perpetrated by educated people with responsible duties in business organizations. And at times financial reporting can be instrumental in committing such a crime as we can now vouch from these remarkable scams where FR had been compromised abusing the loopholes of the financial reporting regulations.

Within the Reporting Framework

“Financial Reporting”, that underpins accountability, is a process to provide information about the financial position, financial performance, and cash flows of an entity through a set of general purpose financial statements that is useful to a wide range of users to make a diversity of investment, credit, and other decisions including tax assessment. Users, the buyer of the information in the reported financial statements, need to know the status of the business as a result of its past performances to expect and predict current or future capacity of the entity. They at varying degrees hinge upon the information that the concerned organization supplies to allure them. Therefore, it is of paramount importance that the information be useful and attributive of qualitative characteristics.

Considering the information need in the market and its role in economic activities, the International Accounting Standard Committee (IASC), the predecessor of the International Accounting Standard Board (IASB) has issued a FRAMEWORK⁴ explaining the purpose of a set of general purpose financial statements, and the concepts that underlie the preparation and presentation of financial statements for external users. With the fundamental assumptions of Accrual Basis and Going Concern on top, these concepts such as:

- Understandability
- Relevance
- Timeliness
- Reliability
- Prudence
- Comparability
- Truthfulness
- Fairness
- Recognition and measurement of: asset, liability, equity, income, and expenses to maintain capital are to be adhered to while the preparers of the financial statements apply the relevant Bangladesh Financial Reporting Standards/Bangladesh Accounting Standards (BFRS/BAS) and Bangladesh Financial Reporting Interpretations/ Bangladesh Accounting Standards Interpretations (BFRI/BASI)—all of these together form the BFRS⁵.

In addition to the Framework and BFRS, the local regulators like the Registrar of Joint Stock Companies and Firms, the Securities and Exchange Commission, NGO Affairs Bureau, Bangladesh Bank

“ **UNCAPPED PROFIT MOTIVES OF COMPANIES COUPLED WITH OUR AVARICE FOR MATERIAL GAINS TRIGGER THE HABIT OF CREATIVE ACCOUNTING; BOTH THE OWNERS AND THE MANAGERS CAN PLAY ROLE-OWNERS TO MAXIMIZE RETURN BY REDUCING TAX BURDEN AND TO AVOID IT AND OTHER REVENUE OR PROFIT SHARING REQUIREMENTS E.G. BTRC SHARES REVENUE WITH TELECOM OPERATORS; COMPANIES ALSO HAVE TO SHARE PROFIT WITH WORKERS UNDER LABOR CODE AND WPPF-MANAGERS TO EARN DESIRED BONUSES OR TARGET INCENTIVES.** ”

³ Sutherland 1949

⁴ IASB Framework

⁵ http://www.icab.org.bd/index.php?option=com_content&view=article&id=82&Itemid=116



etc. can prescribe industry specific formats of presentation of financial statements. Thus an applicable Financial Reporting Framework emanates from local statute, and international standards. The range of regulatory activities typically includes setting minimum standards and requirements for corporate reporting, requiring submission of the financial reports to the oversight body for its review, making regular inspections, and investigating and prosecuting misconduct by the corporate entities for breaching and abusing reporting framework. Therefore, strongly active Financial Reporting Regulations can encourage and compel standardized financial reporting within applicable framework.

The Pledge of the Framework

“The application of the principal qualitative characteristics and appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information.”

Our practical work life experiences also confirm that companies sincerely applying and using the reporting framework including BFRS can present the true and fair view of their business status and performances. Despite the abundance of readymade guidelines for appropriate reporting, entities sometimes willingly or unwillingly (due to lack of resources and indifferent attitude to statutory reporting) tend to show an altered scenario of their business results which is discussed next.

Creativity and Motivations

While supplying information to external parties, the reporting entities may create the figures to their best advantage and report them in the financial statements. This is called creative accounting—the active manipulation of accounting results for the purpose of creating an altered impression of the underlying financial position or performance (contrary to true and fair view) of an enterprise by using accounting rules and guidance in a spirit other than that which was intended when the rules were written.

This is a potential problem for auditors, and the users of the financial statements. Recent evidence suggests that it is one of the major issues facing financial reporting.⁶

Certain provisions under some accounting standards allowing managements’, the responsible parties for financial reporting, judgment and estimates pave the way for willful distortion of reported items. Such creativity normally falls within permitted regulations and is not therefore illegal. E.g., hedge accounting to

reduce or eliminate the volatility in profit or loss associated with hedging activities, which is a part of the management’s financial risk management process.

Management can deliberately fail the conditions to achieve the best advantageous performance result by not choosing to opt for hedge accounting. Fortunately hedging activities are not yet widely practiced in Bangladesh.

Warranty provision, and Provisions against numerous lawsuits are illustrative examples in our country. BAS 37 requires the best estimate of future obligations for those activities in the past, but the process can be sometimes complicated; management can get away with making higher or lower provisions whilst prima facie presence of some warranty provision and disclosures of contingent liabilities may be gratifying for us, the external parties.

Revenue is the most frequently hit item for earnings management via creative accounting, so it tops the list of prone items; there are few other legitimate areas as follows:

- Inventory valuations (policy may be abused or erroneous

⁶ ICAEW- audit and Assurance Study Manual- ACA advanced Stage

policy may be adopted; NRV test may not be done properly due to product's uniqueness)

- Depreciating asset over useful lives (mainly capital intensive companies may grab the opportunity)
- Revaluing the non-current assets while impairment test is rarely performed by the management (in this era of fast pace technological advancement, perhaps Land and some intangible assets such as license, permissions are appreciating in value; most of the other long-lived assets are often impaired at any point in time of a period, however, management overlooks the fact!)
- Businesses with related parties within group companies
- Prevalence of complicated accounting information processing system (those who use integrated operating systems may not be always able to generate specific reports in line with BFRS; they usually export the data and may manipulate the figures in excel sheet)
- Capitalization of intangible assets (mainly companies in IT and telecom sector)
- Altering the contractual terms to fail revenue test or lease BAS 17 tests
- Impairment of accounts receivables (bad debtors can be shown as collectible per management discretion; but aging analysis may reveals long outstanding receivables)
- Deferring income and/or expenditures; and adopting

alternative costs capitalizing policy (e.g. Companies Act 1994 allows certain expenses to be capitalized)

- Delaying investment or financing decisions
- Lenient regulators and NOT SO STRONG financial reporting regulations may instigate an indifference to quality reporting

Motivations

Uncapped profit motives of companies coupled with our avarice for material gains trigger the habit of creative accounting; both the owners and the managers can play role—owners to maximize return by reducing tax burden and to avoid it and other revenue or profit sharing requirements e.g. BTRC shares revenue with telecom operators; companies also have to share profit with workers under labor code and WPPF—managers to earn desired bonuses or target incentives.

SEC listed i.e. publicly traded companies are the most vulnerable to income smoothing technique for the reputation and sensitivity issues attached to their reported profit/EPS and share value. Boosting share price can be their topmost priority.

When companies try to attract new investment or seek finances, they may be inspired to show stronger financial health than the actual fitness. After obtaining required finances, the companies may be conditioned to maintain a certain liquidity or business status, which can put the management and shareholders under duress.

Intellectually challenging interpretations and mere negligence of law can also be

causes of altered reporting. Reporting entities generally form alliances and trade associations to influence regulators to get favorable requirements which also facilitate careless reporting.

Therefore, it is palpable that business entities always have reasons to look for opportunities to provide misleading financial statements for various motivations of different people engaged and involved in the organizations.

Red Flags and Detections

Professional and educated eyes with considerable knowledge on business, industry sector, and respective country regulations can identify the abnormal areas in the financial statements. Should they engage themselves in ponderous and careful review and analysis of the reports, they can pin-down the bulged and tilted areas after a scrutiny of the following items:

- Cash flows- operating cash flows are out of line (when bank statement collection does not tie with receipt from customers, and non-operating, and financing receipts, there are some explanations)
- Reportable income differ with taxable income without adequate explanation
- Acquired assets under deal or business acquisitions
- Journal entry episodes at year end
- Unexplained unusual ratios and trends
- Inadequate policy notes and insufficient disclosures in the financial statements
- Actual results significantly differ with estimated figures

(budget not achieved or overly achieved)

- Management reward is target based and incentives linked to profit or other asset based parameters
- Audit qualification and change in auditors (rotation of auditors in listed company is explicable)
- Complex business structure-mingled together with group head office, possibility of unrecorded and arbitrary transactions with related party(ies)

This part is exciting; it warrants a separate long discourse. The pointers as above are merely eye-openers. Once detected, the items should be normalized by adding and/or removing required and/or undeserving amounts and/or disclosures.

Streamlining Financial Reporting

Since there can be a relationship between weak financial reporting regulations and shoddy financial reporting, strengthening the regulations should be the most important initiative to regulate Bangladeshi entities' financial reporting practice.

Continuing the earlier discussion on regulations i.e. the laws and rules that act as a guardian of financial reporting regime to guide and govern statutory reporting by corporate entities it can be safely said that the range of regulatory activities should entail penalizing and punishing defaulter of standard based reporting practice. ICAB can lead the movement. State



regulatory agencies at times due to their constraints transfer some of their monitoring duties to autonomous bodies like the professional audit firms operating under the license from the ICAB, who is entrusted with the responsibility of adopting and promulgating International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) in Bangladesh. However, local rules prevail over those adopted requirements.

ICAB and BFRS can guard against ill motive behind financial reporting; fear of non-compliance with ICAB guidelines by auditors and BFRS by reporting entities should be enhanced.

Conclusion

Financial reporting is no more a score keeping job; its importance is much felt now. New roles are evolving for financial accountants in the economy. Reporting standards are also being updated to keep pace with the changed economy. Businesses are becoming more global than ever before; the whole world is a connected global village, and we—Bangladesh— are a part of it.

Good news is that Bangladesh is moving forward, albeit the ongoing global economic turmoil, to join the league of the “Middle Income Countries” in tandem with the target to achieve Millennium Development Goal within the shortest possible time. These targets have been manifested in global forum; investors from both the developed and the developing countries find interest in Bangladesh for its growth potential. They are calling for globalized standards under the auspices of the development partners—bilateral and multilateral— and international organizations. In time, if not sooner, the demand for standardized reporting of financial information will be at its peak.

ICAB and its members—in practice and in employment—are vital for the improvement of standard financial reporting practice in Bangladesh. We should not stop our pursuit of quality until we reach the prestigious stage where people will accept our reports at face value.

The Author is a Fellow Member of ICAB and Chairman HUSSAINS Business Consultants Ltd.



The Practice of Corporate Social Responsibility Disclosures by the Companies Operating in Bangladesh

Evidence from Textile & Tannery Industries

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Abstract

As a member of the global economy, Bangladesh needs to give more emphasis on devising policies and regulations to make business organizations environmentally and socially responsible. This paper focuses on identifying the extent of corporate social responsibility disclosures (hereafter CSR) practices by the companies operating in Bangladesh. An effort has also been exerted to determine whether the practice varies with respect to industries, companies within an industry and also in terms of CSR categories. To meet these objectives 34 companies under Textile Industry and 5 companies under Tannery Industry have been taken covering the period 2010 to 2014. Here, data has been collected from the annual reports of the companies under consideration. Content analysis has been conducted based on a Disclosure Checklist developed with the help of previous relevant literatures and also by taking the specific nature of the mentioned industries into account. To draw conclusion, Disclosure Index Scores (DIS) have been calculated by using the outcomes of content analysis. Results show that though CSR practice by both industries shows different pattern,

interestingly the rate of increment in this practice from 2010 to 2014 was almost same. In case textile industry it is 5% and for tannery industry the rate is 4% and the average rate of CSR practice during the period 2010 to 2014 by textile and tannery industry is only 33.34% and 26.74% respectively. DIS shows that companies under textile industry are disclosing more information relevant to their employees (47.45%) whereas for companies under tannery industry score highest on community involvement (44.67%). However, Disclosure Index Scores with respect to environmental disclosure of companies under textile and tannery industry are 0.12 and 0.01 respectively which indicates companies of Bangladesh are still not so concerned in devising policies about how to deal with the environment within which they are operating. Disclosure Index Scores (below 0.10) of companies of tannery industry substantiate that they are still in a very vulnerable condition in the performance of CSR activities.

Key words: Corporate Social Responsibility, Content Analysis, Textile Industry, Tannery Industry & Disclosure Index Scores.

Introduction

With the growing global public awareness of the role of corporations in society, several issues such as pollution, waste, resources depletion, product quality and safety, production process, the rights and status of workers, community involvement, and fair business practices have been getting more attention over the last few decades. For this reason responsibility of the business organizations is extended to different external parties along with direct stakeholders through the implementation of different socially desirable activities (Masud and Hossain, 2012). Therefore, business organizations have started to engage in CSR activities and corresponding disclosure of these activities. To show socially and environmentally responsible, companies generally disclose social, environmental, sustainability, health and philanthropy related information in their report (Tschopp, Wells & Barney, 2011).

The motivation for this paper emerges from the realization that most of the research in this sphere of knowledge has explored Corporate Social Responsibility Disclosure (hereafter CSRD) in the western world, and only a small number of studies have been conducted into CSRD in developing economies like Bangladesh and most of these studies conducted in financial sector. There has been little research on the manufacturing sector despite the strong contribution of manufacturing sector to the Bangladesh economy. Manufacturing sector contributed 19% of total GDP of Bangladesh in 2012-13, 19.47% of total GDP in 2013-14 and it is expected to be 20.17% (provisional) in 2014-15 (Bangladesh Bureau of Statistics.).

Manufacturing firms produce products required for everyday life, provide large number of employment opportunities and also contribute to tax revenue. Textile and tannery industry are two leading industry in the manufacturing sector. The textile industry is the largest labor intensive manufacturing sector of the country, which employs about 5 million people including apparel industry (Bangladesh Economic Review, 2015). At present total direct employment opportunities in the tannery sub-sector of Bangladesh is about 15,000 (including managerial and production staff), in footwear sub-sector 51,400 (15,000 in mechanized sub-sector and 36,400 in small and cottage level non-mechanized sub-sector) and in leather goods sub-sector 10,200 (1200 in mechanized units and 9,000 in non-mechanized units) (Business Promotion Council). At the same time these firms have a detrimental effect on the natural and social environment. Raw materials such as cotton, nylon, polyester and dyes as well as the production process used in textile industry contribute to environmental degradation. Manufacture process of textile industry creates pollution and materials that used to make products are hard to recycle such as nylon taking 30 to 40 years to decompose. Ministry of Environment (MoE) of Bangladesh reports that the tanneries collectively dump 22,000 liters of toxic waste including cancer-causing chromium into Buriganga river of Dhaka every day. As a result large amount of toxic wastes from Hazaribagh have eaten up all oxygen in Buriganga and the DO level has fallen down drastically. At present the DO levels of Buriganga is near equal to zero, which indicates no aquatic life (Biswas and Hamada, 2012).

“ COMPANIES ARE NOT LEGALLY BOUND TO PERFORM SOCIAL ACTIVITIES. CSR INCURS HUGE COSTS. ULTIMATELY IT INCREASES TOTAL COST. SO WHY DO COMPANIES SHOW SOCIAL RESPONSIBILITIES TOWARD THE SOCIETY AND ENVIRONMENT? SILBERHORN AND WARREN (2007) EXPLORED THAT GERMAN AND BRITISH COMPANIES PRESENTED CSR AS A WIDE-RANGING BUSINESS STRATEGY, ARISING MAINLY FROM PERFORMANCE CONSIDERATIONS AND STAKEHOLDER PRESSURE. MISHRA AND SUAR (2010) CONCLUDED THAT AN INCREASE IN THE AGGREGATE CSR BOOSTS FIRM PERFORMANCE IN A NUMBER OF WAYS. ”



Compared to other sectors, the textile and tannery industry might be considered as the most polluting sector. So the firms operating under textile and tannery industry are getting special attention of researchers to see what types of step they get to restore the environment or what types of contribution they made toward employees, community. Considering these social and environmental issues this study investigates the extent of corporate social responsibility practices of firms operating in tannery and textile industry of Bangladesh through content analysis of annual report.

Literature Review

Prior studies substantiated that CSR practices vary with respect to countries, types of the industries companies belong and even with respect to the level of development of the countries within which companies are operating (Imam 2000). Survey of CSR practices in western countries found that companies set the maximum

importance on disclosing human resource information such as employee numbers and remuneration, equal opportunities, employee share ownership, disability policies, and employee training (Gray et al. 2001). By using content analysis Das, Dixon and Michael (2015) found that CSR disclosure practice by the selected banks of Bangladesh has increased in 2011 by 17.85% with respect to 2007 (59.02%). They observed that health (31.69%), humanitarian and disaster relief (21.92%), and education (15.35%) getting major shares of CSR expenditure of banks; while art and culture (9.37%) and sports (9.06%) also were significantly large recipient sectors.

The Companies Act, 1994, and the Securities and Exchange Rules, 1987 made the disclosure of energy usages as mandatory as it has environmental effect. Some companies still do not disclose this mandatory disclosure. 3 companies out of 30 companies did not disclose energy usage and no companies in the public sector

disclosed any information related to the environment other than expenditure on energy usage (Belal, 2000). Almost similar result was found by Belal et al. (2010) and (Imam, 2000). Only 9 out of 40 companies disclosed environmental issues and the remaining companies did not show any concern for environmental issues (Imam, 2000). Samina (2012) found that 6 full-fledged Islamic banks of Bangladesh are practicing corporate social responsibilities and total CSR expenditure of these six Islamic banks (except one foreign owned Islamic bank) is 24.29% of the total CSR expenditure of all commercial banks in 2009.

It is true that there is no standard for CSR but in Bangladesh, Bangladesh Bank and finance act provide some suggestion for the expenditure of CSR. Masud and Hossain (2012) revealed that 100% Banks reported their CSR activities however it is a matter of concern that less than 60% sampled banks participated in prescribe CSR areas according to finance act.

Nurhayati, Taylor and Tower (2015) found relatively low extent of 13.57% of SED in annual reports of Indian textile firms. Mohamad, Yunus & Norwani (2013) found that although many companies disclosed their CSR activities, the level of disclosures is still low in Malaysia.

Which factors influence the varying degree of disclosure practice is a matter of study. Farouki and Hassan (2013) implied that banks that are making high economic profit, large in size, with a consistent growth, paying dividend regularly, having a high number of institutional ownership and highly levered are more likely to embark on CSR. Study by Das, Dixon and Michael (2015) showed that firm size, board size, ownership structure, and independent non-executive director in the board have significant positive impact on CSR disclosure practices, while it is negatively associated with firms' profitability and the age of the company. But Mustaffa and Tamoi (2006) revealed strong evidence that total corporate social disclosure is positively related to companies' profitability in Malaysia. They found no relationship between total disclosure and audit firm & leverage. Rouf (2011) also found positive association with proportion of Independent Directors, Board Leadership Structure, Board Audit Committee and Percentage Return on Equity but he found negative relationship between firms' size and Corporate Social Responsibility Disclosures. Samina (2012) found a strong positive correlation between the CSR expenditure and deposit, investment amount and the profit. Reverte (2009) identified the most influential variable for explaining firms' variation in CSR ratings is media exposure, followed by size and industry.

In case of reporting pattern there is no standard pattern of CSR disclosure. Das, Dixon and Michael (2015) revealed that all listed banks practice social responsibility in an unstructured manner and thus need to adopt a comprehensive format for CSR reporting. Imam (2000), Kamal and Deegan (2013) found that there was no separate section for social and environmental information. All the information disclosed in the chair's statement, directors' report and in the notes to the accounts section. Imam (2000), Shil and Iqbal (2005) concluded that the extent of disclosure remained less than one-fourth of a page in an annual report. Idowu and Towler (2004) found that some UK companies issue detaches reports for their CSR activities and others allocate a part of their annual reports.

Companies are not legally bound to perform social activities. CSR incurs huge costs. Ultimately it increases total cost. So why do companies show social responsibilities toward the society and environment? Silberhorn and Warren (2007) explored that German and British companies presented CSR as a wide-ranging business strategy, arising mainly from performance considerations and stakeholder pressure. Mishra and Suar (2010) concluded that an increase in the aggregate CSR boosts firm performance in a number of ways. First, the CSR-induced revenue can increase from enhanced sales and prices/margins and second, the CSR-induced cost decrease can result from tax concessions, reductions of duties by the government to promote CSR activities, efficiency gains from environment-friendly technologies, and reduced cost of capital.

Methodology

Research Design

This study covers 143 firm-year observations of 34 companies under Textile Industry and 25 firm-year observations of 5 companies under Tannery Industry covering the period 2010 to 2014. Here, companies under considerations have been ranked and selected on the basis of the availability of annual reports during the period 2010-2014. To meet the objectives of this study, data has been collected from secondary sources mainly from annual reports of the selected companies. For this research work purpose, we used a CSR Disclosure Checklist that is similar with Yesmine & Bhuiyah, (2015). Here it is to mention that there exists no specific guideline about the nature and number of items to be included in the mentioned index. However, the index so constructed contain a total of 35 items having 5 sub-heads named Community Involvement (6), Environmental Disclosure (7), Employee Information (12), Product and Service Information (6) and Other Social Responsibility Disclosure(4). Using this checklist, content analysis has been conducted at the first instance by examining the presence (1) or absence (0) of selected items on the annual reports and then the outcome of content analysis has been used to calculate the CSR Disclosure Index Score (DIS) which is consistent with the prior studies by Wallace 1988; Wallace et al. 1994; Leventis and Weetman 2006; Barako et al. 2006 and Ghazali and Weetman 2004 and Iskander 2008. Disclosure Index Score has been calculated from three perspective by using the following mathematical expressions:

➤ **For year wise DIS:**

$$Index(Year) = \sum_{i=company} X_i / (n * Y)$$

Where,

X_i = Number of items actually disclosed by i^{th} company in that year;

n = Number of items in the index;

Y = Number of companies considered in that year.

➤ **For category wise DIS:**

$$Index (Category) = \sum_{i=company} \sum_{j=year} X_{ij} / (n \sum_{j=year} Y_j)$$

Where,

X_{ij} = Number of items disclosed by i^{th} company in j^{th} year;

Y_j = Number of companies in j^{th} year;

n = Number of items in the category.

➤ **For company wise DIS:**

$$Index (Company) = \sum_{j=year} X_j / (n * Y)$$

Where,

X_j = No of items actually disclosed by the company in j^{th} year;

n = Number of items in the index;

Y = Number of year(s) considered for the company.

Finding & Analysis

Table 1 : Year -wise Comparison

Year	CSR Disclosure Score	
	Textile Industry	Tannery Industry
2010	31%	25%
2011	31%	27%
2012	32%	27%
2013	34%	27%
2014	36%	29%
Average Index	33.34%	26.74%

The table 1 shows the trend of Corporate Social Responsibility (CSR) disclosures by textile and tannery industry. In case of textile industry the CSR Disclosures index in 2010 was 31% whereas it was 25% in case tannery Industry. From 2011 Textile Industry shows an increasing trend in CSR practice. In case of Tannery Industry it remains constant (27%) during 2011-2013. Though the CSR practice by both industries shows different pattern,

interestingly the rate of increase in this practice from 2010 to 2014 was almost same. In case textile industry it is 5% and for tannery industry the rate is 4%. However from table 1 it can be concluded that though companies under both industries are striving to disclose CSR relevant information but still the practice is below 40%. It does mean companies should be more concerned about devising policies about it. Another interesting finding is that every year

companies under textile industry disclose more information about CSR than that of tannery industry. The reason behind this could be to secure/maintain legitimacy and/or to meet community expectations (Deegan 2002; O'Dwyer 2002). The disclosure practices of the textile and garment companies of Bangladesh are motivated by pressures from powerful stakeholders, particularly since the late 1990s (Kamal and Deegan, 2013).

Table 2: Categor-wise Comparisony

Categories	CSR Disclosure Score	
	Textile Industry	Tannery Industry
I. Community Involvement	17.37%	44.67%
II. Environmental Disclosure	12%	1%
III. Employee Information	47.45%	38.67%
IV. Product and Service Information	43.50%	24%
V. Other Social Responsibility Disclosure	40%	14%

Companies under textile industry are disclosing more information about their workforce (47.45%) and the products and services (43.50%) they are dealing with. However, the CSRD scores reveals that apart from the product and services (24%), the companies of tannery industry are giving emphasis on reporting how they are affecting the community (44.67%) within which they are operating and treating their employees (38.67%) (Table 2). Results reveal that both industries are giving least emphasis on

disclosing information about how they are affecting the environment and about the strategies they are adopting to protect the environment. The environmental disclosure index score is 12% and 1% respectively. No information relating to support for public/private action designed to protect the environment and awards for environmental protection/performance was found in both textile and tannery industry. Most of the companies under tannery industry do not disclose any information about

environmental policies, compliance with laws regarding environment protection, pollution control (effluent treatment plan, dust control), prevention or repair of environmental damage (e.g., tree plantation), conservation of natural resources and recycling activities (e.g., water treatment). These findings reveal that though companies are generating profit by conducting business but are showing little responsibility to the society and environment within which they are operating.

Table 3: Company wise Comparison

Textile Industry		Tannery Industry	
Company	Index	Company	Index
Alltex Ind. Ltd.	8.5%	Apex Tannery	9.14%
Square Textile	9.7%	Bata Shoe	6.86%
Maksons Spinning Mills	7.4%	Apex Footwear	2.86%
Al-Haj Textile	4%	Samata Leather	3.42%
Ashraf Textile	8.6%	Legacy Footwear	2.29%
Stylecraft	3.4%		
Rahim Textile	7.4%		
Saiham Textile	4.6%		
Modern Dyeing	2.9%		
Desh Garments	5.7%		
Dulamia Cotton	8%		
Tallu Spinning	4.6%		
Apex Spinning	8%		
Mithun Knitting	6.3%		
Delta Spinners	4.6%		
Sonargaon Textiles	7.4%		
Prime Textile	6.3%		
Anlima Yarn	9%		
H.R.Textile	3.4%		
CMC Kamal	2.9%		
Safko Spinnings	6.29%		
Metro Spinning	6.29%		
Dacca Dyeing	9.7%		
R N Spinning	2.3%		
Malek Spinning	9.14%		
Zahintex Industries	6.40%		
Saiham Cotton Mills	9.5%		
Generation Next Fashions	15.23%		
Envoy Textile	11.42%		
Mozaffar Hossain Spinning	34.29%		
Matin Spinning Mills	42.86%		
Hwa Well Textiles (BD)	25.71%		
Far East Knitting	40%		
Hamid Fabrics Limited	34.29%		

Table 3 represents corporate social responsibility index scores of the companies operating under textile and tannery industries. CSRD Index Score of all companies under tannery industry and 80% companies of textile industry is below 10%. It substantiates their minimal involvement in corporate social responsibility activities which might affect their existence negatively. However companies of textile industry named Matin Spinning Mills (42.86%), Far East Knitting (40%), Hamid Fabrics Limited (34.29%) and Mozaffar Hossain Spinning (34.29%) are undertaking more CSR activities in comparison to other companies under the same industry as they are disclosing more CSR relevant information. From table 3 it can be said that all companies under tannery industry are in a more vulnerable condition compared to textile industry with respect to the execution of CSR activities.

Conclusion

Gaining economic efficiency (Hossain and Reaz, 2007), improving company reputation (Bayoud et al. 2012), communicating between business and society (Branco and Rodrigues, 2006) and attracting & retaining good employees and increasing organizational commitment (Bayoud et al. 2012) are few benefits among other benefits of corporate social responsibility disclosure. So CSR not only incurs expenditure but also provide intangible benefits to the companies that practice CSR. This study is designed to analyze the current practice of CSR by the companies operating in Bangladesh. Disclosure Index Scores reveal that all companies under Textile and Tannery Industry are practicing corporate social responsibilities though the degree varies. It is found on an average the companies under Textile

Industry (33.34%) is disclosing more CSR relevant information than those of Tannery Industry (26.74%). Again, most of sample companies under textile industry are disclosing much information relevant to their employees and the products and services whereas companies under tannery industry are reporting more information about their community involvement. However, DIS of environmental information (12% for textile industry and 1% for tannery industry) reveals their lack of concern about how their activities are affecting the surroundings.

Limitations & Further Research

The findings of this study are subject to several limitations. Use of only non-financial companies (manufacturing companies) as a sample is the first limitation of the study. Second, the study considers data of only five years. As a result findings may differ if more years are considered for comparison purpose. Third, we considered only companies under textile and tannery industry which are listed in the Dhaka Stock Exchange (DSE). So further study can be conducted on other companies that are not listed with DSE. Fourth, in assessing CSR practices we took only annual reports of the companies under consideration. Further research can be explored by taking corporate websites newspapers, in-house magazines, radio, television, company newsletters and stand-alone sustainability reporting to identify the practice of CSR. Fifth, an un-weighted disclosure index has been used in this study; the findings might be different if a weighted disclosure index is used. The findings of the study should be interpreted with keeping these limitations in mind.

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A photograph showing several hands holding white puzzle pieces against a blue background. The puzzle pieces are arranged in a way that suggests they are being brought together to form a complete picture.

Unifying Accounting Designation in Canada and Membership Pathway for ICAB Members

Sarwar A Khan FCA



The demands of today's global economy are redefining the nature of accounting profession. Accounting and auditing standards are converging, and are increasingly being set by international bodies rather than national ones. As international trade barriers continue to fall, there is an increased need for inter-jurisdictional mobility among accounting professionals to serve the business requirements of their employers and clients. In response to these developments, global accounting designations and strategic alliances among accounting organizations are now emerging to compete for national and international influence.

Background

Canadian accountancy profession is burdened by its fragmented structure of multiple designations operating within a myriad of complex and costly regulatory frameworks.

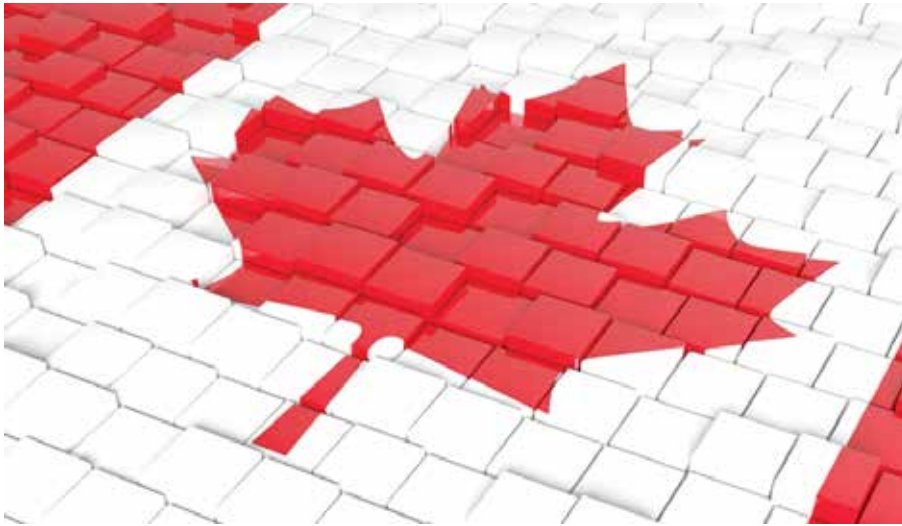
The three accounting organizations-Canada's Chartered Accountants (CA), Certified Management Accountants (CMA), and Certified General Accountants (CGA) - are composed of 40 different accounting entities based in provinces and territories that are responsible for regulating members, students and firms.

This structure of the Canadian accounting profession was founded on historical distinctions among different types of accountants, which are rapidly becoming outdated. The resulting complexity causes confusion in the marketplace and among students interested in pursuing an accounting or business career. And, at a time when accounting standards are increasingly set at the international level, this diffuse structure could weaken accounting professions ability to influence and advocate for Canada's interests.

Independent research studies commissioned by the accounting bodies indicate that there is a growing confusion about the differences among the three accounting designations, despite the organizations having expended significant resources trying to differentiate one accountant from another. With each organization broadcasting often similar and overlapping messages, advertising awareness research has found the campaigns are working more to promote the accounting profession as a whole, rather than distinguishing the unique value of the individual designations.

Emergence of Global Influence

Moreover many accounting and assurance standards to which Canadian accountants



must adhere are now being established beyond Canadian borders. In January 2011, International Financial Reporting Standards (IFRS) became mandatory for public companies in Canada. In addition, Canada is one of more than 125 countries using or in the process of adopting or incorporating International Standards on Auditing (ISAs) into their national auditing standards or using them as a basis for preparing national auditing standards.

To ensure that accounting and assurance standards reflect the interests of Canadian businesses and the knowledge and experience of Canadian accounting professionals, Canada needs a more compelling, unified voice at the global standard-setting table.

Moreover, the emergence of global accounting designations and strategic alliances among national accounting bodies is potentially challenging the Canadian accounting profession's influence at home and abroad. In recent years, leading national member bodies have looked beyond their borders and begun aggressively pursuing international strategies as a means of growing their influence and advancing the professional interests of their members.

The largest accounting organization in the world, the American Institute of Certified Public Accountants (AICPA), has recently taken progressive steps to increase its global footprint by offering uniform CPA Examination outside the 55 U.S. jurisdictions for the first time in its history in Japan, Bahrain, Kuwait, Lebanon and the United Arab Emirates. The U.S. is also looking more at offering its exam in additional countries. AICPA has announced a joint venture with the Chartered Institute of Management Accountants (CIMA) to create a new international management accounting designation.

With members in more than 100 countries, CPA Australia is aggressively recruiting beyond its borders. The CPA Australia membership network is increasingly international with a third of members based outside Australia, and the organization now has offices and representation in 14 countries across three continents. The Institute of Chartered Accountants in Australia is also taking steps to expand its reach, by entering into an alliance with the New Zealand Institute of Chartered Accountants. The two bodies have also recently entered into a three-way agreement with

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INFLUENCE.”

the U.K.-based Chartered Institute of Public Finance and Accountancy (CIPFA) to support public sector accountants in the Asia-Pacific region.

The Institute of Chartered Accountants in England and Wales (ICAEW) is actively working to elevate its international influence and is focused on helping it become a body capable of representing and supporting an increasingly global profession. ICAEW has recently expanded its network in Bangladesh by allowing Bangladeshi CA firms to train students for ICAEW.

The Association of Chartered Certified Accountants (ACCA) had actively lobbied governments across Canada to gain recognition for its designation, thus far, the ACCA has not been successful, but its actions are an indication of the potential entry of other accounting designation into Canada.

The above scenario is also quite visible in Bangladesh, if one follows aggressive activities of both ACCA and CIMA who are providing education and membership drive in accounting profession.

Increasingly, other national and regional accounting bodies also are entering into alliance agreements to increase their individual and collective strength, relevance and influence. Examples include the Global Accounting Alliance (www.globalaccountingalliance.com) and the Edinburg Group (www.edinburgh-group.org).

Potential for Government-Imposed Reform

In Canada and internationally, governments are facing mounting pressures to encourage reform of the accounting profession in order

to advance their own policy agenda, honour trade commitments and reduce bureaucratic and regulatory complexity.

Similar to Canada, the accounting profession in the United Kingdom operates within a complex, multi-layered web of organizations.

The U.K. House of Lords is publicly calling for the amalgamation of the six U.K. professional accounting bodies: the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants in Ireland (ICAI), and the Institute of Chartered Accountants in Scotland (ICAS), saying the fragmentation of the accounting profession causes inefficiency.

Decision to Have Single Designation and Naming

It was therefore concluded that a united Canadian accounting profession would be more efficient and effective than the status quo; be more relevant, both at home and abroad; be better able to enhance the support and services it provides to all members; and, be better able to protect and serve the public interest. For these reasons Canadian accounting associations expressed their commitment to explore the merits and feasibility of uniting the three national and provincial organizations. To bring these organizations together, the creation of a new designation are considered – one that is a globally recognized leader in both financial and management accounting and assurance, as well as an internationally recognized business credential.

The professionals recognized that over the long term it must eventually move to adopt a single core designation and a new common qualification program, for which they considered the use of the Chartered Professional Accountant (CPA) designation.

The CPA is already an extremely strong brand, both within North America and around the globe. In fact, it is the most used accounting designation worldwide. Based on the International Federation of Accountants Council's listing of members and associates, some form of the designation ("Certified Public Accountant" or "Certified Practising Accountant") exists in 30 countries.

Canada considered the use of "Chartered Professional Accountant", rather than the other CPA monikers used around the world, for a number of reasons.

First, the word "Professional" more accurately reflects diverse memberships than the word "Public", which implies a sole focus on public practice.

Second, going forward is to be aligned with the global designation of choice, should one emerge. Today the CPA and CA are the most recognized designations around the world. Using the word "Chartered" within the CPA would allow the new designation to be aligned with both of these designations.

Finally, the use of "Chartered Professional" would serve to distinguish the Canadian CPA from the CPA in the United States.

Unification

In January 2012, the Canadian Institute of Chartered Accountants (CICA), the Society of Management

Accountants of Canada (CMA Canada) and Certified General Accountants of Canada (CGA-Canada) issued A Framework for Uniting the Canadian Accounting Profession under a new Canadian Chartered Professional Accountant (CPA) designation.

In October 2014, CPA Canada (www.cpacanada.ca) was established by CICA, CMA Canada and CGA-Canada completing the unification of Canada's accounting profession at the national level to support Canadian provincial accounting bodies that were unifying under the CPA banner.

In Canada, the professional is primarily regulated by province. Hence, Chartered Professional Accountants (CPAs) Ontario, Canada (www.gocpaontario.ca) is formed after unification of three professional bodies-Chartered Accountants (CA), Certified General Accountants (CGA) and Certified Management Accountants (CMA) in 2014.

Membership Pathways for Internationally Trained Accountants

CPA Ontario has outlined five pathways to membership for members of professional accounting bodies outside of Canada.

1. Member of an Accounting body outside of Canada

A member in good standing with an accounting body (e.g. ICAB) outside Canada that is a member body in good standing of the IFAC at the date of application may be eligible to register with CPA Ontario under this pathway.

Students registered in this category are required to successfully complete the following:



- An acceptable course in Canadian Business Law
- Capstone 1 Module
- Capstone 2 Module
- The Common Final Examination (CFE), and
- 30 months of prescribed practical experience
- Financial Reporting
- Strategy and governance
- Management Accounting
- Audit and Assurance
- Finance
- Taxation
- Depth in 2 competency area:
- Financial Reporting or Management Accounting plus
- One from other core competency areas

Capstone 1 Module- develops leadership skills, professional skills and integration of competencies. This module includes presentations and team-based assignments, culminating in a business case completed with team.

Capstone 2 Module- prepares for the Common Final Examination (CFE) and focuses on applying acquired knowledge of the core competencies to business cases by successfully complete a profession developed capstone evaluation preparation course.

The Common Final Examination (CFE)- the CFE is a three-day examination that requires members to demonstrate their:

- Breadth in all 6 core competencies area-

Admission to membership in this pathway results in receiving of the CPA designation.

2. Member of a Specified Accounting Body Outside of Canada with which CPA Ontario has a Memorandum of Understanding (MOU)

CPA Ontario have a MOU with:

- Institute of Chartered Accountants of India and
- Institute of Chartered Accountants of Pakistan

Effective from July 2015, students of these institutes are required to complete the following:

- Capstone 1 Module
- Capstone 2 Module
- The Common Final Examination (CFE) and
- The prescribed practical experience requirement

Students will be awarded CPA and CA designations, if completed, prior to Feb 1 2020. After that students will be de-registered.

3. Member of a Recognized Accounting Body or a Recognized U.S. State Board of Accountancy

Applicable for the following Institute:

- Instituto Mexicano de Contadores Públicos
- L'Institut des Réviseurs d'Enterprises de Belgique
- Ordre des experts-comptables (OEC) de France
- The Japanese Institute of Certified Public Accountants
- The Netherlands Institute of Chartered Accountants

Requirements

- Successfully complete the CA Reciprocity Examination (CARE), Part 1 (testing knowledge of Canadian taxation and Canadian business law)
- Experience will be assessed to ensure it meets prescribed

practical experience requirements

- Upon admission must successfully complete an online Professional Development (PD) within two years on:
- Canadian Taxation
- Canadian Business Law
- Introduction to the Canadian CPA profession and
- The Rules of Professional Conduct

Admission to membership in this pathway results in granting of both the CPA and CA designation.

4. Member of a Reciprocal Membership Body

Institutes:

- The Institute of Chartered Accountants of Australia
- The Institute of Chartered Accountants in England and Wales
- The Hong Kong Institute of Certified Public Accountants
- The Institute of Chartered Accountants of Ireland
- New Zealand Institute of Chartered Accountants
- The Institute of Chartered Accountants of Scotland
- The South African Institute of Chartered Accountants
- The Institute of Chartered Accountants of Zimbabwe

Upon admission must successfully complete an online Professional

Development (PD) within two years on:

- Canadian Taxation
- Canadian Business Law
- Introduction to the Canadian CPA profession and
- The Rules of Professional Conduct

Admission to membership in this pathway results in granting of both the CPA and CA designation.

5. Members of Accounting Bodies with which CGA Ontario or CMA Ontario have Mutual Recognition Agreement (MRA)

During the process of unification, CPA Ontario will continue to honour the following MRAs:

MRAs between CGA Canada and:

- ACCA
- CPA Australia
- CPA Ireland and
- OEC de France

Requirements:

- Members in good standing
- Complete an online course on:
- Canadian Taxation
- Canadian Business Law
- Meet any other requirements imposed by the CGA Association

Individuals who are admitted to membership in this pathway receive the CPA, CGA designation.

MRAs between CMA Canada and:

- CPA Australia
- CIMA

Requirements:

- Members in good standing
- University degree or equivalent
- Meet the practical experience requirements
- Application must be signed by a sponsor who is a member in good standing of CPA Ontario

Individuals who are admitted to membership in this pathway receive the CPA, CMA designation.

Membership Pathway for ICAB Members

Over the last number of decades, people have migrated to developed countries in order to get better living condition as well to enhance their career. Like other professions, Chartered Accountants from Bangladesh also migrated to Canada to have a better life. Most of the CAs have migrated under skill categories and have settled in Canada. Because of commercial opportunity and language preference, number of people and professionals settled in Toronto-the capital city of the province-Ontario, the most populous province of Canada.

There are about 50 ICAB members migrated or settled in Canada over the years and most of them are based in Toronto, Ontario because of its commercial opportunities.

In Canada, professional qualifications are known as designation and are a must to get a job and enhance career in the accounting field.

CAs who settled in Toronto initially pursued with the then

ICAO (Institute of Chartered Accountants of Ontario) to convert their designation into a local one. But as there was no clear path and no MRA with ICAB, members could not convert their qualification into Canadian CA designation. However a number of members managed to do the other designation like Certified General Accountant (CGA) and Certified Management Accountants (CMA) taking the advantage of some exemption granted to them and passing the selective papers.

In order to start and progress their career in Canadian job market, ICAB member are required to get the CPA designation. There is hardly any member who gets the membership of CA or CPA.

Previously there were no formal pathways for the members to get the membership. The North American Chapter of ICAB took some initiative to get a mutual recognition agreement (MRA) with the then Institute of Chartered Accountants of Ontario (ICAO) and there was some progress. At the same time ICAI and ICAP got their MRA with ICAO. But due to non-submission of required documents from ICAB, inactivity of the then committee and start of the unification process of the three professional associations, the initiative died down that time.

After the unification, CPA Ontario has developed the above 5 pathways for the members of professional bodies outside of Canada.

For the members of ICAB, the only option is Pathway-1. Though exemption option for Canadian Business Law course is there, our experience shows that such exemption are not granted to the ICAB members. ICAB members have not completed a course in

Canadian business law as part of their university degree and professional examination. Moreover from our practical purposes, we strongly suggest to take the course which is very practical and a must for a professional like us. The course can even be completed sitting in Bangladesh via online from Athabasca University (www.athabascau.ca) - LGST 369 Commercial Law which is duly recognized by CPA Ontario.

However ICAB may apply for such exemption on the basis of the curriculum covered in the ICAB exam, affiliation with ICAEW, similar exemption being granted to India and Pakistan and Bangladesh being a member of commonwealth countries is still following English law. The members, who are already in Canada and working in the relevant field, have gained considerable knowledge on Canadian business law and hence may apply for exemption.

As per the requirement, submission of The Practical Experience Certificate Form is a must for the members for getting exemption to 30 months prescribed practical experience. Usually ICAB members will be exempted from practical experiment requirement subject to submission of Experience Certificate Form (ECF) from the reach of present and former employers. The members may also be required to submit Mapping of Experience to each Competency which is very lengthy processes to complete. The determination of exemption will be made on the basis of the depth and breadth of competency requirement for the membership. ICAB may seek for an exemption for submission of ECF on the basis of certification from the ICAB about the members' qualification and practical experience gained after membership.

Public Accounting Licensing

Admission to membership in CPA Ontario and the granting of the right to use the designations in Ontario does not automatically qualify a member to be licensed as a public accountant. Specific requirements of regulations for Public Accounting Licensing must be fulfilled to be license as a public accountant in Ontario.

ICAEW and CIMA

ICAB members who are also members of ICAEW and CIMA can get the membership directly. CIMA is now offering membership to ICAB members for a limited period through a special entry route which allows members to sit only for the final exam paper of CIMA e.g. the Strategic Level Case Study.

Please note that residents of Canada will not be able to use this route as the membership has to be obtained before becoming the resident of Canada. This is more applicable for the members who desire to settle in Canada in future.

Conclusion

Without question, need to deal with change is inevitable if accounting profession is to advance the interests of Canadian accountants, reflect the changing

nature of their work and continue to support the growth of Canadian enterprise. The ultimate decision before the profession was a simple one: Do they endeavor to operate within the existing structure for as long as possible and wait for reform to be imposed upon them by external forces (Government); or do they anticipate the need to evolve and do so proactively, thoughtfully and in a manner that best protects the integrity of our profession and the public interest?

The Canadian accounting professions choose the second path by unifying the three professions. When the unification is completed, CPA Canada will have more than 190,000 members and is among the five largest accounting bodies in the world. The combined Canadian accounting profession is now better positioned to represent their interests in Canada and abroad. A unified profession provides a cohesive response to the entry into the Canadian market of foreign-based accounting bodies seeking to operate in this country. Unification will also enhance the influence, relevance and contribution of the Canadian accounting profession. The public interest will be served by common codes of conduct, disciplinary and licensing regimes.

The situation in Bangladesh shows the same direction and regulations

are being imposed to direct the profession. I think time is perfect to evaluate the whole scenario and act accordingly looking into the global situation and development around the world.

North America Chapter would like to offer their guidance to the ICAB members who desires to settle in Canada before and after arrival in Canada on professional matters. These will facilitate the members to overcome the situation, relieve some hurdles and smooth transition in their settlement in Canada. We encourage more interaction among the members and sharing of their experience for the benefits of the members.

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Payment of Perquisites and its Tax Impacts

A. Wahab FCA



The Dictionary meaning of the term 'Perquisites' is a special right or privilege resulting from a person's position. As per tax law the receipts of perquisites and other benefits by an Employee from an Employer are treated as an income exempt from tax upto certain limit and the excess amount over the allowable limit is added as salaried income in the Total Income of the concerned employee. Similarly, the payments on account of these facilities in the form of perquisites and benefits to the employees are allowed as business expenses of the concerned employer upto certain limit for each of the employees and any payment over and above the limit so prescribed is not treated as business expenses and so it is added with the business income of the said employer for tax purpose.

As per section 2 sub-section (45) of Income tax ordinance 1984, perquisites have been defined as:

- i) Any payment by an employer to an employee in the form of cash or any other form excluding (1) Basic Pay, 1 (a) Festival Bonus (2) Incentive Bonus (Total allowable up to 10% of the disclosed profit) (3) Arrear salary/Advance Salary (4)leave

encashment or leave fare assistance, (5) Overtime; and

- ii) Perquisites also mean any benefit whether convertible into money or money's worth as provided by an employer to an employee excluding the employer's contribution to a recognized Provident Fund, approved Pension Fund, approved gratuity fund and approved superannuation fund.

The perquisites/ benefits may be in the form of accommodation, conveyance, employees passage for tour, medical facilities etc. The perquisites may be in the form of allowances for foreign tours of employees and his dependants for holidaying and recreation.

Against the facilities provided to the employees in the forms noted above the employer will get relief at the rate of Tk. 350,000/= for each of the employees as business expenses and any amount in excess of Tk. 350,000/- is disallowed under section 30(e) and not treated as business expenses of the employer although the excess payment also has been incurred in connection with the business of the employer. This limit has been raised to Tk. 450,000 as per Finance Act 2015.

Perquisites Payment to an Employee

Perquisites, any special allowance, benefit specifically received by an employee from his employer to meet the expenditure wholly and necessarily incurred in the performance of the duties of an office or employment of profit are exempt from tax in accordance with para (5) of the sixth schedule Part 'A' of Income tax ordinance 1984 and accordingly excluded from total Income of an Assessee as per provision of section 44, sub-section (l) of Income tax ordinance 1984, subject to the limits laid down there under for the purpose of valuation of the perquisites as per Rule 33 of Income Tax Rule 1984.

The limits referred to above are applicable for different types of perquisites receivable both in cash and money's worth in respect of accommodation, conveyance employees passage for tour and medical facilities etc. provided by an employer and are dealt with under Rule 33A to 33I for arriving at the tax-free and taxable value of perquisites provided to an employee.

The value of any, perquisites over and above the exempt limit is liable to tax and is includible in the Total Income of the employee for tax purpose.

Now let us discuss the various types of perquisites and benefits receivable in cash and money's worth as under:

Perquisites in Cash

1) House Rent

House rent receivable in cash by an employee is exempt from tax to the extent of 50% of Basic Salary

or Tk. 20,000/- per month whichever is the less. Any amount in excess of the above limit is assessable to tax and is includible in the Total Income of the employee as per Rule 33A.

2) Conveyance Allowance

Conveyance allowance receivable in cash with no conveyance facility is exempt from tax upto 30,000/- per year and any amount in excess of the above limit is includible in the Total Income of the employee for tax purpose as per Rule 33C.

Perquisites Receivable in Money's Worth

- i) Perquisites may be in the form of the rent-free accommodation provided to an employee with no deduction from salary for such accommodation.

In that case the notional value of the accommodation provided to the employee shall be determined @ 25% of the Basic Salary, or the Rental Value, whichever is the less for its inclusion in the Total Income of the concerned employee.

On the other hand when the accommodation is provided at a concessional rate with the deduction of certain amount from his monthly salary, the valuation of the perquisites shall be determined in the above said rate and there from the monthly deduction from salary be adjusted to arrive at the taxable portion of the perquisites receivable by the employee for such accommodation at concessional rate.

The amount arrived at in the above way be included in the Total Income of the employee for tax purpose as per Rule 33-B.

“ THE PERQUISITES/ BENEFITS MAY BE IN THE FORM OF ACCOMMODATION, CONVEYANCE, EMPLOYEES PASSAGE FOR TOUR, MEDICAL FACILITIES ETC. THE PERQUISITES MAY BE IN THE FORM OF ALLOWANCES FOR FOREIGN TOURS OF EMPLOYEES AND HIS DEPENDANTS FOR HOLIDAYING AND RECREATION. ”

cost of hospitalization or by way of medical expenses or medical allowances, the amount so received or receivable as exceeds 10% of the basis salary or Tk. 60,000/- whichever is less, shall be treated as income from salary.

Other Benefits-Rule 33 J

There may be some other benefits provided by the employer in the form of annuity not covered under Rule 33A to 331, for the employee, the members of his households or his dependants.

In that case for such benefits, an amount equal to the amount which would have been expended by the employee in obtaining such benefit or annuity from an independent source in the same or near locality had it not been provided by the employer as reduced by an amount, if any, expended wholly, necessarily and exclusively in the performance of duties of office held by him or actually paid by him in cash, would be treated as income of the employee form salary.

Perquisites in the Form of Allowance in Respect of Employees' Foreign Travel for Holidaying and Recreation

An employer may provide foreign tour facilities to an employee and his dependants for holidaying and recreation to the extent of 3 months' basic salary of the employee or three fourths of the

actual expenditures whichever is the less, not often once in every two years.

The amount in excess of the above limit will be disallowed as business expenses as per Rule 65A and section 30 (f) of I. T. Ordinance 1984. However, to get the exemption of the full allowable amount when such payment exceeds Tk. 10,000/- it is to be paid by the employer by crossed bank cheque or a crossed bank draft to the concerned employee.

Perquisites to a Shareholder Director

A shareholder director may get some perquisites/ benefits from more than one company. In that case such Director shall be entitled to the benefit under Rule 33 from one company only. The value of the perquisites received/receivable from other companies shall be included in his salary income for tax purpose.

Whatever may be the total value of the perquisites and benefits provided to an employee and determined as per rules related to that, the maximum relief to an employer for such facilities is restricted to Tk. 350,000/- per employee as per clause (e) of section 30 of I. T. Ordinance 1984.

Basic Salary

Valuation of perquisites is determined as per Rules 33A to rule 33J in terms of Basic Salary. Of the value so determined a

portion is exempt from tax and another portion is taxable.

Now let us see what is meant by Basic Salary. Basic Salary means the pay and allowances payable monthly or otherwise but it does not include the monthly payments of the following nature:

- i) Dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned.
- ii) Employee's contribution to a recognized PF or to a Fund to which the Provident Fund Act 1925 applies and the interest credited on the accumulated balance of an employee as member of such fund.
- iii) Allowance which are exempt from payment of tax.
- iv) Allowances, perquisites, annuities and benefits as referred to in sub-Rule (1) of Rule 33. This is the excess amount of perquisites includible in the salary income of the employee under various rules dealt with as above.

The tax impacts of perquisites and benefits discussed in the Article represent the position upto the Finance Act 2014, relevant to the Assessment year 2014-2015.

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A Forensic Analysis on Global Divergence of Financial Reporting Regulation with the rise of Independent Public Oversight Body

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Preface

The world has basically two different nature of accounting and financial model which is either principle based or rules based. Although their approach is different, the target point remains same, that is basically to ensure true and fair presentation of the underlying business information in the financial form.

In order to regulate any object or objectives, two things need to be ensured at the very first. These are a well addressed and crossed linked set of laws and a full functioning autonomous enforcing agency. The prolonged recession and the slow growth recovery have had long-term implications not only for employment but also for financial reporting. In this environment, therefore, it is increasingly important for businesses to be financially transparent and for governments to establish a sound regulatory environment for corporate financial reporting.

Executive Summary

Depending on the financial structure as well as the composition of ownership, the regulation on the financial information has

diversified effects. Access to the reliable and accurate financial information on timely manner is another aspect that's need to be taken care of. Almost every country has a well-defined code for accounting and financial regulations along with the suggested standards. The prescribed format is also enacted to address different set of needs. Now a days, it is evident that global economy is getting turbulent and eventually entrepreneurs are getting affected which has a deep effect on the national and global economy. There is a sufficient basis to endorse international accounting information systems.

The purpose of the use of international accounting information systems and regulations is that similar accounting transactions are treated the same by companies around the world, resulting in globally comparable financial statements. Accountants, auditors and information scientists around the globe are planning to harmonize accounting information systems with the goal of creating one set of high-quality accounting rules to be applied around the world.

14 years after the reform of the International Accounting Standards Committee (IASC) and the establishment of the IFRS Foundation and the IASB, the

profiles provide firm evidence that the vision of global accounting standards is now a reality. Out of the 140 jurisdictions whose profiles have been posted 116 jurisdictions (83 per cent of the profiles) require IFRSs for all or most domestic publicly accountable entities (listed companies and financial institutions) and most of the remaining 24 jurisdictions that do not yet require IFRSs for all or most domestic publicly accountable entities already permit it for at least some of those entities.

Failure of Securities and Exchange Commission for ensuring effective oversight, introduction of complex accounting and financial arrangements along with widespread use of creative accounting, a new regulatory framework has been developed so that the users can take informed decision based on accurate information. Independent oversight body are being formed for monitoring purpose from the third eye point which can foster the transparency of accounting information with the increase of credibility to both general and special users.

Key Words

International accounting classification, principle and rules based of financial reporting, accounting standards, independent oversight body, implementing agency, US GAAP, IFRSs, FRC.

Introduction

Business world is getting changed rapidly in every single moment, so the economic decision takers need to be in a state of having accurate information. The global nature of today's economy means that these events are no longer localised but ripple across the world. Because of

following different accounting and financial codes for financial information reporting by different counties, it creates ambiguity and self-questing issue. The complexity of the modern market means that there is a need for a single, high-quality set of global accounting standards in order to maintain the confidence of users in the transparency and integrity of financial statements. A reconciled position can lessen the problem to some extent but ultimately because of timeliness and accuracy aspect, it may not provide solid solution. Global financial reporting rules and regulations can improve the credibility of smaller markets, encouraging cross-border investment and a more even allocation of capital.

Financial Reporting Regulation

Financial reporting is the process of producing statements that disclose an organization's financial status to management, investors and the government. Financial reporting is governed by statutory and common law, and it should be done according to ethical standards. Unfortunately, financial reporting sometimes falls short of both legal and ethical standards. These standards and requirements for accounting and financial reporting often change, so you need to stay updated.

The International Accounting Standards Board (IASB), independent standard-setting body of the IFRS Foundation, has made an enormous effort to engage with emerging markets on the issue of implementing global standards. The truly global marketplace that has developed in recent decade has brought the need for truly global accounting standards. The first uniform accounting standards

“ NOW A DAYS, IT IS EVIDENT THAT GLOBAL ECONOMY IS GETTING TURBULENT AND EVENTUALLY ENTREPRENEURS ARE GETTING AFFECTED WHICH HAS A DEEP EFFECT ON THE NATIONAL AND GLOBAL ECONOMY. THERE IS A SUFFICIENT BASIS TO ENDORSE INTERNATIONAL ACCOUNTING INFORMATION SYSTEMS. ”



evolved in the form of national generally agreed accounting principles (GAAPs). As the influence of capital markets grew and domestic market places became more sophisticated, investors recognised that markets needed a single, high quality language to increase transparency and comparability that would allow them to make better informed investment decisions. IASB has already made enormous progress towards achieving this aim. In a remarkable departure from the multi-GAAP reality that existed at the time of IASB's inception in 2001, more than 100 countries now require or permit the use of international financial reporting standards (IFRSs). This list includes most of the countries belonging to the G20, which has repeatedly called for rapid moves towards global standards.

IASB close work in recent years with the Financial Accounting Standards Board (FASB) has served to improve its standards. The US is still home to the world's largest capital market. The cooperation

between the two standard setters has brought a significant reduction in differences between the two standards. This in itself has increased the level of confidence in IASB's standards and helped its cause enormously. The Trustees of IFRS Foundation think that Convergence may be an appropriate short-term strategy for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRSs as issued by the IASB.

The purpose of the use of international accounting information systems is that similar accounting transactions are treated the same by companies around the world, resulting in globally comparable financial statements. Accountants, auditors and

information scientists around the globe are planning to harmonize accounting information systems with the goal of creating one set of high-quality accounting rules to be applied around the world.

An Overview of Global Financial Reporting Standards

Generally, there are two main stream of accounting standards which are International Financial Reporting Standards (IFRSs) and another one is US GAAP. But apart from these two standards, there are many country specific standards such as India, China, Japan, Indonesia, Switzerland etc. Because of the difference in these two standards, reporting of financial information has become very complex and raises many economic issues.

Positively, there is a hope that these two standards are getting leveled progressively to address those unwanted economic glitches. The differences of these two sets of standards are the following:

Sl no	Area of difference	US GAAP	IFRS
1	Basis of approach	Rule based	Principle based
2	Adaptable to changes	No	Yes
3	Addressing new issues	Not capable	Capable
4	Chance of fraudulent reporting	High	Low

However, International Financial Reporting Standards (IFRSs) have become the de facto global standard for financial reporting. Its quality has been validated by almost a decade of use by markets in both advanced and developing economies. Today, more than 100 countries require the use of IFRSs by public companies, while most other jurisdictions permit the use of IFRSs in at least some circumstances.

To assess progress towards the goal of global accounting standards, the IFRS Foundation has undertaken a comprehensive project with three related objectives:

- To develop a central source of information to chart jurisdictional progress towards the global adoption of a single set of financial reporting standards;
- To respond to assertions that there are many national

variations of IFRSs around the world; and

- To identify where the IFRS Foundation can help countries progress on their path to adoption of IFRSs.

Present Scenarios of IFRS Adoption

14 years after the reform of the International Accounting Standards Committee (IASC) and the establishment of the IFRS Foundation and the IASB, the profiles provide firm evidence that the vision of global accounting standards is now a reality. Of the 140 jurisdictions whose profiles have been posted:

- 116 jurisdictions (83 per cent of the profiles) require IFRSs for all or most domestic publicly accountable entities (listed companies and financial institutions).

- Most of the remaining 24 jurisdictions that do not yet require IFRSs for all or most domestic publicly accountable entities already permit it for at least some of those entities.

IFRS's adoption are not yet at the point of total and complete for publicly accountable entities around the world. But, if one considers that just 15 years ago very few jurisdictions even permitted IFRSs, it has made extraordinary progress in a short period of time.

The list of the 140 jurisdictions for which profiles are posted as of June 2015 are shown in Annexure-A.

Profiles of the 140 jurisdictions show that IFRSs is widely used in every region of the world are shown below:

Region	Number of jurisdictions				
	Jurisdictions in the region	Jurisdictions that require IFRSs for all or most domestic publicly accountable entities	Jurisdictions that require IFRSs as a per cent of the total jurisdictions in the region	Jurisdictions that permit or require IFRSs for at least some (but not all or most) domestic publicly accountable entities	Jurisdictions that neither require nor permit IFRSs for any domestic publicly accountable entities
Europe	43	42	98%	1	-
Africa	19	15	79%	1	3
Middle East	9	8	89%	1	-
Asia and Oceania	32	24	75%	3	5
Americas	37	27	73%	8	2
Totals	140	116	83%	14	10
As per cent of 140	100%	83%	-	10%	7%

Source: IFRS Foundation publication June 2015

It can be demonstrated from the above table that there are 24 jurisdictions that do not yet require IFRSs for all or most domestic listed companies. Among them larger economical jurisdictions are China, India, Indonesia, Japan, Saudi Arabia, Switzerland and United States. At present, they are using their national standards along with limited uses of IFRSs. Details are shown in Annexure-B.

Independent Public Oversight body

In addition to the global financial reporting regulation, post-SOX period brings a dramatic change in oversight function. Failure of Securities and Exchange Commission for ensuring effective oversight, introduction of continuous complex accounting and financial arrangements as well as widespread use of creative accounting all over the world, a new regulatory framework has been developed so that the users can take informed decision based on accurate information. This section provides some brief description of such regulatory initiatives all over the world.

A. Public Company Accounting Oversight Board (PCAOB), United States

The PCAOB is a private-sector, nonprofit corporation shaped by the Sarbanes-Oxley Act of 2002 to supervise the audits of public companies and other issuers in order to guard the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. Since 2010, the PCAOB also oversees the audits of broker dealers, including compliance reports filed pursuant to federal securities laws, to uphold investor protection. All PCAOB rules and standards must

be sanctioned by the U.S. Securities and Exchange Commission (SEC). The Board is funded principally by fees from public companies.

The PCAOB has four main responsibilities:

- Registration of accounting firms (including non-US firms) that audit public companies (including non-US issuers) trading in US securities markets;
- Inspections of registered public accounting firms;
- Establishment of auditing and related attestation, quality control, ethics, and independence standards for registered public accounting firms; and
- Investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards.

B. Financial Reporting Council (FRC), United Kingdom

The FRC is the United Kingdom oversight body for the accounting, audit and actuarial professions and is also in authority for corporate governance in the UK. The FRC Board is responsible for the overall governance and strategy of the FRC and eventually approves all codes and standards issued by the FRC. The chair and deputy chair are appointed by the Secretary of State for Business, Innovation and Skills. Other Board members are appointed by the Board. The Board is supported by three governance committees (the Audit, Remuneration and Nominations Committees) and by the Executive Committee, the Conduct

Committee and the Codes and Standards Committee. The FRC sets the operational standards for auditors. No FRC member is a practicing auditor. The majority of FRC Board members must not be individuals who in the five years prior to appointment have: been practicing auditors, accountancy or actuaries; or held voting rights in an audit, accountancy or actuarial firm; or been employees of an audit, accountancy or actuarial firm, members of the administrative or management body of an audit, accountancy or actuarial firm or office holders of an accountancy or actuarial body.

C. Financial Reporting Act (FRA), New Zealand

As per FRA 1993, an External Reporting Board consists of no fewer than 4 and not more than 9 members. However, a person is qualified for appointment as a board member by reason of his or her knowledge of, or experience in, business, accounting, auditing, finance, economics, or law.

D. Financial Reporting Council (FRC), Nigeria

On 18 May 2011 the Senate passed the Financial Reporting Council of Nigeria Bill, which repealed the Nigerian Accounting Standards Board Act and replaced it with a new set of rules. The FRC is a unified independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance. The membership of FRC in Nigeria includes: Central Bank of Nigeria, Corporate Affairs Commission, Federal Inland Revenue Service, Federal Ministry of Commerce, Federal Ministry of Finance, Auditor-General for the Federation, Accountant-General of the Federation, Securities and Exchange Commission, Nigerian Accounting Association, Nigerian

Association of Chambers of Commerce, Industry, Mines and Agriculture, Nigeria Deposit Insurance Corporation, and Institute of Chartered Accountants of Nigeria.

E. Financial Reporting Council (FRC), Australia

The Financial Reporting Council (FRC) is responsible for supervision of the usefulness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia. Under section 235A of the ASIC Act, members of the FRC are appointed by the Treasurer and hold office on terms and conditions determined by the Treasurer. The FRC includes members appointed from nominations put forward by key stakeholder groups, as well as members appointed independently of stakeholder interests.

F. International Forum of Independent Audit Regulators (IFIAR)

The IFIAR was established on 15 September 2006 by independent audit regulators from 18 jurisdictions. Since its creation, IFIAR's membership has grown in light of the establishment of new independent audit regulators in different jurisdictions around the globe, bringing together independent audit regulators from a total of 50 jurisdictions. The IFIAR core principles seek to promote effective independent audit oversight globally, thereby contributing to members overriding objective of serving the public interest and enhancing investor protection by improving audit quality. More countries is in the process of formulating regulatory framework following these countries.

IFIAR is the organization for independent audit regulators. Membership of IFIAR requires subscription to the IFIAR Charter (revised in 2013), which requires that members must be independent of the profession and engage in audit regulatory functions in the public interest.

G. Financial Reporting Act (FRA), Bangladesh

The JatiyaSangsad passed the Financial Reporting Act, 2015 (FRA) on Sunday (September 06,

2015) in a bid to ensure more transparency and accountability in financial-reporting activities as well as promoting high quality corporate governance in the country. Among other things, the FRA requires the establishment of a new oversight body, referred to as the 'Financial Reporting Council (FRC)'. As per the FRA, the FRC will be a 12-member body, comprising of representatives from the government, the Bangladesh Bank, the Bangladesh Securities and Exchange Commission (BSEC), the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), the academia, and the professional accounting bodies. The council will be headed by a full-time chairperson who will be appointed by the government through a panel of experts. In addition, the FRC will have a full-time chief executive. The FRA identifies four major functions of the council, namely, accounting and auditing standard setting, financial reporting monitoring, audit practice review, and enforcement of disciplinary actions.

A brief overview of financial reporting regulation with independent oversight body of 5 countries are shown below:

Sl no:	Country	Accounting standard	National Accounting monitoring body	Independent oversight body
1	United States of America	US GAAP	AICPA	PCAOB
2	United Kingdom	IFRSs	ICAEW	Financial Reporting Council, United Kingdom
3	Australia	AASs (as like IFRSs)	AASB	Financial Reporting Council, Australia
4	India	IND ASs	ICAI	Not Applicable
5	Bangladesh	BFRSs (as like IFRSs)	ICAB	Financial Reporting Council, Bangladesh

Conclusion

IFRSs promise more accurate, comprehensive and timely financial statement information, relative to the national standards.

Most of the countries are adopting IFRSs for public financial reporting. Small investors are less likely than investment professionals to be able to anticipate financial statement information from other sources. Improved financial reporting allows them to align better with professionals, and hence reduces the risk they are trading with a

better-informed professional. IFRSs eliminate many of the adjustments professionals historically have made in order to make companies' financials more comparable internationally. The reduction of the cost of processing financial information most likely increases the efficiency which the stock market incorporates in prices. IFRSs offer increased comparability and hence reduced information costs and information risk to investors.

Based on the above analysis, it can be said that the global financial reporting is yet to come on

common platform and it will be a great challenge to get a streamlined one set of code which will be able to address all the financial and accounting issues of past, present and of course future. Considering the fact, an independent oversight body can be rested with the responsibility to ensure the accountability of implementing agencies but caution should be taken that composition of oversight body should be tailored to the perfect blending of technical knowledge, professional expertise and experience based on research result.

Annexure-A

IFRS adopted jurisdiction for all or most publicly accountable entities

The 116 jurisdictions that require IFRSs for all or most publicly accountable entities are highlighted below:

Afghanistan	Bulgaria	Ghana	Liechtenstein	Palestine	Sweden
Albania	Cambodia	Greece	Lithuania	Panama	Switzerland
Angola	Canada	Grenada	Luxembourg	Paraguay	Syria
Anguilla	Cayman Islands	Guatemala	Macao	Peru	Taiwan
Antigua and Barbuda	Chile	Guinea-Bissau	Macedonia	Philippines	Tanzania
Argentina	China	Guyana	Madagascar	Poland	Thailand
Armenia	Colombia	Honduras	Malaysia	Portugal	Trinidad and Tobago
Australia	Costa Rica	Hong Kong	Maldives	Romania	Turkey
Austria	Croatia	Hungary	Malta	Russia	Uganda
Azerbaijan	Cyprus	Iceland	Mauritius	Rwanda	Ukraine
Bahamas	Czech Republic	India	Mexico	Saint Lucia	United Arab Emirates
Bahrain	Denmark	Indonesia	Moldova	Saudi Arabia	United Kingdom
Bangladesh	Dominica	Iraq	Mongolia	Serbia	United States
Barbados	Dominican Republic	Ireland	Montserrat	Sierra Leone	Uruguay
Belgium	Ecuador	Israel	Myanmar	Singapore	Uzbekistan
Belarus	Egypt	Italy	Nepal	Slovakia	Venezuela
Belize	El Salvador	Jamaica	Netherlands	Slovenia	Vietnam
Bermuda	Estonia	Japan	New Zealand	South Africa	Yemen
Bhutan	European Union	Jordan	Nicaragua	Spain	Zambia
Bolivia	Fiji	Kenya	Niger	Sri Lanka	Zimbabwe
Bosnia and Herzegovina	Finland	Korea (South)	Nigeria	St Kitts and Nevis	
Botswana	France	Kosovo	Norway	St Vincent and the Grenadines	
Brazil	Georgia	Latvia	Oman	Suriname	
Brunei	Germany	Lesotho	Pakistan	Swaziland	

Source: IFRS Foundation publication June 2015

Annexure-B

IFRS non-adopted jurisdiction

The following are comments among larger of the 24 jurisdictions that do not yet require IFRSs for all or most domestic listed companies.

1. China

- National standards are substantially converged with IFRSs
- While Chinese companies that trade on Mainland China stock exchanges use national standards, it should be noted that Chinese companies whose securities trade on the Stock Exchange of Hong Kong may choose either IFRSs, Hong Kong Financial Reporting Standards (HKFRS) or Chinese Accounting Standards (ASBEs) for purposes of financial reporting to Hong Kong investors. Those financial reports are in addition to the ASBE financial reports that the Chinese companies issue within mainland China.
- At 30 June 2014, a total of 296 Chinese companies (known as 'Red Chip' and 'H-Share' companies) trade in Hong Kong. Of those 296 companies, 85 per cent use IFRSs or HKFRS (identical to IFRSs); only 15 per cent use ASBE. And the IFRS/HKFRS companies constitute 95 per cent of the market capitalisation of Chinese companies trading in Hong Kong.
- There are also a number of Chinese companies that use

IFRSs for the purpose of trading in the US and in Europe.

2. India

- IFRSs are currently permitted on a limited voluntary basis. A few listed companies use IFRSs.
- India has recently adopted a new set of accounting standards for listed and large companies that is generally converged with IFRSs, but with some mandatory and some optional modifications. Those standards are known as Indian Accounting Standards (Ind AS).

3. Indonesia

- Listed companies follow Indonesian Financial Reporting Standards (SAK). Currently, SAK is substantially in line with IFRSs as at 1 January 2009, but there are a number of differences, and several Standards and Interpretations do not have SAK equivalents.
- The standard-setter is currently working toward bringing SAK substantially in line with IFRSs as at 1 January 2014, again with some exceptions.

4. Japan

- Listed companies may use Japanese Accounting Standards, IFRSs or US GAAP.
- In Japan, IFRSs adopters and their market capitalisation are growing rapidly.
- At May 2015, 85 companies are using or have publicly announced that they will adopt IFRSs. Their market

capitalisation is approximately 20% of the Tokyo Stock Exchange. An additional 30 companies are known to be considering moving to IFRSs. Two-and-a-half years earlier (December 2012) only 10 Japanese companies were using IFRSs.

5. Saudi Arabia

- IFRSs are required for banks and insurance companies.
- There is a plan to adopt IFRSs for all listed companies and financial institutions, which is most likely to be effective in 2017.

6. Switzerland

- IFRSs are permitted. Swiss GAAP FER, US GAAP and statutory bank standards may also be used. SMEs may also use the IFRSs for SMEs.
- Of the 130 companies whose primary securities listing is the main Board of the SIX Swiss Exchange in January 2015, 91 per cent use IFRSs.

7. United States

- SEC has studied whether to require or permit IFRSs.
- IFRSs are permitted for non-US companies without reconciliation to US GAAP. Around 500 cross-border SEC registrants now use IFRSs.

The Author is an Associate Member of ICAB



Audit Fees

A Study on Commercial Banks of South Asian Countries

Sujan Chandra Paul ACA



Abstract

The aim of the study is to make a comparison of the audit fees of the Commercial Banks in South Asian Countries. The data was collected from the website of 98 commercial banks and their annual reports for the year 2012. Collected data were analyzed using descriptive statistics to meet the objectives of the research. The result of the analyses showed that during the 2012, Bangladesh's average audit fees as a percentage of total assets, revenue and profit after tax is lower than any other countries in the South Asian region and this year Afghanistan and Sri Lanka's average audit fees as a percentage of total assets, revenue and profit after tax is higher than any other countries of the South Asia. Besides these, India, Pakistan, Sri Lanka, Afghanistan and Maldives's average audit fees in absolute value of USD was above 35,000 whereas Bangladesh, Bhutan and Nepal's average audit fees was below USD 10,000. One of the reasons that has been identified in the article that most of the auditors in commercial banks during 2012 in India, Pakistan, Sri Lanka, Afghanistan and Maldives are the Big 4 auditor whereas only one auditor from the sample 46 commercial banks' auditors in Bangladesh, Nepal and Bhutan is Big 4 auditor.

Keyword: Commercial banks, auditor, Big 4, total assets, revenue, profit after tax.

Introduction

There are too many studies regarding the audit market and its actors (auditors and auditees). Many of them point the audit fees and their determinants. Carson/Fargher/Simon (2004), developed on the Australian audit market for the period from 1995-1999, have built the model trying to capture the individual characteristics of the client by the following some parameters: the size of the entity have used natural logarithm Total Assets; complexity of the audit process is surprised by the number of subsidiaries to the entity, and the percentage of foreign subsidiaries, the audit risk is surprised by the following parameters: current assets / total assets, treasury, long-term debt / total assets, income before tax / total assets, the indicator of opinion (dummy indicator variable with value 1 for a qualified opinion, and zero otherwise) recent loss indicator (dummy with value 1 for a loss in any of the past three years, 0 otherwise) was also used for assessing an indicator showing either to belong or not to the mining industry, an indicator was introduced in a model that illustrates the relationship quantify the complexity of the relationship between auditor and audited

is the natural logarithm of auditor services paid (thousand dollars) (this indicator was taken from the model Ezzamel, Gwilliam and Holland (2002)) eventually researchers introduced an (dummy), an indicator for the auditor's being from the former Big 6 (six) otherwise.

For the US market only a Standard and Poors survey shows that the audit fees evolved from 0.08% of turnover in 1975 to 0.1% of turnover in 2001. Zimmermann (1986) appreciates that an audit is efficient, when an auditor is competent and independent. One of the main characteristics of the auditor's independence is a correct fee for the service.

The aim of this research is to check a comparison of audit fees in terms of percentage of total assets, revenue and profit after tax on 80 Commercial Banks in South Asian Countries. In order to fulfill the aim of the research, all 98 Commercial Banks' audit fees and revenues data are collected and audit fees as percentage of revenues calculated using Microsoft Excel. Then, different types of statistical tools (i.e. mean, median, standard deviations, maximum and minimum) are used to compare these fees among different countries of the South Asian Region.

Review of the Literature

An important place in literature is allocated to country analysis, market audit services and audit fees. In India, D. Simon published together with a team of collaborators an empirical study in 1986 on the market for audit services and audit fees of India. Similar studies were conducted for Hong Kong, Malaysia, and Singapore by L. Low and colleagues, who published in

1990, an analysis of the elements determining the audit fees for audit services, and D. Simon with collaborators, published in 1992, a comparative study between audit services markets of the three countries.

Hamid K. and Ali Y. Q. (2012) showed that audit report quality has a positive and significant effect on audit fees therefore; quality is most important effective factors in audit fees. They added that another effective factors in audit fees is audit firm industry specialization therefore audit institutes should can be rise their professional by trained in a particular industry because they can be rise their audit activities in the target industry by high efficiency and effectiveness.

The relation established between the audit quality and the audit fee has made a study subject for several researchers. So for the audit services from the United States of America, there is an empirical database that consists of a number of important studies comprising 23 from 1980 to 2000 to support the idea that really big international auditing companies (Big4) made audits of higher quality than the other (DeAngelo(1981)).

Hay and colleagues (2006) conducted a meta-study examining possible determinants of the amount of audit fees in the last 25 years (1977-2002). Of the 88 research papers included in their analysis, only 6 were related to auditing activity in emerging market countries, while 45 were related to United State's market. Hay (2006) considered in the mentioned meta-study that audit fees determinants are: customer size, the overall audit risk, and complexity of the client, customer profitability, owners of the company, the degree of competition of market share.

“ CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (IFAC, 2010) ESTABLISHES THAT, “WHEN ENTERING INTO NEGOTIATIONS REGARDING PROFESSIONAL SERVICES, A PROFESSIONAL ACCOUNTANT IN PUBLIC PRACTICE MAY QUOTE WHATEVER FEE IS DEEMED APPROPRIATE” (SECTION 240). HOWEVER, BOTH CODES OF ETHICS MENTION THAT THERE MAY BE THREATS IN TERMS OF COMPLIANCE WITH THE FUNDAMENTAL ETHICAL PRINCIPLES (INDEPENDENCE OBJECTIVITY, PROFESSIONALISM), WHEN DIFFERENT FEES LEVELS ARE CHARGED. IT MUST BE UNDERLINED THAT IF AN AUDITOR CHARGES A LOWER FEE THAN ANOTHER AUDITOR, THIS IS NOT UNETHICAL, IF THE AUDIT IS CARRIED OUT AT A CORRESPONDING QUALITY LEVEL. ”

De Angelo (1981), Chan (1999), and Whisenent, Sankaraguruswamy, Raghunandan (2003) believe that the practice of setting lower initial audit fees is due the following two factors: cost of auditor change, and expectations of the auditor to establish higher fees in the following years.

Hayes et al. (2005) mentions the following: the auditee's size and the geographical dispersion, the size of the audit company, the level of consulting services, the quality of the auditee's internal control system, the type of contract regarding fees (fixed fees against variable fees). Moreover, Hayes et al. (2005) remarks at the Big4 companies the existence a fee raise request, called fee premium.

Research Methodology

All the data used in this paper have been collected from secondary sources. The main source among all the secondary sources is the financial statements of 98 Commercial Banks in 2012 of South Asia. The other sources of secondary data are books, journals, website of different accounting bodies and banks, circular etc. Relevant articles and literature in this context have also consulted. In this paper, two years data of audit fees and revenues in South Asian Countries were analyzed. A comparative study has been performed by applying different statistical tools i.e., mean, median, standard deviation, maximum, minimum etc.

Audit Fees

Code of Ethics for Professional Accountants (IFAC, 2010) establishes that, "when entering into negotiations regarding professional services, a

professional accountant in public practice may quote whatever fee is deemed appropriate" (Section 240). However, both codes of ethics mention that there may be threats in terms of compliance with the fundamental ethical principles (independence objectivity, professionalism), when different fees levels are charged. It must be underlined that if an auditor charges a lower fee than another auditor, this is not unethical, if the audit is carried out at a corresponding quality level.

Chen K.Y. and Elder R.J. (2001) used Cross-sectional audit fee regression models similar to Simunic (1980) and Craswell et al. (1995) to examine the effect of industry specialization on audit fees in both regulated and non-regulated industries.

$$\ln(\text{FEE}) = a_0 + a_1 \ln(\text{ASSET}) + a_2 \text{SUB} + a_3 \text{DE} + a_4 \text{ROI} + a_5 \text{Foreign} + a_6 \text{Opin} + a_7 \text{YE} + a_8 \text{Loss} + a_9 \text{REGSPEC} + a_{10} \text{REGNSPEC} + a_{11} \text{NREGSPEC} + u$$

Where (with predict sign inside parenthesis):

Ln (FEE) = natural logarithm of total audit fees,

Ln (ASSET) = natural logarithm of assets, (+)

SUB = square root of the number of subsidiaries, (+)

DE = ratio of long-term debt to total assets, (+)

ROI = ratio of earnings before interest and tax to total assets, (-)

Foreign = proportion of subsidiaries that represent foreign operations, (+)

Opin = indicator variable, 1 = qualified audit report, (+)

YE = indicator variable, 1 = December 31st year-end, (+)

Loss = indicator variable, 1 = loss in the past three years, (+)

REGSPEC = indicator variable, 1 = auditor with market share greater than 20%

for firm in regulated industry, 0 = otherwise. (-)

REGNSPEC = indicator variable, 1 = auditor with market share less than 20%

for firm in regulated industry, 0 = otherwise. (+/-)

NREGSPEC = indicator variable, 1 = auditor with market share greater than 20%

for firm in non-regulated industry, 0 = otherwise. (+)

The error term u is assumed to have normal OLS regression properties.

Empirical Results

Descriptive results - (Audit fees as percentage of Total Assets):

Table 1 represents descriptive statistics and illustrates the audit fees as percentage of total assets in different countries of SAARC region during the year 2012. The average audit fees as percentage of revenue of 30 private commercial banks in Bangladesh are 0.00059% whereas the same of 17 private commercial banks in Pakistan is 0.00189%, 16 private commercial banks in India is 0.00848%, 14 private commercial banks in Sri Lanka is 0.00474% and 14 private commercial banks in Nepal is 0.00155%, 4 private commercial banks in Afghanistan is 0.01086%, 2 private commercial banks in Bhutan is 0.00070%.

The median of the audit fees as percentage of total assets of 30 private commercial banks in Bangladesh are 0.00042% whereas the same of 17 private commercial banks in Pakistan is 0.00123%, 16 private commercial banks in India is 0.00389%, 14 private commercial banks in Sri Lanka is 0.00370% and 14 private commercial banks in Nepal is 0.00142%, 4 private commercial banks in Afghanistan is 0.01115%, 2 private commercial banks in Bhutan is 0.00070%. The standard deviation of the audit fees as percentage of total assets of 30 private commercial banks in Bangladesh are 0.00062% whereas the same of 17 private commercial banks in Pakistan is 0.00173%, 16 private commercial banks in India is 0.01677%, 14 private commercial banks in Sri Lanka is 0.00351% and 14 private commercial banks in Nepal is 0.00100%, 4 private commercial banks in Afghanistan is 0.00267%, 2 private commercial banks in Bhutan is 0.00024%.

The minimum of the audit fees as percentage of total assets of 30 private commercial banks in Bangladesh is 0.00002% of total assets whereas the maximum of the audit fees as percentage of total assets of the same banks in Bangladesh is 0.00339%. The lowest audit fees as a percentage of



total assets of 17 private commercial banks in Pakistan was 0.00006% of total assets in 2012 whereas the highest was 0.00533% of total assets. The minimum of the audit fees as percentage of total assets of 16 private commercial banks in India is 0.00004% of total assets whereas the maximum of the audit fees as percentage of total assets of the same banks in India is 0.06691%. The lowest audit fees as a percentage of total assets of 14 private commercial banks in Sri Lanka was 0.00088% of total assets in 2012 whereas the highest was 0.01256% of total assets. The minimum of the audit fees as percentage of total assets of 14

private commercial banks in Nepal is 0.00036% of total assets whereas the maximum of the audit fees as percentage of total assets of the same banks in Nepal is 0.00382%. The lowest audit fees as a percentage of total assets of 4 private commercial banks in Afghanistan was 0.00739% of total assets in 2012 whereas the highest was 0.01376% of total assets. The audit fees as percentage of total assets of 2 private commercial banks in Bhutan are 0.00053% and 0.00087% of total assets and the only banks in Maldives' audit fees as a percentage of total assets is 0.00724%.

Table-1: Descriptive Statistics (Audit fees as percentage of total assets)

Country	Mean	Median	Standard Deviation	Minimum	Maximum	Sample Banks
Bangladesh	0.00059%	0.00042%	0.00062%	0.00002%	0.00339%	30
Pakistan	0.00189%	0.00123%	0.00173%	0.00006%	0.00533%	17
India	0.00848%	0.00389%	0.01677%	0.00004%	0.06691%	16
Sri Lanka	0.00474%	0.00370%	0.00351%	0.00088%	0.01256%	14
Nepal	0.00155%	0.00142%	0.00100%	0.00036%	0.00382%	14
Afghanistan	0.01086%	0.01115%	0.00267%	0.00739%	0.01376%	4
Bhutan	0.00070%	0.00070%	0.00024%	0.00053%	0.00087%	2
Maldives	0.00724%	0.00724%	0.00000%	0.00724%	0.00724%	1

Descriptive Results- (Audit fees as percentage of revenue)

Table 2 represents descriptive statistics and illustrates the audit fees as percentage of revenue in different countries of SAARC region during the year 2012. The average audit fees as percentage of revenue of 30 private commercial banks in Bangladesh are 0.00553% whereas the same of 17 private commercial banks in Pakistan is 0.02258%, 16 private commercial banks in India is 0.03581%, 14 private commercial banks in Sri Lanka is 0.03680% and 14 private commercial banks in Nepal is 0.01682%, 4 private commercial banks in Afghanistan is 0.25756%, 2 private commercial banks in Bhutan is 0.01876%.

The median of the audit fees as percentage of revenue of 30 private commercial banks in Bangladesh are 0.00393% whereas the same of 17 private commercial banks in Pakistan is 0.01437%, 16 private commercial banks in India is 0.03815%, 14 private commercial banks in Sri Lanka is 0.02907% and 14 private commercial banks in Nepal is 0.01293%, 4 private commercial banks in Afghanistan is 0.24898%, 2 private commercial banks in Bhutan is 0.01876%. The standard deviation of the audit fees as percentage of revenue of 30 private commercial banks in



Bangladesh are 0.00848% whereas the same of 17 private commercial banks in Pakistan is 0.02154%, 16 private commercial banks in India is 0.02685%, 14 private commercial banks in Sri Lanka is 0.02753% and 14 private commercial banks in Nepal is 0.01209%, 4 private commercial banks in Afghanistan is 0.05775%, 2 private commercial banks in Bhutan is 0.01085%.

The minimum of the audit fees as percentage of revenue of 30 private commercial banks in Bangladesh is 0.00019% of revenue whereas the maximum of the audit fees as percentage of revenue of the same banks in Bangladesh is 0.04828%. The lowest audit fees as a percentage of revenue of 17 private commercial banks in Pakistan was 0.00071% of revenue in 2012 whereas the highest was 0.06331% of revenue. The minimum of the audit fees as percentage of revenue of 16 private commercial banks in India

is 0.00041% of revenue whereas the maximum of the audit fees as percentage of revenue of the same banks in India is 0.09229%. The lowest audit fees as a percentage of revenue of 14 private commercial banks in Sri Lanka was 0.00810% of revenue in 2012 whereas the highest was 0.10538% of revenue. The minimum of the audit fees as percentage of revenue of 14 private commercial banks in Nepal is 0.00365% of revenue whereas the maximum of the audit fees as percentage of revenue of the same banks in Nepal is 0.04726%. The lowest audit fees as a percentage of revenue of 4 private commercial banks in Afghanistan was 0.20580% of revenue in 2012 whereas the highest was 0.32649% of revenue. The audit fees as percentage of revenue of 2 private commercial banks in Bhutan are 0.01108% and 0.02643% of revenue and the only banks in Maldives' audit fees as a percentage of revenue is 0.03561%.

Table-2: Descriptive Statistics (Audit fees as percentage of revenue)

Country	Mean	Median	Standard Deviation	Minimum	Maximum	Sample Banks
Bangladesh	0.00553%	0.00393%	0.00848%	0.00019%	0.04828%	30
Pakistan	0.02258%	0.01437%	0.02154%	0.00071%	0.06331%	17
India	0.03581%	0.03815%	0.02685%	0.00041%	0.09229%	16
Sri Lanka	0.03680%	0.02907%	0.02753%	0.00810%	0.10538%	14
Nepal	0.01682%	0.01293%	0.01209%	0.00365%	0.04726%	14
Afghanistan	0.25756%	0.24898%	0.05775%	0.20580%	0.32649%	4
Bhutan	0.01876%	0.01876%	0.01085%	0.01108%	0.02643%	2
Maldives	0.03561%	0.03561%	0.00000%	0.03561%	0.03561%	1

Descriptive Results- (Audit fees as percentage of profit after tax)

Table 3 represents descriptive statistics and illustrates the audit fees as percentage of profit after tax in different countries of SAARC region during the year 2012. The average audit fees as percentage of profit after tax of 30 private commercial banks in Bangladesh are 0.06740% whereas the same of 17 private commercial banks in Pakistan is 0.18131%, 16 private commercial banks in India is 0.69914%, 14 private commercial banks in Sri Lanka is 1.71470%, 14 private commercial banks in Nepal is 0.29465%, 4 private commercial banks in Afghanistan is 1.07476%, 2 private commercial banks in Bhutan is 0.03517%.

The median of the audit fees as percentage of profit after tax of 30 private commercial banks in Bangladesh are 0.03896% whereas the same of 17 private commercial banks in Pakistan is 0.04984%, 16 private commercial banks in India is 0.27046%, 14 private commercial banks in Sri Lanka is 0.33720% and 14 private commercial banks in Nepal is

0.06490%, 4 private commercial banks in Afghanistan is 1.14909% and 2 private commercial banks in Bhutan is 0.03517%. The standard deviation of the audit fees as percentage of profit after tax of 30 private commercial banks in Bangladesh are 0.06842% whereas the same of 17 private commercial banks in Pakistan is 0.70651%, 16 private commercial banks in India is 1.07527%, 14 private commercial banks in Sri Lanka is 4.92003% and 14 private commercial banks in Nepal is 0.51474%, 4 private commercial banks in Afghanistan is 1.12148%, 2 private commercial banks in Bhutan is 0.00089%.

The minimum of the audit fees as percentage of profit after tax of 30 private commercial banks in Bangladesh is -0.04821% of profit after tax whereas the maximum of the audit fees as percentage of profit after tax of the same banks in Bangladesh is 0.27176%. The lowest audit fees as a percentage of profit after tax of 17 private commercial banks in Pakistan was -0.51747% of profit after tax in 2012 whereas the highest was 2.75278% of profit after tax. The

minimum of the audit fees as percentage of profit after tax of 16 private commercial banks in India is 0.00322% of profit after tax whereas the maximum of the audit fees as percentage of profit after tax of the same banks in India is 4.13647%. The lowest audit fees as a percentage of profit after tax of 14 private commercial banks in Sri Lanka was 0.07045% of profit after tax in 2012 whereas the highest was 18.75892% of profit after tax. The minimum of the audit fees as percentage of profit after tax of 14 private commercial banks in Nepal is 0.01834% of profit after tax whereas the maximum of the audit fees as percentage of profit after tax of the same banks in Nepal is 1.97546%. The lowest audit fees as a percentage of profit after tax of 4 private commercial banks in Afghanistan was -0.28643% of profit after tax in 2012 whereas the highest was 2.28730% of profit after tax. The audit fees as percentage of profit after tax of 2 private commercial banks in Bhutan are 0.03455% and 0.03580% of profit after tax and the only banks in Maldives' audit fees as a percentage of profit after tax is 0.19635%.

Table-3: Descriptive Statistics (Audit fees as percentage of profit after tax)

Country	Mean	Median	Standard Deviation	Minimum	Maximum	Sample Banks
Bangladesh	0.06740%	0.03896%	0.06842%	-0.04821%	0.27176%	30
Pakistan	0.18131%	0.04984%	0.70651%	-0.51747%	2.75278%	17
India	0.69914%	0.27046%	1.07527%	0.00322%	4.13647%	16
Sri Lanka	1.71470%	0.33720%	4.92003%	0.07045%	18.75892%	14
Nepal	0.29465%	0.06490%	0.51474%	0.01834%	1.97546%	14
Afghanistan	1.07476%	1.14909%	1.12148%	-0.28643%	2.28730%	4
Bhutan	0.03517%	0.03517%	0.00089%	0.03455%	0.03580%	2
Maldives	0.19635%	0.19635%	0.00000%	0.19635%	0.19635%	1

Overall Commentary on Audit Fees

Finally it is found that in the absolute currency of USD, India's auditors had been received more audit fees (average audit fees of sample 16 banks in 2012 was USD 234,809) than any other countries on the basis of the sample 16 Commercial Banks where 9 audit firms were the Big4 among all 21 audit firms of the sample banks (including joint audit firm). The country which auditors were received second highest amount of audit fees in terms of USD for

performing audit services in Commercial Banks, is Sri Lanka. This average audit fees of 14 sample PCBs of Sri Lanka was USD 53,336 during the year 2012 and 11 banks had been audited by the Big 4 audit firms from the sample banks which was 78.57%. The only bank in Maldives' audit fees was USD 47,839 and it was also audited by one of the Big 4 auditors during 2012. The average audit fee of 17 Commercial Banks in Pakistan was USD 40,757 and all the sample banks were audited by Big 4 audit firms during 2012. The average audit fee of sample 4

Banks in Afghanistan was USD 39,601 and one of the sample banks was audited by Big 4 audit firms and the others three were audited by Grant Thornton which were included in Big 6 audit firms during 2012. Other than the above mentioned countries in South Asia, the remaining countries' average audit fees was below USD 10,000 and among 46 sample banks in 3 countries (Bangladesh = USD 8,930. Nepal = USD 5,237. and Bhutan = USD 4,427) only 1 bank of Bangladesh was audited by the Big 4 firms during 2012.

Table-4: Big 4 auditor as percentage of total auditors & Average audit fees (in USD) of Sample Banks

Country	No. of Sample Banks	Total auditors (including joint auditors)	Big4 auditors	% (Big 4 auditors to total auditors)	Average audit fees (in USD)
Bangladesh	30	34	1	2.94%	8,930
Pakistan	17	17	17	100.00%	40,757
India	16	21	9	42.86%	234,809
Sri Lanka	14	14	11	78.57%	53,336
Nepal	14	14	0	00.00%	5,237
Afghanistan	4	4	1	25.00%	39,601
Bhutan	2	2	0	00.00%	4,427
Maldives	1	1	1	100.00%	47,839

Conclusion

The result of the analyses showed that in 2012, the average audit fees in terms of total assets in Afghanistan, India, Maldives and Sri Lanka was more than the average audit fees of other countries' sample banks used in this article. In Afghanistan, it was above 0.01% and in Bhutan and Bangladesh, it was below 0.001% of total assets. The average audit fees in terms of revenue in Afghanistan, India, Maldives and Sri Lanka was also more than the average audit fees of Bangladesh, Bhutan, Nepal and Sri Lanka. In Afghanistan, it was above 0.25% and in Bangladesh, it was below 0.01% of revenue. The average

audit fees in terms of profit after tax in Afghanistan and Sri Lanka were more than 1.0% of profit after tax, whereas in India was 0.7% and other countries were below 0.5%.

During 2012, India, Pakistan, Sri Lanka, Maldives and Afghanistan's average audit fees was above USD 35,000 whereas Bangladesh, Bhutan and Nepal's average audit fees were below USD 10,000. One of the major reasons that are identified in this article is that out of 57 auditors (including joint auditors) of 52 sample banks in India, Pakistan, Sri Lanka, Afghanistan and Maldives, 39 auditors were Big 4 auditors during 2012. Besides these, 3 auditors were also included in Big 6

auditors. On the other hand, out of 50 auditors (including joint auditors) of 46 sample banks in Bangladesh, Nepal and Bhutan, only one auditor was Big 4 auditor.

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Philanthro-Capitalism and the Economics of Foundations

Ghulum Murshed Latiful Quader FCA, ACCA



The Facebook's billion air founder Mark Zuckerberg's recent donation of \$45 billion to charity has raised the causality dilemma again.

The proverbial emergence order of chicken and egg, and the question which came first has surfaced; which, put in the parlance of the western socio economic perspective stand as:

Was it a triumph of western democracy in its principled stance of fairer distribution of wealth? Or was it just another example of altruistic predisposition of the mega rich, born and bred in the equitable societies of the west with liberal values? Which caused the other to happen?

History of Giving

In the early part of the last century, Andrew Carnegie, a staggeringly rich industrialist set the tone for modern American philanthropic tendency of the super-rich. He donated large chunk of his wealth to public cause, and had publicly declared that the rich have a moral obligation to give away their wealth beyond a family's necessity. The rich should choose the causes to give their monies to using their superior capabilities. Others followed suit, and the likes of Rockefeller and Ford foundation came to being.

The US government introduced tax reforms and today US foundations awards over \$30 billion a year. The issues are now accountability and effectiveness of nonprofit organizations, foundations and corporations entrusted with these responsibilities; and generation and implementation of innovative strategies for alleviating poverty, combat diseases in the impoverished countries and tackle homelessness in urban population.

Emergence of Philanthro-Capitalism

In recent time, Microsoft's billionaire owner Bill Gates recognized failure of market mechanism to address the need of the poor in health care sector. He donated a large portion of his wealth to charity. Through foundation he deployed funds to generate supply of drugs and treatments the poor need. For example, it would provide market incentives to the drug companies to put their resources to work for the needy.

Gates Foundation dispensed nearly \$4 billion toward fighting H.I.V., malaria, polio, and tuberculosis in poor countries. In these endeavors he works in partnership with others and would also raise funds for causes. Likewise, the British billionaire Dame Stephanie Shirley, stumped up £50m herself and has been is



raising similar sums from other donors to fund research into an autism gene.

It became apparent from the work of the Gates Foundation that the philanthropists should be clear what they want to do, and stick with it. The foundation's clear mission has been to challenge global health inequalities in areas like infectious disease, HIV/AIDS, tuberculosis, global health strategies and global health technologies.

Charitable giving of these kinds makes modern capitalism look human. It sends a message to Wall Street hedge-fund managers, Russian oligarchs, European industrialists, Arab oil sheiks, and anybody who has accumulated a vast fortune.

Warren Buffet, a fellow billionaire investor stepped in Gates' footstep, and following their example hundred other billionaires signed

the "Giving Pledge." They set up individual philanthropic organizations and pursuing their own causes—and eventually phenomenon earned the nickname: "philanthro-capitalism."

These very large foundations are free from political and commercial pressures and employ professional staff. The new generation of philanthropists oversees their foundations. However, not many of them have closing dates, and it is thought that the legacies should be disposed of within generation which will keep them dexterous, un-bureaucratic and true to its founder's ideas.

Real Cost of Giving

Earlier in the twentieth century, US tax payers could deduct up to 15 percent of taxable income for payment to charities. Corporations are now permitted to deduct up to 20% as philanthropic contributions.

“ A FOUNDATION SHOULD MEASURE ITS OWN PERFORMANCE OVER TIME, CHALLENGING ITSELF TO CONTINUAL IMPROVEMENT. A FOUNDATION SHOULD ALSO MEASURE ITS OWN SUCCESS BY THE PERFORMANCE OF THE ORGANIZATIONS THAT IT FUNDS. IT MUST ACCEPT RESPONSIBILITY FOR THE SUCCESS OR FAILURE OF THEIR GRANTEES; AND A FOUNDATION, TO BE SUCCESSFUL, SHOULD PERFORM CONSISTENTLY BETTER THAN AVERAGE. SUPERIOR SOCIAL PERFORMANCE PER DOLLAR OF FUNDING SHOULD BE THE AIM.”



The 1969 Tax Reform Act plugged a loophole in the system to prevent businesses to siphon funds to tailor made foundations. It became compulsory to dispense cash (at least 6% of the market value of the assets) even out of its assets. In 1986, only itemized gifts became deductible for income tax purpose. With lower marginal tax rate at the same time, the real price of giving increased.

Despite these, in the past decades number of charitable foundations in the United States has doubled, while the value of their assets increasing more than 1,100%. They now hold over \$330 billion in assets and contribute billions annually to educational, humanitarian, and cultural organizations. But are the societies realizing the full fruits of this commitment?

The Tax Implications of Giving

When an individual contributes \$100 to a charity, the state coffers loses about at the rate of the individual tax rate (say, \$40 if the rate of tax is 40%). The \$100 given to is spent on creating social benefit. The immediate social

benefit is 2 and half times of the lost tax revenue.

In contrast, with the \$100 direct contribution to the foundation, the coffer loses the same \$40. But the immediate social benefit is only the \$6 per year that the foundation gives away, which is less than 14% of the forgone tax revenue.

The cost in holding the unspent fund, at say 10% discount rate, after five year is \$21, after 100 years, it is \$55. This amounts stands grim against the \$100 contributed directly in year one.

The forgone tax revenue becomes bigger if one considers that the foundations pay no taxes on their asset appreciation. In the nineties, it came to 75 cents, in foregone tax revenue, for every dollar foundations gave to social enterprises. The other costs include administrative costs, (\$2-3 billion per year) and compliance cost because of detailed and protracted application and reporting procedures

Philanthropy Through Foundation

Foundations are bridges that connect donors and the social

enterprises who receive those funds. They are free from political pressures, they hold the scale, the time horizon, and employ professional management. They are also strongly favored through tax preferences. They are in a position to lead social progress by making effective use of scarce resources

However, there is criticism that many foundations do not think strategically and consider little about how they can create value. They do not measure their results against the objective they were set up for; and sometimes they do so against unrelated yardsticks.

That, their limitation lies with the mind set of founders, trustees, and staff. They are not transparent and provide little information about what they do, or are secretive about their failures.

And their serious drawbacks when it comes to their governance are that their existence is continuous and they do not have any compliance need to any competitive standards.

Criticism also points towards short



termism in investing with tendencies to chop and change. They are keener on funding individual programs and rather than focusing on sustainability of the non-profit organization running the program.

A study in 2012 showed that the richest .01% per cent (16,000) of American households owned 11.2% per cent of the total wealth of the United States. The richest 0.1% per cent owned 22% per cent of the total, which is more than the bottom 90% per cent of households combined.

If transferring wealth to foundations escalates, then actions of a small number of very rich people can have a bigger impact. These wealth avoids taxes and the charitable enterprises won't face liabilities on disposal of their stock. Rightfully then, their democratic governance becomes public concern.

Foundations are not altogether detached from politics and could support partisan causes. Their initiative will have bigger impact on policy outcomes than that of ordinary people. Besides a Limited Liability Corporation (LLC) can spend can money on political advertisements. So, as foundations remain under their donors'

personal control, they will yield influence the political parties.

The Study on the Foundations

In 1999, the Harvard Business Review made an in-depth analysis of foundations working across America. Naming it 'Obligation to Create Value', it pointed to the widespread flaws in America's foundations that mostly remain to this day.

Following are the salient feature of that land mark article.

After making statutory disbursement (6% of their asset value) the foundations often invested the balance to make financial returns. (Only .01% of foundation investment portfolios were invested to support philanthropic purposes). Some \$330 billion were held in foundations in the late part of the last century. This amount represented a future benefit to society, which were to be realized, when the money is given away.

How, could the foundations have increased the social impact of their work?

A foundation brought more than money and good intentions, and its

assets were permanent. It had a long time horizon in which to tackle social issues and develop expertise in its field. Thus it could achieve greater social impact than the same monies spent by private donors or the government.

Creating Value by Giving

The study pointed that in general this could have been done in four ways:

- 1) Firstly, the foundations should use their expertise to choose amongst competing organization, the most effective users, which the individual donors would be less able to do.
- 2) The foundation should educate and attract other donors, improving the return on a larger pool of philanthropic resources. They should help grantees to raise additional resources.
- 3) They could strive to become partners to the grantees for more effectiveness. This would extend beyond the impact of one grant, and can affect the social productivity of more resources.
- 4) Finally, the foundations could create the value by funding



research which would create new framework and shaped subsequent work in the field.

Through in depth study of a field, foundation could impact on public sentiment and government policy. In the 50s, concerned with world hunger and population growth, the Ford and Rockefeller Foundations had created research institutes that triggered the green revolution which resulted huge increase crop output per acre.

Similarly, Carnegie Foundation sponsored research and study revolutionized medical teaching and training in the United States. Over 20 years, nearly half of the medical schools in existence were closed, and the model curriculum that was proposed still serves as the basis for medical training across the country. It subsequently funded hundreds of studies in the field of education, such as law, engineering, and business.

Strategic Giving

Foundations were there to maximize potential by using scarce resources to their maximum potential. Strategic giving was essentially achieving social benefit with lesser funds for comparable cost. The study suggested the following principles to be complied with:

1. Superior Performance in a Chosen Area

A foundation should measure its own performance, as well as the performance of the organizations that it funded. It should accept responsibility for the success or failure of their grantees; and should perform consistently better than average.

It was therefore important that foundations accepted the legitimacy of the goal of superior performance. They should measure their results and acted upon what they learn.

2. Choice of Strategy

A foundation must determine where it would make its impact and how.

For example, within the broad category of environmental work, Avina Foundation, created by philanthropist Stephan Schmidheiny had targeted: sustainable environmentally friendly business practices in Latin America. Thus it was clear about, where it would make impact and how.

3. Strategy and Positioning

Every major activity of the foundation—its selection process; the size, mix, and duration of its

grants; the composition and roles of its staff and board etc must be tailored to its positioning.

4. Every Positioning Requires Trade-offs

To achieve excellence at what it was doing, a foundation must forgo opportunities in other approaches and in other fields. Deciding what not to do was therefore also a strategy.

Way Forward

The study identified following as ways forward.

- a) Foundations should invest in research projects to identify areas which had not been addressed adequately. They should select amongst competing problems, the one which they could contribute.
- b) A foundation should assess the oncoming socioeconomic trends. Where work had been ongoing by others, they should explore their own possible roles, be it complementary or hitting at the root causes.
- c) The foundation should carry out what is known in the business parlance as SWOT analysis.
- d) The impact of synergy should

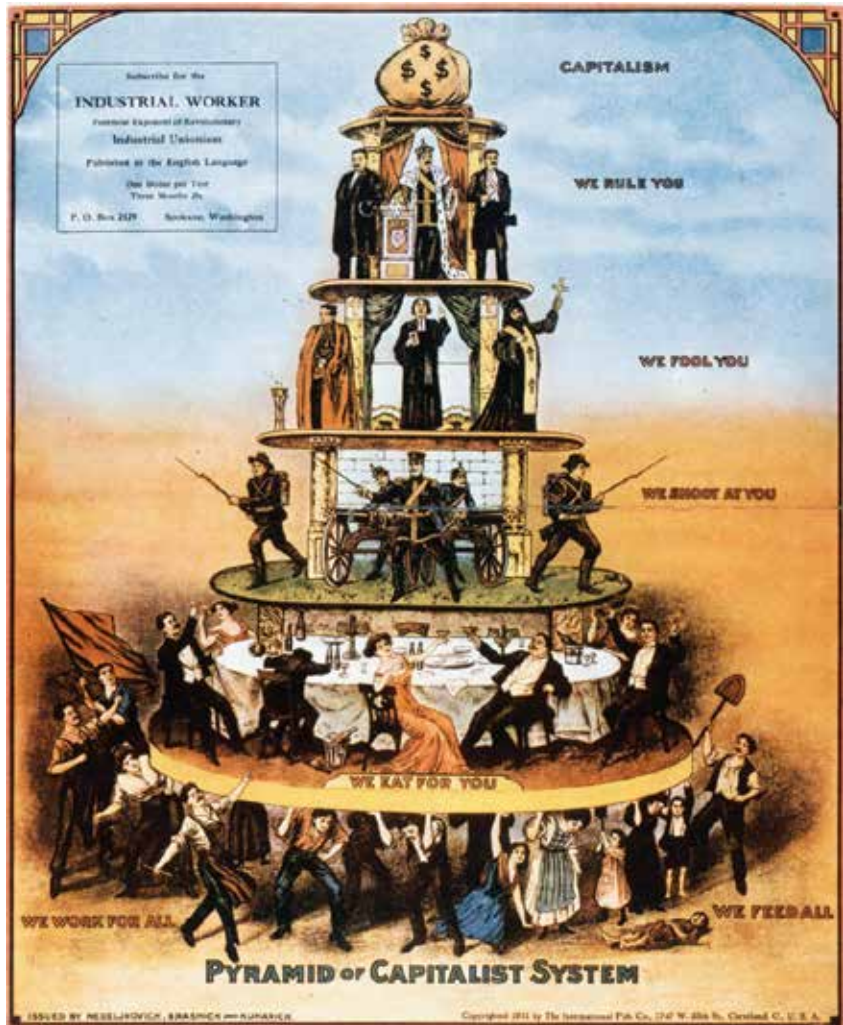
be assessed. Larger foundations might choose to work in more than one field; but many foundations could put greater proportion of their resources thereby increasing investment in their chosen work.

- e) Foundation governance systems should be decentralized to empower staff in making grant decisions; leaving the board to consider and approve initiatives, study the field, set overall strategies, and assess staff performance.
- f) Philanthropy should evolve from private acts of conscience into a professional field.
- g) A foundation many activities must be realigned to the chosen strategy. There must develop measures to assess whether or not it has been successful.

Philanthropic Marketplace

The recent high profile and large scale pouring of monies into philanthropy is like to escalate. This has brought fore the question whether philanthropy should develop a capital market. Should future philanthropist be able to “invest” in something, which have been created by “social entrepreneurs”, just as entrepreneurs create companies which are then traded in the stock market?

However, this would require an its own infrastructure, the philanthropic equivalent of stock markets, investment banks, research houses, management consultants and so on. The philanthropists should approach their endeavor with the mindset of investors, with goal to make the greatest possible difference to society's problems. There would



emerge “social investors” as well as “venture philanthropists”.

They should explore new ways of funding organizations, and in areas like poverty and inequality, they should pool resources together involving connections and influence as well as money. There are also talks about philanthropic banks, offering financial products such as loans, loan guarantees and grants.

These are all about how best to harness assets to the causes, rather than concentrating on the money to give away. Philanthropist should invest and develop models, providing start-up risk capital for government services and welfare, which can then be taken up by

governments and made widely available.

Accountibility

Underperforming foundations have been a concern of the governments, and there are talks about a five-yearly review of foundations' charitable status and their formal ratification. In Britain, charity is still governed by an act passed in 1601 and periodic and renewable license are also on the card.

Some older foundations themselves are concerned about effectiveness, and have started demanding more information on how their money is being spent.

There are ongoing work on performance evaluation and fuzzier goals such as “empowering people”, “increasing the effectiveness of civil society” or “fighting climate change” are coming under scrutiny.

Measures involving financial, social and environmental performance are susceptible to statistical manipulation. A downside could be paying more attention to managing easily measureable inputs, than output. Or to concentrate donations on those activities that can be easily measured, (number of vaccinations given), which may not be an effective way of tackling a problem.

Donors also need to strike the right balance between asking enough information to be able to monitor the effectiveness and not bogging their organizations down in form-filling bureaucracy. In this sphere, the Gates Foundation has developed a good reputation for getting the mix right and tailoring it to individual circumstances.

Conclusion

If Zukerbergs were to sell their shares, there would have been

capital gain tax liability. If they were to pass on their assets to descendants there would have been estate tax. By giving asset to charitable causes, they avoid both these charges. They now can also roll over some of the credits equal to the market value of these donated shares against their future income from salaries and dividend. With tax planning, this could be as much \$333 million, based on the proposed \$1 billion transfer.

The Zuckerberg Initiative, formed as a LLC obtains tax-exempt status and has flexibility in their investment decisions and can invest in private profit-generating ventures

The donors did not make the tax laws, which were intended to promote giving funds to social causes. It is in their prudence, the donors have decided donate to charities and can legitimately claim tax benefits. The tax laws are working to achieve the government’s intended objective and enticing people to donate more; while these funds are making differences in people’s lives. Alternatively, if the government could collect these resources in the form of tax levies and spent them itself. There is no way to know

what the difference of impact would have been.

However, it remains to be seen how the donors spend their under-controlled fund and use their newly acquired leverage towards creating equitable society.

The concerned governments, on their part, should recompense if that develops. Only then, the fruits of democratic governance and the use of taxation system for fairer distribution of wealth can be more realizable.

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Transfer Pricing Are We Prepared? Akhter Zamil FCA



The National Board of Revenue (NBR) had introduced the “Transfer Pricing Scheme” hurriedly and promptly in the financial year 2011-2012 without making provision for infrastructure development to absorb the scheme by the concerned public. It did not even make any publicity so far for the concerned people like Assessee, Multinational Companies, local companies who deals with International transactions particularly Garments sector, Professionals, lawyers, chartered accountants and Businessmen at large. In consequence, the businessmen and investors remain in dark about the scheme. Now, long after 3 years, NBR has woken up to transfer the burden of vigilance to the shoulders of businessmen about that transfer price.

Now, if we go back to our existing systems of Taxation, we find that the same techniques are prevalent now and included in the statement of the transfer pricing system. We are fully aware that tax

authority had already started practice of raising sales on estimate basis as against the actual claim of assessee and adds huge amount in the name of sales. If the tax officers do not find any cogent reasons against the sales recorded through bank receipts by assessee, they resort to raise the rate of gross profit ratio. This practice of similar nature are also being proposed to be carried out to find out transfer price by the enterprise through International Transactions. Thus, action of the Tax officials reminds us of old sayings “old wine in a new bottle” are similar to that of “transfer pricing scheme”.

In the transfer pricing scheme we find that same views are also being encouraged by NBR to collect Tax in the name of transfer price transactions. NBR is of the opinion that profit is being avoided by enterprise following tricky techniques to transfer price in other Tax haven countries.

To illustrate the position of transfer price we give below the following examples.

Company “X” in Bangladesh		Company “Z” in Zambia		Zambia Transfer price to company ‘Y’ in UK
Sale price	£ 120	Sale Price	£ 150	This is called transfer price
Cost	“ 100	Purchase price	“ 120	
Profit	“ 20	Profit	“ 30	
Tax Rate	“ 35%	Tax Rate	0%	



According to NBR 'X' company in Bangladesh has avoided £ 30 over the sales price of £ 150. Sales price of Bangladesh Company being lower than that of other countries and therefore they are losing sale price by £ 30 as well as Tax collection being 'Zero' Zambia outside, the territory of Bangladesh. So far, we understand, if an assessee adopts legal means to avoid any Tax it is called "Tax avoidance". In many Tax cases, it is decided by High Courts that if any legal means are adopted by an assessee, it will be considered as legally transacted amount and no tax can be charged on profit from that transaction.

From the above exercise, we find that 'Z' Company is the subsidiary of 'X' company who sells out its product to 'Z' company at £ 120. 'Z' company earned profit £ 20, 'Z' company purchased goods from mother company 'Z' and sells at £ 150 and thereby earned £ 30 without paying. 'Z' company of Zambia later transferred the sale value and profit to 'Y' company of U.K. at the instruction of 'X' company. No doubt, UK company and Zambia company are enjoying tax benefit from the transactions. But it should be kept in mind that Bangladeshi company is also

earning huge forex in dollar and on conversion of dollar into Bangladeshi Taka and getting higher amount in BDT out of the above transaction. In fact, indirectly, Bangladeshi is also getting the benefits out of the transaction and can boast of earning forex in the name of huge export.

Although transfer price scheme is yet to take the momentum to boost-up the export sales and to earn forex at a high stake. But in the absence of foreign investment in Bangladesh, the NBR had no other way but to fall upon the above scheme particularly on the transaction made by Multinational companies carrying business in Bangladesh. While foreign investors are found shy of capital investment in Bangladesh, any wrong decision in implementing such scheme of transfer pricing may be found otherwise. When we have a very limited number of MNC/MNE in Bangladesh, we cannot compare our position in respect of foreign investment with neighboring country like India. They have a huge number of foreign companies doing business but still India is seeking more investments from foreign countries till now. Of course, they are experiencing

“ ALTHOUGH TRANSFER PRICE SCHEME IS YET TO TAKE THE MOMENTUM TO BOOST-UP THE EXPORT SALES AND TO EARN FOREX AT A HIGH STAKE. BUT IN THE ABSENCE OF FOREIGN INVESTMENT IN BANGLADESH, THE NBR HAD NO OTHER WAY BUT TO FALL UPON THE ABOVE SCHEME PARTICULARLY ON THE TRANSACTION MADE BY MULTINATIONAL COMPANIES CARRYING BUSINESS IN BANGLADESH. WHILE FOREIGN INVESTORS ARE FOUND SHY OF CAPITAL INVESTMENT IN BANGLADESH. ”

litigations also over transfer pricing due to its introduction of transfer price scheme in India. In every 25 minutes time, one application of appeals is being filed. But we should keep in mind that India has the due infrastructure Development to absorb transfer pricing having efficient and skilled manpower to face any adverse situation which we cannot expect now at this nascent stage of the implementation of such policies.

The President of the Dhaka Chamber of Commerce & Industry, Mr. Khaled Hussain in his speech expressed his concern that Bangladesh does not have qualified and skilled manpower to withstand the situation that many arise in Bangladesh on introduction of transfer price by NBR so quickly.

Similarly the ex-chairman of NBR Mr. Muhammed Abdul Majid had also expressed similar views over the introduction of "Transfer Pricing" scheme in Bangladesh so hurriedly and hastily. According to him, to bring acceptable situation at this time it will be very difficult to cope with. Because there is a acute dearth of efficient manpower in NBR to chase the transactions with credibility. According to him stoppage of flight of capital by giving false declaration or quoting false information the price of a goods by the foreign or local domestic company cannot be controlled by the NBR alone as it has got no skilled manpower at the moment. Tax officials are not trained sufficiently by this time to grasp the situation if 'Transfer Price Scheme' are taken into hand by the NBR.

We feel we should take more time to train our Tax officials in the light of the Transfer Price regime. Only training of Tax officials about Transfer Price shall not help the

situation. We are to make vigorous publicity about the Transfer pricing system and to bring the public, investors, Tax payers, Lawyers, Professional Chartered Accountants and Cost and Management Accountants and particularly assessee of Domestic Enterprises to be acquainted with the Transfer Pricing system and its easy application.

In this respect Institute of Chartered Accountants of Bangladesh had adopted pioneering Role to arrange imparting training to its old, middle and Young Members of the Institute vigorously. Institute is holding conferences, seminars, workshops and discussion among the members of the Institute. High officials of NBR were also to be fund present in the said seminars to share the views of the members of the Institute. The ICAB is also arranging training over quality control on Audit and Assurance subject along with transfer pricing for its members throughout the month of April, 2015. As a result every one has involved themselves in the exercise getting the idea, pros and cons of the different scheme including transfer pricing. The young members of Institute are seriously engaged in the business and giving tips to the tax officials to rethink about the scheme and to change its views and opinion. Our grateful thanks to the President of ICAB and his councilors who are also exerting their mite for the assistance of the participants in the matter giving much labour, time and energy for the successful training of the concerned people.

If we delay the operation of the Transfer Price Scheme for a few months or year, there will be no chance to lose revenue by NBR. The present day attitudes of the Tax officials are enough to check the evasion of Revenue by any means. Every people will definitely

be alert in their business transactions, may it be of foreign companies or local domestic companies having International transaction particularly garments companies. Here the NBR did not fix any amount of transactions which may attract companies in respect of local or foreign for applying such scheme of transfer pricing.

No doubt garments companies are doing business of International transactions and bringing forex to the country. But small garments companies are doing business in a very limited way and they will be affected if they are to follow such scheme of transfer pricing now.

Moreover, we, being a middle income country, can not negotiate our deals strongly with the foreign countries in respect of price and foreign companies are always enjoying the upper hand in this respect. Under this circumstance the NBR should not be harsh and hard towards Garment sector rather deserves sympathy.

Telecommunication sector companies and other companies under Export Processing Zone (in some cases, companies of local and foreign companies are located at EPZ and are enjoying many facilities) for similar nature are also enjoying Tax benefit in the form of Tax holiday and other exemptions under tax law.

It is true, most of the countries of the World have adopted this scheme to stop evasion of capital and Tax avoidance by foreigner companies, we cannot sit idle against the changed situation of the business strategy by the World at large. The main problem of our country is unskilled manpower in every area of business and we cannot maintain our hopes and aspiration of becoming high profile companies.

Transfer Price



Previously, there is a trend in export and import business of our country to adopt “under invoice and over invoice” tactics by the Traders, Industrial Exporter /Importer to evade due share of foreign exchange. Now a day’s Money Laundering is found rampant by the Industrial to individual and some financial institutions are indulging such activities as we find in the daily Newspaper, Magazines and tabloids, every day. There are also Double Taxation treaties with many foreign countries with NBR. PSI companies were also engaged earlier by NBR for price checking but we do not find any improvements in that sector.

Since this being the situation, we must make ourselves fit enough to withstand the environment, we do not find any difference between under invoice and over invoice situation with that of transfer pricing of course, transfer pricing is the update version against unscrupulous activities and needs improvement in this sector by more training and discussion.

Therefore, if we take more time it

will make no difference in the field of implementation of the scheme. Individual professional Institution like ICAB had already given emphasis on the subjects and their members will be available to make situation easy besides their own benefits.

So far, we have discussed and compared different techniques used to evade Tax and flight of capital from one country to another under different channels. In order to have a check on such transactions NBR has adopted the most modern and latest technique called transfer pricing. This system has been adopted by more than 76 countries across the continents throughout the world and they have been successful in their surge because of the skilled manpower and sufficient infrastructure they prepared earlier to introduction of the scheme looking forward to maneuvering the technique properly, precisely and effectively when materialized. Unfortunately but truly we have acute dearth of skilled manpower and honest leadership to achieve such success in our country in this very moment. But the situation may

definitely improve when the scheme is put into operation and the officials start getting used to implementing the scheme through the passage of time. Experiencing is surely one way of learning therefore; we need not be totally disappointed about the hurried implementation of the scheme. On the flip side of the coin, a devastating catastrophe may occur in our taxation system while implementing a scheme that is hard, harsh and complicated in its approach with inconceivable tax languages. With only a handful of hardly trained officials and a mere infrastructure to monitor the transactions we stand a lesser chance that we will prevail and succeed through trial and error basis rather we might end up giving birth to a erroneous, half hearted system that less comply with the laws and more with the understanding the officials themselves which is already an issue even with the current systems even after years of experience and application in practice. This is high time we asked ourselves if we are prepared. We have to prioritize our goal that is to achieve utmost efficiency in taxation not to

implement the latest system that we can't follow right now.

Surely, we need our laws be up to date and fashioned enough to cope with the new age of global transactions but before that we need our system be up to date with efficient manpower and sufficient infrastructure. There is no doubt that initiatives have been taken by the appropriate authority to remove the hurdles so that we can reach to their goal but that is yet to be enough indeed. We not only need up to date system and schemes but also educated businessman who have enough consciousness to comply with the ambience that the authority is trying to create in our taxation sphere. At the same time of improving, updating and furnishing the whole system if the tax authority comes forward with an assisting attitude towards the business people of the country who has entered into international transactions knowingly or unknowingly only then complete success can be achieved. If some information or disclosure are put forward for the business community by tax authority in advance after analyzing the experiences of other countries and in the context of Bangladesh it may give the desired result of creating awareness and comprehension among them.

It is true, most of the tax payer pays his tax after unearthing tax envision by NBR through investigation. But if we dig deep into reality we find that tax officials by means of their discretionary power create unjustified tax demands in most of the case, not in favor of national taxation but to envelope their sweet-evil desire of benefit and create a win-win situation for both the parties and themselves through backdoor which sometimes, not being harmonized mutually, leads to



litigation. Rather than implementing a system even more complex yet friendly for many a officials to help their evil cause tax authority may extend their helping hands to the assessee to overcome such obnoxious situation easily. Prior information regarding taxation of income may help the situation better and can create rightful congenial relations between tax official and the assesses. Adopting a system to do so is the most important thing we should look for right now. We feel, unless the attitude of the tax officials are changed, the possibility of more legal conflict will arise and collection of revenue will fall into an uncertainty which is not desirable at all.

Now, we are to look back into transfer pricing systems as introduced by the NBR in the year ended 30th June, 2012 under Chapter XIA of the I. T. Ordinance, 1984. This chapter contains as many as 11 sections with 6 sub-sections and many sub-clauses beside Tax Rules which contains 7 Rules numbering from 70 to 75A having different sub-clauses to describe in details as to how the "transfer price" to be computed under different sections, sub-sections, sub-clauses, rules and sub-rules. Such broad and complex

net of information has made the concept of transfer pricing more mind-boggling to be absorbed by the concerned people. We may discuss the issue in a nutshell for the consumption of the professionals of different categories as under:

Chapter XIA started with section 107A defining the phrase 'Arm's Length price' to be read with Rule 70 which stated that any income arising from international transaction shall be computed in regard to Arm's Length price under passage 170C, Rule 71 and 72 and further elaborated "Factors" for considering comparability and appropriation of methods as may be used by the enterprise or person etc.

Although the term "income" proposed to be used above has not been elaborated in section 107A it can only mean gross income/gross receipts or gross revenue. But any adjustment to such gross revenue on the basis of Arm's length price would definitely have impact on the determination of total income. Tax authority however, remains silent in case of excess gross income over the actual income.

In case of permitting excess income over the actual income

would result into claim of intangible addition by an assessee. In the very beginning, this will lead to confrontation which is not desirable.

International transaction defined in u/s 2 of section 107 (2) (5) explains a transaction between two or more associated enterprise either or both of whom are non-resident, instructs how to determine the nature of such transactions and how are these defined by inclusion of properties, goods, articles, things or items, patent, invention formula process, design, know how franchise, license, contracts etc. described in sub-section (7) of section 107A.

Few other words are also included in the sub-section 3 to 11 of section 107A which are Enterprise (3), Independent enterprise (4), International transaction (5) (a) & (b), Permanent establishment (6), Property (7) (already been discussed above), Record (8), Transfer Pricing Officer

(9) Transaction (10) and Uncontrolled Transactions (11). Unless you are acquainted with these words, it will be very difficult to understand the system of transfer pricing.

Section 107B relates to determination of income from International transaction in regard to Arm's length price i. e. the amount of any income, or expenditure arising from international transactions shall be determined having regard to the Arm's length price. It is clear from the above section that the Tax authority will have the right to ask you about your income and expenditure and to consider such income as well as expenditure in an arbitrary and inconsistent manner which the assessee might not agree to. These sorts of

activities are already existed in our tax system.

Section 107C- relates to computation of Arm's length price. Before we detail out the section we would prefer to start from "Arm's length" and 'price' for the purpose of understanding of Arm's length price. According to dictionary meaning of 'Arm's length' means:

"A transaction in which the buyers and sellers of a product act independently and have no relationship to each other. The concept of an arm's length transaction is to ensure that both parties in the deal are acting in their own self interest and are not subject to any pressure or duress from the other party."

On the other hand, "price" is defined as under:

"Price in relation to sale of any goods or to the performance of any service, includes every valuable consideration, whether direct or indirect or deferred and includes any consideration which in effect relate to the sale of any goods or to the performance of any services although ostensibly relating to any other things."

In another definition of 'price' – price shall include all costs incidental to the loading charges to wagon, carrying charges of truck or tank lorry, containers etc. decided in a case cited Commissioner of central excise Vs Chatta Sugar Co. Ltd., AIR 2004. In all fairness, it is cost related matter.

The amount of royalty is constituent part of price of the materials (sale of goods Act 3 of 1930) section 61(2). The term 'price' indirect a facet that has already accrued in practice; a completed affair after a property has been or agreed to be sold.

Arm's length price means describing a transaction negotiated and entered into by unrelated parties each of who acts in his or her own best intention using fair market value. It is assumed that unless there is a related party's disclosure all transaction described in financial statement are conducted at Arm's length basis. From all these definitions, we find that each party has to be given free consent on transaction and willingness with the due diligence.

As opposed to price, Arm's length price has its unique nature and only the involved parties can determine it. But tax authority is in a position to ascertain any amount at their discretion and this may not help the situation as prevalent in the country now. Therefore, the transfer pricing system so far created requires clear, transparent and easy language to make it understandable to both the assessee and officials.

Section 107C- which is related to computation of Arm's length price urged that Arm's length price is to be computed adopting some appropriate methods selected from the following methods based on the nature of transaction, the availability of reliable information, function performed, assets employed, risk assured or such other FACTORS as described.

The methods are-

- (a) CUP method
- (b) RSP Method
- (c) C.P. Method
- (d) P. S. Method
- (e) TN MM
- (i) Any other method where it can be demonstrated that-



- (ii) None of the methods mentioned in clause (a) to (e) above can reasonably be applied to find out arm's length price for the International transaction and
- (iii) Such other methods yield a result consistent with the arm's length price.

Section 107D-Refers to transfer pricing officer notwithstanding mentioned anything in section 107C-

- (a) A Deputy Commissioner of Taxes with prior approval of the Board may initiate the proceedings for determination of Arm's length price in relation to International transaction. His Job will be to serve notice to assessee for any evidence, documents from assessee to compute the Arm's length price.

- (b) TPO after considering such documents as produced to him by an assessee draw the computation of Arm's length price in accordance with section 107C and send copy to DCT. The DCT will then complete the assessment order and send it to assessee.
- (c) The transfer price officer has the right to rectify any order u/s 173 and accordingly, the DCT will follow the order of TPO and carry assessment order.

Section 107E- is related to maintaining and keeping of information, documents and records as per rule 73 of the Ordinance. The DCT by issue of notice may ask to the assessee to furnish any information, documents and records as maintained or as may be specified in the notice.

Section 107EE- This section relates to statement of International transactions to be submitted by any person who has entered into International transaction and shall file return of income statement of International transaction in different from as per Rule 73.

Section- 107F- Under this section an accountant is required to furnish a report if aggregated International transactions of a person exceeds three crore taka during the income year, shall furnish the report on or before specified date by a Chartered Accountant in a manner as required under Rule 73/74.

Section 107G- This section relates to imposition of penalty for failure to keep, maintain or furnish information documents, records to DCT as required under section 107E of the Ordinance. But under no circumstances it will be exceeding one percent of the value of each International transactions.

Section 107H- This is related to penalty for failure to comply with the notice or requisition under section 107C. However, the penalty shall not exceeded one percent of the value of each International transaction entered into by a person.

Section 107I- This section relates to penalty for failure to furnish report under section 107F by a person for failure to furnish a report from a chartered accountant as required under section 107F. But in no case such penalty shall exceed three lakh taka.

Section 107J- This section is related to enforcement of provisions of this chapter and shall come into force from 1st July, 2015.

So far all the sections under Chapter XIA are discussed in a nutshell to have the understanding of the issue.

Now, we shall discuss about the Rules as framed by NBR for the following up of the sections as stated above.

There have been incorporated as many as six rules starting from Rule 70 to Rule 75A.

Rule-70- Described the procedures to be adopted by a person while determination of Arm's length price under different appropriated methods under section 107C.

Separate procedures have been proposed for separate methods such as-

- (a) **Cup Method** to be followed under comparable uncontrolled price method.
- (b) **RPM**- for the transfer of property and services at its prices when resold.
- (c) **CPM**- The direct cost or indirect cost incurred in the supply of property or services provided i. e. cost base to be determined.

PSM- Under this method, the combined profit arises from International transaction to be divisible among the associated enterprise is to be identified.

TNNM- Under this method, the net profit margin by the associate enterprises from the International transaction is to be computed having regard to an appropriate base such as costs, sales, assets.

Rule-71 – Factors to be considered judging the

components of an uncontrolled transaction for International transaction and different methods as mentioned above under Rule-70 which are (a) the characteristic of property, services or tangible properties involved in the transaction.

As regards to tangible property physical feature of the property, its quality and reliability, availability, value, and timing of property transferred to be ascertained.

In case of services provided the nature and extent of the services are to be determined.

In case of intangible property the type of intangible, the form of transaction, the expected benefits, the duration of protections, the degree of protection etc. are considered.

Rule-72- Appropriate method as mentioned under section 107C. Under this method, the facts and circumstances which provide the most reliable measure of an arm's length price in relation to the International transaction are discussed. In selecting the appropriate method as specified in sub-rule, the following factors shall have to be considered.

- (a) Nature and class of International transaction of the enterprises involved in transaction.
- (b) The comparability factors (contractual terms, market level risks, functions) which are materially significant in determining the price or margin in relation to the International transaction.
- (c) The quality of relevant data with reference to availability, coverage, validity and reliability.

- (d) The reliability of assumptions in the method.
- (e) The sensitivity of results in the deficiency in data and assumption.
- (f) The extent under which reliable and accurate adjustment can be made to eliminate the differences if any between transactions.

Rule 73- This rules relates to maintenance of information and documents to be kept under section 107E. Here it is indicated that various information to be maintained from ownership profile to business profile of multinational companies, the line of business, strategies of past, present, and future transactions.

Any other information, data, documents, including information or data related to associated enterprises which may be relevant for determination of the arm's length price.

Rule 74- Report from a certified Accountant to be furnished under section 107F as from Rule 75.

Rule-75 A prescribed form has been given under this rule.

Rule 75A- Statement of International transaction to be furnished under section 107EE under this Rule, a person is requested to furnish the following information under Rule 75A and section 107EE.

A: Particulars of assessee-

- (a) Name of the assessee
- (b) TIN-
- (c) (1) Circle (2) Taxes Zone
- (d) Assessment year-

(e) Income year from _____
to _____

B: Under the Rule 75A more details of the information particularly International transactions entered into by a person to be furnished.

So long, we have discussed the procedural aspects of the transfer pricing. In our opinion, we have so far pin pointed all the sections, sub-section, sub-clauses together with Rules and sub-rules. But still we feel, we could not discuss the issue in a full length style giving necessary examples for the comfort of the users of the enactment. The article has already increased manifolds in its shape and form. All these sections and Rules as appeared are to be complied with by the assessee. So many compliances to be maintained by assessee may give rise to adverse situation. Readers are requested to go through original ordinance for better understanding of the enactment as full disclosure of the sections and rules that were not discussed. The law so far framed

has itself become clumsy and confusion prone which cannot get expected response from the public.

The transfer price, money laundering, "under and over invoicing" in same form double taxation treaty are more or less cannot be checked as expected by NBR. Our suggestion for NBR is to follow easy method of increasing sale price on the basis of price, quantity and quality with reference to comparable situations since we do not have any Institutions, where from we can confirm value or market price which is fair market value, the key point for computation of Arm's length price. Given there are no culture to issue invoice for purchase and the procedures practiced in Bangladesh for business transaction are incomprehensive, the relevant section and rules for computation of Arm's length price taking into consideration the appropriate method is a near to impossible task for lawmen and unskilled user and business community as a whole. In the interest of Tax collection, NBR may rethink the issues and to

pick-up price of goods from the view point of reasonableness and in fairness of law. Otherwise, litigation process will grow heavily to stop collection of the revenue.

And at the same time, computation process of tax should be made easily accessible for the users easily which would help avoidance of litigation. Also a progressive and steady system is to be introduced to further train the tax officials to keep the deviation of laws at minimum level. Awareness of the public should be also encouraged by regular publicity of the transfer pricing. Vigilances have to be enhanced over Multinational Company, Multinational enterprise and local subsidiary and their activities. Provided everything suggested are taken into action and implemented successfully the scheme of transfer pricing will only then be fruitful which is still a long way to go.

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hardware and software and management enhance elasticity of storage, flexibility and mobility, cost free update the technology by service provider and reliability.

With cloud computing files are stored in the "Cloud". Users can access office files from wherever and whenever. Another feature of cloud computing is that it is often transferring data to server controlled by third party or service providers. Users can also work together virtually even when they are not at the same place at the same time. Various documents can be viewed simultaneously provided Internet connection is available. Cloud computing also aids the easy access to information. Easy access in this context could be seen in how fast it is to access. It links different networks and create a "network of networks" for better exchange of services. This connectivity can enhance capacity of outsourcing service providers like Bangladesh.

The internet was the third revolution in information distribution in mankind's history after the printing press and the alphabet. Let us keep update with outsourcing cloud service to avail rapidly developed IT and get optimum benefit out of this knowledge.

Referring to cloud computing, United Nations Secretary-General Ban Ki-moon states "This has considerable potential for economic and social development, in particular for our efforts to achieve the Millennium Development Goals and to define a bold agenda for a prosperous, sustainable and equitable future."

UNCTAD announced 'The information Economy Report 2013 declaring a concept of cloud economy 'ecosystem'. The development and impact of cloud computing and cloud services within the wider information economy and relevance to national economic development since it is not only a technology alone. The cloud ecosystem includes a complex set of relationship between technology and business, government and innovation, production and consumption. Government should now integrate a cloud strategy in development plan for execution, monitoring and evaluation as part of ecosystem of cloud economy.

A recent study described cloud technology will develop over the next two decades with major implications for markets, economies and societies. By 2025, most IT and web applications and services could be cloud delivered or cloud enabled. The shift toward cloud computing by a combination of physical hardware, network, storage, services and interfaces require for IT services. Any shortfall in any of these knowledge, infrastructure and legal framework may left out any nation aside. Bangladesh cannot effort to stay out of global communicating system. Moreover, Bangladesh is in process to emerge as software service exporting country based on cheap labor. Bangladesh cannot afford to stay behind as cloud computing is not just about Information Technology or Computer but it is related to the overall economy.

Most of the cloud service providers are in west particularly in USA and

there is not a single cloud provider in developing countries. Among the Asian countries, Japan and Singapore have their own companies. Bangladesh can have dream of develop own cloud companies in future. Japan has developed a nation-wide "Kasumigaseki Cloud" is being developed to enable various ministries to collaborate and at the local level, the "Jichitai Cloud" is being built to provide interoperability among local governments.

Although there is no harmonized international privacy framework regulating data transfers across borders, the implementation of strong domestic privacy regimes could benefit developing countries. About 99 countries of the world have data-privacy laws till 2013. Out of those Mexico has most update cloud-specific provision for data protection. Bangladesh may consider new law or update the existing ICT act to make data secure as we are in service business of data processing and computing for the customers in developed countries. The key reform areas include privacy, data protection, information security and cybercrime.

We need policy and legal reform to avail the technology for improvement of export oriented service sector like data processing, software etc through a new idea of ecosystem. We may modify our digital Bangladesh policy incorporating cloud computing for a cloud economy.

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Growth and Development of Pharmaceutical Companies in Bangladesh

An Evaluation
Rokeya Parvin Jui



Abstract

Pharmaceutical sector achieved remarkable success in last several years through competitiveness in manufacturing cost, work forces, business environment and market promotions. Growth of such sector accelerates the employment creation, government revenue and helps provide a better standard of living to the local people. 96% of our local demand for pharmaceutical products is met by local manufacturers and exports are made to 87 countries of the world. We have fierce competition with MNCs inside and outside of the country. We need strategic change to survive in global market.

Keywords issued: Market Growth-Manufacturing Cost-Work Force Skills-Regulatory Environment-Strategic Change etc.

Introduction

Pharmaceutical sector is one of the most developed hi-tech manufacturing industries in Bangladesh. This industry has gone through a transformation in the last 30 years. Professional knowledge, expertise and innovative ideas of the pharmacists working in this sector have been the key factors for such transformation, Beginning in the 1950s , a

few multinationals and local entrepreneurs set up manufacturing facilities in the then East Pakistan. Now over 245 registered companies produce medicines in Bangladesh out of which 164 are truly operational (Abdullah and Shamshet: 2011). The Pharmaceutical industry started growing in the country with the adoption of the 1982 dug policy. In the following years, the industry received generous policy support and financial assistance in the form of subsidy to ensure its steady growth. Taking advantage of the favorable government patronage and later the World Trade Organization's (WTO) waiver of patent rights under Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) on generic drugs, as an Least Developed Country(LDC), the country's pharmaceutical sector achieved phenomenal growth in the last two decades. The industry transformed itself from an import based to export based one (Habib and Alam: 2011). The industry contributes about 1% of the total Gross Domestic Production (GDP). The domestic market of Pharmaceutical products has shown a tremendous growth over the last three years.

Statement of the Problem

Bangladesh has achieved remarkable success in pharmaceutical industry in the last several years; this sector has been



facing many challenges in fact. The huge size of the companies, complexities of their processes and technologies used for this industry present many organizational and managerial challenges. Since Bangladeshi pharmaceutical companies have already entered into international market they have to compete with the world leading companies. The world pharmaceutical market is very much competitive. Pharmaceutical sector's international competitiveness can be determined by four factors; manufacturing cost, workforce, business environment, and market. Considering these factors, Bangladeshi firms have obstacles to overcome to become globally competitive (World Bank: 2008). Some manufacturing costs are less than world average, but some are higher since the local pharmaceutical industry is not backward- integrated. About 80% of the Active Pharmaceutical Ingredients (AIP) is to be imported. This results in higher manufacturing cost brain-intensive- industry. The workforce in this brain- intensive- industry lags global average . At the same time, the quality of drugs available domestically varies significantly. Some frms are producing world class quality (Habib and Alam:

2011). The government and regulatory environment do not appear to be conducive to producing the safest, most effective and accessible drugs. Some macro factors favor success while others are less decisive. To successfully proceed into the local and global marketplace in this competitive market, every organization must plan strategically. Since no organization has unlimited resources, strategists must decide which strategy benefits the firm most among the alternative (Fred: 1997). One important thing is that Local demand of pharmaceutical products is rising very fast because of increasing awareness of healthcare, per capita income, growing government's expenditure in this sector and emergence of private healthcare service.

In five years time, the domestic demand for pharmaceutical products is projected to increase to at least US \$ 1.44 billion from existing US \$ 585 million (Ala: 2011). The industry will have to meet this local demand and cope with the challenges facing in changing environment and also maintain the current growth, and even improve its position in the international market.

“ THE COUNTRY IS NOW ALMOST SELF-SUFFICIENT IN ITS PHARMACEUTICAL PRODUCTS AS 96% OF THE TOTAL DRUG DEMAND IS MET BY LOCAL MANUFACTURES. BANGLADESH IS EXPORTING THEIR PHARMACEUTICAL DRUGS TO 87 COUNTRIES IN THE WORLD. OVERALL EXPORT EARNINGS FROM PHARMACEUTICALS REACHED BDT 5,396 MILLION FOR THE YEAR 2012 WITH A GROWTH RATE OF 28%. ONE OF THE REASONS OF SUCH GROWTH IS THE WTO RULES WHICH ALLOW COMPANIES OF THE LDCS INCLUDING BANGLADESH TO PRODUCE AND EXPORT ESSENTIAL DRUGS WITHOUT MAINTAINING PATENT WHICH IS AGAIN RENEWED RECENTLY AND CREATED FURTHER OPPORTUNITIES FOR COUNTRY LIKE US. ”

Objectives of the Study

- a) To analyze the major characteristics of the growth and development of pharmaceutical units in Bangladesh.
- b) To find out the impeding factors for the growth trends of this sector.
- c) To suggest the ways for developing the sector through various initiatives.

Needs for the Studies

The pharmaceuticals industry in Bangladesh is a dynamic growing sector. Listed companies of this sector play a great role to develop this sector. These companies occupy the major portion of total pharmaceuticals' market share. The market of pharmaceuticals is very competitive and globalised. Management practice is a very important issue of making proper strategy to survive and thrive in competitive environment.

Having a lot of importance and potentiality of this sector in national economy, existing literature shows that a few studies have been done focusing on corporate governance, key success factors, problems and challenges in the pharmaceutical industry. But how modern management is practiced in pharmaceutical sector and what is the effectiveness on organizational performance is still unexplored. However, while the field of modern management is increasing rapidly in developed countries, theoretical and empirical investigations on this issue in developing countries have remained limited (Haley and Tan 2000). Moreover, there is a need to understand more about the various aspects of management.

Review of Related Studies

In order to understand the implications of the different concepts and also to identify the areas already explored and to find out the areas unexplored so far and to make an in depth study, a review of related literature is of paramount importance. The relevant studies are reviewed here focusing their objectives, methodology followed, hypothesis tested, concluding remarks, and limitations thereon.

Abdullah and Shamsher (2010) studied on "A Study on the Impact of PEST Analysis on the Pharmaceutical Sector: The Bangladesh Context". They had an endeavor to analyze the pharmaceutical sector of Bangladesh using the framework of PEST (Political, Economic, Social, and Technological). PEST analysis of any industry sector investigates the important factors that are affecting the industry and influencing the companies operating in that sector. Both Primary and secondary information were used to conduct this research. This study brought to light the current state of the sector its progress and its problems. This report analyzed the existing laws, legislations, and government policies which stand to affect the sector directly and indirectly.

Ala (2010), in his article on "SWOT Analysis of Pharmaceutical Industry: A Study of selected firms in Bangladesh", evaluated the strength, weakness, opportunities and threats (SWOT) of pharmaceutical industry in Bangladesh. In this paper the researcher tried to find out what types of strength, weakness, opportunities and threats pharmaceuticals face in Bangladesh. He emphasized on the trends of this industry. Both the primary and secondary data were

used in this study from five leading pharmaceutical firms. This study also concentrated on identifying the ways to overcome the challenges and weakness of this industry. It also provided some suggestions and recommendation for development of the pharmaceutical industry.

Banu (2009) wrote an article entitled, "Cost Composition of the Selected Pharmaceutical Companies Listed in Dhaka Stock Exchange, Bangladesh." She evaluated that cost is an indicator of both operational and financial performance of an enterprise. The Pharmaceutical industry in Bangladesh produces medicines at among the lowest prices in the world. To strengthen the pharmaceutical sector in the global market, cost trend of the companies should be examined. Her study found overall rising trends in the average cost composition of five pharmaceutical companies during 2001 to 2008.

Ferdous and Abu (2013) found out in their article entitled, "Prospects of E-Commerce in Pharmaceutical Industry of Bangladesh: Lessons from the Case of Drugstore.com." that Drugstore.com has achieved a great success in business arena. At the same time, the regulatory and other strong challenges are still found to be threatening.

Lincoln and Bhattacharjee (2007) in their study examined the structure of the industry, evaluated performances and presented some strategies for further growth of the industry. This paper was prepared mainly on published data and information. Here they presented the detail production of National and Multinational companies. At the same time they highlighted major provisions of WTO and implementations of TRIPS for Bangladesh. Major Provisions

included compulsory licenses should be permitted after consideration of the individual situation in which such license is requested, patents should be available and enjoyable without discrimination as to the place of invention, the field of technology or whether the product is imported or produced locally. Some strategies were recommended for the future development of third sector such as joint R& D activity by the pharmaceutical companies, using various universities and research laboratories of these countries should be initiated without delay. Country quota should be allocated based on the prevailing GDP to undertake research activities.

Habib and Alam (2011), in their article entitled "Business Analysis of Pharmaceutical Firms in Bangladesh: Problems and Prospects" attempted to investigate the scenario of pharmaceutical industry and to identify the major problems of marketing, exporting, production and operations, quality control in the pharmaceutical sector. They proposed some recommendations to overcome these problems. They also identified the prospects of pharmaceutical industry in Bangladesh. The study was conducted by both primary and secondary data on ten leading pharmaceutical companies in Bangladesh. They highlighted marketing problems such as insufficient incentives, high cost of marketing unstable political situation and different types of violence. They also mentioned that foreign competitors with more equipment, technology and plant facilities are threat for local firms. But managerial problem like how to develop strategic factors in competitive environment is not explored in this study.

Kasapi and Mihiotis (2011), in their study named "Management as applied to New Products penetration in the Competitive Environment of Pharmaceutical Industry" fulfilled to analyze, based on M. Porter's five forces model (FFM), what kind of strategies were to be followed regarding the introduction penetration of new products in the pharmaceutical market taking into consideration the extremely competitive and challenging environment existing around the pharmaceutical industry. In this article, the authors discussed the importance of strategic management practices for new products introduction and growth in the pharmaceutical industry's environment. They analyzed how Porter's FFM and SMP can be applied in that sector and focused on the industry's revenues. This study provides a detailed analysis on new pharmaceutical products lifecycle i.e. drug discovery, development, introduction and subsequently their growth, maturity and decline phase. Finally, the paper concluded by giving advice to all interested managers to overcome old mental models and apply change management taking into consideration that we live in the age of uncertainty and turbulence.

Nimalathasan (2009) had a study on profitability Listed Pharmaceutical Companies in Bangladesh. The main objective of the study was to compare (inter and intra) the profitability of pharmaceutical companies. A total of two pharmaceutical (IBN SINAPH & AMBPH) companies were selected and these companies have sufficient credential for being the representative of this industry in terms on investment, sales, earning income, value addition, employment etc. Secondary data were used to measure the indicators which are related to

profitability. Here indicators of profitability such as , Gross Profit Ratio (GPR); Operating Profit Ratio (OPR); Net Profit Ratio (NPR); Return on Equity (ROE), Return on Capital Employed (ROCE); Return on Equity (ROE) were taken into account for the study. This study concluded that the profitability of pharmaceutical companies is very much satisfactory as both of the companies meet the standard norms of profitability in terms of investment.

The World Bank (2008) conducted a study on "Public and Private Sector Approaches to Improving Pharmaceutical Quality in Bangladesh" which was prepared by a team of World Bank staff and consultant led by Kees Kostermans. This study's analysis identified specific policy and institutional options to improve the cost and quality of pharmaceuticals produced in Bangladesh and its competitiveness in the global market. The authors conducted in-depth interviews in Bangladesh with representatives from government, industry, NGO, international organizations and pharmacists and completed a review of existing literature. This study presented the issues that must be considered to achieve low-cost high-quality drugs to benefit society and help pharmaceutical companies in Bangladesh and explored the options that the Government and the local industry could pursue. This paper addressed some issues from a more private sector approach. The existing quality and price of pharmaceuticals were analyzed and alternative mechanism was explored to improve the quality and cost competitiveness of Bangladesh's pharmaceuticals domestically and internationally. They discussed four factors that drive the price and quality competitiveness of pharmaceuticals in Bangladesh.



score by the United Nations Industrial Development Organization (UNDP) ; and a net positive pharmaceutical balance of trade.

This paper identified five potential mechanisms to improve the quality of drugs available in Bangladesh.

- 1. Export-led improvement-** Firms tend to improve the quality of drugs that are made for export but not the drugs made for domestic consumption. This has implications for the domestic market.
- 2. Regulatory-led improvement-** A strict regulatory environment does result in higher drug quality but significant political will is required to enforce the regulations.
- 3. Competition-led improvement-** There is widespread agreement that firms in economies with liberal trade policies and greater openness show stronger economic growth and overall development performance in the long run.
- 4. Private sector-led improvement-** In many industries and countries, the private sector has played a role in maintaining and monitoring quality which could play a role in this regard.
- 5. Knowledge-transfer-led improvement-** Most firms in Bangladesh want to provide the highest quality drugs possible. Government and donors should work with firms producing at less than Good Manufacturing Practices (GMP) levels to raise their standards to a minimum acceptable level.

They are-

- 1. Manufacturing Cost-** Bangladesh has a clear advantage due to low labor costs, while it is at a disadvantage with regards to the largest cost driver for the pharmaceutical sector.
- 2. Workforce Skills-** Although Bangladesh's pharmaceutical labor costs are approximately 30% less than India's labor, the industry faces challenges in the technical training required because Bangladesh's relevant technical educational system lags behind global levels.
- 3. Government and Regulatory Environment-** The current regulatory environment is protected and under-regulated. Importing drugs is difficult, allowing domestic firms to dominate the market. Due to the power of these firms and the government regulatory agency's weakness, quality control laws are not strictly enforced.
- 4. Macro Factors-** Countries tend to have stronger domestic industries when the following characteristics are present: high levels of secondary and tertiary educational enrolment; GDPs greater than \$100 billion; populations greater than 100 million; a high manufacturing value added

This paper also examined two external forces currently impacting Bangladesh's pharmaceutical sector which can provide opportunities for change. The first is WTO's Trade Related Aspects of Intellectual Property (TRIPS), which grants Bangladesh domestic manufacturing opportunities and limited export advantages. The second force affecting the industry is the rapidly changing international marketplace. Globalization has resulted in an extremely competitive international market with firm seeking low cost manufacturing sources. This paper concluded with policy and institutional suggestions for Government to improve the price and quality competitiveness of Bangladesh's pharmaceuticals. The recommendations were targeted at improving the domestic market, increasing export potential and taking advantage of TRIPS. The conclusions were preliminary and more analysis was suggested.

Research Methodology

The study is exploratory in nature, in the sense that the study explores the business environmental factors that influence the development efforts of management authorities.

Types and Sources of Data

Both quantitative and qualitative data are used for the study, collected from the primary and secondary sources. Practically official records of the relevant authorities are followed to arrive at concluding remarks.

Pharmaceutical Industry Structure

Bangladesh pharmaceutical industries began to increase in the private sector since the promulgation of the Drug (control) Ordinance 1982. There are four types of manufacturers on the basis of type of drug-Allopathic, Unani, Ayurvedic and Homeopathic. The

following Table displays the total number for these manufacturing units of 2002 and 2012. At present, there are 268 Allopathic, 204 Ayurvedic, 268 Unani and 79 Homeopathic drug manufacturing companies in the country. From the table, it is revealed that among the different types of drug manufacturers, allopathic system has the highest change (27.14%) in number of units –followed by Ayurvedic (26.70%). However, according to DDA, among the 268 allopathic units only 193 are under active production and others are either closed down or suspended by the DDA due to non-compliance to GMP or drug laws.

It is observed from the table that out of 268 companies, 252 (99.63%) belong to private sector while only (0.37%) belong to public sector. The number of MNCs operating in Bangladesh is 8. Again, only 10 companies (3.75%) of the total are listed with stock exchange of the country

Different types of Drug Manufacturers

System	2002 (No of Units)	2012 (No of Units)	Change (%)
Allopathic	210	268	58 (27.61%)
Unani	261	268	7 (2.68)
Ayurvedic	161	204	43 (26.70)
Homeopathic	76	79	3 (3.9%)
Total	708	819	111(15.54%)

Source: Directorate of Drug Administration

The following table shows the distribution of pharmaceutical companies on the basis of their ownership at the end of December, 2012.

Distribution of Pharmaceutical Companies on the basis of ownership

Types	No. of Companies	% of Ownership	No. of listed Companies
Private Limited (Local)	252	94.02	
Private Limited (MNC)	4	1.49	
Public Limited (Local)	8	3.0	10 (8 + 2)
Public Limited (MNC)	2	0.75	
Government owned	1	0.37	
Total	268	100	

Source: Directorate of Drug Administration

including eight local and two MNCs.

Public Sector

There is only one public sector manufacturing company in Bangladesh. The name of the company is Essential Drug Company Limited (EDCL). It is a 100% State Owned Pharmaceuticals Company and controlled by the Ministry of Health & family Welfare of Bangladesh. In the year 1962, it was functioning under the then Central Government in the name & style of Government Pharmaceuticals Laboratory (GPL) and subsequently it was renamed as Pharmaceuticals Production Unit (PPU) in the year 1979. For the interest of Public Health & smooth running of the organization, it was registered as a Public Limited Company under the Companies Act-1994. Presently authorized capital of EDCL is Tk. 200 Crore and paid up capital is 41.70 Crore of Tk.10 each share (EDCL, 2012).

The main objective of EDCL is to manufacture quality drugs at an affordable price & supply to the Government Hospital and other Health Institutions. It has three drug manufacturing units- two of them are at Dhaka and Bogra and the third unit is under the Institute of Public Health (IPH) which produces vaccines and large volume IV (Intravascular) fluids. It produced Drugs & Contraceptive product worth Tk.978 million in the financial year 2001-2002. The production increased to Tk.2965 million in 2010-11 (EDCL, website) the production of EDCL increased by 203%.

Pharmaceutical Products in Bangladesh

The Pharmaceutical Products can broadly be classified into two

categories. These are:

a) Patent Medicines

b) Generic Medicines

- a) Patent Medicines are the products that are invented by the original companies, who have their own research team working in their own laboratories. These products are patented for many years to enjoy the monopoly market. After years of business the formulation is sold in the market so that others can go into mass production.
- b) Generic Medicines are the products that are produced and distributed in mass scale without patent protection. These are marketed by several companies under different brand names, where the formulation of this product is almost same. Prices of products under this category are competitive.

However, Bangladeshi pharmaceutical companies mainly produce and market generic medicines. About 85% of the drugs sold in Bangladesh are generic and 15% are patented drugs, whereas generic drugs represent about 25% on average of worldwide pharmaceutical sales (Saad, 2012). There are about 450 generics registered in Bangladesh. Out of these 450 generics, 117 are in the controlled category i.e. in the essential drug list and 333 in the decontrolled category. The total number of brand items that are registered in Bangladesh is currently estimated to be 5,300, while the total number of dosage forms and strengths are 8,300 (DDA). These include a wide range of products from anti-ulcerants, flouroquinolones, anti-rheumatic, non-steroid drugs, non-narcotic analgesics, anti-histamines, and

oral anti-biotic drugs.

Distribution of Pharmaceutical Products

Prompt and safe distribution and public/ private storage facilities to the end should be ensured so that the products are maintained throughout the whole process and good quality essential drugs are always available to those who need them. Physical distribution of pharmaceuticals in Bangladesh has evolved in a unique way. Unlike other countries, Bangladesh pharmaceutical industry is more retail-oriented and bulk of distribution is done by the companies themselves; pharmaceutical companies distribute their products from their own warehouses located in different parts of the country as no professional distribution house is available. Wholesales play limited role in this regard since companies supply products to both retailers and wholesalers.

Distribution Channels of Pharmaceutical Products

The following table shows the wholesale and retail registered license holders of 2002 and 2012. There were 1495 wholesale drug license holders and about 37,700 retail license holders in Bangladesh in 2000. At the end of 2012, the number of wholesale drug license holder and retail drug license holders in the country stood at 2202 and 98621 respectively. In last 10 years wholesale drug license holders have increased by 47% and retail holders by 161%. According to the DDA apart from the license holders, there are lot of unlicensed retailers all over the country which are mainly responsible for marketing sub-standard and spurious drugs.

From the table it is revealed that

Wholesale and Retail Licensed Drug Holders of 2002 and 2012

Item	Total Number in 2002	Total Number in 2012	Growth (%)
Wholesale Drug License Holders	1495	2202	47
Retail Drug License Holders	37700	98621	161

Source: Directorate of Drug Administration

Market of Pharmaceutical Products

Market Size and Growth

The size of the retail market was BDT 1.8 billion in 1982, where as it reached to BDT94.0 billion in 2012 (IMS report). That means the retail market increased by 52 fold in last three decades. Five years back, the market size was BDT 47.0 billion and 10 years back it was BDT 28.6 billion. Meaning it doubled in 5 years and more than tripled in 10 years. It is evident from the table below that retail sales in the domestic market achieved 11.9% growth in 2012 following 23.6%, 23.8%, 16.8% over the last 5 years and 14.2% over the last 12 years. This steady growth rate demonstrated the success story of this sector. Although the overall sales recorded growth in 2012, the table shows that the growth rate of 2012 declined from 2011 and 2010.

Market Size and Growth

Year	Size (BDT billion)	Growth (%)
2001	24.5	-
2002	27	10.2
2003	28.6	8.6
2004	31.1	17.5
2005	36.5	17.5
2006	38	4.1
2007	44	15.8
2008	47	6.9
2009	54.9	16.8
2010	68	23.8
2011	84	23.6
2012	94	11.9
Average	48.1	14.2

Source: International Marketing Service (IMS) and Square Pharmaceutical Ltd. 2012

Factors behind Market Growth

From the previous section it is clear that pharmaceutical sector has shown tremendous growth in the last decade. Some factors contributed to the growth of this sector. The table below shows some selected health indicators for Bangladesh which helped to boost this industry.

Selected Health Indicators for Bangladesh

Health Indicators	2011	2005	2000
Life Expectancy	70	66.9	64.7
Govt. Expenditure (%of GDP)	36.6%	34.9%	39.0%
Health Expenditure (%of GDP)	3.7%	3.21%	2.82%
GDP per Capita (US\$)	732	428.8	363.6
Health Exp. per Capita	27	13	10
Poverty Level	31.5%	40.0%	48.9%

Source: World Bank 2012



life expectancy improved from 64.7 in 2000 to 70 in 2011 which highlights the increased health consciousness among the people. Per capita income of the population doubled (from US\$363.6 in 2010 to US\$731 in 2011) over the last decade which allowed them to spend more for healthcare. Also per capital health expenditure about tripled (from US\$10 in 2010 to US\$27 in 2011) over the time which indicated people's willingness to spend more to remain healthy. Medical coverage of population with new hospitals is increasing which helps to boost this sector.

Emergence of private healthcare service – a number of top class hospitals started operating which includes Apollo Hospitals, Square Hospitals, United Hospitals, Popular Hospitals and others. These hospitals became very popular with the mass population due to their quality service. They have been a major factor contributing to increased healthcare expenditure.

Although government expenditure

did not improve compared to percentage of total healthcare expenditure, there has been increased expenditure in absolute terms. Growth in private expenditure was the primary reason behind fall in Government expenditure.

Contribution to National Exchequer

Pharmaceutical industry is the second highest contributor to the national exchequer after tobacco (IMS Report, 2012). Usually like other manufacturing organization, a pharmaceutical company has to pay some types of fees and duties to the government. These include applicable VAT, corporate tax, export and import duty of raw materials, licensing fee for every pharmaceutical products and manufacturing fee for factory. All types of fees, tax and duties are increasing with the rising of sales volume.

Export Earning

Pharmaceutical product is

relatively a new item in the export basket of Bangladesh. The pharmaceutical export items cover wide range of products of all major therapeutic classes and dosage forms. It includes high technology products like inhaler, suppositories, nasal sprays, injectibles and infusion. Although the export of pharmaceutical products is still in an infant stage, the volume of export is increasing gradually. According to BAPI, 33 private pharmaceutical companies have already entered into the export market with their basic materials and finished products. The pharmaceutical sector has demonstrated the capability of exporting its products within a short time. About two decades ago Bangladesh was a drug importing country, now it exports surplus drugs to many countries of the world after satisfying the local demand.

Table 14 shows the export earnings and growth rates of the pharmaceutical products over the last 12 years.

The overall export earnings of the

Export of Pharmaceutical Products

Year	Local (Tk. in mill)	Export earnings (Tk. in mill)	% of Exported Drugs	Export Growth (%)
2001	20417	311.8	1.5	-
2002	30501	406.9	1.3	31
2003	32384	545.5	1.7	34.1
2004	32858	1400.0	4.2	156
2005	40950	1421.0	3.1	1.5
2006	44457	2520.0	5.7	77.3
2007	51493	2347.0	4.6	-6.8
2008	59296	3131.1	5.3	33.4
2009	70961	3352.1	4.7	7.0
2010	79690	3274.3	4.1	-2.3
2011	123753	4212.2	3.4	28.6
2012	156245	5396.2	3.5	28.1
Average	61917	2360.0	3.60	35.26

Source: Directorate of Drug Administration

country from pharmaceuticals reached BDT 5,396.2 million for the year 2012 with a growth rate of 28.1% over the previous year. The average annual percentage of exported drugs and growth is 3.60 and 35 respectively in last 12 years. However, the export growth was not steady across all the years. The table shows that the growth of export dropped to 6.8% in 2007 and 2.3% in 2010. According to the drug administration, it is because of some political problems in 2007 and world economic downturn in 2010. Except these two years where trade slowed down significantly worldwide, pharmaceuticals export was robust in all other years.

Conclusion

Bangladesh, though categorized as LDC, is shifting from an agro-based economy to a more industrialized economy. Pharmaceutical industry has a significant role in boosting economic activity of the country and brings in foreign currency. Growth of the pharmaceutical sector accelerates employment creation, government revenue and helps provide a better standard of living to the local people. It is one

of the fastest growing sectors in the economy with a double growth rate (14.6%) in last ten years. Pharmaceutical market used to be dominated by MNCs, now it shifted to local companies which enjoy about 90% of market share. It is highly concentrated as top 20 companies produce 85% of the revenue.

The country is now almost self-sufficient in its pharmaceutical products as 96% of the total drug demand is met by local manufactures. Bangladesh is exporting their pharmaceutical drugs to 87 countries in the world. Overall export earnings from pharmaceuticals reached BDT 5,396 million for the year 2012 with a growth rate of 28%. One of the reasons of such growth is the WTO rules which allow companies of the LDCs including Bangladesh to produce and export essential drugs without maintaining patent which is again renewed recently and created further opportunities for country like us. Other reasons are – government legislative support, increased awareness of healthcare, increase in per capita income, emergence of private healthcare and

government's increased expenditure.

Besides this success, one of the underlying threats for this industry is that this sector is not backward-integrated. Most of the APIs (80%) are to be imported every year. In addition to that, local pharmaceutical companies have to face fierce competition with the MNCs inside and outside of the country. However, to hold the current market growth and to increase the future market, this sector needs to have proper strategy.

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Monetary Policy

Monetary Policy of Bangladesh Moving Towards the Right Direction

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Bangladesh Bank formulates and implements monetary policy for every six months with an objective to stabilize domestic monetary value and maintain a competitive external par value of the Bangladesh Taka towards fostering growth and development of country's resources in the best national interest. In simple words, the focus of Monetary Policy is to ensure a moderate Inflation and a competitive exchange rate. There has been a severe draught in the investment of the country which is hindering the expected growth. Such investment of unsatisfactory volume is posing a great threat at the ambitious vision of entering the club of Middle Income Countries. Keeping this in mind, the monetary policy of Bangladesh Bank for July-Dec 2015 was formulated to boost investment and overall economic development of Bangladesh.

Some important features of the monetary policy of July-Dec 2015 are stated below:

- This monetary policy was targeted to support 7 percent growth and the 6.2 percent inflation for the fiscal year 2016.
- Reserve money is projected to grow at 16 percent and broad money (M2) at

15.6 percent which are adequate to support the growth and inflation targets. It has also taken the growth rates of both public and private credit into account.

- Domestic credit is projected to grow at 16.5 percent at the end of the fiscal year 2016. Private sector credit is projected to grow at 15 percent and public sector Credit at 23.7 percent.
- Policy interest rates (repo, reverse repo) will remain unchanged, but easing will be considered after point-to-point headline general inflation and core CPI inflation take a sustained declining trend.
- Bangladesh Bank's supervisory vigilance on banking governance will be straightened further to clamp down on loan delinquencies.
- Besides already ongoing inclusive financing for farm and nonfarm Small and Medium Enterprises (SMEs) and the export development (EDF) fund support for exporters, new medium to longer term financing windows totaling USD 500 million will be opened in the fiscal year 2016 for financing of manufacturing enterprises, and for



greening initiatives in the export oriented textiles, apparels, and leather sectors.

The below discussion will articulate the significance of monetary policy of Bangladesh Bank on Investment, employment and overall economic development of the country:

Inflation

For a growing economy like Bangladesh, inflation range of 4-6 percent is considered as moderate. Bangladesh's current level of inflation of 6.24 percent is close to government's 6.2 percent target of

FY16. Despite the significant reduction of oil price in world market, Bangladesh Petroleum Corporation (BPC) has not adjusted domestic selling price of oil because the inflation rate is within the tolerable limit and BPC has an accumulated loss to the tune of BDT 290 billion. Although general inflation has fallen from 6.87 percent in January 2015 to 6.24 percent in September 2015, core inflation that counts nonfood and nonfuel inflation is on the rise. It has inched up from 6.08 percent in January 2015 to 6.73 percent in September of the same year, warranting a cautious stance right now.

Rate of Inflation (as measured by CPI, base 2005-06)	September, 2015	August, 2015	September, 2014
Point to point	6.24%	6.17%	6.84%
Monthly Average(Twelve Month)	6.24%	6.29%	7.22%

However, the conservative approach of Bangladesh Bank in Monetary Policy is expected to keep the inflation rate within target limit.

“ **BESIDES ALREADY ONGOING INCLUSIVE FINANCING FOR FARM AND NONFARM SMALL AND MEDIUM ENTERPRISES (SMES) AND THE EXPORT DEVELOPMENT (EDF) FUND SUPPORT FOR EXPORTERS, NEW MEDIUM TO LONGER TERM FINANCING WINDOWS TOTALING USD 500 MILLION WILL BE OPENED IN THE FISCAL YEAR 2016 FOR FINANCING OF MANUFACTURING ENTERPRISES, AND FOR GREENING INITIATIVES IN THE EXPORT ORIENTED TEXTILES, APPARELS, AND LEATHER SECTORS.** ”

Interest Rate

High cost of fund is considered as one of the critical factors deterring the new investments and increasing non-performing loans. It has been a pledge of the Central Bank to reduce lending rate and bring it down to single digit while it's still in double digit. The weighted average deposit rate fell to 6.66 percent in Sep 2015 from 6.99 percent in May 2015. The average spread, which stands on the average deposit rate to give us the average lending rate, slightly fell from 4.83 percent in May 2015 to 4.82 percent in Sep 2015. Consequently the average lending rate fell from 11.82 percent in May 2015 to 11.48 percent in September 2015. The call money rate has fallen from 5.79 percent in June 2015 to 5.71 percent in September 2015. The changes are nevertheless not substantial enough to outweigh the concern about rising core inflation. Policy rates will, therefore, remain on the course as before. Central Bank expects to revise them whenever further developments warrant them to do so.

Period	Deposit rate	Lending rate	Spread
July 2014	7.71%	12.84%	5.13%
May 2015	6.99%	11.82%	4.83%
Sep 2015	6.66%	11.48%	4.82%

So, it appears that Central Bank has greater attention on keeping inflation at moderate level instead of bringing down interest rate to boost investments.

Investments

All three sectors of the economy- agriculture, industry, and services, are performing well. Industrial growth has been faster than others as expected. Bangladesh experienced 8 percent plus growth for industry and around 4 percent



growth for agriculture. Services, being the largest sector (more than 50 percent), grows at 6 percent on the trend. The share of investment in GDP is around 29 percent – adequate to generate 6 percent plus growth in output. Nevertheless, further efforts to augment the investment ratio are warranted to achieve the growth target of 7.5 to 8 percent to be a middle income country by 2021. Public investment in infrastructure and energy is essential in this regard. Investment should rise 37.6% of gross domestic product from the current 28.7% if 8% GDP growth is targeted. Bangladesh will have to spend \$7.4 billion to \$10 billion a year until 2020 to bring its power grids, roads and water supplies up to the standard needed to serve its growing population. To develop the infrastructure, the implementation of Annual Development Program (ADP) requires speeding up to accomplish mega public projects that always create space for greater

private investment, fuels money into the economy and creates employment.

Credit growth

Deficit financing is mainly managed by Govt. from bank borrowing. Public sector credit registered a negative figure of 2.5 percent in the last fiscal year due to lesser or no amount of subsidy in fuel than the projection of Govt. Private sector credit growth has always remained stable particularly since the fiscal year of 2013 when the figure was 10.8 percent and has stood higher at 13.6 percent in the FY15. If the last fiscal year's 13.6 percent credit growth could endow the economy with 6.5 percent output growth, a provision of 15 percent private credit growth appears to be adequate to support 7 percent output growth for the current fiscal year. Yet such simple equation may not be proved eventually as a realistic estimation.

Exchange Rate and Foreign Reserves

Bangladesh Bank has kept on buying foreign exchange to protect external competitiveness of taka by easing appreciation pressures on it. Bangladesh Bank has been maintaining exchange rate stability for the last 2 years and a quarter since early 2013. The current trend of slow growth rate of export (3.35%) and rise in import (12%) will die out appreciating pressure. Such situation will send Bangladesh Bank to a position that enables depreciation with better ease. Bangladesh Bank's foreign exchange reserves have grown fast to a level generally deemed as adequate. At the moment, foreign reserve can meet approximately 6 months' import bills.

Banking Governance

Recent rise in Non-performing Loan (NPL) is potentially alarming. Bangladesh Bank expressed firm intention to take corrective measures to clamp down on classified loans. However, it is still struggling to operate banking system under an environment free

from political influences. It is evident that undue influence of high-ups of the country safeguards willful defaulters. Despite engaging of various supervisory techniques, quotable improvement is not experienced by the Central Bank in managing NPL. Bad loans accounted for 9.67 percent of the total loans on June 30, 2015 compared to 10.47 percent in March 2015. Default loans of most of the state-owned commercial banks increased in the second quarter of 2015. Defaults at private banks fell 1.12 percent to Tk. 223.50 billion at the end of June 2015 which represents 5.6 percent of their outstanding loans. The banks have a tendency to sanction large loans in violation of the prudential norms. They some times fail to use the borrower's updated CIB report while granting loans. This gives "opportunity" to the defaulters to get loan from a new bank to regularize the ongoing NPL. Also, at the time of rescheduling the loans they always take down-payment, or even the partial amount, in clear violation of the central bank rules. The rampant attitude of defaulters is increasing the amount of bad loans which is ultimately swelling the cost of

funds making the genuine entrepreneurs demotivated for new investments.

Conclusion

Bangladesh Bank uses its core weapons to control money supply and creates investment friendly environment thereby. Investors from home and abroad do not consider monetary factors only in taking investment related decisions. Since Bangladesh Bank can influence only monetary factors, it has limited scopes to boost investments. Yet the success and failures in setting targets and fixing strategies in the monetary policy for July-Dec 2015 will facilitate them in formulating the next monetary policies. If workable strategies are targeted and all vested quarters work together in an integrated manner ensuring Good Governance, overall macro-economic indicators are expected to exceed the target at the end of FY 2016.

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Accounting for Carbon Emissions

Global Practices and Lesson for Bangladesh

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Abstract

The paper investigates existing accounting practices pertaining to carbon emissions. We investigate existing accounting practices related to carbon emission that are practiced in some developed countries such as Australia, the UK, and USA. We could not find any particular reporting trends, since there is no particular accounting standards developed so far in this regards. Due to this, the divergent accounting approaches reduce the comparability, effectiveness and accuracy of emissions related accounting. For this reason, stakeholders are facing difficulty to make useful economic decisions which is a fundamental objective of financial reporting. We also investigate the existing accounting practices relating to the classification of emissions allowances. We find significant variations in accounting practices particularly in reporting accounting numbers and their subsequent measurement. This paper also illustrates the rationale for introducing emissions reduction scheme in developing countries such as Bangladesh. Finally, a concern is raised over developing a uniform standard for carbon emissions accounting for both the developed and developing countries.

Keywords: Carbon, Emissions Allowances, Emissions Trading Schemes (ETS), Accounting, Bangladesh.

Introduction

Emission trading scheme (ETS) is one of the mechanisms to control the emissions of greenhouse gases. In U.S.A, a cap-and-trade system was first established as a part of the Clean Air Act (CAA) of 1990 for sulfur dioxide (SO₂) and nitrous oxide (NO_x) emissions of electric power generators in 1995 (Ernst & Young, 2009). Moreover, in 1997, under the Kyoto Protocol, 149 countries agreed to decrease greenhouse gas emissions and 39 industrialized countries made commitment to lessen greenhouse gas emissions by 5.2% (Kyoto Protocol, 1997). As per the protocol, countries emitting below their distributed quota could sell their allocated amount units to countries that surpass their quota (United Nations, 2014). However, in the European Union (EU), the ETS is a keystone of its policy to tackle climate change and decrease GHG emissions of industries in a cost effective manner. It is the first and the largest international system for trading GHG emission allowances. It operates on the 'Cap and Trade' principle. It is projected that compared to 2005, emissions from sectors under the EU ETS will be 21% lower in 2020. Further, by 2030, the commission suggests the percentage would be 43% lower (European Commission, 2015). Despite the widespread concern over the greenhouse



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gas emissions and its regulation, proper method of reporting carbon emissions allowances is still at the nascent stage. It is vital to develop an accounting standard for consistent reporting. Recognizing this need, both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) added a joint project on accounting for emissions trading schemes in 2007. An exposure draft was supposed to be issued in late 2009 (Ernst & Young, 2009). Unfortunately, the IASB and FASB agreed to postpone their joint project in November 2010.

Given this situation, the objectives of this paper are: first, the systematic investigation of the accounting practices related to emissions trading schemes based on the review of the recent articles. Second, observing the reporting pattern and trend for carbon emission allowances. Third, illustrating different accounting approaches and their impacts on the financial statements. This study is useful to articulate the issues of carbon accounting practices and to draw the attention of different researchers, organizations and

standard setters regarding the existing accounting anomalies and the pattern and trend of accounting approaches. It reflects on the debatable matters related to carbon accounting which must be resolved as soon as possible. The world is moving toward the standardization of the accounting standards. Unfortunately, carbon emissions accounting approaches are yet to be standardized. This study also highlights the importance and significance of carbon emission and related accounting issues in Bangladesh. Our study will also raise a concern regarding the rationale for establishing a market based mechanism and associated carbon accounting policies for Bangladesh.

The remainder of this paper is organized as follows: Section 2 describes the rationale for a carbon emission scheme. Section 3 focuses on relevant literature. Section 4 outlines the existing accounting practices. Section 5 suggests appropriate accounting practice for Bangladesh. Finally, section 6 concludes this paper.

Rationale for a Carbon Emission Scheme

Emission trading scheme (ETS) is a market based approach to control the emissions which have deleterious impact on the environment and climate change. This section covers the rationale behind carbon emission schemes from the context of both developed and developing countries. Day by day, carbon emission footprint is becoming an integral part of companies, since it has direct economic impact on them specifically to those which produce high level of emissions. KPMG (2013) conducted a study considering sample of companies listed on the S&P 500, reveals that due to the generation of extra thousand metric tons of carbon discharge, the mean decline of the firm's value is \$212,000. It dictates that investors consider carbon emissions in their investing decisions. The study also discloses companies with disclosure of carbon emissions have median value of \$2.3 billion higher than the similar type of companies that do not. It shows disclosures of carbon emissions influence the value of the firm. Likewise, Climate Disclosure Project (CDP, 2013) reports that top companies in terms of either climate disclosure leadership index (CDLI) or climate performance leadership index (CPLI) produce higher stock performance.

Now, we turn our attention in the context of rising economics. Accounting for carbon emissions has become crucial due to the several reasons. As per UN draft report, "The world's richest countries are increasingly outsourcing their carbon pollution to China and other rising economics". It is observed that rich economics are making rising economics to produce goods

(smart phones, cheap clothes and other goods) which are used in their countries. The report also notes that developing countries are emitting an increasing portion of carbon dioxide resulting from combustion of fossil fuels, because of the production of goods and services exported remarkably from upper medium income countries to rich countries (the Guardian, 2014). It indicates the shrewdness of rich economics which are taking advantage of the rising economics.

Moreover, the Kyoto Protocol is also largely responsible for the above scenario. According to this, carbon emissions are imposed to countries considering the production place instead of basing on consumption place. For this reason, Kyoto protocol is criticized. It paves the way to the developed world to adopt accounting trick so that they can show reductions in emissions by outsourcing their manufacturing products to the developing nations

(Shah, 2012). Even though rich countries are largely responsible for emitting carbons, they are also putting pressure for cutting carbon emissions on rising economics such as China, Brazil, India etc. In this way, justice and equity are ignored while negotiating on this issue. Being a developing country, India has also taken steps to reduce emissions of carbon, though it argues that developed world should take first steps to reduce their emissions. It has launched pilot projects of emissions trading schemes in some states such as Maharashtra, Gujarat and Tamil Nadu (Mohanty, 2015).

Bangladesh is the most vulnerable country to climate change. Presently, Bangladesh contributes to the 0.14% to the global discharge carbon dioxide. It is expected that carbon emissions will increase in the future due to the economic growth and increased consumption of energy, even if the alternative energy is



used. On a study using estimated period till 2050, it is forecasted that, in line with Copenhagen Accord, carbon emissions would cross equity-based per capita emission limit in Bangladesh provided that there are no improvements in carbon intensity and absence of gains in its energy efficiency (Gunter and Rahman, 2012). However, increasing trend in carbon emissions is noticeable in Bangladesh. After the liberation war, Bangladesh is experiencing an upward trend in carbon emissions.

From the above discussion we think it is rational to introduce emission trading scheme (ETS) in Bangladesh. Nonetheless, there is opposite view in this regard. Compared to the developed world, Bangladesh is not solely responsible for carbon emissions. If restriction is imposed on the carbon emissions, the economic growth of the country might be hampered and this similar view is expressed in case of India too. It is completely contrasting to the steps adopted by Rwanda and Ethiopia which considered low carbon development as an opportunity instead of detrimental to economic growth (IIED, 2013). It is noteworthy to say, introduction of emission trading scheme in developing countries like Bangladesh is debatable. The next focuses on some of the relevant literature pertaining to this issue.

Literature Review

Recognition and measurement of carbon emission allowances have been a contentious issue among the standard setters, academicians and the corporate enterprises. There are accounting anomalies for emission accounting throughout the world. Due to this, there are diversified accounting practices all over the world. In November 2003, the Emerging Issues Task

Force (EITF) (2003) held a meeting to discuss issue no. 03-14, Participants' Accounting for Emissions Allowances under a "Cap and Trade" Program. In 1993, the Federal Energy Regulatory Commission (FERC) published "Uniform System of Accounts" which involved U.S emission allowance accounting practices. According to FERC, emission allowances are reported as inventory based on historical cost. In case of purchase allowances, they are reported at exchange price. On the other hand, if allowances are received from the Environmental Protection Agency (EPA) at free of charge, they are recorded at zero bases. Furthermore, periodic expense is recorded on the basis of the historical cost of allowances required to meet the actual discharge of sulfur dioxide.

There are differing views on this accounting method among the EITF members. Some members argue for broader scope of this issue other than cap and trade programs. Other members opine that conflict may arise with other areas of U.S. GAAP, if changes are made to the FERC's guidance. Moreover, at present, regulated companies are receiving lion's share of emission allowances from the EPA at free of cost and are recognized on a zero cost basis. This may distort the emission accounting practices in particular the recording of assets, liabilities and operating income of U.S companies (Fornaro et. al, 2009). IASB issued 'IFRIC3: Emission Rights' in December 2004 with the objective of providing authoritative guidance. Income recognition upon receiving carbon permits valuation of asset, liability and expenses recognition and measurement basis for actual emissions were considered under this guideline. This guideline was

issued before the issuance of European Union Emission Trading Scheme (EU ETS).

IFRIC3, Emission Rights, provided that under IAS 38 (Intangible Assets), emission permits should always be accounted for as intangible assets and it provides the scope for historical cost model and revaluation model. Generally, purchase allowances are measured at cost and if the government authority provides allowances for free or less than fair value, the allowances should be recorded at fair value and impairment tests are required under either of the method. Moreover, any decrease in fair value is reported in the income statement and conversely any increase in fair value is recorded in stockholders' equity to the amount exceeding excess revaluation. IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) is in force when the fair value of government allowances is deviated from the price paid. Owing to the difference, deferred income is recognized and revenue is reported over the life time of allowances irrespective of held or sold allowances. Under IAS 37 (which is about Provisions, Contingent Liabilities and Contingent Assets) liability and expense related to actual emissions are recognized. The liability is the fair market value of allowances which expected to be paid at the end of the period. The net approach is not permitted such as netting assets and liabilities (Fornaro et al., 2009).

Notwithstanding, later on, IFRIC3 was withdrawn within six months of issue following severe criticism on the elements of the guidelines regarding accounting mismatch and failure in reflecting the business reality appropriately. European Financial Reporting

Advisory Group (EFRAG) also questioned the elements and opined that the guidelines should not be adopted in European Union (EU). EFRAG stressed that valuation of assets and that of liabilities under the guideline cause accounting mismatches and lead to inflated income. Due to this objection, IFRIC3 was withdrawn in June 2005 for further examination. As a consequence of withdrawing IFRIC3, the EU carbon emissions market became free from guidance. Absence of proper guidance in place emerged diversification in accounting practice. International Emissions Trading Association (IETA) and PricewaterhouseCoopers (Pwc) (2007) demonstrated in a joint survey that accounting approaches for emission are significantly diversified.

From the above explanation, it is clear that there are significant accounting anomalies for emission allowances. The diversity of accounting practices hinders the comparability of financial information which creates problem for making useful economic decision. It is noteworthy to say, most of the previous studies are based on identifying the carbon emission accounting practices of companies. To the best of our knowledge, there is no investigative study on the carbon emission accounting and its present status and trends based on the literature review. In absence of the uniform guidelines, it is important to observe and reveal the disparate accounting practices related to carbon emissions accounting. Furthermore, no previous studies put forth the issue of introducing emission trading accounting issues arising from it in developing countries like Bangladesh. We have addressed these issues in our research to fill the existing gaps in the literature.



An Illustration of how Existing Carbon Emission Accounting Practices under Different Standards

In the literature review part we showed that the absence of uniformity of carbon emission accounting hampers the comparability, effectiveness and the accuracy of the reporting for carbon accounting. This can be clearly demonstrated with respect to a numerical example which has been taken from Fornaro et.al, (2009). ABC Co. is a participant in a national cap-and-trade program aimed at lessening the limit of CO₂ emissions below a prior-year baseline. On January 3, 2014, ABC Co. received 24,000 allowances (free of cost) from a regulatory agency. Each allowance permits ABC Co. to discharge one ton of CO₂ during 2014. This allocation is below the company's previous-year levels and its most latest internal emissions

estimations for 2014. Actual emissions are reported at the end of each calendar year, and sufficient allowances must be delivered to the regulatory authority by the end of the first quarter of the subsequent year. Excess allowances can be purchased or sold via an organized exchange.

During 2014, the market price for an emissions allowance at specific dates is as follows:

January 3	\$6.00
March 31	\$7.00
June 30	\$7.50
December 31	\$8.00

Suppose, business activity surpassed expectations, and during 2014, ABC Co. emitted a total of 28,000 tons of CO₂. Projecting this annual shortage in emissions allowances, ABC Co. purchased 1,000 additional allowances on both March 31 (\$7000) and June

30 (\$7,500) at the existing market price. At the end, to confirm that it has enough allowances in reserve to meet actual emissions for the year, ABC Co. purchased 2,000 more allowances on December 31, 2014 (\$16,000). In January, 2015, ABC Co. provided 28,000 allowances to the regulatory agency to surrender its outstanding emissions obligations. Accounting activity related to this is shown below under three different situations: 1) commonly practiced accounting method for EU-ETS activity mentioned in the PwC/IETA survey. 2) Existing U.S. GAAP under the FERC regulations 3) IFRIC 3 (withdrawn later on).

Common Practices under EU-ETS

At first, ABC Co. prepares a memo entry on January 3, 2015, to recognize the receipt of 24,000 allowances at a nil basis and recorded them as an intangible asset. No deferred revenue equal to the fair value of the allowances received is recorded. Again, the purchases of extra allowances (4,000) are reported as intangible assets amounting to \$30,500. To meet the actual emissions, periodic emissions expenses and a related liability are calculated and recorded based on the carrying

amount of allowances needed using FIFO or weighted-average cost method. Finally, ABC Co. recognizes emissions expenses of \$30,500 for 2014. An intangible asset and a separate liability for emissions of \$30,500 are reported on the balance sheet based on historical cost practices.

Existing U.S. GAAP under FERC regulation

ABC Co. prepares a memo entry to record the receipt of 24,000 allowances in inventory at a nil basis on January 3, 2014. Similar to EU practices, No deferred revenue equal to the fair value of the allowances received ($24,000 \times \$6.00 = \$144,000$) is not recorded. During 2014, the purchases of extra allowances (4,000) are reported as inventory amounting to \$30,500 ($\$7,000 + \$7,500 + \$16,000$). Emissions expenses are recognized (and inventory relieved) using the weighted average cost of allowances required to meet actual emissions. For 2014, ABC Co. recognizes emissions expenses of \$30,500 representing the historical cost of 28,000 allowances. Neither additional assets nor liabilities are reported on the balance sheet from these transactions.

IFRIC 3

On January 3, 2014, assuming the historical cost option under IAS 38 to calculate the cost of allowances owned ABC Co. records an intangible asset and deferred revenue of \$144,000 on account of 24,000 allowances. Again, the purchases of extra allowances (4,000) are reported as intangible assets amounting to \$30,500. Furthermore, revenue is reported on a systematic basis and periodic emissions expenses and a related liability are calculated and recorded based on the actual emissions to date using the market value of allowances on the reporting date. For 2015, ABC Co. recognizes total revenue of \$144,000 and emission expenses of \$224,000 which is calculated multiplying actual emissions (28,000) by the year-end price (\$8) for a net expense of \$80,000. Intangible asset of \$174,000 ($\$144,000 + 30,500$) and the liability for emissions of \$224,000 are reported on the “grossed-up” balance sheet.

Now, the impact of the above practices on the financial statements is shown briefly:

Partial Income Statement

Particulars	Existing practices in EU (\$)	U.S. GAAP (FERC) (\$)	IFRIC 3 (\$)
Revenue	0	0	144,000
Emissions Expense	30,500	30,500	224,000
Net Expense	30,500	30,500	80,000

Partial Balance Sheet

Particulars	Existing practices in EU (\$)	U.S. GAAP (FERC) (\$)	IFRIC 3 (\$)
Intangible Asset/Inventory	30,500	0	174,500
Emissions Liability	30,500	0	224,000
Net Asset (Liability)	0	0	(49,500)

For settlement in 2015, ABC Co. would provide 28,000 allowances to the regulatory authority to meet its emissions obligation for 2014. At settlement, there will be no recognition of loss or gain under existing EU practices and U.S. GAAP while a gain of \$49,500 will be recognized under IFRIC 3. The reason for this is the accounting mismatch in calculating the allowances owned (carrying amount of \$174,000) and the measurement of the related liability at market price of \$224,000 (Dec 31, 2014). This results a gain of \$49,500 at settlement.

It is clear from the above theoretical and numerical explanation that there are still some controversial issues related to the carbon emission accounting. Carbon emissions accounting under different models create disparate financial results which violates the objective of financial reporting, since it hinders comparability, effectiveness and accuracy of reporting. Consequently, users cannot take decisions based on this. Companies in the EU and between those in the U.S.A and EU cannot be compared, owing to disparate accounting practices. Furthermore, the relevance of financial information is also questionable because of the mal-conformation of important accounting ratios such as return on assets (ROA), leverage ratios and other profitability measures.

Which Accounting Practice can We Adopt for Bangladesh?

Before moving to the selection of a particular accounting practice pertaining to emissions allowances, it is important to raise the question: "Is it justified to ask Bangladesh to reduce greenhouse



gas emissions?" Government's view with respect to this approach should be addressed too. Along with national issues, international issues should be taken into account. As mentioned previously, industrialized nations are outsourcing CO₂ to rising economics to cut emissions in their countries. As per the notion of climate justice, the biggest responsibility and burden rest on the industrialized countries who are mainly responsible for climate change. Unfortunately, this notion is ignored by many rich countries and they are campaigning to bring developing countries (i.e. China, Brazil, India, and Bangladesh) under emission reduction schemes (Global Issues, 2012). Moreover, Bangladesh is moving fast to be a middle-income country. Over the past decade, Bangladesh has experienced stupendous economic development. On average, since 2004, she is experiencing increasingly steady economic growth of 5-6% annually. Its

economy is gradually moving to manufacturing from agriculture. Both the garments and manufacturing sectors offer strong prospects of underpinning economic growth (Udenrigsministeriet, 2015). In addition, Bangladesh government has a plan to establish as many as 100 economic zones across the country within the next 15 years to encourage industrialization, production enhancement, export promotion and diversification (Budget Speech 2015-16, 2015). Considering this economic prospect, Bangladesh should adopt emission reduction schemes and associated accounting practice as a part of future planning. However, the opposite view says greenhouse gas (GHG) emissions per person compared to bigger developing countries is not significant. As such, it is not fair to ask Bangladesh to reduce its emissions.

At this stage, low carbon development is not a national

priority, though Bangladesh is the most vulnerable counting to the climate change in the world. It is concerned that low carbon agenda will hamper the country's economic growth and development. This poses a serious challenge to developing countries like Bangladesh in the way of implementing low carbon agenda. To defend this view, approach taken by Rwanda and Ethiopia, where low carbon agenda has been considered as an opportunity instead of a potential obstacle to growth (IIED, 2013). Introducing emissions reduction schemes can be a potential fund raising strategy for Bangladesh. It will send a message to the development partners and potential donors that Bangladesh is prepared to reduce their emissions. In this way, the raised fund can be utilized for climate change adaptation and mitigation programs. This will certainly have positive impact on the overall economic development of the country.

From the above arguments, it can be mentioned that concentrating on pollution intensive companies, Bangladesh should adopt emissions reduction program such as ETS as a pilot program at first. With the growth in industrialization, the scope of such scheme can be widened. Now, from the accounting point of view, a question arises which accounting practice should be adopted, if emissions reduction program is introduced. Based on the overall analysis of accounting practices, existing practices under EU ETS is suggested, since EU ETS is the largest carbon market (more than 75% of international carbon trading) and European Union has been successful in reducing emissions (almost 45% of total emissions) substantially (European Union, 2013). Existing U.S GAAP under FERC regulation is not

recommended since it can distort liabilities, assets and operating income pertaining to emissions, if emissions allowances are received free of cost with a zero cost basis. IFRIC 3 is not also proposed because it was withdrawn following the accounting mismatches in reporting. Unless uniform standard comes in, we propose that existing practices under EU ETS can be adopted in Bangladesh.

Conclusion

We conclude this paper by stating that there are inconsistencies in the emissions accounting practices. It was expected since there is no uniform accounting practice related to it. Along with the different researchers, several audit firms (such as KPMG, PwC, Deloitte, Ernst & Young) reflected upon this issue. We observed deviations in recognizing emissions allowances as assets and also in the different accounting practices under different models such as IFRIC 3, EU ETS existing practices and U.S GAAP practices. The reason for these inconsistencies is the absence of any accounting standards or interpretation within United States' Generally Accepted Accounting Principle (U.S.GAAP) or International Financial Reporting Standards (IFRS) that deals solely with the accounting treatments for emissions allowances or renewable energy certificates. As a result, on the ground of the general principles of IFRS, companies are obliged to apply judgment and select to an accounting method.

However, the disparate accounting practices weaken the comparability of financial statements. Consequently, stakeholders are facing difficulty in making useful economic decisions. It is noteworthy to say, comparability is

one of the enhancing qualitative characteristics of useful financial information and the entities must provide information that is useful in making economic decisions that is also the fundamental objective of financial reporting, as per the conceptual framework for financial reporting. From this viewpoint, it can be mentioned that present state of carbon emission accounting practices violates an important qualitative characteristics for useful information and the basic objective of financial reporting. Our investigation reveals another important fact that how developed countries are taking advantage of developing countries in achieving their emissions target. The developed countries are progressively outsourcing their carbon pollution to the developing countries. Consequently, the rising trend of the emissions of carbon dioxide is noticeable in the developing countries. Bangladesh is not also free from this. Bangladesh is also experiencing high growth in carbon emissions since 1972. Rich countries are shrewdly exploiting this advantage. From this perspective, developing countries in particular Bangladesh should adopt ETS or other emission curbing measures as a part of proactive stance. However, there is conflicting view as well. Curbing emissions of carbon may frustrate the economic growth. India has also expressed this view, even though it has launched pilot programs of emissions trading scheme in the areas Gujarat, Maharashtra and Tamil Nadu. Following India, Bangladesh can introduce emissions trading scheme as a pilot programs, since she is vulnerable to the climate change and the upward trend of the carbon emissions. This study shows direction about the further empirical research. An empirical research can be conducted showing the impact of different

accounting approaches on the stakeholders' decision. Finally, we raise the concern that the lack of uniformity of carbon accounting reporting might reduce the comparability, effectiveness and accuracy of carbon emission reporting.

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