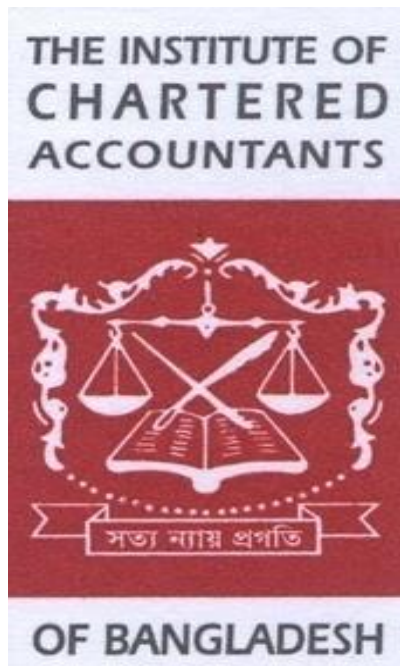


Financial Reporting Oversight: Global Practice and Bangladesh



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Financial Reporting

Financial reporting is the process of generating and disseminating useful information about firm performance and financial status to a wide range of users through various means of communication.



Financial reporting is not an end in itself but is intended to provide information that is useful in making **business and economic decisions** about providing resources to the entity (**SFAC I Highlights**).

Oversight of Financial Reporting and Auditing

- Accountancy profession is historically self regulated; professional accountancy bodies set their own standards, educated their members and ultimately monitored compliance with code of professional ethics
- The system worked well for a long time, producing some highly qualified accountants who contributed to business development and economic growth of the country
- However, the high profile accounting scandals in the earlier parts of this century exposed the vulnerability of the self-regulatory arrangement
- Questioning the conflict of interest, the idea of independent oversight body has been come through to oversee the financial reporting
- Currently, there are oversight bodies in USA, UK, Australia, Malaysia, Sri Lanka, Bangladesh and few others countries.
- But even, till today, in most of the places in the world including our neighbouring countries, accountancy profession is self regulated

Independent Accounting Oversight Body – Global Experience

The Public Company Accounting Oversight Board (PCAOB), USA

- Created through the **Sarbanes-Oxley Act, 2002** - as one of the significant outcomes of Post Enron (2001) impact
- Required that auditors of USA public companies be subject to external and independent oversight for the first time in history
- **Composition:** The board consists of **Five** members. **Three** members are lawyers and **One** member is **CPA** (worked in GAO)
- The SEC has oversight authority over the PCAOB, including the appointment of key personnel, approval of the Board's rules, standards, and budget
- Major **Functions-**
 - Adoption of accounting and auditing standards
 - Inspections
 - Enforcement

Financial Reporting Oversight in the UK

- Historically, accounting oversight was provided by the Consultative Committee of Accountancy Bodies (CCAB)
- In 1990, the government announced the establishment of a new Financial Reporting Council (FRC)
- The FRC was charged with promoting good financial reporting through two subsidiary bodies: the Accounting Standards Board, and the Financial Reporting Review Panel (FRRP)
- In 2004, the government took the decision to strengthen the regulatory system in the UK following the major corporate collapses in the US and accordingly
- FRC's role was extended to become the single independent regulator of the accounting and auditing profession as well as being responsible for issuing accounting standards and dealing with their enforcement

Timeline of the FRC

Year

External Influences

- Accounting Standards Board (ASB) and Financial Reporting Review Panel (FRRP) formed

1990

2001

Collapse of Enron

2002

Collapse of Arthur Andersen
Collapse of WorldCom

- Audit Inspection Unit (AIU) formed
- Swift Review of the Regulatory Regime of the Accountancy Profession
- Higgs Review on the Role and Effectiveness of Non-Executive Directors
- FRC takes responsibility for Combined Code (now the UK Corporate Governance Code)

2003

- FRC acquires three new subsidiary bodies:
 - Auditing Practices Board (APB)
 - Professional Oversight Board (POB)
 - Accountancy Investigation and Discipline Board (AIDB)

2004

- FRC Reform – independent operating bodies brought under direction of FRC Board and Councils
- Kay Review of UK Equity Markets and Long-Term Decision Making

2012

Governance of Financial Reporting Council, UK



The Board's role is to provide strategic leadership, sets the FRC's strategic aims, ensures that the necessary financial and human resources are in place for the FRC to meet its objectives and reviews management performance and also sets the FRC's values and culture and ensures that its obligations to its stakeholders and others are understood and met.

The Board is supported by three governance committees (Audit Committee, Nominations Committee and Remuneration Committee) and by two business committees (Codes & Standards Committee and Conduct Committee). All Committee shall be appointed by the FRC Board of Directors.

Composition of FRC UK

- All members have substantial experience in accounting, auditing, investment banking, insurance business or legal matters: <https://www.frc.org.uk/About-the-FRC/FRC-structure/FRC-Board/Members.aspx>
 - 15 board members are appointed by the government
 - Current Chair is also the Chair of JP Morgan and Previous Chair Lloyds Banking Group Plc
 - Six experienced independent Chartered Accountants and one qualified actuary
 - One former permanent secretary
 - Two former CEOs of FTSE100 companies
- The **functional divisions** relating to Codes and Standards, Corporate Governance and Reporting, Audit and Actuarial Regulation **are chaired by Chartered Accountants**
- Even out of five non-executive directors there are three past practicing **Chartered Accountants**

FRC Australia

- Responsible for overseeing the effectiveness of the financial reporting framework in Australia.
- **Composition:** http://www.frc.gov.au/about_the_frc/members/
 - 10 Members Board where the **current Chairman is a retired practicing Chartered Accountant** from PWC
 - Maximum members are from accounting, auditing, banking or law background or have long experience in business management
 - **Five** members are retired practicing Chartered Accountants with working experience in any of the big four accounting firms
- **Key functions:**
 - 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.

Malaysian Accounting Standards Board (MASB)

- MASB was formed by FRA, 1997
- **Key Functions:** Determination and issuance of accounting standards for the preparation of financial statements, which are required to be prepared or lodged under any law administered by the Securities Commission, the Central Bank or the Registrar of Companies
- Composition – The Board consists of 11 members
 - Most of the members are professional accountants and specifically member of Malaysian Institute of Accountants (MIA)
 - Chairman is also a member of MIA
 - Three practicing Chartered Accountants, Three Govt. Nominees including Accountant General, Two CAs from industry, One university professor with PhD in Auditing and also Professional Accountant (ACCA)

FRC Mauritius

- FRC Mauritius was established by FRA, 2004

- **Functions:**

- promote the provision of high quality reporting of financial and non-financial information by public interest entities;
- promote the highest standards among licensed auditors;
- enhance the credibility of financial reporting; and
- improve the quality of accountancy and audit services.

- **Council Formation:**

- 9 Members Board – Most of them have accounting and auditing knowledge including Chairman who is also First Deputy Governor of Central Bank

- **Operating Panels:**

- Audit Practice Review Panel (APRP)
- Enforcement Panel (EP) and a Review Committee (RC)
- Financial Reporting Monitoring Panel (FRMP)
- Standards Review Panel (SRP)

FRSC Philippines, etc.

- Financial Reporting Standards Council (FRSC) of Philippine was established in 2004
- **Functions:**
 - To assist the Board of Accountancy in carrying out its power and function to promulgate accounting standards in the Philippines.
 - To establish generally accepted accounting principles in the Philippines.
- **Council Formation:**
 - 9 Members Board
 - ALL members have accountancy background, and membership from CPA
 - Chairman was the Managing Partner of Philippines' largest auditing firm, SGV & Co.
- **Boards in Indonesia and South Africa** are mostly formed by independent Chartered Accountants

Sri Lankan AASMB

- Sri Lankan Accounting and Auditing Standards Monitoring Board (SLAASMB) was established by Sri Lankan Accounting and Auditing Standards Act 1995
- For the purpose of the requirements of this Act, Sri Lanka Accounting Standards and Sri Lanka Auditing Standards are the Standards adopted by the Institute of Chartered Accountants of Sri Lanka and published in Gazette which will be mandated by the SLAAMB for the preparation, presentation and audit of financial statements of Specified Business Enterprises
- The Chairman and most of the members of the Board are Chartered Accountants
- As per SLAASMB, auditor must be Chartered Accountant
- The main functions are mandating standards as promulgated by CA Sri Lanka, monitoring the implementation of those standards and enforcement

Pakistan and Nepal Scenario

- Ministry of Pakistan offers an alternative model
- Independent oversight body not established. Rather, the formation of the council of the ICAP has been reformed
- Four government nominees co-opted: the Secretary of the Ministry of Finance, the Chairman of the FBR, two other nominees are chartered accountants
- Nepal has officially not yet formed any FRC. Chartered Accountants Nepal are performing as self regulatory including setting standards

Indian NFRA

- As per Indian Companies Act, 2013 there is clause to form **National Financial Reporting Authority (NFRA)**
- **Proposed Board by Draft NFRA Rules 2013** by Indian Ministry of Corporate Affairs:
 - Chairperson being a **Chartered Accountant**
 - Members – Accounting, Auditing, Enforcement are **Chartered Accountants**
 - President of the Institute of Chartered Accountants of India (ex-officio)
 - Representatives from MCA, RBI, and SEBI
 - A retired Chief Justice of a High Court
- **The NFRA has not yet been passed, so INDIA still officially has NO NFRA or FRC yet.**

A Brief on Global Practice Regarding Financial Reporting Oversight:

- **Most of the countries have not yet formed any independent oversight bodies.** Only 52 Countries have membership from the International Forum of Independent Audit Regulators (IFIAR) out of 195 Countries
- The Oversight Bodies are **mainly engaged in setting standards**, either independently with the support of chartered accountancy/professional bodies or mandating the standards as issued by those bodies
- Monitoring financial reporting is another noteworthy activity
- Practically, Audit Practice Review and Enforcement are not done by FRC in many countries instead the FRC oversees the same activities done by professional accountancy bodies
- In most cases, the majority of the members of the **Board/Council and the functional departments** are **chartered accountants or other professional accountants**

FRC in Bangladesh – World Bank ROSC impact

- The first official idea of FRC came from the Report on Observance of Standards and Codes (ROSC) on Accounting and Auditing by the World Bank in 2003
- A major recommendation was that to form an independent oversight body, FRC for adoption, monitoring, and enforcement of IAS and ISA with respect to financial reporting by the public-interest entities.
- But the World Bank ROSC 2015 clearly mentioned that the establishment of a new independent oversight authority for accountants and auditors in Bangladesh may be too advanced a step considering the relative size of the corporate sector and profession in more developed countries.
- The World Bank believes that except for initiatives taken by ICAB and BSEC, no serious steps have been taken to strengthen the capacity of other regulatory bodies (i.e. Bangladesh Bank, RJSC, IDRA Monitoring Cell in the MoF) and due to this FRC may not necessarily bring the desired result, should the performance of other regulatory bodies remain in their current state.
- However, FRC is now a reality and professional accounting bodies must welcome FRC and provide necessary support and work together with FRC for the betterment of the financial reporting, business, economy and the nation as a whole.

FRC Bangladesh

- FRC Bangladesh has been formed through FRA 2015, with a view to achieve a well controlled framework in financial reporting function of public interest entities (PIEs) by accomplishment of the following activities:
 1. Setting standards and its proper implementation,
 2. Monitoring financial reporting,
 3. Audit practice review
 4. Enforcement
- All of the above activities are currently performed by ICAB except monitoring financial reporting directly (BSEC is doing that for listed entities)
- PIEs will include a large number of entities
- 12 Members Council including President of ICAB and ICMAB
- Very renowned and capable personality has already been nominated as the Chairman of the Council
- Executive Director is yet to be appointed, FR Rules are yet to be promulgated and 4 divisions are yet to be formed

FRC Bangladesh and Global Practice – A Comparison

- In SAARC, only Bangladesh has FRC. Sri Lankan AASMB is significantly different from Bangladesh FRC as CA Sri Lanka issues the Standards.
- Only **Two** professional accountants are included in the Council. One is a Chartered Accountant and other is a Cost and Management Accountant. In most other countries, independent oversight agencies are dominated by past/retired practicing Chartered Accountants
- Compared to global practice, the need of professional accountants in the Council is significantly undermined although much of FRC's function would involve monitoring the professional accountants
- No FRC has **imprisonment provision** as penalty except Bangladesh FRC
- Unlike other regulators, no legal expert in the Council and presence of many government nominated members
- **Bangladesh FRC, in terms of constitution/structure are different from** FRC of nearby country or same size economy. It has similarity **with UK FRC**

Standards Setting Function of FRC

- Review, adoption, publication, dissemination and update of International Accounting, Auditing and Quality Control Standards and other ethics related Standards and Pronouncements
- This is highly technical job where only ICAB has exclusive expertise in Bangladeshi context in compliance with IFAC SMO 3, 4 and 7
- ICAB has been playing this role successfully for many years, appreciated by the ROSC 2015 and IFAC and can play the same role in next years
- This load of activities can be shifted by FRC to ICAB like Sri Lankan Model i.e. ICAB will do the necessary activities as before and FRC will ensure the vetting and enforcement of those standards
- In fact, as per section 69 of FRA, until promulgation of new standards by FRC, standards issued by professional accounting bodies will prevail
- For initial few years, FRC can involve with ICAB standard setting procedures by forming a joint working committee
- For long run, FRC should form this division with full of experienced professionals for each of specific type of standard settings responsibility

Financial Reporting Monitoring Function of FRC

- This will be most vital and challenging role for FRC. This function will involve reviewing, analyzing and identifying whether financial reports are prepared by the PIEs in accordance with applicable reporting standards
- BSEC has been playing a role on Financial Reporting Monitoring for listed entities. But in this context, the jurisdiction of FRC is much more than the jurisdiction of BSEC as the PIEs cover thousand of entities
- Professional accountants definitely have an competitive edge in this regard; so they can be useful and instrumental to facilitate this function of FRC
- At initial stage, FRC can form separate working committee with BSEC and also with professional accountants specialized in different sectors of industry and retired audit professionals to start this activity
- For long run, FRC should form this division with full of experienced professionals from ICAB, ICMAB and also retired experts from relevant regulators
- Practical training is significant for the executives of this division.

Audit Practice Review Function of FRC

- The third function of FRC is to perform a quality control review of the practicing auditors. FRA requires that each practicing audit firm will be inspected once in three years by FRC.
- ICAB has huge expertise on this in line with IFAC SMO I, ISQC I, ISA 220 and as guided by ICAEW
- A separate Quality Assurance Department (QAD) of ICAB has been performing this responsibility since 2009
- The QAD, in the 1st phase of Review Visit, referred 33% firms to IDC for non-compliance with International Standards on Quality Control and professional misconduct which is unique in the World
- No accountancy bodies in SAARC have better performance on audit practice review than that of QAD in ICAB
- It would be recommended to work initially with ICAB QAD and to have first hand experience about the way the functions regarding audit practice review are conducted by ICAB
- In fact, most of the FRC who do this review, they oversee the review procedures of the accountancy bodies instead of reviewing same things. For long term, this division can be formed with experts.

Enforcement Function of FRC



- This function involves receiving objections, conducting investigations and imposing sanctions for violation of any provision of FRA or non-compliance with any standards, codes or guidelines
- A separate Professional Conduct Department (PCD) of ICAB has been performing this responsibility in line with international best practices
- ICAB has huge expertise on investigation and disciplinary measures, indeed. During last three years, ICAB has taken penal measures proactively many times than that of based on external complaints
- So initially, it is suggested to work with ICAB PCD to gain experience about the way the functions regarding Investigation and Disciplinary matters are handled by ICAB

IESBA Code of Ethics: Part A, B and C (Adopted by ICAB)

Part A - Fundamental Principles: Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional behavior

Part B— Professional Accountants in Public Practice

- 200 Introduction
- 210 Professional Appointment
- 220 Conflicts of Interest
- 230 Second Opinions
- 240 Fees and Other Types of Remuneration
- 250 Marketing Professional Services
- 260 Gifts and Hospitality
- 270 Custody of Client Assets
- 280 Objectivity—All Services
- 290 Independence—Audit and Review Engagements
- 291 Independence—Other Assurance Engagements

Part C— Professional Accountants in Business

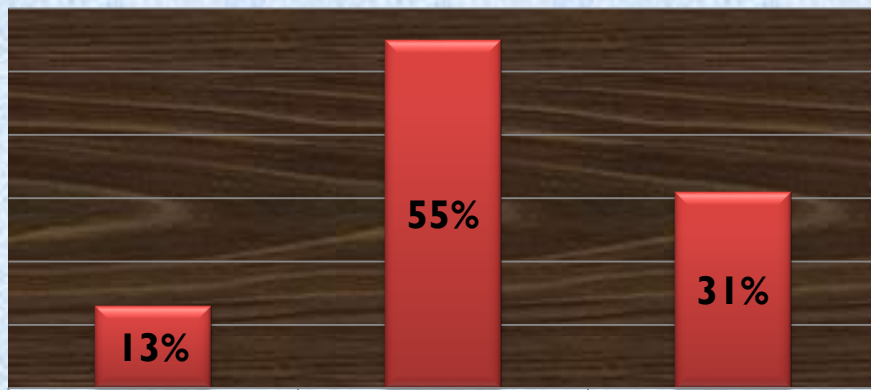
- 300 Introduction
- 310 Potential Conflicts
- 320 Preparation and Reporting of Information
- 330 Acting with Sufficient Expertise
- 340 Financial Interests
- 350 Inducements

Brief of Sch. "C" Part-I of ICAB Bye-laws: Professional Misconduct for CA in Practice

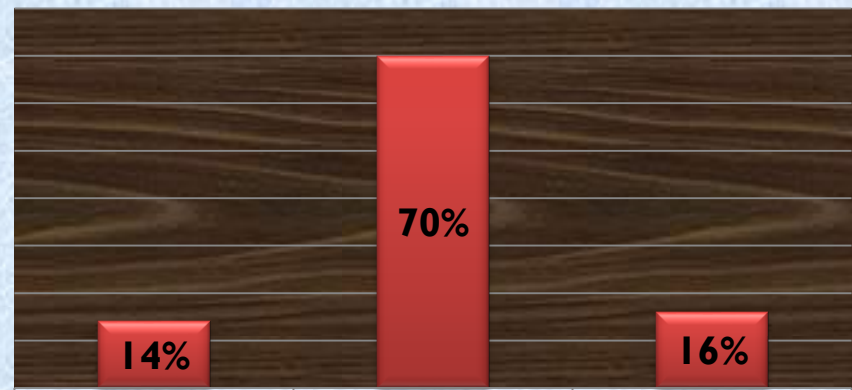
Partnership with Unqualified person	Solicits clients through Advertisement	Fails to disclose material fact of FS known to him	Does not provide info to or comply with requirements of Council
Allow practice in his name to any non-CA	Advertising-professional attainments	Express opinion on FS where he has undisclosed substantial interest	Fails to invite attention on material departure Re audit standards
Payment of share, commission, brokerage in the fees or profits to any non-member	Allows his name: advertising character	Fail to report material misstatement known to him	Submit false info to Council knowingly
Accepting profits of the professional works other than member	Certification without verification	Gross negligence in professional duties	Permit his or firm name Re estimate contingent earnings on future transaction
Written communication for professional clearance	Estimating future profit for prospectus without stating year wise PL separately	Fails to obtain sufficient info for opinion	Without Council permission associate himself with promotes of any accountancy institute
	Contingent fees	Fails to manage client monies	
Accept appointment Re Sec114(6) of CA 1913	Engage in other business without council permission	Guilty of any act discreditable to a CA	
Undercutting Laudatory notices	Allow to sign on his behalf to non-member	Not being Fellow himself as Fellow	
	Disclose information - confidentiality		

ICAB QAD Visit Result	2010-2012		2013-2015		Remarks
	Nos.	%	Nos.	%	
Total Firms under Regular QAD Visit	166	100%	172	100%	In 2016, the firms reduced to 165. Few follow-up visit also conducted
Satisfactory	22	13%	24	14%	No significant change
Required major improvement	92	55%	121	70%	15% increased. Shifted from ID. Need training and capacity building
Referred to IDC	52	31%	27	16%	Reduced to 16%. 0% is expected.

(Source: Data provided by ICAB)



2010-2012



2013-2015

A Case Study: Total Disciplinary Proceedings by SAFA CA Member Bodies in 2014

Particulars	ICAB	ICAI	ICAP	ICASL	ICAN
Total Disciplinary Cases Handled	20	114	21	6	7
Total Disciplinary Cases Disposed of in 2014	20	114	10	3	6
Total Number of Practicing Members	368	112,324	950	634	3,842
Total Number of Non-Practicing Members	1,131	117,355	5763	3,902	4,186
Total Members	1,499	229,679	6713	4,536	8,028
% of Disciplinary Proceedings to Practicing Members	5.43%	0.10%	2.21%	0.95%	0.18%

(Source: Data provided by ICAB)

Charges made for non compliance with Fundamental Principles of Code of Ethics

Particulars	ICAB	ICAI	ICAP	ICASL	ICAN	Total
Integrity	5	10			2	17 20.7%
Objectivity		4				4 4.9%
Professional Competence and Due Care (including I partly on Confidentiality)	13	16	6			35 42.7%
Professional Behavior (including I partly on Objectivity)	2	14		6	4	26 31.7%
Total	20	44	6	6	6	82

Overall observations: 74.4% cases were related to non-compliance of Professional Competence & Due Care and Professional Behavior. So, it indicates that the SAFA CA member bodies may need to consider focusing more on these two fundamental principles of the Code of Ethics in their curriculum and also in their CPD programs.

Challenges & Way Forward!!

- Is the existing structure of FRC appropriate with respect to International practices and Resource commitments? - Engage more professional accountants in every division to achieve more
- Poor levels of audit fees- mostly attributable to a family-dominated corporate culture where value of auditing is not appreciated
- Reduce expectation gap and knowledge gap through investor training
- Develop financial reporting quality and audit quality indicators
- Ensure independence in appearance of practicing professional accountants
- Avoid overlapping of regulatory duties by different regulators
- Forming the working divisions and defining the broad level activities of each division
- Prioritize the departmental activities: initially monitoring financial reporting
- Meet and maintain relationship with the stakeholders separately and collectively and seek their cordial cooperation
- Professional accounting bodies should come forward to guide and cooperate at each level of activity of FRC to achieve their objectives
- Utmost priority should be given to the protection of investors' interest

The best result can be achieved when the regulators and the regulated bodies work together for their mutual benefit.





THANK YOU

For your patience