IMPACT OF PUBLIC CONTROL ON PROFESSIONAL ACCOUNTING IN BANGLADESH

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IMPACT OF PUBLIC CONTROL ON PROFESSIONAL ACCOUNTING IN BANGLADESH

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ABSTRACT

This monograph is about the " Impact of Public Control on Professional Accounting in Bangladesh". The public accounting practice i.e. public accounting profession around the world has been governed and controlled by both public and private (self) regulations. The public accounting or public accounting profession in Bangladesh has also been regulated both by public and private (self) regulations.

The prime objective of the study is to identify the state of public and private (self) controls on professional accounting in Bangladesh. As such, the study evaluates the activities of concerned public authorities and the professional institutes. In fact, the focus of attention is directed toward whether private (self) regulation can serve the purpose of the members of the interest groups and whether there is a need for public control and if so then what should be its nature. Another objective of the study is also to identify the extent of independence enjoyed by the professional accountants in Bangladesh. The study further attempts to identify the relative areas of professional accounting suitable for public and/or private (self) control.

Finally, the study attempts to examine the state of financial reporting practices in Bangladesh and to suggest measures for the improvement of the practice to make financial reporting more useful to the users. In fact, the motive behind the study is to examine whether the compliance with the public regulations is more effective than the compliance with the private (self) regulations in Bangladesh.

In preparing this thesis, three distinct research designs have been used. These are:

1. The first is concerned with the review of existing literature relating to control, accounting practices in Bangladesh, regulations governing financial reporting, professional

accounting education and the independence of professional accountants.

2. The second one relates to the survey of opinions of four groups of respondents viz. (i) the preparers of financial statements; (ii) the users of financial statements; (iii) the regulators and (iv) academics engaged in the teaching accounting and researching. A 5-point scale has been used in the opinion survey for four respondent groups.

3. The third one is concerned with the content analysis of published accounts for measuring effects of control. For this purpose annual reports of 50 companies listed in the Dhaka Stock Exchange (DSE) have been analysed.

It is revealed from the study that all groups of respondents are in consensus that the Companies Act, 1913 is outdated and the requirements are inadequate. The fundamental findings from the study indicate that requirements of Companies Act in the preparation of financial statements are almost complied with while the requirements of the Securities and Exchange Rules, 1987 are not strictly followed. On the other hand, both opinion survey and empirical study reveal that accounting standards and auditing guidelines issued by the ICAB are not followed and complied with. The study also indicates that the Registrar of Joint Stock Companies has been ineffective in regulating financial reporting practices of limited companies registered with the same. It also finds that auditor's independence in Bangladesh is largely lacking. It is further revealed from the study that all respondent groups except users of financial statements support that the education and the disciplining of the professional accountants should be governed exclusively by the profession itself. On the other hand, setting of standards, financial reporting and the compliance with standards and procedures should be governed by the government through public regulations. Moreover, the empirical study also shows that the financial reporting and disclosure practices are not satisfactory in Bangladesh.

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Md. Ashraf Ali Khan

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LIST OF ABBREVIATIONS USED

Abbreviation	Full Meaning
AAA	American Accounting Association.
ACA	Associate Chartered Accountant.
ACT	The Companies Act, 1913.
AG	Auditing Guidelines.
AICPA	American Institute of Certified Public Accountant.
APB	Accounting Principle Board.
AS	Accounting Standards.
ASC	Accounting Standards Committee.
AudSEC	Auditing Standards Executive Committee.
BADC	Business Accounting Deliberation Council.
CACA	Chartered Association of Certified Accountants.
CAR	Commission on Auditors Responsibility (Cohen Committee).
CCAB	Consultative Committee of Accounting Bodies.
CPA	Certified Public Accountants.
CPE	Continuing Professional Education.
DSE	Dhaka Stock Exchange.
DTI	Department of Trade and Industry.
FASB	Financial Accounting Standards Board.
FCA	Fellow Chartered Accountant.
FEI	Financial Executive Institute.
GAAP	Generally Accepted Accounting Principles.
GAAS	Generally Accepted Auditing Standards.
GAO	General Accounting Officer.
IAEG	International Accounting Education Guidelines.

IAG	International Auditing Guidelines.
IAS	International Accounting Standards.
IASC	International Accounting standards Committee.
IAPC	International Auditing Practice Committee.
ICAB	Institute of Chartered Accountants of Bangladesh.
ICAI	Institute of Chartered Accountants of India.
ICAP	Institute of Chartered Accountants of Pakistan.
ICAEW	Institute of Chartered Accountants in England & Wales.
ICMAB	Institute of Cost & Management Accountants of Bangladesh.
ICAS	Institute of Chartered Accountants in Scotland.
IFAC	International Federation of Accountants.
IRS	Internal Revenue Service.
JICPA	Japanese Institute of Certified Public Accountants.
MAS	Management Advisory Service.
MNC	Multi-National Corporation.
NAA	National Association of Accountants.
NYSE	NewYork Stock Exchange.
OECD	Organization for Economic Cooperation & Developments.
PE	Public Enterprise.
POB	Public Oversight Board.
PQE	Pre-Qualifying Education.
SAB	Staff Accounting Bulletin.
RJSC	Registrar of Joint Stock Companies.
SAFA	South Asian Federation of Accountants.
SAP	Standard Auditing Practice/Statement of Audit Procedure.
SEC	Securities and Exchange Commission.
SER.87	Securities and Exchange Rules, 1987.

SSAP	Statements of Standard Accounting Practice.
U.K.	United Kingdom.
U.N.	United Nations.
U.S.A.	United States of America.

CHAPTER-I

"INTRODUCTION"

1.1 Background of the Problem
1.2 The Problem
1.3 Objectives
1.4 Hypotheses
1.5 Meanings and Definitions of Important Terms
1.6 Importance of the Study
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CHAPTER-I

INTRODUCTION

1.1 BACKGROUND OF THE PROBLEM

Resources of all types whether physical, financial or human, used either at micro - level or macro-level, belong ultimately to a nation. For the well-being of a nation as a whole, these limited resources must be utilised effectively and efficiently as far as possible. Effective and efficient utilisation of a nation's resources requires among other things a proper accounting system.[1] Accounting has long been recognised as a very importnat tool for effective utilisation of resources in a market economy, although either accounting or accounting system does not itself create resources, but the possibility of misallocation of resources due to the use of faulty accounting methodology may be quite significant.[2] Accounting not only helps achieving effective resource allocation, but also helps formulating policies; designing information system; evaluating results, personnel, operations, financial systems and social goals; assessing performance in relation to standards, competing systems and changing conditions and assisting in the design and evaluating the effectiveness of planning and control activities[3] Accounting is a multiple paradigmatic discipline.[4] It is a social force, the primary function of which is to facilitate the administration of the economic activity of an enterprise. First, it measures and arrays the economic data, and secondly, communicates the results of this process through financial reports to interested parties.[5]

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1. Hopwood, A.G., "Accounting, Organisations and Society", Vol.1 No.1, Peragamon Press, 1976, pp. 1-4.
2. Haque, M.S. "Prices Policy, Accounting Methodology and Corporate Financial Viability". IBA, University of Dhaka (1983) p. 181.
3. Buckley, J.W and M.H. Buckley., "The Accounting Profession " (Los Angeles, Melville, 1974) p. 15.
4. Belkaoui, A. "Accounting Theory" (Harcourt Brace Jovanovich, 1981) p. 55.
5. Das Gupta. N., "Financial Reporting in India". (Sultan Chand & Sons, New Delhi, India, 1977) p. 3.

Enterprise accountants record financial transactions, summarise them and prepare financial statements to measure operating results. Professional accountants authenticate these financial statements and reports. They verify the operating results and the financial health of the organisation as reflected respectively through profit and loss account and balance sheet. Accountants further help organisation determining cost of production, cost control and cost reduction. In addition, cost audit as a branch of accounting helps identifying unwarranted cost and wastage of resources.

Resource mobilisation, resource allocation and resource control are preconditions of economic development of a country. These require unbiased, fair and reliable financial information which is, in turn, dependent on the efficiency of an accounting system. Biased, unfair and unreliable financial statements can severely hamper the decision maker's analytical efforts to arrive at sound decisions.

The painful consequences of a decision based on faulty information may be a misallocation of resources to an unworthy or inefficient cause. When this happens, society as a whole pays the price.[6] Thus the importance of reliable financial information for making proper investment decision has been recognised by many experts, authors, researchers, academics. Stamp and Moonitz thus commented:

> The strength of capital markets and indeed of the economic system depends heavily on the general confidence engendered by the credibility that attaches to a set of audited financial statements. So we regard the auditor's role as crucial.[7]

Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions, in making reasoned choices among alternative courses of action.[8] Information contained in financial statements must meet certain characteristics.

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6. Holmes, A.W. and D.C. Burns., "Auditing : Standards and Procedures" (Richard D. Irwin, Inc, 1979) p. 5.
7. Stamp,E and M. Moonitz., "Internal Auditing Standards" (1978) quoted in "The Auditing Research: Issues and Opportunities" ed. A.G. Hopwood, M. Bromwich and J. Shaw (Deloiltee 1980) p.58.
8. Accounting Principles Board (APB), Statement No.4 "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises" (1970) Paragraph 40.

According to the Trueblood report:

> The qualitative characteristics of financial statements should be based largely upon the needs of users of the statements. Information should be as free as possible from any biases of the preparer. In making decisions, users should not only understand the information presented, but also should be able to assess its reliability and compare it with information about alternative opportunities and previous experience. In all cases information is more useful if it stresses economic substance rather than technical form.[9]

Thus, the 'Trueblood Report' mentions seven qualitative characteristics of reporting: (I) relevance and materiality (2) form and substance, (3) reliability (4) freedom from bias (5) comparability (6) consistency, and (7) understandability.

As a part of accounting function, one of the main jobs of an accountant is to generate financial data for managers, administrators and users for making sound decisions. Therefore, a professional accountant is responsible to ensure that information supplied by him is free from any kind of biases, sentiments and untruth. In recording financial statements he must be objective.

The role of professional accountants in achieving objectives mentioned above is, no doubt, of immense value. Accountants'duty is to add credibility to financial reports and records. The availability of comprehensive, understandable, uniform, consistent, unbiased, adequate, useful and reliable financial reporting will reduce risk and augment confidence which, in turn, tends to stimulate the various investors to take quick decision for investment. Unfair, unreliable and biased information has an adverse effect on capital markets; violation and non-conformity to prescribed rules and regulations may lead to adverse social consequences, high transaction costs, thin markets; low liquidity and in general decreased gains from trade. In this context Perera Phillips has reported:

> Lack of reliability of published financial statements hampers industrial development and proper functioning of capital markets, ... small investors are nervous about placing their savings in

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9 "The Trueblood Report" The Objectives of Financial Statements: Selected Papers, ed. Chambers. J.J., and G.H.Sorter (Newyork: AICPA, 1974) p. 60.

shares with respect to which there is a lack of financial information. The average investors cannot find out the true net profit of a given company. Such information is typically guarded by a few insiders and audited statements do not have the credibility of their counterparts in developed countries.[10]

Stans Maurice also emphasized on the credibility of financial statements and observed:

Without reliable financial data there is no valid way to measure performance. An economy of freemen working voluntarily in a free market would be helpless without sound financial information. The credit and investment machinery, domestic or international would collapse. The base system would disintegrate, corporate managers could not control the vast industrial complexes, labour disputes could find no rational solutions. Government fiscal policy will flounder in a vacuum. Government regulation of utilities and other enterprises highly charged with "public interest" would be impossible.[11]

In order to keep capital markets free from biased, unfair, and misleading information, professional accountants have to ensure that the publicly traded companies are managed in the "public interest" not just for the private benefit of management. Thus the Securities and Exchange Commission (SEC) of USA in Accounting Series Release (ASR) No.153 has pointed out the public accountant's duty to safeguard the "public interest" takes precedence over any duty to the client.[12]

The accounting profession is regarded as a self-managed profession all over the world.[13] There are some requirements to be accomplished by a person desiring to become a member of the profession. As such he must have to pass professional examinations, obtain minimum experience to have a licence for practice as accountant, abide by the code of conduct and professional ethics in order to maintain quality work. The training, examination, licensing of members, establishment and enforcement of code of

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10 Phillips, P., "Development of Finance Institutions, Problems and Prospects" (Newyork, F.A. Praeger, 1968) pp. 298-299.

11 Maurice, H.S., "Accounting and Human Progress" The Australian Accountant (March, 1963). Reprinted in 'The Accounting and Society', ed. R.W. Estes (Melville Publishing Co. 1973) p. 28.

12. Securities and Exchange Commission (SEC), ASR No. 153, "In the matter of Touch Ross and Company", 1974.

13. Berton, L. and J. B. Schiff., "Regulation of Accountants", in "The Wall Street Journal on Accounting." (Dow-Jones-Irwin, Inc, 1990) p. 45.

conduct and professional ethics, setting accounting and auditing standards, disciplining of members and many other matters connected with the profession are controlled by the profession through the professional organisations. On the other hand, appointment, removal, rights, duties, liabilities of auditors and reporting practices of certain statutory organisations are governed by the government through various regulations.

Deviation from ethical norms and code of conduct may result in undesirable and harmful practices which, in turn, have a definite impact on financial reporting practices. The harmful and unethical practices by the professional accountants augment the practice of producing biased and unreliable reports. The unreliable and untruth financial statements and reports will bring information asymmetries or inequity in capital markets which leads to adverse private social and national consequences. Information asymmetry is associated with decreased number of investors, higher transaction costs, lower liquidity of securities, thinner volumes of trade and it leads, in general, to decreased social gains from trade.[14] Unreliable and biased financial information hampers the proper functioning of capital market in one hand and depriving government of getting expected revenues from taxes on the other hand. Thus there requires a control on professional accounting.

Control on professional accounting vis-a-vis accounting profession can be accomplished either by public control or by self-control (private control). " Public control" means control by the government on professional accounting through various regulations, whereas controlling professional accounting vis-a-vis professional accountants through their own regulations may be termed as self-control (private control).

There is a controversy all over the world about the system of control. Questions frequently arise how should accounting profession be regulated either publicly or privately. Many academics, experts, authors, researchers advocate private (self-regulation) regulation. They contend that self-regulation alone can ensure independence of auditors, can establish uniform

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[14]. Lev, B., "Toward a Theory of Equitable and Efficient Accounting Policy" The Accounting Review, Vol LXIII. No.1 (January, 1988) p.1.

accounting principles and standards, can regulate and administer professional accountants effectively. Criticising public control vehemently, Weston commented:

> The proposals for more government intervention in the accounting would do more harm than good.[15]

Critics of public control apprehended that the government agency would be susceptible to undue political influences. David Solomons viewed that government agencies are more directly susceptible to political pressures than private bodies.[16] Critics of public regulation argue that public regulation would be in nature of inflexible, detailed, complex, unresponsive to investors and to the realities of the market.

Control through self-regulation has increasingly been criticised by the public at large as the profession has failed to protect the interest of the public.[17] Rather, they are interested in protecting their own interests. It is commented that the profession frequently seemed to serve primarily their own self-interest. The ethical rules that are established by profession are mainly designed to protect their own interest.[18]

Self-regulation has also been criticised for that it does not have any legal backing to govern the profession effectively.

Another reason for which the self-regulation has come under sharp criticism is the "slacken disciplinary" measures taken by the profession. It is alleged that no stringent action is generally taken against professional accountants even gross violation of standards and ethics are reported. It has been supported in an

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15. Weston, J.F., "Regulation and the Accounting Profession: Evaluation of the Issues in " The Regulation and the Accounting Profession" ed. J.W.Buckley & J.F. Weston (lifetime learning Publications, 1980)p.223.
16. Solomons, D.,"Financial Accounting Standards : Regulation or Self-regulation ?" in "Collected Papers on Accounting and Accounting Education ; Vol-I "(Garland Publishing Inc., Newyork and London, 1984) p. 153.
17. Stamp, E.,"International Standards to Serve the Public Interest" in the "Selected Papers on Accounting, Auditing and Professional Problems"ed. R.P. Brief (Garland Publishing, Inc., 1984) p. 118 (C-2)
18. Ibid.

empirical study conducted by Millerson which provides some information on disciplinary action taken by the English Institute over the period of 1949 to 1962. He reported that the disciplinary action generally taken against the professional accountants were those types of offenses created out of dereliction of statutory duties, crimes, misdemeanours. These offenses are of the kind determined by the court and tribunals. The action taken by the profession for the offenses with the sole jurisdiction of the institute are very few. Moreover, the nature of this punishment is very light and the case of suspension is almost absent.[19] Briloff in this connection commented the situation in USA:

> The record of disciplinary actions reveals no reference to any expulsion, suspension or other form of censure of the auditors on the A to X Roll of Dishonor.[20]

The role that has been playing by professional institutes has also come under criticism. It is frequently complained that the institute is a trade association whose main concern is to safeguard its member's interest only. It is concerned with reducing auditor's responsibility, not with protecting the public.[21]

Ineffectiveness of self-regulation also results from non-disclosure of information about the accounting firms to the public. Burton thus noted:

> It is ironic that the public protectors of "the right to know" are the largest organisations in the country without the requirement for any disclosure of their results.[22]

In order to make 'self-regulation' more effective, some measures (e.g. Peer Review, Public Oversight Board; Division of Firms; Continuing Professional Education; Audit Committee) have been taken by the profession in the USA. But these measures have come under criticism. Public are skeptical about the success of these

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19. Chambers, R.J.,"Regulation - The Future of Accounting Profession" in the "Accounting Practice and Education, Vol- II" ed. R.P. Brief (Garland Publishing, Inc., Newyork and London, 1986) p. 366.
20. Briloff, A.J., in "The Public Accounting Profession", ed. S.C Abraham (Lexington, Moss, Lexington Books, 1978) p. 178.
21. Mitchell, A.,"Auditing-Last Bastion of the Closed Shop". The Bangladesh Accountant (June-March, 1991) p.59.
22. Burton, J.C. "Journal of Accountancy"(Sept. 1971) p.51.

programmes. Thus "Peer Review" programme is likely to be seen as a process of "mutual back scratching" and the "Public Oversight Board" would not be perceived as an effective substitute for statutory regulation.[23]

Accounting profession has already been subject to sharp criticism and pressure has been mounted from within the profession and from the public and government agencies. Events of recent past have intensified public concern over the financial reporting practices all over the world.

Even in the developed countries like the USA where the personal behaviour and morality of the people are claimed to be highest due to higher literacy rate,[24] large scale auditing scandals like " Continental Vending Corporation, Equity Funding, Yele Express, National Marketing" [25] and the like have significantly shattered public confidence on the role and responsibilities of auditors. Moss and Metcalf Committee in the USA found many problems and defects of accounting profession and accused public accountants of careless work, of holding their own interests above the public interest, of not maintaining independence from the companies they audit, and of not moving fast enough to correct these deficiencies. Commenting on the reliability of the information Senator Metcalf reported:

> The SEC's failure to exercise its authority on accounting matters has led to many of the problems which have caused a serious erosion of public confidence in the accuracy and usefulness of information reported by corporations.[26]

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23. "-----------------" Hearings before the Sub Committee on Oversight and Investigation of the Committee on Interest and Foreign Commerce: U.S. Congress, Reform and Self-regulation. Efforts of the Accounting Profession. pp. 324-325.

24. Carey, J.L., "The CPA Plans for the Future" (AICPA, Inc, 1956) p. 17.

25. Chow, C.H., The Demand for External Auditing: Size, Debt and Ownership Influences." The Accounting Review, Vo 1-LVII, No.2 (April 1982) p.272.

26. Sub Committee on Reports, Accounting and Management. The Accounting Establishment (U.S.Government Printing Office, 1976) p.IV.

The quality of the work performed by the CPA in the USA has also been come under criticism. Stanley Charles Abraham pointed out:

> A corporate financial executive estimated that one third to one quarter of all CPAs in public practice perform sub-standard work.[27]

In recent years, public and political parties in Britain have realised the alarming and accelerating rate of growth in corporate frauds that augmented the credibility crisis of financial reporting. Stamp reported that many of the major auditing firms in Britain have been complaining recently that qualifications (audit) are losing their potency and are in danger of becoming paper tigers.[28]

Referring to the situation of Australia, Chambers commented that "the position of accounting profession in Australia is unsatisfactory and permissive practices exist over here."[29]

The situation in India is also grave. Commenting on accounting practices vis-a-vis accounting profession, A.K. Roy viewed that the auditors employed in the private sector were influenced by management and could not present a true picture of the company's affairs to the public.[30] "The Vivian Bose Commission on Auditors" going into the affairs of Dalmia Jain Companies observed the inadequacies of the system of financial audit."The Draftri Shastri Committee" appointed by the Indian Government also brought out the inadequacies in the system in the matter of corporate disclosures, and recommended a more effective audit in special cases.[31]

The accounting practices in Bangladesh has been severely criticised by many experts, authors, academics, researchers and even by the professional accountants. According to them the condition

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27. Abraham, S.C.,"The Public Accounting Profession" (Lexington Books, 1978) Chap.5, p.70.
28. Stamp, E.,op.cit.p.105.
29. Chambers, R.J., "The Construction of Accounting Standards" in Chambers on Accounting Vol-II" ed. by R.P. Brief (Garland Publishing, Inc, Newyork and London, 1986) p. 297.
30. Roy, A.K., Compotroller and Auditor General of India. Quoted from N. Das Gupta's "Financial Reporting in India" (Chand and Sons, New Delhi, 1977) p. 144.
31. Rao, A.V.S., "Cost Audit in Practice - The Indian Experience" Reprinted in The Cost and Management ; Vol XV, No. 4 (July- August, 1987) p. 14.

prevailing in Bangladesh in the sphere of financial reporting as well as accounting practices is far from being satisfactory. Parry and Khan made out a survey on published accounts and pointed out that published accounts in Bangladesh fail to satisfy the requirements of usefulness.[32] The quality of the professional services is also reported to be rather unsatisfactory. Habibullah, M. noted that "cooking up" of accounts is the usual practice of accountants in the non-corporate sector in Bangladesh.[33] It is alleged that non-conformity to the prescribed rules and regulations and violation of code of conduct and ethics is a normal practice in Bangladesh. "Most of the auditor's report of quoted companies do not comply with the requirements of the regulations in the form and contents prescribed, in addition to ambiguous, unclear and informal wordings."[34]

Despite the existence of code of conduct and ethics, there is no single case of expulsion or long-term suspension of professional accountants as there is no reported case of professional misconduct. It indicates that the mechanism through which the rules and code of conduct are complied is either defective or very weak. "Absence of mechanism or poor mechanism to ensure professional ethics by the Institute of Chartered Accountants of Bangladesh (ICAB) is also cited as a cause of issuance of auditor's report without any or partial verification."[35]

It is thus apparent from the opinions of the academics, scholars, researchers, professionals, public authorities, investors and users'of financial statements that neither public control nor private(self) control have been considered effective in regulating public accounting practices vis-a-vis accounting profession in Bangladesh. This probably points to the need for a meaningful research study on the state of control specially public control on professional accounting in Bangladesh. Such a study may carefully evaluate the activities of concerned public authorities and the

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32. Parry, M and F. Khan.,"Survey of Published Accounts in Bangladesh" ICAB and UNDP (1984), p. 254.

33. Habibullah, M.,"Human Aspects of Accounting". The Dhaka University Studies; Part-C. Vol-XXII (June 1974) p.19

34. Reports and Accounts, "The Bangladesh Accountant" (April -June, 1989)p.9.

35. Alam,A.K.M.S.," Auditor's Report : Its Credibility Problem in Bangladesh", The Cost and Management (May-June, 1988) p. 26.

professional institutes and ascertain the environmental constraints that the professional accountants are facing in complying with the provisions of the law of the land and the guidelines and standards issued by the approprite authorities.

1.2 THE PROBLEM

The accounting profession is regarded as a regulated profession.[36] It can be regulated either by the profession itself or by the public through government regulations.[37]

There is a controversy all over the world as to the form of regulation : Whether the profession should be regulated by the profession itself or by the government.[38] Many people strongly favour public regulation whereas others for self-regulation. Advocates of self-regulation contended that it alone can establish uniform and better accounting practices, can provide proper training and education, can establish better ethics and code of conduct, can ensure independence, and can discipline its members effectively so that quality works can be achieved from the professional accountants. On the otherhand, advocates of self-regulation are of the opinion that the question of control on professional accountant vis-a-vis public accounting should absolutely be handled publicly so that the reliability of the financial statements and reports can be achieved and the credibility of the profession can be ensured thereby.

The accounting profession in Bangladesh has been primarily regulated by the profession itself. The Institute of Chartered Accountants of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) are the two accounting bodies. They in their capacity as the guardian of the profession regulate and govern their members through various committees. The council of the Institute of Chartered Accountants of Bangladesh (ICAB) is composed of twenty members, all of them are elected from amongst the members of the profession. There is no public

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36. Berton, L. and Schiff., op.cit., p. 45
37. Hopwood, A.G.,"Accounting from the Outside", Garland Publishing, Inc. Newyork & London, 1988, p.517
38. Kam, V.,"Accounting Theory", John Wiley & Sons (1990) p.549

representation in the council although all most all the professional institutes of the world have public representa-tion.[39]

In Bangladesh the training and education of members, licensing of members to practice, establishment of ethics and code of conduct, setting of standards, disciplining of members, establishment of continuing competence and development, and many other matters connected with the accounting profession are administered and governed by the profession itself through various committees of the institutes.[40]

On the other hand, appointment of auditors, their qualifications, qualities, rights, duties, liabilities, accounting and reporting requirements of limited companies are controlled and administered by government through various acts, rules and ordinances.[41]

No study on this topic has yet been conducted in Bangladesh. But some surveys and studies on published accounts and on financial reporting have been conducted in which casual observations have been made.

Professional accounting practices in Bangladesh have been severely criticised by many authors, experts, researchers, academics and even by the professional accountants. According to their opinion and from the findings of various studies, it is learnt that the financial reporting practices in Bangladesh are far from being satisfactory and have lost its usefulness to a greater extent. Parry and Khan carried out a survey and pointed out that published accounts in Bangladesh fails to satisfy the requirement of usefulness.[42] Auditors do not disclose many vital information necessary for the various interested parties. A study conducted by Nesar uddin reveals a very poor performance as to adequacy of disclosures and strict compliance of some legal and standard requirements.[43]

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39. Details in Chapter No. IV
40. The Chartered Accountants Ordinance, 1973.
41. The Companies Act 1913; Securities and Exchange Rules, 1987.
42. Parry, M.J and F. Khan., op.cit.,p. 254
43. Nesar Uddin, A.F., "Disclosure of Information in Audited and Published Financial Statements in Bangladesh: Its Adequacy and Relevance", The Bangladesh Accountant (Jan-March '91) p.38.

It has been alleged that accounting profession vis-a-vis professional accounting in Bangladesh also loses its credibility. Parry and Khan reported that the financial information in Bangladesh suffers from among others the technical inadequacy and lack of credibility.[44] It is very often alleged that there exists lack of authenticity of financial statements. Accounting reports are usually distorted for the purpose of evasion of tax.[45]

It has also been reported that there exists lack of uniformity in the accounting practices which results in wide variation in the quality of the financial statements and reports. The Companies Act, 1913, the Securities and Exchange Rules, 1987 and other ordinances have prescribed the manner and the requirements through which accounts, reports and statements of various statutory organisations are to be prepared. But in many cases, complying with the legal requirements in the preparation of accounts, reports and financial statements are not followed. The Journal of the ICAB in one of its issue revealed that many audit reports of quoted companies, in addition to ambiguous, unclear and informal wordings, do not comply with the requirements of the regulations in respect of form and contents prescribed.[46] It has also been found in another study that disclosures were not presented in the form expected by laws in case of preparation of financial statements.[47] Lack of uniformity exists not only in respect of form but also in respect of contents of financial statements. Parry and Khan pointed out that some financial statements and reports provide adequate information whereas others provide so little information as to be almost useless.[48]

The existing legal provisions relating to corporate financial reporting in Bangladesh, according to many experts, are inadequate, outdated and not clear. Provisions contained in various laws do not require all reports that can satisfy reasonable needs of rightful

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44. Parry, M.J. and F. Khan.,op.cit.,p. 254
45. Husain, S. M., "Distorted Accounting Use", The Business Studies, Vol-II, No. II (Spring-Summer, 1977) pp. 70-73.
46. "Reports and Accounts in "The Bangladesh Accountant" (July-April, 1989) p. 9.
47. Nesar Uddin, A.F., op.cit., p. 38.
48. Parry, M.J and F. Khan., op.cit.,p. 252

users to fulfill the objectives of reporting.[49] Thus Saeed, K.A commented that standard of corporate reporting in Bangladesh is too ancient.[50] Therefore, the reporting standard should be extended to cover such information that can satisfy reasonable needs of rightful users to fulfill the objectives of reporting.

The general consensus of experts on accounting recognised that the prime role of a professional accountant is to add credibility to the published accounts. The credibility of the auditor's work in Bangladesh has come under sharp criticism. It has been alleged very often, that auditors are reluctant to issue qualified audit report. Moreover qualifications in the audit report usually fail to be specific.[51] Instead of making qualified opinion, auditors in Bangladesh usually attach long notes and comments which the laws do not require.[52]

It has also revealed in another study that auditor's report do not comply with the requirements of the regulations in the form and contents prescribed.[53] Thus the credibility of auditor's report is seriously challenged by the users of such report.[54]

Ethics and code of conduct is basically the fabric for a profession which brings credibility. The credibility and the image of the profession largely depends on the observance of the professional ethics and code of conduct by its members. Institutes, in their capacity as the guardian of the profession in our country, should be aware of their responsibility to make it difficult for any member to indulge in methods and practices which could be construed unethical and harmful to the profession. As such the ICAB and the

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49. Alam, A.K.M.S., "Corporate Financial Reporting in SAFA Countries-Bangladesh Context" in "The Bangladesh Accountant" (April, 1989) p. 22.

50. Saeed, K.A., "Corporate Reporting in Global Context". Lecture delivered at a seminar held at CA Bhaban; News Bulletin; ICAB. No. 74 (December 1991) p. 4

51. Howladar, N.M and M.J.Parry.,"The Concept of Accountability and Its Application Towards Economic Development". The paper presented on the First National Conference of Chartered Accountants (December 17-18, 1984) Dhaka.

52. Ahmed, J.U., "Accountant - Their Professional and Social Responsibilities Today and Tomorrow" in 'The Cost and Management Accountant'. Volume XV No.4 (July - April, 1989) p.11.

53. The Bangladesh Accountant,op.cit.,p. 946.

54. Alam, A.K.M.S., op.cit.p.27

ICMAB have established professional ethics and code of conduct for their members in order to minimise unethical and harmful practices. But public are very much skeptical about the performance of these institutes. People are in doubt whether rules contained in the code of conduct are at all observed by the members of the institute or not. Though there exists a rule of ethics and code of conduct, yet expulsion, suspension or any kind of punishment to the members of the institutes is almost absent. But various research studies revealed gross inadequacies in complying with the regulations. Absence of action against professional accountants implies that either no member of the profession is guilty or the machinery to enforce the rules of conduct is defective.[55]

Education and training of professional accountants is another important element of the profession which brings the recognition and respect of the society and which make them experts to perform the services they are called upon to do.

The education and training that are provided by the institutes and the accounting firms have been reported to be inadequate. In order to improve the standard of education, the professional institutes thus updated syllabi and training procedures in the light of the experiences of the institutes of some developed and neighbouring countries. "But these are already considered to be inadequate to meet the present needs and challenges."[56] Besides this, Mandatory Continuing Professional Education is being keenly felt to keep professional accountant's knowledge update. But no mandatory Continuing Professional Education has yet been provided for professional accountants in Bangladesh. Thus it has been alleged that the education and training standards in Bangladesh are too inward looking."It is wholly technique oriented which do not require too much of intelligence and scholarship."[57]

As already stated, accounting and auditing standards have a definite implications on professional accounting. These standards ensure uniformity in accounting and auditing practices. In Bangladesh, there is no comprehensive and complete set of Generally Accepted

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55. Ahmed, M., op. cit p. 25.
56. Ahmed, J.U., op.cit., p. 8.
57. Ibid. p. 9.

Accounting and Auditing Standards. The Institute of Chartered Accountants of Bangladesh (ICAB) has started issuing accounting standards and auditing guidelines for better uniformity in accounting practices and for quality audit work. Absence of complete set of standards naturally results in wide variations in the techniques and methodologies applied while performing an audit function and leaves vacuum which members fill according to their best judgment. Apart from this, standards and guidelines issued by the ICAB are not of its own, it just adopted standards and guidelines established by the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC). Moreover, the Institute of Chartered Accountants of Bangladesh (ICAB) has no power of its own to enforce these standards and guidelines i.e. it has no power to require compliance with standards and guidelines. These standards and guidelines are recommendatory in nature. Thus the adoption or acceptance of accounting standards and auditing guidelines would be a futile exercise unless the law enforcing agencies are involved with the foundation and adoption of standards.[58]

A well established institutional framework is very important for regulating professional accounting vis-a-vis public accounting profession. But it has been said that the institutional framework is rather weak in Bangladesh. There are a number of institutions concerned with professional accounting-the Stock Exchange, the Registrar of Joint Stock Companies, the Professional Institutes, and the Government do not effect any change. The enforcement mechanism of corporate reporting should be strengthened. Thus there requires a law enforcing agency like Securities and Exchange Commission (SEC) of the USA or Department of Trade and Industry (DTI) of the UK or Corporate Law Authority of Pakistan to regulate and handle various corporate laws.

The most crucial and important element of accounting profession is the "independence" of accountants. It is regarded as the hall-mark of the profession. It is expected that professional accountants will remain independent while performing their duties. But in

[58]. Ahmed. M.(Muzaffer) "Short Commentry on Status of Accounting and Auditing Standards in SAFA Countries". Lecture delivered in the SAFA-3rd Conference, Dhaka (June- 1988) Para 7.2.

Bangladesh, professional accountant's independence has not yet been given proper thought, which impairs the confidence placed in the audited published accounts in general.[59] It has been alleged that there exists lack of independence in Bangladesh. Parry and Khan in this context reported that it is not possible for the auditors to be independent in the present legal and social context.[60]

So necessary measures must be taken to ensure independence or to secure higher degree of independence so that utmost confidence is placed on the auditor and the audited accounts.

1.3 OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

A. Both public and private regulations are widely used as control device all over the world to regulate professional accounting. Effective implementation of public and private regulations will bring more discipline and harmony in accounting practices and will improve the quality of reporting and auditing. There exists laws and standards to regulate professional accounting practice in Bangladesh. **Thus one of the prime objectives of the study is to ascertain the state of public and private (self) control on professional accounting in Bangladesh** with particular references to the following issues :

01. To examine whether regulations imposed by the Companies Act, 1913 and other laws are complied with in preparing accounts and financial statements of limited companies;
02. To identify whether professional accounts exercise their powers and fulfil their duties according to the provisions of the Companies Act ;

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59. Talukdar,Y.,"Auditor's Independence in Bangladesh" in "The Bangladesh Accountant" (July-September, 1984) p. 33.
60. Parry, M.J. and F.Khan., op.cit, p.260.

03. To identify whether legal provisions relating to accounting and financial reporting are adequate, clear and comprehensive.
04. To justify whether professional accountants should be provided with more statutory powers to protect investors against fraud and unexpected insolvency.
05. To examine whether Registrar of Joint Stock Companies has been exercising carefully the powers and authority conferred on him by the Companies Act.
06. To determine whether a public rule limiting the number of audit a chartered accountant can audit is necessary to improve the quality of audit.
07. To identify whether public participation in the administration of the ICAB is necessary to protect public interest.
08. To identify whether accounting standards and auditing guidelines require legal coverage for their effective implementation
09. To examine whether accounting standards issued by the ICAB are complied with while preparing financial statements.
10. To examine whether auditing guidelines issued by the ICAB are followed by the members while auditing the books of accounts.
11. To identify whether proper and adequate measures have been taken by the profession to improve the quality of audit work.
12. To examine whether profession has been effective in disciplining its members.
13. To examine whether education and training provided by the institute is adequate.
14. To examine whether the Continuing Professional Education should be made compulsory for professional accountants.
15. To assess whether the accounting firms are properly training up articled students.
16. To determine whether there should exist a separate standard setting body.
17. **another objective of the study is to differentiate the areas of professional accounting where control through public regulations are appropriate and where control through private (self) regulations are appropriate.**

B. Independence is the hall-mark of the profession. The audit function without independence has no value and relevance in society. Thus professional accountants must remain independent in his work. But the auditor's independence in Bangladesh has been the subject of discussion. **Thus one of the objectives of the study is to identify the extent of independence enjoyed by professional accountants in Bangladesh** which relates to:

18. ascertain whether auditors can work independently in conducting audit as required by the Companies Act 1913.
19. ascertain whether absence of some rules and techniques have impact on auditors' independence in Bangladesh.

C. **One of the objectives of the study is to examine the state of financial reporting in Bangladesh** which relates to:

20. identify whether the annual report and accounts prepared by the companies serve the purposes for which these are designed.
21. identify whether delayed publication of accounts and reports has any implication on financial reporting.
22. identify whether users of financial statements are satisfied with the information furnished in them.

D. **To find out the nature of information contained in the annual reports in Bangladesh and to suggest measures for the improvement of annual reports in order to make them more useful to the users.**

1.4 HYPOTHESES OF THE STUDY

To achieve the objectives of the study as mentioned earlier, the following research hypotheses(H) were developed.

H 1. Companies in Bangladesh follow the prescriptions of the Companies Act, 1913 while preparing financial statements.
H 2. Listed companies follow the regulations of the Securities & Exchange Rules, 1987 while preparing financial statements.
H 3. Auditors exercise their powers and fulfil their duties according to the Companies Act, 1913.
H 4. Legal provisions relating to accounting and financial reporting are inadequate and unclear in Bangladesh.
H 5. Auditors require more statutory powers to protect investors against fraud and unexpected insolvency.
H 6. The Registrar of Joint Stock Companies has been effective in controlling public accounting practices in Bangladesh.

H 7. A statutory rule limiting the number of audits a chartered accountant can undertake is necessary to improve the quality of audit.

H 8. Public participation in the administration of the ICAB is necessary to protect public interest.

H 9. Legal backing is required for the enforcement of accounting standards.

H10. Accounting standards issued by the ICAB are complied with while preparing accounts and financial statements.

H11. Auditing guidelines issued by the ICAB are observed by the members while authenticating books of accounts.

H12. Non-introduction of quality control by the ICAB will degrade the quality of the audit work in Bangladesh.

H13. The profession has been effective in disciplining its members in Bangladesh.

H14. Education and training provided by the institutes is inadequate.

H15. Mandatory Continuing Professional Education is necessary to up date the knowledge of professional accountants.

H16. Articled students are properly trained up by the accounting firms.

H17. A separate standard setting body is required to make accounting standards more acceptable to the public.

H18. The different areas of professional accounting (Education, Discipline, Setting of Standards, Financial Reporting, Compliance of Standards) should be governed through public regulations.

H19. Provisions of the Companies Act relating to auditor's appointment and remuneration and as regards qualifying auditors reports are not complied with.

H20. Absence of audit committee will impair auditor's independence in Bangladesh.

H21. Image of the profession impairs auditor's independence in Bangladesh.

H22. Auditor's long association with a particular client impairs auditor's independence in Bangladesh.

H23. Auditor's appointment for a fixed term will ensure auditors independence.

H24. Currently prepared annual reports in Bangladesh are not useful.

H25. Annual reports are not useful due to delayed publication.
H26. Annual reports and accounts do not exhibit a true picture due to distortion thereof.
H27. Annual reports require to contain many other things to make reports more useful to the users.

1.5 MEANINGS AND DEFINITIONS OF IMPORTANT TERMS

1. **Public Control** : The term 'Public Control' refers throughout this study to the control on professional accounting vis-a-vis professional accountant by the government through various statutory laws, rules, regulations, ordinances, acts etc.

2. **Self-Control** : Self-Control here refers to the control on professional accounting by other than government through various rules, standards and guidelines. The phrase self control has been used interchangeably with the phrase self-regulation, self-managemnt or private regulation etc.

3. **Professional Accountant** : Professional accountant refers throughout the study to a person who has met the requirements to become a member of a professional accounting body and who thereby is qualified to audit or attest to financial statements. Thus professional accountants throughout this study includes Chartered Accountants, Cost Accountants, Certified Public Accountants (CPA), Registered Accountants, Public Accountants etc. and these terms have been used interchangeably.

4. **Professional Accounting** : It refers that portion of which is handled by professional accountants, primarily involving the attested function culminating in auditors' report and which are required by law to produce. For this study professional accounting covers the following areas : (1) Education & Training of professional accountants, (2) Discipline of professional accountants, (3) Setting of standards, (4) Financial reporting and (5) Compliance of standards and procedures.

5. **Multinational Companies** : Multinational companies, for this study, refer to those companies registered as public limited

companies under the Companies Act and whose shares are listed with Dhaka Stock Exchange (DSE).

6. **Public-Sector Companies** : Public-sector companies refer to only those companies controlled by the government registered as public limited companies and listed with the Dhaka Stock Exchange.

7. **Private-Sector Companies** : Private-sector companies refer to those companies handled privately registered under the Companies Act, 1913 and listed with Dhaka Stock Exchange.

1.6 IMPORTANCE OF THE STUDY

There has been a tremendous development in the field of public accounting vis-a-vis public accounting profession around the world. The contribution of the accounting profession in the economic development of a country is well recognized. Investors and credit giving agencies have been highly benefited by the statements prepared and authenticated by the professional accountants. Accounting information has facilitated growth and development of economic activities, the contribution of accounting profession has been maximised through well conceived models of management and control of accounting profession. In some countries public control has been more pronounced while in others self-regulation put the profession on sound footings.

In order to regulate the accounting profession, the Institute of Chartered Accountants of Bangladesh was created after the liberation of Bangladesh in 1973. The professional accountants, in addition to ICAB, were regulated by the Companies Act, 1913. Professional accountants, academics, scholars, businessmen felt that the Companies Act 1913 became outdated and would not serve the purpose of regulating and managing the profession adequately and rationally. As such the Government of Bangladesh appointed a committee to suggest lines in which the law required modification. But no concrete measures was adopted although in several national seminars organised by the ICAB and ICMAB, professional accountants put forward demands for amending the outdated Companies Act of 1913. The consensus of the seminars was that the profession was not properly managed and adequately controlled.

This has prompted the researcher to select the present topic as his area of research. The focus of attention has been on fact finding about the functions assigned to the various regulatory bodies and professional institutes and the manner in which they have been discharging their responsibilities. Attempt has been made to identify the kind of constraints encountered by the professional accountants in complying with the provisions of the laws and the guidelines issued by the concerned authorities while discharging their professional duties.

Attempt has also been made to ascertain the views and perceptions of the professional accountants, policy makers and users of accounting statements about the adequacy of financial statements and reports as providers of information for decision making. Besides, efforts have been directed to determine the areas where public control is considered more appropriate and where self-management and control are viewed as being sufficient. Consensus about areas of public control and self-control appeared to be meaningful to the researchers in view of government economic policy towards free market economy.

The findings of the study are likely to be helpful to those charged with task of preparing financial statements, meaningful to those entrusted with the task of regulating the accounting profession in Bangladesh and also useful to those who analyse the financial statements for making decisions as to whether investments should be made and whether loan should be sanctioned. It is hoped that concerned authorities will find the result of the study in framing rules, regulations for bringing uniformity in accounting practices, augmenting credibility of financial statements and reports, improving reporting practices and quality of audit works in addition to ensuring independence of professional accountant and upholding the image of accounting profession as protector's of public interests.

1.7 LIMITATIONS OF THE STUDY:

In undertaking research study, a number of problems were faced. Thus the study has some limitations. The limitations are :

1. The study is restricted only to the companies listed in the Dhaka Stock Exchange (DSE).
2. The study also excludes banking and insurance companies as they have separate laws (The Banking Companies Ordinance, 1962; The Bangladesh Bank Nationalisation Order, 1972; The Banking Ordinance, 1992; The Insurance Companies Act, 1938)
3. The study does not also take into consideration the question of auditor's fees which is considered poor.
4. The study is limited by the size of the sample.
5. "Random Sampling" technique was used in selecting respondents for opinion survey. But in case of Development Finance Institutions (DFI) and Banking companies random sampling technique was not applied. It was rather selective.
6. In this study, the classification of respondents were done on the basis of "Experience"," Educational Background" and "Specialised Training", it should have been classified further on the basis of "Age" and "Location of Training Institutes". Although the information was collected on the basis of different criteria mentioned above, analysis were not done accordingly due to time constraints.
7. The study covers only the existing laws. It does not cover the probable changes of laws in the proposed Companies Act which is going to be enacted very soon.
8. In reviewing literature, the study covers only six countries viz., USA, UK, Japan, Pakistan, India, and Bangladesh.
9. The literature review of the study is based on the information available in Bangladesh.

CHAPTER-II

METHODOLOGY OF THE STUDY

2.1	Survey of existing literature (desk research)
2.2	Opinion survey
2.2.1	Population and samples
2.2.2	Formula used for ascertaining the sample size
2.2.3	Break down of the sample
2.2.4	Selection of the sample
2.2.5	Questionnaire
2.2.6	Procedure of data collection
2.2.7	Overall response rate
2.2.8	Statistical tools used
2.2.9	Procedure of analysis
2.3	Content analysis of financial reporting practices in Bangladesh

CHAPTER-II

METHODOLOGY OF THE STUDY

As already explained in the first chapter, the objectives of the study can be viewed in three groups. In achieving those objectives, the following three distinct research designs were developed:

1. The first group is concerned with the survey of existing literature relating to control, professional accounting practices in Bangladesh, regulations on financial reporting, professional accounting education and the professional accountant's independence.

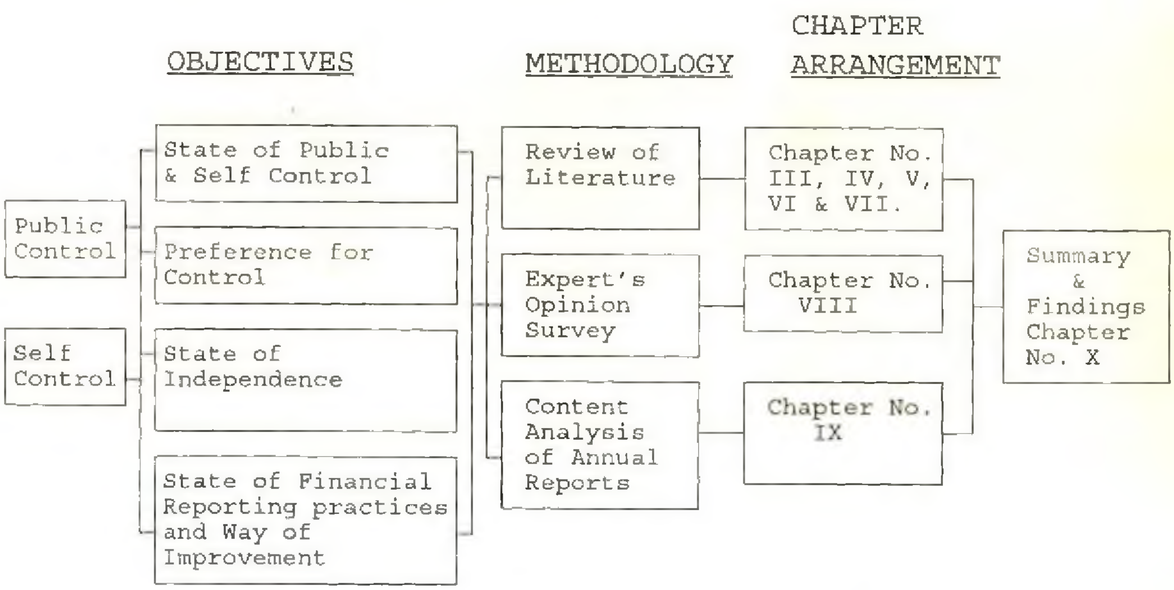

Diagram shows the research design of the study

2. The second group relates to the survey of opinions of the following groups of respondents:

   a. Those who are responsible for the preparation and authentication of accounts, henceforth be called preparers.

b. Those interest groups who read, analyse and interpret financial statements for decision making, henceforth be called the users of financial statements.

c. Those agencies who are charged with the task of regulating the accounting profession, henceforth be called regulators.

d. Those groups who read, analyse and interpret financial statements for academic purposes, henceforth be called academics.

3. The third group is related to measure the effects of control on accounting. Therefore, for measuring the effects of control on accounting a content analysis (empirical study) of published accounts of listed companies was conducted.

Details of the methodologies used in the above mentioned areas are given in the following sections.

2.1 <u>SURVEY OF EXISTING LITERATURE (DESK RESEARCH)</u>

A survey of existing literature relating to the control on professional accounting-worldwide, professional accounting in Bangladesh, regulation on financial reporting, professional accounting education and the independence of professional accountants was carried out. Books, journals, research studies, reports, ordinances, acts etc. available in the Dhaka University library, ICAB library, ICMAB library and the British Council library were critically reviewed in this part. The books, journals, reports, research studies, ordinances used and reviewed have been indicated in the bibliography of the study. Articles published in the following journals and magazines available in Dhaka University library were reviewed.

1. The Accounting Review upto its issue on 31st December, 1990;
2. The Journal of Accounting Research upto the issue on 31st December 1988;
3. The Journal of Accountancy upto 31st December, 1988;

4. The Accountancy upto 31st December, 1976;
5. Three issues of the Chartered Accountants Magazine (Canada) June, 78; September 78 ; April 80;
6. The Chartered Accountants (India), November, 1976;
7. The Dhaka University Studies :Part-C upto 31st December, 1991.

In addition, some internationally reputed journals and magazines available in British Council library, ICAB library, ICMAB library alongwith the latest issues of journals published by the professional institutes of Bangladesh were also reviewed. The survey covered only six countries - UK, USA, Japan, India, Pakistan and Bangladesh taking three from developed countries and three from developing countries. The UK, the USA and Japan were taken as a representation of developed countries, whereas India, Pakistan and Bangladesh were taken as representation of developing countries. Other developed countries like Germany, France, Netherlands, Russia, Canada, Australia, Italy, Switzerland should have been covered to give a global picture. But due to time and financial resources constraints, full coverage of these countries could not be given. However, casual references have been made on the basis of available limited publications of these countries. In the matter of selection of countries, supervisors' instructions were given priority. The survey of literature was summarised and presented in the following chapters:

Chapter No.III:	Control and the Regulatory Framework of Public Accounting in selected countries.
Chapter No.IV :	Professional Accounting in Bangladesh.
Chapter No.V :	Regulations Governing Financial Reporting & Disclosure
Chapter No.VI :	Professional Accounting Education.
Chapter No.VII:	Independence of Professional Accountants.

2.2 OPINION SURVEY

Expert opinion has long been recognised as a source of knowledge in the social sciences. Buckley, J. thus stated, "In any societal effort, action will tend to begin with, and reflect, the ideas of its leader".[1] Thus a questionnaire was developed for all respondents to gather information based on their opinions, feelings and attitudes towards the state of control on professional accounting, choice of control types, independence of professional accountants and the financial reporting practices in Bangladesh.

2.2.1 Population and samples: The population defined for the opinion survey includes primarily the following groups of respondents:

1. Preparers; 2. Users; 3. Regulators, and 4. Academics.

The main purpose of including these experts in the population was that these experts have a definite influence on and involvement in professional accounting and would better realise the importance of the problem. Respondents included in the sample were:

01. Chartered Accountants in practice and in service;
02. Cost accountants;
03. Non-professional accountants completed articleship and now in service;
04. Executives of Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha, Investment Corporation of Bangladesh (ICB);
05. Top level executives of banks and insurance companies;
06. Top level officials of tax authorities;
07. General Investors;
08. Secretaries of Ministry of Finance, Commerce and Industries;
09. Registrar of Joint Stock Companies;
10. Controller of Capital Issues;
11. Executives and council member of professional institutes;

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1. Buckley, J.W.,"In Search of Identity-An Enquiry into Identity Issues in Accounting (Los Angeles: California Certified Public Accountants Foundation for Education and Research,1972) p.x

12. Editors of Dailies and
13. The teachers of accounting department of different universities in Bangladesh.

According to the list of members published by the ICAB and the ICMAB as on 1st July 1991, the chartered accountants and the cost and management accountants were included in the population. Professionals serving outside Bangladesh were excluded from the population. Professionals qualified both as chartered accountants and as cost accountant were included in the population as chartered accountants. The Development Finance Institutions(DFI), Commercial Banks and Investment Companies use, read and analyse the financial statements to test the credit worthiness of the loan seeker. As such, Bangladesh Shilpa Rin Sangstha, Bangladesh Shilpa Bank (BSB) and Investment Corporation of Bangladesh (ICB) were included in the population as the users of financial statements. In consultation with the supervisors, three nationalised banks - Sonali, Agrani and Pubali and the Standard Chartered Bank as a foreign commercial bank were included in the population. Bangladesh Shadharan Bima Corporation was included in the population as a representation of investment companies. It was planned to include top level executives not below the rank of Deputy General Manager (DGM) as the respondents of the study. It was felt that more reliable and unbiased answers could be obtained within the specified time if the members of the Dhaka Stock Exchange could be included in the population. They were considered knowledgeable persons as they are constantly be in touch with the published accounts of listed companies. As such, they were included in the population as general investors. Ministry of Finance, Commerce, and Industries are the overseeing bodies. They often frame rules, regulations, guidelines for regulating stock exchange, banks, insurance companies, limited companies, professional institutes and so on. Therefore, these ministries were included in the population. It was thus planned to include secretaries not below the rank of joint secretaries as respondents. The Registrar of Joint Stock Companies, the controller of capital issues, executive and council members of professional institutes and Dhaka Stock Exchange were also included in the population as they oversee and regulate the accounting professionals and the public accounting practices in Bangladesh. Three economic editors and the teachers of accounting department of three universities were included in the population. Thus the population for this part of the study was:

1. Chartered accountants as per list of members as on 1st July, 1991 [Total No. - (Serving outside Bangladesh + Council members)] [588 - (110+20)]		: 458	
2. Cost and Management accountants as per list of members as on 1st July, 1991 [Total No. - (Outside Bangladesh + Council member + Included in the C.A List)] [288 - (58+12+10)]		: 208	
			666
3. Executives of Development Finance Institutions, Commercial and Investment Banks as per list of officer as on 31st December, 1991 not below the rank of DGM:			
1) Bangladesh Shilpa Bank (BSB)	19		
2) Bangladesh Shilpa Rin Sangstha (BSRS)	13		
3) Investment Corporation of Bangladesh (ICB)	11		
		43	
4) Banks:			
Sonali	81		
Agrani	40		
Rupali	39		
Standard Chartered Bank	3		
		163	
5) Bangladesh Shadharan Bima Corporation		22	
4. Investors as per list of members of DSE as on 31st December, 1991 excluding council members and defaulters ; and officers of tax department		161	
			389
5. Secretaries upto the rank of Joint Secretaries, Ministry of Finance, Commerce and Industries; the Registrar of Joint Stock Companies, the Controller of Capital Issues, council and executive members of professional institutes		42	
6. Teachers of Accounting department of three universities and the economic editors		69	
			111
Total Population =			1166

2.2.2 **Formula used for ascertaining the samples size** :

The formula developed by Guilford and Fructure (1978)[2] was used for determining the size of the sample. The formula is :

$$N = \frac{Z^2pq}{d^2}$$

where N = Sample size
Z = Confidence limit
d = Desired level of precision or significance
p = Proportion of the population
q = 1 - p

In consultation with the supervisors the sample size was determined assuming a confidence level of 95% ; desired precision limit of 5% ; proportion of population of 12.5% (one eighth). The size of sample was :

$$N = \frac{(1.96)^2 \ (0.125 \text{ X } 0.875)}{(0.05)^2}$$

= 168.07 or 168 (approx.) [170 was taken as sample size]

2.2.3 **Break down of the sample** : It was decided to allocate the samples (170 questionnaires) to each of the four groups of respondents proportionately. But this could not be followed stricty as the number of respondents of regulators and academics' group were limited. There was only one or a few respondents in each sub-categories of regulators' group. e.g. Controller of Capital Issues, Registrar of Joint Stock Companies or council members of stock exchange. As such, slight changes were made as to the break down of samples taking thirty as minimum number of respondents from these groups. Nevertheless, attention as far as possible was given in breaking down samples to avoid personal bias. The break-down of samples are shown below :

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[2]. Guilford. J. P and B. Fructure, "Fundamental Statistis in Psychology and Education, McGraw-Hill, Newyork, 1978 p.183

Table No.2.1

Shows the break-down of samples

Nature of Respondent	No. of Respondents	% of Total Population	% of Respondents
1. Preparers	90	7.70	52.94
2. Users	50	4.26	29.42
3. Regulators	15	1.27	8.82
4. Academics	15	1.27	8.82
	170	14.50	100.00

2.2.4 **Selection of the sample** : Random sampling technique was applied for drawing the samples after ascertaining the size of sample. The respondents in group I (Preparers and authenticator) were arranged alphabetically and then given serial number. "Random Number Tables prepared by "Rand" corporation of the USA was used in selecting samples. The same procedure was followed in selecting investors, teachers of universities and executive and council members of the ICAB and the ICMAB.

2.2.5 **Questionnaire** : One set of questionnaire was used to collect information. The questionnaire was divided into three parts : Part-A, Part-B and Part-C. Part-A contained the questions regarding the characteristics of respondents. The questions relating to the characteristics of respondents were : Nature, experience, general education of the respondents. Part-B postulated a total number of 30 questions upon which the respondents were asked to give their opinions regarding public and self control, choice of control and auditor's independence. Part-C postiluted 14 questions on financial reporting. Information about the characteristics of the respondents was collected to see whether there existsany difference among different groups relating to views on various issues of the study. A 5-point scale was used for this part of the study, the specimen of which is shown below:

Weight Given	1	2	3	4	5
Extent of satisfaction	Not at all	Some extent	Moderate extent	Great extent	Very Great extent

The scale was tested to check its validity

2.2.6 **Procedure of data collection** : 170 questionnaires were distributed among four groups of respondents to collect information. Respondents were given enough time i.e. 15 days to fill up questionnaire in order to have a better, unbiased and accurate information. But most of the respondents failed to return the filled in questionnaires in time.

2.2.7 **Overall response rate** : A total of 170 questionnaires were distributed among all group of respondents of which 90 questionnaires were given to group no.I (Preparers and authenticators); 50 questionnaires were given to group no.2 (Users of financial statements) and 30 questionnaires were given to group no.3 and 4 (Regulators & academics). A total of 133 questionnaires were returned representing an overall response rate of approximately 78%. Out of 133 questionnaires 71 questionnaires were received from group no.1; 39 questionnaires were from group no.2 and 11 & 12 from group no.3 & no.4 respectively. Questionnaires distributed, returned, and the response rate are shown in the following table.

Table No.2.2

Shows the number of questionnaires distributed, returned and the response rate.

Group	Nature of respondents	Questionnaires distributed	Question-naires returned	Response rate
I	Preparers and autenticators of financial statements	90	70	78.88%
II	Users of financial statements.	50	39	78.00%
III	Regulators.	15	11	73.33%
IV	Academics	15	12	80.00%
		170	133	78.25%

2.2.8 : **Statistical tools used** : In measuring and testing hypotheses three statistical tools were used. Two types of " t-test" and ANOVA- test (Analysis of variance) were done.

(1) The formula used for calculating 't' value from the stated mean was:[3]

$$t = \frac{\bar{X} - \mu}{\delta / \sqrt{N}}$$

Where $\bar{x}$ = Estimated mean ;
μ = Assumed mean ;
δ = Standard deviation
N = Number of observations.

(2) The formula used for calculating 't' value from between means was:[4]

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\dfrac{N_1 S_{1/2} + N_1 S_{2/2}}{N_1 + N_2 - 2} \times \dfrac{N_1 + N_2}{N_1 N_2}}}$$

(3) The formula used for calculating 'F' value was:[5]

$$F = \frac{S^2 \text{ bet}}{S^2 \text{ W}} = \frac{\text{between group variance estimate}}{\text{within group variance estimate}}$$

$$S^2 = \frac{SS}{n-1}$$

where SS = Sum of Squares

SPSS (Statistical Programme for Social Sciences) package programme was used to calculate "t" and "F" value for testing various hypotheses mentioned earlier.

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[3]. Hays, W.L and R.L. Winkler., "Statistics-Probability Inference, and Decision"(International Series in Decision Process)p.424

[4]. Ibid.,p.426

[5]. Runyon, R.P. and A.Haber.,"Business Statistics" (Richard D. Irwin Inc, 1982)p.299

2.2.9 Procedure of analysis : After collecting questionnaires, these were analysed to know about the perceptions of respondents regarding the state of control on professional accounting preference of control, auditor's independence and the financial reporting practices in Bangladesh. The procedures followed in analysing data are described below :

a) Analysis of Respondents Perception: In analysing respondent perception about the public control on professional accounting, the following statistical terms and assumptions were made:

i) Formula used for testing hypothesis: The formula used for testing hypothesis were:

Hypothesis : Ho : $\mu \leq 3$
H_1 : $\mu > 3$

This means whenever the mean score is just 3 or less than 3 it would be regarded null hypothesis. On the otherhand, if the mean score is more than 3 it will be regarded as alternate hypothesis.

ii) Assumed mean: "3" was taken as the assumed mean. Because it is the mid- value in a 5 point- scale where satisfaction level is neither too high nor too low.

iii) Statistical test : Since the size of the sample is comparatively small, the "Student-t" statistics was used. The formula used for calculating "t-value" is stated in earlier section.

iv) Significance level: .05 was taken as the significance level (α) in all cases.

Respondents' average (mean) scores for each issues were first calculated from the 5-point scale. Then "t" was calculated to determine the differences of the mean scores from the stated score of 3.

b) <u>Analysis of perception-gap</u>: In analysing respondents perception gap, the following statistical terms and assumptions were made.

i) Hypothesis : $H_0 : \mu = 0 \left[\mu = \mu_1 - \mu_2\right]$
$H_1 : \mu \neq 0$

Ho means that there is no difference in the mean scores between the groups. Whereas H_1 means that there is a difference in the mean scores between groups.

ii) Significance level was taken 0.5
iii) Student "t" statistics was used.

In analysing perception-gap "t value" was calculated to determine the differences between the groups. Calculated t-value was then compared with the tabulated t. If the difference is significant, it will mean that there exist perception-gap, otherwise not.

c) <u>Analysis of Variance (ANOVA)</u> : ANOVA-test was done in order to know whether there exist overall variation between groups. The following terms and assumptions were made:

i) $H_0 : \mu_1 = \mu_2 = \mu_3$
$H_1 : \mu_1 \neq \mu_2 \neq \mu_3$
ii) Significance level was taken as .05

2.3 CONTENT ANALYSIS OF FINANCIAL REPORTING IN BANGLADESH

The population defined for financial reporting and disclosure practices in Bangladesh was limited mainly to the companies listed in the Dhaka Stock Exchange. As per list published by the DSE on 31st December, 1991 there were 130 listed companies and 7 listed ICB-Mutual Funds and Certificates. A total of 14 banking and insurance companies were excluded from the population as these companies had separate statutory laws. The ICB-Certificates and funds were not also included in the population. So the number of listed companies included in the population was 116. The companies listed in the Dhaka Stock Exchange were arranged alphabetically under 9 separate headings. They were given serial number. Then 50 companies were selected through random sampling using "Random Number Tables". The year 1991 was used as the base. Attention was given to ensure that the sample selection was representative of the population. The following table indicates the number of companies included in the sample from the different groups (trade).

Table No.2.3

Shows the number of companies included in the sample from different trade

Nature of trade	Total No. of listed companies	Co. included in the sample
1. Engineering	19	10
2. Food and allied	23	11
3. Fuel and Power	4	1
4. Jute	12	2
5. Pharma & Chemicals	16	9
6. Paper & Printing	6	3
7. Textile	19	10
8. Miscellaneous	15	4
9. Service	02	0
	116	50

The annual reports of the listed companies under the study were collected from the DSE-library.

CHAPTER-III

"CONTROL" IN PROFESSIONAL ACCOUNTING

CHAPTER-III

'CONTROL' IN PROFESSIONAL ACCOUNTING

Control is very important and fairly well established concept in management science as well as in professional accounting.[1] It is particularly a significant factor to be considered by professional accountants. Both private and public regulations are widely used as control tools around the world to regulate public accounting practices and the accounting profession as well. Many scholars, researchers, legislators, users of financial statements and administrative agencies are actively criticising the process of accounting policy formulation and the structure of public accounting practices. Their criticisms have been accompanied by proposals for more public regulations.[2] But others strongly oppose this.[3] Thus there exists controversy as to the form of regulation and intensity of regulations.

Thus an effort was made in this chapter to overview the existing literature on control, control types, arguments against and in favour of public and private regulations and the regulatory framework of public accounting of selected countries.

3.1 MEANING OF 'CONTROL':

According to the Random House Dictionary 'control' means "to exercise restrain or direction over; dominate; command; to hold in check etc."[4] The term control is defined from various perspectives e.g. politically, legally or from management viewpoint. To most people this is an essential quality of any political system. It refers to them as a device through which government exercises his authority over people to regulate them for achieving desired

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1. Newton, L.K.,"Accounting Policy Formulation: The Role of Corporate Management" Addison-Wesley Publishing Co.(1980) p.7
2. Burton, J.C., Eli Mansion, Metcalf Sub-Committee Report, Moss Sub Committee Report, Nelligan supported more public regulation.
3. Weston, J.F.,R.J. Chambers, J. Ronen & M. Schiff,E. Stamp and the like, supported private regulations.
4. The Random House Dictionary. The College Edition (1969)p.2931

result.[5] But according to management literature 'control' refers solely to task of ensuring that activities are producing desired results. It can be defined as the regulation of organisational activity in such a way as to facilitate goal attainment.[6] 'Control' according to Tannenbaum refers to the process by which a person, group or organisation consciously determines or influences what another person, group or organisation will do.[7]

'Control' in relation to professional accounting refers to a device that provides the ways and means through which the actions of professional accountants can be governed. It is the process of scrutinising the activities of the professional accountants so that they can carry out their activities according to get desired results and thereby protects the public interests. In fact, it is concerned with examining what professional accountants should do.

3.2 REASONS FOR CONTROL

Reasons for controlling professional accounting are briefly discussed below:

1. To bring uniformity in accounting practices : For achieving uniformity in accounting and reporting practices, there must be a control on public accounting and on public accountants. Lack of control on professional accounting results in wide variation in accounting and reporting practices which, in turn, impairs the usefulness of accounting and reporting practices. Thus in order to have uniformity in accounting and reporting practices, there requires a control.

2. To add credibility to financial statements and reports: Lack of control on public accounting may result in undesirable and harmful practices which, in fact, produces biased and unreliable accounts and reports and thereby lose their credibility. Thus in order to

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5. Mitchell, J.M. and W.C.Mitchell., "Regulation and Problems of Regulation" in "Political Analysis and Public Policy: An Introduction to Political Science". Thompson Press (India) Ltd., 1972. p.208
6. Griffin,R.W.,"Management" Houghton Mifflin Co.(2nd ed.1987)p.522
7. Tannenbaum, A., "Control in Organisations: Individual Adjustment and Organisational Performance." Administrative Science Quarterly 8 (1962) pp.236-257.

add credibility to financial reports and statements, there must be a control on professional accounting.

3. **To improve the quality of audit** : Effective control on public accounting vis-a-vis public accountants will improve and ensure the quality of audit. Lack of control on public accounting will degrade the professional accountants' works. In order to minimise substandard work and to improve the quality of audit, there must exist a control on professional accountants.

4. **To uphold 'public interest'** : 'Public Interest' can only be protected when capital markets are free from biased, unfair and misleading information. In order to uphold "public interest and to keep capital markets free from biased and misleading information, there must exist a strict control on public accounting.

5. **To ensure independence** : Professional accountants must remain independent while performing audit work as it is regarded as the hall-mark of the profession. Failing to remain independent by the professional accountants tends to produce suspension and erosion in the mind's of the investors which ultimately affects investment decisions and thereby capital markets. Lack of control on public accounting impairs independence of professional accountant. In an attempt to ensure independence, there requires a control on public accounting.

6. **To eliminate domination** : If there exists a domination of accounting firms over the small firms, there must exist a control on public accounting. It is alleged that there is always systematic tendency for exploitation of small firms by the large firms. If such situation prevails there must require a control to eliminate domination.

3.3 CONTROL-TOOLS USED IN PROFESSIONAL ACCOUNTING

There are various tools used in controlling professional accounting vis-a-vis accounting profession. Some of them are established by the government and some are established by professional bodies. The control tools used in professional accounting are discussed below:

1. **Statute** : Statutory laws, ordinances, rules etc are very important tools which are used frequently by the government to regulate professional accounting vis-a-vis accounting profession. It is one of the effective tools through which government regulates professional accounting vis-a-vis accounting profession. Government may prescribe rules for appointment, removal, powers, rights, liabilities of professional accountants and the forms and contents of financial statements and many other things through various statutory regulations.

2. **Accounting standards** : Accounting standards are important tools through which professional accounting as well as accounting profession can be regulated. Accounting Standards are established in order to bring uniformity in accounting practices. These are actually, the norms of accounting policies and practices for the guidance of the professional accountants regarding the treatment of the items made in the financial statements and their disclosures therein.

3. **Auditing standards and guidelines** : Auditing standards and guidelines are effective control-tools which can be used to regulate the activities of professional accountants. Auditing standards prescribe the basic principles and practices which the professional accountants are expected to follow in the conduct of audit to arrive at a defensible audit opinion. Auditing standards represent professional criteria to which an audit must conform. Auditing guidelines give guidance on procedures by which the auditing standards may be applied. Auditing standards and guidelines give the society a visible assurance of the quality of various characteristics that should underlie all independent audits.

4. **Professional ethics and code of conduct** : Professional accounting vis-a-vis the profession can be regulated through the establishment of professional ethics and code of conduct. This is a very important and effective tool which can be used to regulate the activities of professional accountants. Professional ethics is basically the fabric of a profession. The quality of professional accountants work is largely dependent on the observance of professional ethics and code of conduct by the professionals.

5. Audit committee : An audit committee may be used as a tool for regulating professional accounting as it has an implication on the independence of the professional accountants. The responsibility for maintaining an environment for independent audit is, to a great extent, entrusted on the audit committee. An audit committee reviews the audit report and thus ensure a check on the professional accountants' performance.

6. 'Peer Review' programme : 'Peer Review' programme can be used as an important and effective tool for controlling the quality of services rendered by professional accountants. It is an audit on accounting firm conducted by another audit firm. The object of this programme is to assist an accounting firm in determining whether its audit practice is conducted effectively and in accordance with set standards.

7. Continuing Professional Education Programme (CPE) : Continuing Professional Education (CPE) programme may be used as an effective tool for maintaining educational standards of professional accountants. Introduction of mandatory Continuing Professional Education (CPE) programme will update the knowledge of professional accountants and minimise the substandard work.

8. Professional Achievement Registry Programme (PAR) : Professional Achievement Registry Programme may be used as a control tool through which the quality of services rendered by professional accountants can be controlled. It appears to be aimed at those small firms and sole practitioners for which 'peer review ' programme is not effective, but who nonetheless realise the need to uphold high professional standards.

9. Public reporting: The reporting of professional accountant's work to the public may be used as a tool in regulating professional accounting vis-a-vis accounting profession.

3.4 TYPE OF 'CONTROL' IN PROFESSIONAL ACCOUNTING

There are two types of control used in professional accounting arena viz. 1. Public (Government) control and 2. Private (Self) control.

1. **Public control** : Public control refers to the control of accounting practices vis-a-vis accounting profession by the public (government) through various statutory regulations. Actually it represents government control. When accounting practices as well as the accounting profession is governed by the government regulations, the control is said to be public control. Thus public control represents the control of professional accounting vis-a-vis accounting profession through the regulations formulated by the government.

2. **Self control (Private control)**: According to the Webster's Dictionary 'self-control' means " control of one self or one's actions and feelings; it also denotes 'self-command' which means to prevent the exhibition of emotion".[8] Self-control means self-imposed regulations or ordering of one's own thoughts or actions, often with a view toward improvement. It appears that persons do control themselves towards objectives under certain circumstances.[9]

'Self Control' with regards to professional accounting refers to the process whereby the professional accounting practices vis-a-vis accounting profession is controlled by the profession itself, not by the government. When the accounting practice as well as the profession is administered, controlled and managed absolutely by the forces and agencies within the profession, it is called "self-control". In case of self-control, the creation of laws, rules, principles, standards etc are in the hands of private organisation i.e. the accounting profession.

3.5 CONTROVERSIES ON CONTROL TYPES

There exists controversies over two important questions all over the world, the first of which is : should accounting i.e. accounting principles, standards, auditing guidelines, financial reporting be regulated or left for the market system? The second one is, if a regulatory system is preferred, then how should the responsibility be divided between public and private?

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[8]. Webster's Third New International Dictionary, (London G.Bell & Sons Ltd., 1961) p.2059.

[9]. Briston, R.J., "Introduction to Accountancy and Finance" (The Macmillan Press Ltd. Edition 1982) p.526.

3.5.1 Free-market approach

Advocates of free-market approach always agree that every thing should be left for the free-market system. Market will decide everything. They argue that mandatory regulation on anything is unnecessary and undesirable. As such mandatory financial reporting and disclosures are unnecessary, because market forces can be dependent on to generate any desired information. Advocates of this system viewed accounting information as an economic good. According to free-market approach, an equilibrium price can be established for accounting information as with any economic good.

3.5.1.1 *Agency theory*

The free-market approach is advocated by certain 'agency theory'. An agency relationship is a contract under which one or more persons engage another person to perform some service on their behalf which involves delegating some decision making authority to the agent. Atkinson and Feltham state that agency theory considers mainly the stewardship demand for information.[10] The theory concentrates on the relationships in which the welfare of one person is entrusted to another, the agent. Agency theory gives us a framework to which the types of contract that appear to be logical between principal and agent. One type of contractual relationship may be between users of accounting data and the firm. Contracts for financial data can be an alternative to public reporting. If accounting were "deregulated", the market mechanism could generate sufficient information and reach a socially optimal equilibrium point where the cost of providing the information equals the benefits.

3.5.1.2 *Limitations of free-market system*

Government intervention through regulation would be justified only when it becomes clear that the market is unable to maximise public interest. The free-market approach entails the following inherent imperfections and limitations.

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10. Atkinson, A and G. Feltham., "Agency Theory Research and Financial Accounting Standards" in "Research to Support Standard Setting in Financial Accounting : A Canadian Perspective", 1982, ed. by S. Basu and J. A. Milburn., p. 260.

1. **Inadequate information**: Advocates of free-market system claim that market mechanism can generate sufficient information and reach a socially optimal equilibrium point if accounting is deregulated. But in reality, this system cannot produce adequate information. The reasons for failure to produce adequate information in a free-market approach are :

   a. Individual investors cannot commission an audit for each company in which they invest.
   b. Organising investors on collective basis for having information would be very costly.
   c. If management were to pay for having information they would not be adequately compensated.
   d. If the information is given exclusively to those who pay, there is little incentive for them to release such valuable information.

2. **Monopoly**: One of the limitations of free-market approach is that it may produce monopoly and oligopoly. A single large firm is efficient than several small one's, and a natural monopoly results. In such a situation, the government may intervene to thwart anticompetitive monopolies and oligopolies through regulations.

3. **Externalities**: When all costs or benefits of a goods or service are not fully internalized or absorbed, those costs or benefits fall elsewhere as what economists have labeled externalities or spillovers. Free-market system does not consider the question of externalities. Government regulation is sometimes considered necessary to solve this sort of problem.

4. **Public goods**: Some goods and services cannot be provided through the pricing system because there is no method for excluding those who choose not to pay. In such situations, the added cost of benefiting one person is zero or nearly so and, in any case, no one can effectively be denied the benefits of the activity. Presumably most individuals would refuse to voluntarily pay for what others would receive free. Thus public goods would not be produced in adequate quantities in a free-market system.

5. Philosophy and politics: It is the presumption of many people that problems of recession, inflation and unemployment cannot be solved alone by the free-market approach. They believe that government intervention in the market to be necessary to stabilise the economy, thus curbing the problems of recession, inflation and unemployment.

3.5.2 Regulatory approach

The limitations and imperfections of free-market approach have led people to think about an alternative approach, the regulatory approach. Critics of the free-market approach pointed out that the theory is unrealistic and unworkable as the market mechanism will not be able to achieve a socially optimal equilibrium price for any thing particularly for accounting information.

Advocates of a regulatory approach argue that accounting information differs from other economic goods and as such free-market system would not work. In a free market system, price determines who gets private economic goods. Price, however, can not serve the allocative function with respect to accounting information because such information is often a 'public good'. Once a firm publishes accounting information, it becomes freely available to every one. Those willing to pay for this information cannot easily exclude those who have not paid for using this information. Moreover, this system will not necessarily reach the socially optimal equilibrium position where the benefits of the information exactly equates cost.

It is also argued that individuals with limited resources and knowledge do not posses sufficient market power to elicit the kind of information they need for their decisions. A regulatory agency is,therefore ,necessary to protect their interests.

Regulation is required also to avert monopoly and oligopoly. Firms with monopoly of information will have the tendency to underproduce information and sell them at a high price. In order to avoid this, there should exist mandatory reporting which will provide information at a lower cost.

3.5.2.1 *Private or self-regulation*

When regulation is established privately or the creation of regulation is left in the concerned organization, the regulation is said to be private or self-regulation.

3.5.2.2 *Public or government regulation*

When regulation is established by the government or the creation of regulation is in the hand of government, the regulation is said to a public regulation.

3.5.3 Types of regulatory initiatives

Four major types of regulatory initiatives are generally identified. They are : 1) Equilibrium, 2) Capture, 3) Public interest and 4) Societarian. Each of the model is discussed below.

1. Equilibrium theory of regulation: The accounting profession does not face "The Equilibrium Theory " type of regulation till now. This type of regulation is designed to balance or to adjudicate between powerful competing interests. The sociology of this type of regulation has many characteristics. In this type of regulation, the legislation is generally in the nature of a charts, which defines the competing rights and obligations of each party and articulates the rules by which disagreements will be resolved. Neither party will be able to dominate permanently the administrative arrangements created to implement the charter. There will be continuing efforts to renegotiate or amend the charter.

2. The 'Capture' theory of regulation : The 'Capture' regulation process generally results in concentrated benefits and diffused costs - that is, "when the benefit is entirely concentrated on a single group but the cost is diffused, an organization will quickly form to propose a regulatory arrangement to institutionalize the benefit.[11] There exits many theories to explain the 'capture' process. According to the view based on political economy, regulation exists because some members of society have incentive

[11]. Wilson, J.Q., "The Politics of Regulation" in J.W. Mckie, edited "Social Responsibility and the Business Predicament" (Washington D.C.; Brookings Institution, 1974)p. 141.

systems which cause them to demand it and others have incentive systems which cause them to supply it.[12]
According to Wilson, the 'capture' regulatory process has the following distinctive characteristics:

1. There will be elimination or reduction of price competition with in the affected industry.
2. Entry to the industry will be restricted or at least made more expensive.
3. The organized beneficiary will strongly influence the regulatory agency that administers the policy.
4. The industry and its agency will strive to maintain a position of low visibility to avoid the stimulating the formation of organized resistance.
5. Should the regulation become controversial, it will be defended by attempting to show that eliminating competition is justified on the grounds of ensuring public safety, ending fraud, or promoting amenity.[13]

3. Public interest : The 'public interest' model is perhaps the oldest theory of public regulation. This is just opposite in nature to "diffused benefits and concentrated costs" model of regulation. It is sometimes called the 'market failure' theory because the need for regulation is triggered by failures in the performance of free-market. This model assumes that regulators basically seek to represent and advance the interests of the public-that they serves as agents of the public, whose interest they seek to safeguard through the development and enforcement of industry regulations. This theory " ....holds that regulations supplied in response to the demand of the public for the correction of inefficient or inequitable market practice".[14] The regulation instituted primarily for the protection and benefits of the public at large or some large sub class of the public, according to Stigler is "public - interest" type of regulation.[15]

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12. Stigler, G.J.,"The Theory of Economic Regulation" in "Bell Journal of Economics and Management Science", 2.(1971)p.3
13. Wilson., loc.cit.,p.142.
14. Posner, R.A.,"Theories of Economic Regulation", Bell Journal of Economics and Management Science, 5 (1974)p. 335
15. Stigler., op.cit,p.3

This type of regulation must arose the public. The proposal tend to be strong and unequivocal, as yielding to interest groups will be viewed as wavering in resolve or outright capitulation. The solution will be less substantive than procedural. The issues of this type of regulations are evasive and inexhaustible.

4. **Societarian type of regulation** : " Societarian " type of regulation is also known as "Diffused benefits diffused costs" type of regulation. This is generally based on some broad perception of social need, supported by appeal to humanistic principles, the constitution, or other moral authority. An apt title for this type of regulatory initiative is 'societarian' in that society as a whole bears both benefit and cost.[16] The legislation is typically vague about who will benefit and who will pay the cost. The vagueness of the legislation requires the administrative agencies to issue regulations specifying the real costs and benefits.

3.6 ARGUMENTS AGAINST PUBLIC-REGULATION

Public regulation has been appreciated by many authors, academics, intellectuals, researchers as it, according to them, has a supremacy over private regulation. Nevertheless, public regulations are not free from imperfections and limitations. It has also been criticised by many, as such, Weston termed public regulation as an intervention of government and scared that more public regulation in accounting do more harm than good.[17] Patronizing self-regulation, Stamp commented:

> So long as the profession can demonstrate that it is capable of faithfully discharging the responsibility then I believe that accounting and auditing standards ought to be determined, promulgated, monitored and enforced by the accounting profession.[18]

The following imperfections and limitations of public regulation may have led people to choose alternate regulation.

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16. Buckley, J.W. and P.O'sullivan., op. cit, p.20.
17. Weston, J.F.,"Regulation and Accounting Profession: Evaluation of the Issues" in 'Regulation and the Accounting Profession", ed. Buckley & Weston. p.223
18. Stamp, E., op.cit. Sec. C-I, p.110.

1. Undue political influence: Public regulation has been criticised on the ground that it is generally susceptible to undue political influences, both through special interest groups and through reinforcing current government policy objectives. Solomons,D.thus commented:

> Government agencies are more directly susceptible to political pressures than private bodies, and when not subject to such pressures they are apt to let sleeping dogs lie.[19]

2. Fails to devote sufficient resources: A government body would not be able to offer salaries high enough to attract those in private practice who have experience and technical knowledge as governmental body does not devote sufficient resources for standard setting. Based on the selection process of other similar bodies in government, political factors appear to play a more important role than knowledge and experience.[20]

3. Rigid, complex and detailed: Public regulations would be in nature of rigid and detailed rule prescriptions, unresponsive to investors and to the realities of the market. Public-regulated financial accounting standards could become as detailed and complex as the tax code.[21]

4. Role of professionals : Under this system, professional accountants will become the policeman of society. For example, in the USA, the Foreign Corrupt Practice Act may be only a precursor of the use of auditors to enforce the laws, regulations issued by the government.[22]

5. Prestige: Private regulation commands more prestige and acceptability by the business community. A survey conducted by Ronen and Schiff revealed that 91.9% favoured the placement of the standard setting function in the private sector regulation than public-regulation.[23]

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19. Solomons,D., op.cit. Vol-II. p. 151-157.
20. Kam, V., op.cit.,p.390
21. Kaplan, R.S., op.cit, p.190.
22. Ibid., p.191.
23. Ronen, J. and M. Schiff., " The Setting of Financial Accounting Standards-Private or Public ? " Journal of Accountancy (March, 1978)

6. **Limited domain**: The domain of public regulation is limited to particular segments of economic activity, it does not run to the whole of the private-sector. For example, SEC and typically of other agencies in the USA do not cover whole of the economy.

7. **Issued at an earlier stage**: Public regulation has been criticised many times for issuing regulations at an earlier stage. A major or highly publicized corporate scandal could insist to issue new standards at an earlier stage, the incident that just occur.[24]

8. **Cost of regulation**: Generally little consideration is given to the cost of meeting of government mandated standards or disclosures. The cost of developing, producing, disclosing and auditing the data are not internalized by the government agency.

9. **Intervention** : Government regulation can sap the vitality of the accounting profession, turning off the generous supply of professional talent devoted to standard setting and turning accountants away from independent attestation.[25]

10. **Delay** : The public-regulation may be criticised of delaying in the release of standards, rules, regulations etc. and thereby increase the cost. This may be happened when the staffs of the government regulated body decide to review releases to verify that they are in compliance with the regulations.

3.7 ARGUMENTS AGAINST SELF (PRIVATE) REGULATION

Self or private regulation has increasingly been criticised by public at large as self-regulated bodies have failed to protect the interest of the public in many respects. The areas where self-regulation have come under severe criticism, are discussed below :

1. **Legal authority**: Self-regulated bodies do not have the legal authority to achieve effective surveillance and discipline over the

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[24]. Kaplan, R.S.,loc.cit.,p.192.

[25]. Mosso, D., "Regulation and the Accounting Profession: An FASB Member's View" in "Regulation and the Accounting Profession",ed. Buckley and Weston (1980)p. 129.

members of the concerned bodies. These bodies are voluntary organisations. In fact, the lack of statutory and binding authority is an inherent weakness to any self-regulated or private standard setting agency.

2. **"Public Interest"**: It is argued that 'public interest' will be at stake when regulation is wholly established by the private bodies. As such self-regulated accounting profession is accused of maintaining vested interests rather than protecting public interest.[26] Kapnicks thus commented that ethical rules established through self-regulation is designed to protect their self-interest not for the public interest.[27] Savoie also supported this view and reported that ethical codes are designed mainly to protect the members of the profession.[28]

3. **Influence** : Self-regulation has been criticised for taking financial help from private organisations, as such, they must be sensitive to the consequences of such agency's promulgated standards.

4. **Alternative** : Self-Regulation cannot be substitute of public regulation. Chambers supported this view and opined that private legislation is not an alternative to public legislation.[29]

5. **Uphold 'Self-Interest'**: Private or self-regulation cannot be free of conflicts, impartial and more responsive to all interests; it will become a tool of business interests or of the accounting profession.

6. **Non-uniform practice**: There may be a good number of clients, industries or bodies who may establish central private agencies. These self-regulated agencies will be more receptive to non-uniform practices because of the diversity of clients and industries.

7. **'Check and Balance'**: The self-regulated bodies do not provide

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26. Mitchell, A., op.cit.,p.57
27. Kapnicks, H. commented in the AGM. Quoted from E.Stamp's "Selected Papers on Accounting"ed. R.P. Brief (Garland Publishing Inc., 1984) Sec. C-2,p.119
28. Savoie, L.M.,"Accounting Attitudes" in "International Issues in Public Accounting" ed. Sterling, p. 319.
29. Chambers, op.cit.,Para 2,p.340

for participation by those without self-interest, in determining body. These standards are not reviewed by governmental body. Therefore, these bodies are devoid of 'check and balance' system.

8. **Private-bureaucracy**: It is a misconception that government -regulation is always connected with bureaucracy. But there also exists private-bureaucracy. In this context Chambers pointed out that the existence of private bureaucracy is generally overlooked [30] Hopwood, A.G. also found bureaucracy in self-regulated accounting bodies, and commented:

> The basis for more managerial and bureaucratic control remains more rudimentarily developed and the professional institutes only exert rather loose surveillance and control over the main tasks of their membership.[31]

9. **Potential liability**: Self-regulated programme will have no effect on the potential liabilities of accounting firms. These liabilities, however, can be limited under some system of statutory regulation. Unlimited liabilities deter innovation in auditing, raise the cost of auditing, and thereby reduce competition in industry.

10. **Political pressure**: A purely self-regulated bodies are also being criticised in that these bodies are relatively insulated from political pressure from the legislative and executive branches of government.[32]

11. **Legitimacy** : Self-regulated agency is lacking of statutory authority and not being directly accountable to elected representatives, apparently must bear a greater burden of proof to justify its ability to serve a diversified and dispersed public constituency. This is a difficult task for any private agency. It must,therefore, expect continuing attacks on its legitimacy.[33].

12. **Slowness**: Self-regulation is being criticised of its slowness. Self-regulated bodies lack the ability to move as quickly as

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30. Ibid.,p.345
31. Hopwood, A.G., op.cit. p.561
32. Kaplan, R.S., op.cit. p.185
33. Ibid, p. 186.

government agencies as these bodies attempt to satisfy its diverse constituents.[34]

3.8 COMPLAINTS AGAINST THE PROFESSION

Self-regulation by the accounting profession has increasingly been criticised due to the existence of widespread corporate frauds, bribes, illegal political contributions and other irregularities.[35] In recent past, large scale auditing scandals [36] concern public at large over the role of self-regulating professional accountants.

Following are the areas where self-regulating accounting profession have come under sharp criticism.

1. **'Overlooking Public Interest'**: It is often alleged that self-regulating profession is overlooking " public interest". Public always want independent, fair and impartial reporting and auditing. But the profession instead of protecting public interest, preserve vested interests.[37] Admitting the allegation the Metcalf Committee Staff Report (1976) in USA reported:

> It appears that the Big Eight firms are more concerned with serving the interests of corporate management who select them and authorize their fees than with protecting the interests of the public, for whose benefit congress established the position of independent auditor.[38]

2. **Lack of legal authority**: A serious problem associated with the self-regulation is that the system does not have the legal authority to achieve effective surveillance and discipline over the profession. The self-regulation profession is simply like a voluntary organisation.

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34. Abraham, S.C., op. cit., p. 86
35. Uecker, W.C., et al., "Perception of the Internal and External Auditor as a Deterrent to Corporate Irregularities", in" The Accounting Review", Vol. LVI. No.3(July 1981) p.465
36. Chow, C. W and Rice S.J., "Qualified Audit Opinions and Auditor Switching", The Accounting Review, Vol. LVII. No.2 (April 1982) p.326
37. Abraham, S.C., op.cit., p. 155.
38. Metcalf Committee Staff Report., US. Senate (1976) p. 8.

3. Regulate individuals: The problem of self-regulation by the profession also stems from the fact that the profession is organised to regulate only individuals. But the public usually recognise and rely on the work of firms. Thus a problem always lies with the process of self-regulation is how to regulate firms.

4. Weak disciplining: Slacken and weak disciplining of members is another inherent defect for which self-regulation is becoming ineffective. No stringent actions are taken against the members of the profession. People firmly believed that accounting bodies do not take any action against its members for the violation of standards, rules or ethics established by them. The professions' disciplinary procedures are really feudal in nature.[39] Professional accountants who do not perform to specified levels of excellence or violates the self-established ethical standards should be expelled from the profession. But in reality, no such action is generally taken by the profession. The action taken by the profession are of limited severity.[40]

5. Inadequate self-regulatory measures: Some measures have been taken by the profession in order to make self-regulation effective. But people are skeptical about the success of these measures initiated absolutely by the profession. 'Peer Review' programme is likely to be seen by the people as a process of mutual back cratching.[41] Supporting this view Abraham, S.C. reported that no one is willing to blow the whistle on peer, even violations are flagrant.[42]

6. Fails to handle domination: Accounting profession is accused of being dominated by the big firms. The profession has failed to tackle this problem. The Staff Study (1977) in the USA delineated that the profession is dominated by the "Big Eight" firms. These firms determine policy in accounting through their control of committees, offices and staffs.

7. Public reporting: Self-regulated accounting profession has been accused of not disclosing any financial information to the public.

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39. Mitchell, A., op.cit., p. 59.
40. Chetkovich,M.N.,op.cit.,p. 146.
41. Burton, J.C., op.cit. p. 324.
42. Abraham, S. C. op. cit. p. 19.

The profession has not yet introduced any programme which compel accounting firms to disclose their results and performance to public. In fact, accounting firms are only the largest organisations without the requirement for any disclosure of their results.

8. **Legitimacy of framing rules**: Question often arises as to the legitimacy of framing rules by the profession, although professionals have claimed that they are always neutral, unbiased and independent to follow rules that whoever promulgates. But in reality the rules are those that they themselves have set, and the public have always believed that an audit certification meant that the reports were right not just in accord with accounting principles and auditing standards.

9. **Slow in setting standards**: Self-regulated accounting profession is very often criticised of its slowness. The accounting bodies lack the ability to move as quickly as public agencies.

3.9 EFFORT OF THE PROFESSION AT SELF-REGULATION

Accounting profession all over the world has taken various measures in response to raising public needs and expectation and to counteract the criticism initiated by cross-section of people. These initiatives have taken either on professions own initiative or in response to the prodding of government. The measures that have been taken by professional bodies around the world are as follows:

1. **Quality control standards**: It has been argued that the quality of an accounting firm's audit practice is dependent on the application of Generally Accepted Auditing Standards and Guidelines to each audit engagement. Quality control is used to assure that auditing standards and guidelines are followed on each engagement and as a result the firms maintain a quality practice. Accounting profession of different countries has its own standards to maintain quality practice. The American Institute of Certified Public Accountants (AICPA) established the "Quality Control Standards Committee" (QCSC) to issue pronounce- ments on quality control standards in 1978 in order to improve the quality of audit work.

The committee was dissolved after the issue of the statement on quality control Statements No.1 which remains as an authoritative practice standards till now.[43]

2. Divisions for firms: Professional accountants are subject only as individuals to ethical requirements and professional standards. As such, no mechanism exists to discipline accounting firms for substandard work. This problem prevails all over the world. To overcome this problem and to add assurance on the quality of audits of large public companies, American Institute of Certified Public Accountants established the "Divisions for Firms" in 1977. This actually includes two separate sections, the Securities and Exchange Commission Practice Section(SECPS) and the Public Companies Practice Section (PCPS). Accounting firms voluntarily join either, or both sections based on the types of clients they serve. Both sections require member firms to establish and maintain adequate quality control and adhere to certain membership requirements.

3. Mandatory 'Peer Review': Professional bodies have introduce a programme called "Peer Review" which is basically an audit of the auditor. Its objectives is to assist an audit firm in determining whether its audit practice is conducted effectively and in accordance with Generally Accepted Auditing Standards and Guidelines. "Peer Review" programme is administered by the professional bodies. This programme has now been a mandatory one for the firms of Securities and Exchange Commission Practice Section(SECPS) and voluntary for others.[44] Professional bodies in Australia, Canada, New Zealand have introduced mandatory peer review programme.[45]

4. The Public Oversight Board (POB): The AICPA has established "Public Oversight Board" (POB) to discipline its members more effectively. The Public Oversight Board is an oversight arm of the Securities and Exchange Commission Practice Section. It is composed of five part- time paid members from outside of public accounting

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43. Robortson, J.C., and F.S. Davis, "Auditing" BPI: Arwin (5th Ed., 1988) p. 19.
44. The AICPA's mandatory'peer review' programme is reported in Newyork Times.
45. Accountants' Journal (NZ) Vol. 70, No.I(1991) p. 14

practice and a small full- time staff. The Board oversees the activities of the Securities Exchange Commission Practice Section and can intervene when the members of the Board think that the public's interest is not being served.

5. Continuing Professional Education Programme(CPE): The accounting profession has established a comprehensive professional development programme through mandatory continuing professional education. Perhaps, in many countries it is of voluntary nature. The existence of Continuing Professional Education(CPE) programme helps eliminating substandard performance. Realising the importance of the programme, the professional institute of different countries have introduced this as mandatory. Even the professional institutes of neighbouring Srilanka and Pakistan have introduced Continuing Profession Education mandatory.[46]

6. Joint Ethics Enforcement Plan(JEEP): In the USA, the AICPA has established 'Joint Ethics Enforcement Plan' which integrates the ethics committees, trial boards of state CPA societies, and the institute in order to disciplining the members more effectively.

7. Restriction on certain type of "Management Advisory Service" (MAS): Professional bodies have imposed restrictions on certain types of management advisory service in an attempt to ensure independence of auditors. The Securities and Exchange Commission Practice Section (SECPS) in the USA has adopted rules which prohibit a member firm from engaging in certain types of consulting services, or any services which would create a loss of independence or are predominantly commercial in character. In addition, member firms are required to report annually to the board or audit committee the total fees received from the client for consulting services and the types of services rendered.

8. Use of independence 'Sign-Off': Now-a-days many accounting firms in the USA are using a type of independence "sign off" in an attempt to ensure independence in appearance. This refers to a report which contains the information concerning the independence of the auditing firms.[47]

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46. The Pakistan Accountant, Vol. No. XXIII (July-Sept, 1991) p.9
47. Robertson, B.M. "The Independent Auditor-A Reality, Not a Myth", The Chartered Accountant(India,Nov.1976) p.370

9. **Audit committee**: Various organisations including professional accounting bodies have urged to establish corporate audit committee for ensuring independence, reducing management pressure and for effective financial reporting. The Canadian Institute of Charted Accountants (CICA) established a special committee to examine the role of auditor recommended that all enterprises with public accountability should be required by law to have an audit committee.[48] Now it is required by law to have an audit committee in certain countries. It is found in a study that 86% of the listed companies in the USA had formed audit committees.[49]

10. **Professional Achievement Registry Programme (PAR)**: In the USA, professional accountants voluntarily formed Professional Achievement Registry (PAR) to be aimed at those small firms and sole practitioners for which the 'peer review' process is not cost effective, but who nonetheless realise the need to uphold high professional standards.[50]

3.10 CONTROL MECHANISM AND REGULATORY FRAME WORK OF PROFESSIONAL ACCOUNTING IN SELECTED COUNTRIES

The control mechanism and the regulatory framework of professional accounting vis-a-vis accounting profession varies from country to country. In some countries, accounting profession has been playing an important role in regulating professional accounting and has taken the lead in developing accounting regulations. While in other countries, government has played a dominant role and regulations are imposed upon the accounting profession by legislative bodies. In some countries, both the accounting profession and governmental agencies work together to set accounting regulations, and thereby regulates professional accounting. Accounting policy formulation and regulation on accounting profession in some selected countries are reviewed below:

UNITED STATES (US): Professional accounting vis-a-vis accounting

48. Libbey, J.E. "Getting Full Values From Audit Committees". CA Magazine(Canada, September 1979) p.52.
49. Knapp, M.C., "An Empirical Study of Audit Committee Support for Auditors Involved in Technical Disputes with Client Management"The Accounting Review(July'87) p.579
50. Collins, S.P., "Who Audits The Auditors?" Management Accounting (June 1985) p.25

profession in the USA is regulated both by the accounting profession and by the legislation. As such many government and private organisations are involved in regulating public accounting. Independent accountants are influenced here by a unique combination of government and private action. Regulation of accounting profession and enforcement of its standards of practice are dependent on various organisations and authorities like the State and Territorial Licensing Boards, the American Institute of Certified Public Accountants (AICPA) and State Societies of CPA's, State and Federal Courts, the Securities and Exchange Commission (SEC), the U.S. Treasury Department and the like. Thus a shared power system exists in the United States with respect to financial accounting policy making. In this shared system, probably half of the balance of power rests with the public sector - e.g.,the SEC, the IRS, and a number of regulatory commission. The other half rests with the private sector, represented by the FASB, the AICPA, the State Board and Societies of Accountants, Stock Exchange etc.[51] Regulation on public accounting in the USA can therefore, be divided into public (government) regulation and private (self) regulation.

Public (Govt.) regulation: Public regulation plays a significant and major role in regulating public accounting practices in the USA. Public accountants are regulated and administered through various branches which consists of the executive, legislative and judicial branches of the US Government. The executive and legislative branches can exert influence in a provocative manner. The judicial branch exerts influence via its rulings. The main government agencies under executive, legislative and judicial branches of US Government that are actively involved in regulating public accounting practices are the Securities and Exchange Commission (SEC), US Treasury Department, US Justice Department etc.

SECURITIES AND EXCHANGE COMMISSION (SEC): The most powerful authoritative government body in the USA is the Securities and Exchange Commission (SEC) which is an independent regulatory agency

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[51]. Choi, F.D.S and G.G. Mueller, "International Accounting", Prentice Hall International,Inc. (1984)p.96

of the US government created by the Securities Exchange Act of 1934. It actively controls the activities of public accountants by regulating the securities market. It performs a wide range of functions including the regulation of accounting disclosures. The accounting related functions of the SEC concern accounting principles and disclosure rules, auditing standards, internal control systems and a variety of other important aspects of accounting practice. The Securities and Exchange Commission administers the following statutes :

1. **The Securities Act of 1933**: The principal objectives of the 1933 Act are "to provide full and fair disclosure of the character of securities sold in foreign commerce and through the mails and to prevent frauds in the sale thereof".[52] It requires a registration statement with the commission on the part of those who intend to issue securities to the public. The SEC reviews each registration statement and prospectus together with the certified financial statements included therein.

2. **The Securities Act of 1934**: The Securities Exchange Act of 1934 gives the SEC the additional authority to require periodic reports to the SEC from companies whose securities are traded on national exchanges and to prescribe 'the form or forms'in which the required information shall be set forth, the items or details to be shown in the financial statements, and the method to be used in the same six accounting operations specified by the Act of1933. This Act also grants the SEC authority to oversee the form of annual reports to stockholders in the context of proxy solicitations. The registration of securities listed on exchange requires that the issuing company file an application with the
SEC together with the following reports:
Form 10-K: It is the report filed annually.It includes audited financial statements and related supplementary data.It must be filed within 90 days after the close of the company's fiscal year.
Form 10-Q: It is the quarterly report and it includes interim financial information.This information is not audited, but auditor involvement may be required if the company meets a size test.
Form 8-K: It is a special event reports and must be filed within 15

[52]. Jension, D.L., E.N. Coffman and T.J. Burns, "Advanced Accounting and The Rule-Making Agencies". Grid Publishing, Inc, 1980. p. 94

days of the occurrence of reportable events such as changes in control,significant changes in asset composition and bankruptcy. A change in independent auditors is designated as a reportable event.

3. **The Public Utility Holding Act of 1935**:"The Public Utility Holding Act,1935" requires that public utility holding companies register with the SEC to provide up-to-date information about their capital structure and operations.[53] The accounting statements required in the registration statement and subsequent annual reports must be prepared in conformity with a uniform system of accounts specified by the SEC.

4. **The Trust Indenture Act of 1939**: This Act requires compliance with SEC regulations pertaining publicly offered debt securities issued under trust indentures. [54] The Act also provides for the independence of indenture trustees.

5. **The Investment Companies Act of 1940**: The Investment Companies Act of 1940 requires investment companies to register with the SEC,to make extensive disclosures to both stockholders and the SEC,and to submit to audit by an independent public accountant who reports directly to the SEC on certain issues.

6. **The Investment Advisors Act of 1940**: This Act requires that persons who for compensation, engage in the business of advising others with respect to their security transactions to register with the commission. This requirement extends to security brokers and dealers, as well as to accountants who practice before the SEC.

7. **The Chapter X of the Federal Bankruptcy Act**: It provides that the commission advises the federal courts regarding the reorganization of insolvent corporation. [55]

8. **The Securities Investor Protection Act of 1970**: It prescribes a role for the commission in guarding investors against looses of

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[53]. Jension, D.L., et al., Ibid.,p. 589.

[54]. Buckley. J.W and M.H. Buckley.,"The Accounting Profession", (Melville Publishing Company, USA 1974) p.74.

[55]. Buckley & Buckley, op.cit., p.94.

cash and securities where brokerage firms fail and merge. This Act followed in the wake of the wide spread financial instability among brokerage houses in the past.

9. **The Foreign Corrupt Practices Act of 1977**: This Act established penalties for corporations and for officers and directors of corporations engaged in foreign bribery. It also requires all publicly held companies subject to the 1934 Act to maintain accurate records and adequate internal accounting control systems.[56]

The views of the SEC on accounting and auditing matters relating to the Acts are communicated to the public accounting profession through the following media:

Regulation S-X: Regulation S-X is the authoritative document that relates to the form and content of the financial statements required in the registration and periodic financial reports filed with the Securities and Exchange Commission. An up-to-date copy of Regulation S-X is the most essential tool for any accountant engaged in SEC work.

Financial Reporting Release (FRR): It contains opinion of major accounting and administrative questions, notices of changes in Regulation S-X and financial rulings and orders of SEC.

Regulation S-K: The principal accounting regulations applicable to the content of non-financial statement portions of filing with the SEC are codified in Regulation S-K.

Staff Accounting Bulletins (SAB): Staff Accounting Bulletins (SAB) are also issued to provide guidance on specific types of transactions. They are regarded as interpretations of Regulation S-X and GAAP.

[56]. Jension., et al., op. cit. p. 590.

The SEC is an administrative agency and as such it can exercise the following three forms of government power:[57]

1. Legislative Power i.e.power to adopt rules and regulations.
2. Executive Power i.e.power to bring legal actions against offenders.
3. Judicial Power i.e.power to decide whether the law has been broken.

Rules and regulations must be passed pursuant to specific grants of authority in statutes. The Federal Courts can void an SEC rule that has been promulgated in the absence of authority, or they can hold that a rule was passed through improper means or procedures, such as bias or inadequate public hearings and thus is void. Congress can rescind an SEC rule by amending the Act under which it was passed.[58] Criminal violations of the securities laws are prosecuted by the Department of Justice, but the SEC can make criminal references to the Department. The SEC can institute only two kinds of legal actions:

1. in a federal district court for an injunction to prevent further wrongdoing and
2. an administrative action (e.g.to revoke a brokers license) which will be decided by the commission in its judicial capacity.

The powers of the SEC have been more obvious to the corporate financial accounting community than have its limitations. The commission has increased its rule-making authority through additional grants of power from congress. The courts have seldom overturned an SEC exercise of its legislative or judicial powers. Both congress and the courts have recognised the Securities and Exchange Commission's expertise and have often deferred to it.

The Securities & Exchange Commission (SEC) has certain rules regarding the "independence" of accountants that must be complied

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57. Seidler, L.J. and D.K. Carmicheal, "Accountant's Handbook." John Wiley and Sons.(1981)p.5.5

58. Ibid.,p.,5.5.

within SEC filings.[59] But it does not regulate auditing practice even when the auditor's client has securities subject to SEC regulations, but the SEC's authority to influence the content of audited financial statements and to discipline auditors with SEC client's does give the SEC substantial influence in the regulatory framework. One of the features of this influence is legal liability under the Securities Acts.

THE US TREASURY DEPARTMENT: The US Treasury Department is an authoritative body of US government, which shall administer and enforce the internal revenue laws. Since public accountants in USA are engaged in tax practice, the US Treasury Department is thus involved in regulating the public accounting profession.

Public accountants who engage in tax practice should be aware of the particular ethical and legal responsibilities that relate to such practice. Accountants not only involve in preparing returns but also perform tax advice, tax planning and presentation before taxing authorities and in the court. The accountant in tax practice is sometimes caught between the competing interests of the public and the particular client. In this role accountant must protect the client's interest but only within the legal and ethical boundaries prescribed for professionals.[60] A public accountant may be found guilty of breach of contract or for negligence in the preparation of tax returns. Because third parties do not rely on tax returns prepared by a CPA. A CPA may be accused of preparing fraudulent tax returns. CPA as a tax prepares who aid and abet tax evasion are subject to IRS civil fines, injunction to prohibit further work as tax preparer, and criminal prosecution.[61]

STATE AND FEDERAL COURTS AND THE US DEPARTMENT OF JUSTICE: The state and federal courts and the Department of Justice have also a significant role in the process of regulation on public accounting profession in the USA. State courts are entrusted with the task of enforcing contractual obligations of public accountants to their

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59. Arthur Andersen & Co. ed. "Legal and Regulatory Financial Reporting Requirements-World wide" (1984) p.128.
60. Causey, D.Y., "Duties and Liabilities of Public Accountants" (Dow Jones-Irwin.,1982) p. 172.
61. Ibid. p.172.

clients. In addition to this, state courts also enforce obligations imposed on certified public accountants to avoid negligent or willful injury to the general public.

Federal courts enforce Certified Public Accountant obligations imposed by federal civil laws and federal criminal laws. Federal courts will also enforce state civil laws where there is diversity of citizenship and a claim exceeding $ 10,000.00.

The Department of Justice is also involved in regulating the public accounting profession. Any criminal allegations against public accountants is refereed to the Department of Justice by the SEC for criminal prosecution.

Private (self) regulation: Private (self) regulation has also been playing a dominant role in regulating public accounting practices in the USA. The American Institute of Certified Public Accountants (AICPA), The Financial Accounting Standards Board (FASB), Stock Exchanges along with other professional accounting bodies have coordinated private sector efforts to regulate the practice of public accounting in the country. A brief discussion on private organizations that are involved in regulating public accounting practice in the USA is given below.

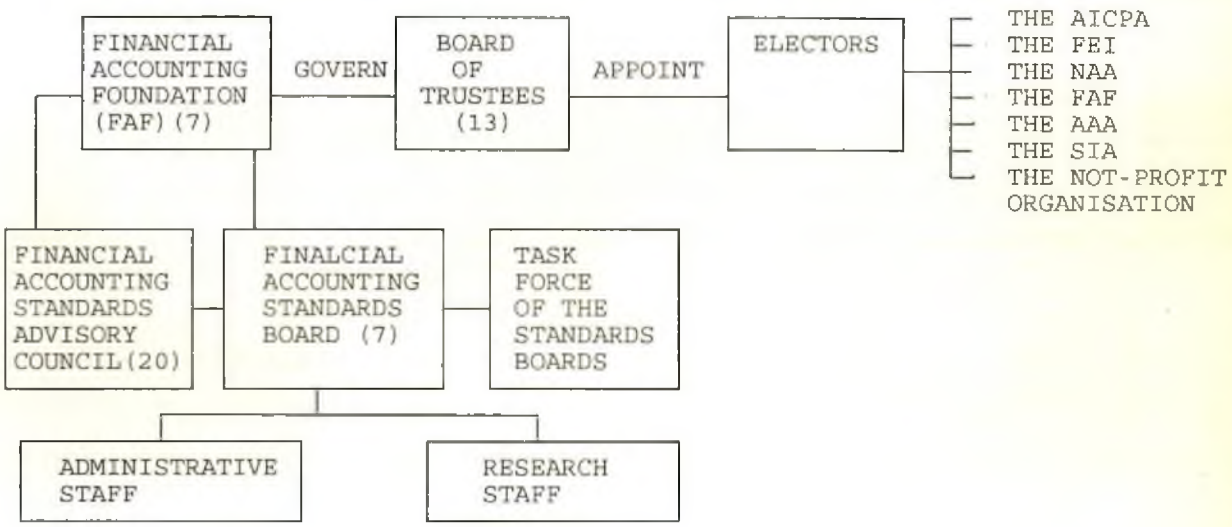
FINANCIAL ACCOUNTING STANDARDS BOARD (FASB): The financial Accounting Standards Board is an independent private organisation charged with the creation and development of accounting and reporting standards. The American Institute of Certified Public Accountants (AICPA) is one of the main founding organisations of the FASB, yet the two organisations are entirely separate and operate very independently of each other. Standards issued by the FASB are officially recognised as authoritative by the SEC and must be observed by members of the AICPA under its "Code of Professional Ethics".

A panel of electors from nine organisations selecting the electors are representative of the breadth of support for the activities of the FASB in the business community. The organisations are: the AICPA, the FEI, the NAA, the FAF, the AAA, the SIA, and three not-for-profit organisations. The electors appoint the Board of

Trustees that govern the Financial Accounting Foundation (FAF).[62] The 10 trustees out of 13 are elected to three-year terms and are chosen as follows:

4 members are CPA's in public practice, nominated by the AICPA;
2 members are financial executives, nominated by the FEI;
1 member is nominated by the NAA;
1 member is nominated by the FAF;
1 member is nominated by the AAA;
1 member is nominated by the SIA;

THE DIAGRAM SHOWS THE STRUCTURE OF THE FASB



The remaining member is the senior elected officer of AICPA, not an employee of that organisation.

The Financial Accounting Foundation (FAF) appoints the Financial Accounting Standards Advisory Council, which advises the FASB on major policy issues, the selection of task forces, and the of topics. The FAF is also responsible for appointing the seven members of the FASB and raising the funds to operate the FASB.

Both the FAF and FASB have a broader representation of the total

[62]. Schroeder, R.G., et al., "Accounting Theory" (John Wiley & Sons, 1987) p. 8.

profession though the majority of members are still CPA's from public practice.

In order to establish new Financial Accounting Standards or to amend previously issued standards, the FASB proceeds according to the following procedure. First, the FASB appoints a task force of technical experts to advise on the project. Then it studies existing literature on the subject and conduct additional research when considered necessary. Then the FASB publishes a comprehensive discussion of issues and possible solutions in the form of a discussion memorandum as the basis for public comment. Then they conduct a public hearing. After that the FASB distributes an exposure draft of the proposed statement for public comment. Finally, the FASB issues a Statement of Financial Accounting Standards, which requires a majority in favour of issuance.

The deliberations of the FASB are open to the public, and a complete public record is maintained. In addition, the FASB receives public comment on all its statements in effect for at least two years under a "post enactment review" process. Statement of Financial Accounting Standards and interpretations issued by the FASB are authoritative pronouncements. However, the FASB has no mechanism for enforcing its pronouncements. The FASB's authority comes from enforcement of its pronouncements by the AICPA and the SEC.

STOCK EXCHANGES : Stock exchanges in the USA representing private sector also have a definite role in regulating professional accounting practices particularly in the field of corporate reporting. The national stock exchanges generally require that audited financial statements be furnished to shareholders annually and unaudited data quarterly. Audited financial statements also have to be furnished to the exchange when a company files a listing application.

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA):

The American Institute of Certified Public Accountants is the national organisation of Certified Public Accountants. The AICPA does play a significant role in regulating the members of the accounting profession through self-regulation.

The purposes of AICPA are to unite the profession of accountancy as constituted by Certified Public Accountants; to promote and maintain high standards within the profession ; to prepare and grade the examinations for CPA candidates; and to encourage cordial relations among CPAs in the country and their equivalents abroad. The AICPA serves the public accounting profession by promoting the collective interests and objectives of its members.

The AICPA is managed by a 21-member Board of Directors including 3 non-institute member who represent the public.[63] The Board is chaired by an annually elected part- time Chairperson. Operations are the responsibility of a full- time paid president and a staff of approximately 550. Its policy making council of approximately 250 consists of its board members, one designated representative of each state society, elected members drawn to provide fair geographic representation. Meetings of the council are open to the public.

In the process of self-regulation, the AICPA is entrusted with the responsibilities of developing professional standards, establishing and enforcing ethical code, licensing of public accountants and establishing the requirements for continuing competence of CPA's. As a part of self-regulation, the by-laws are established by the Institute and the state societies, to fix the criteria a member is expected to observe. These by-laws also describe how a member who may have violated the requirements for continued membership will be investigated, judged, and if found guilty, expelled or suspended from membership or otherwise disciplined.

The AICPA and the state societies have also established codes of professional ethics that members must observe as a condition of continued membership. The AICPA and the state societies have joined together to establish a "Joint Ethics Enforcement Plan" which provides for mutual enforcement of the codes of the AICPA and state societies. The AICPA or the relevant state committee has the

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[63]. Seidler, L.J. and D.R. Carmichael. op.cit. p. 3.21.

authority to take one of the following forms of disciplinary action:

i) Issue a letter of constructive comment;
ii) Close the inquiry if it is concluded no violation has occurred;
iii) Based on the prima facie evidence, determine whether to:

a. Impose administrative censure, which may include required continuing education.
b. Refer the case to the trail board.

If a trail board hearing is held the trail board may censure, suspend, or expel a member. The names of all members found guilty of ethics violations are published in the CPA Letter - a biweekly news letter of the AICPA.

STATE BOARDS OF ACCOUNTANCY: Different State Boards of Accountancy play an important role in regulating the accounting profession in the USA These State Boards are independent agencies in state governments whose primary functions concern the issuance, renewal, and suspension of licences to practice as an independent CAP.[64] In some states, the licensing activities of the state board have been consolidating with agencies that license other professions and vocations. State Boards of Accountancy's jurisdiction covers only individual CPA's not CPA firms.In total there are 54 boards of accountancy one in each state and in districts and territories. State boards are normally composed of five to seven members - usually CPA's - appointed by the state governor and are supported by relatively small staffs. A state board administers the state accountancy laws which usually include requirements for a CPA license and an ethical code and, in some states. a requirement for continuing education.

STATE SOCIETIES OF CPAs : State societies are also the organisations of professional accountants. These societies play an important role in self-regulation at the local level similar role of the AICPA at the national level. State societies are voluntary

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64. Carmichael, D.R and J.J. Willingham, "Auditing Concepts and Methods: A Guide to Current Auditing Theory and Practice". (McGraw-Hill Book Co. 4th.ed.1987) p.39.

membership organisations that are similar in structure,but smaller in scale than the AICPA.

Although the AICPA and the state societies have no legal relationship to each other, they cooperate in pursuing the objectives of the profession. A CPA normally can become a member of a state organisation when a CPA certificate from the state is received. A chief activity of state society is the promotion of state legislation benefit to the profession. Some state societies publish monthly or quarterly journals containing technical articles. Local chapters of CPAs are geographical divisions of the state society. They serve primarily as a meeting ground for the CAPs in a given locality.[65]

UNITED KINGDOM (UK): The accounting profession in the United Kingdom has been governed through various regulations, the nature of these regulations may be of public, private or the regulations established by the international bodies. The public control on the profession has been established by and through the parliament The profession itself has also been playing a vital role in regulating the activities of professional accountants through self-regulation. The court has also been involved in the process of regulation as it provides interpretation of statutory and other responsibilities in the context of specific cases. Many international accounting bodies and community are also involved directly or indirectly in the process of regulation of accounting profession in the UK

Public Regulation: Professional accounting in the UK has been primarily controlled through the public regulations. These regulations are established by and through the parliament. Thus the primary sources of regulations are established through parliament which enacts various statutory legislations and statutory agencies. These agencies are charged with implementing, applying and ensuring adherence to these statutes. The statutory requirements can be seen as the means by which government attempts

[65]. Ibid.,p.39.

to represent and at least to some extent define the role of professional accountants in society.[66]

The Parliament in the UK enacted many Acts viz. the Companies Act, the Financial Service Act, the Company Securities Act,the Banking Act, the Insolvency Act and so on and established many agencies like Department of Trade and Industry (DTI), Department of Inland Revenue (DIR) etc. These agencies have been playing a significant role in regulating the professional accounting in the country. The Companies Act is the most important law which has an immense influence on the profession. This Act contains the provisions governing the appointment, removal and resignation of an auditor, the manner in which the auditor's remuneration is to be set, the qualifications necessary to be allowed to act as a statutory auditor and the auditor's duties and reporting responsibilities.

Besides Companies Act, the Financial Service Act, the Banking Act, the Building Societies Act, the Insolvency Act etc. have also been playing an important role in regulating professional accounting practices. These Acts aim to protect individual investors against fraud and unexpected insolvency. The Financial Service Act of 1986 imposes a new and comprehensive scheme of regulation, requiring all investment businesses to be registered with a "Self-Regulatory Organisation" (SRO) or "Recognised Professional Bodies"(RPB) which in turn supervised by a regulatory body known as the "Securities and Investment Board" (SIB). "Securities and Investment Board" (SIB) is responsible to government but largely independent of it, and independently financed. Under the "Financial Service Act,1986" additional responsibilities have been assigned on auditors in which they may communicate any relevant matter about any one to the regulatory bodies, which comes to their attention in their capacity as auditors of authorised firms.

Government agencies: There are many governmental agencies created under different statute through the Parliament which have been playing a vital role in regulating professional accounting practices. The principal government agency responsible for the enforcement of business and audit regulations is the Department of

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66. Turley, S. and M. Sherer., "Regulating the Auditing Profession" in the 'Current Issues in Auditing. (2nd ed. P.C.P London, 1991) p.49

Trade and Industry (DTI). The DTI has the power to appoint inspectors to investigate a company's affairs where there is a suggestion of some irregularity in the running of the company. Under Part XIV of the Companies Act, 1985 and section 177 of the Financial Service Act,1986 the DTI has powers to appoint inspectors to investigate the affairs of a company,its membership and dealings in its securities.

THE COURTS AND PROFESSIONAL LIABILITY: A court's decision has also some definite implications on accounting practice in the United Kingdom. Regulation of auditing is also affected by the way in which courts interpret and apply the nature and extent of the auditors statutory and other responsibilities. The United Kingdom's legal system comprises two main strands, - Statutory law and Common law. In the context of auditing, statute law creates liability for both civil and criminal offense.

Private (self) regulation: The profession itself and some non-governmental self-regulating organisations are involved in regulating the professional accounting in the UK. The profession has been playing a splendid job in the process of regulation. There are four accounting bodies that constitute the profession in the UK whose members are qualified by the Department of Trade and Industry as auditors. They are: 1) The Institute of Chartered Accountants in England and Wales; 2) The Institute of Chartered Accountants in Scotland; 3) The Institute of Chartered Accountants of Ireland and 4) The Chartered Association of Certified Accountants.

The members of these professional accounting bodies undertake audits and have had a significant role in the regulation of accounting and auditing. The role has included control of educational standards, through the process of qualification for membership of the bodies, influence over the content of audits, through recommendations on standards of practice, and the policing of auditing through the possibility of disciplinary action against members.[67]

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[67]. Turley & Sherer., op.cit. p. 49.

The accounting bodies in the UK had formed "The Consultative Committee of Accounting Bodies (CCAB)" which was one of the vital organs that regulate the accounting profession in the UK through self-regulation. The establishment of the CCAB was the most significant events in the history of accounting profession in the UK as it helped to regulate and harmonise accounting practices. This body was created with a view to promoting proper accounting standards, to advance auditing practice and to present the views of the profession.[68] The CCAB has three broadly constituted sub-committees:

1. Parliamentary and Law Committee (PLC);
2. Accounting Standard Committee (ASC);
3. Auditing Practice Committee (APC).

The Accounting Standards Committee (ASC) was one of the most important committees of the CCAB which was entrusted with the responsibility of preparing "Statements of Standards Accounting Practices" (SSAP). Compliance with SSAP's is compulsory for all professional accountants who assume responsibilities in respect of financial statements intended to show a true and fair view. "The Auditing Practices Committee" (APC), another important committee of the CCAB, the membership of which was primarily drawn from the accounting profession had been playing an unique role in producing auditing standards and guidelines. These standards and guidelines are to be approved by the councils of the individual accounting bodies.[69] In 1987 the CCAB launched a major review of the process by which accounting standards are set and recommended :

1. The task of devising accounting standard should be discharged by newly constituted Accounting Standards Board (ASB). The total membership of which should not exceed nine. The Board would issue standards on its own authority. In order to avoid compromise decision, a majority of two thirds of the Board would suffice for approval of standard.
2. A Financial Reporting Council (FRC) should be created to guide the standard setting body on work programmes and

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68. Arpan, J.F. and D.D. Al Hashim ., op.cit. p.23
69. Millichamp,J. "Company Accounts" (Sweet & Maxwell 1987) p.45

issues of public concern; to see that the work on accounting standards is properly financed; and to act as a powerful proactive public influence for securing good accounting practices.

3. A Review Panel should be established to examine contentious departures from accounting standards by large companies.[70]

Accordingly, "Accounting Standards Committee" (ASC) went out of existence and a new body the "Accounting Standards Board" (ASB) was set up on 1st August, 1990.[71] The Board consisted of the chairman, a technical director, three members from the profession, four members from outside the profession and a academic advisor. The "Financial Reporting Council" and a 18-member "Review Panel" was also established in order to have a good accounting practice.

Some non-governmental self-regulating agencies are also involved in the process of regulation and have an immense influence on the profession. Companies which are listed on the stock exchange will have to comply the disclosure requirements of that exchange, in addition to both the statutory rules and the standards issued by the accountancy profession.[72] In the UK there is now one unified stock exchange named "International Stock Exchange of the UK and the Republic of Ireland" which is governed by the council of the stock exchange.[73] The control of securities dealing in the UK has largely been left in the hands of self-regulating agencies with some informal backing from institutions like the Bank of England.Britain has thus a system of self-regulation with in a statutory framework, which is designed to combine the flexibility, expertise and independence of a self-regulatory regime and the authority and accountability associated with control by a statutory body.[74]

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70. O'connor,B.,"Regulatory Framework of Accounting" (Longman Group. U.K. Ltd., 2nd edition,1991) pp 92-93.

71. Ibid., p.94

72. Bough,J.,"Company Accounts",Sweet and Maxwell Ltd.(1987)p.44

73. Lintott, D. "Hand Book of Company Secretarial Administration" (ICSA Publishing, Cambridge, 2nd Edition) p.269.

74. Sealy, LS., "Cases and Materials in Company Law" (Butter Worths, London & Edinburge, 1989) p.525

Regulation of International Bodies: The professional accounting in the UK is also influenced and controlled by the international bodies.The UK is the member of the IASC; IFAC; OECD; UNCTC; EEC. As a member of these organisations, the UK has to comply with the rules, regulations and directives of these bodies. Of these international bodies, the EC has a clear-cut influence on the UK accounting systems. The UK has officially adopted legislation implementing almost all the directives of the EC. The EC's Fourth Directives is the most comprehensive set of accounting rules that must be complied by both private and public companies. The Fifth Directives deals with structure, management, and external audits of limited liability corporations. The Seventh Directive concerns consolidate financial statements. The Eighth Directive deals with the professional qualifications of statutory auditors. Auditing under the Directives must be carried out by approved persons only. The Directive is mainly concerned with educational and professional training and examination requirements. The authority to grant approval is regulated by Sec. 389 of the Companies Act of 1985 and the Directive is implemented by part II of the Companies Act of 1989. The Directive 88/727 (12) specifics the information to be published when a major holding in or listed company is acquired or disposed of.[75]

JAPAN: Although Japanese society is highly organised, disciplined, respectful and perhaps above all co-operative and group oriented, [76] yet the accounting profession in Japan still struggles with social acceptability. [77] The accounting profession in Japan is relatively small in size and infant in age.[78] Aboveall, a major professional accounting related difficulty in Japan is its multifacetness.

The professional accounting in Japan has been primarily regulated by the government and in the process of regulation it has been playing a dominant role in setting standards. The Japanese

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75. Rawlinsin, W. and M.P. Cornwell-Kelly, "European Community Law" (Waterlon Publishers, 1st ed. 1990)p. 194
76. Arpan, J.S and L.H. Radebaugh. op.cit. p. 25
77. Choi, F.D.S, and G.G. Mueller. op. cit.p. 334
78. Arpan and Radebaugh. op.cit. p.342.

accounting practices has been operated and controlled by the government on a dual track. Japanese Commercial Code and the Securities and Exchange Laws are the two main laws that regulate the professional accounting practices in Japan. The Ministry of Justice has been assigned to administer all joint stock corporations by establishing reporting standards through the Japanese Commercial Code. The financial statements required under the Commercial Code are balance sheet, statement of income, appropriation of retained earnings and supplemental schedules. Fairly simple non-consolidated statements must be prepared and are attested to by a statutory auditor commonly known as an "insider auditor" who typically is a member of the reporting company's organisation and not usually a CPA. With effect from 1984, very large joint stock corporations with capital stock of 500 million yen or more, or total liabilities of 20,000 million yen or more have some special reporting requirements and must have their statements audited by CPA's.[79] The Ministry of Finance has exercised significant control over the accounting profession. The Securities and Exchange Law (SEL) is administered by the Ministry of Finance which actually establishes reporting standards for those corporations whose shares are traded publicly.The exposure under SEL is significantly greater than under the Commercial Code. The corporations under the jurisdiction of the Securities and Exchange Law (SEL) are required to be audited by the Certified Public Accountants whose are referred to as independent public accountant and are members of Japanese Institute of Certified Public Accountants (JICPA).

In fact, Ministry of Finance in Japan sets the accounting standards to be carried out by the profession. Furthermore, the Ministry of Finance has the power to establish a fee structure which is binding on all independent auditors. [80]

The Business Accounting Deliberation Council (BADC), an advisory body to the Ministry of Finance composed of government officials, professors, business executives and Certified Public Accountants may be the real power behind the throne. The council establishes accounting principles and auditing standards. It is well

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[79]. Choi & Mueller.,op.cit.,p. 85

[80]. Arpan & Al Hashim.op. cit. p.30

recognised that the council has played a leading role in determining the course of the Japanese corporate accounting.

Besides Commercial Code and SEL, Private School Act and Labour Union Acts have also a great influence on Japanese professional accounting.

The role played by the professional institute in regulating accounting practices is somehow limited in Japan. The Japanese Institute of Certified Public Accountants (JICPA) has been involved mainly in setting the professional qualifications for Certified Public Accountants. It also issues various opinions and statements with respect to specific accounting, auditing issues and rules of conduct for the profession.

The Japanese government plays a dominant role and exercises significant control over the accounting profession. The government issues rules on accounting treatment; financial statement presentation,disclosures, accounting principles and auditing standards through Ministry of Finance. The Ministry can even establish a fee-structure for independent auditors. [81]

INDIA: The professional accounting vis-a-vis accounting profession in India has been governed through a combination of public and private regulations.The government through statutory laws and the profession through institutes are primarily involved in regulating professional accounting in India. In this process of regulation, some institutions and international bodies are also involved. Various statutory laws viz. The Companies Act, Insurance Act,Banking Companies Act, Incometax Ordinance,Capital Issue Order etc.are the prime laws that actively regulate the professional accounting practices in India. Besides these laws, some institutions viz.the Registrar of the Joint Stock Companies, the Company Law Board,the Stock Exchange and the professional accounting institutions have also been playing a dominant role in regulating public accounting practices in India. Some international bodies viz. International Federation of Accountants, International

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[81]. Ibid., p. 30

Accounting Standards Committee UN Code of Conduct on Transnational Corporation, OECD Guidelines for Multinational are also involved indirectly in regulating professional accounting practices.

Public regulation: Professional accounting in India has been primarily governed by the public regulations. Parliament enacted various statutory legislations and agencies to regulate public accounting practices. Out of these statutory laws the Companies Act of 1956 is the most important one which regulates the accounting and reporting practices of limited companies. The Companies Act of 1956 has been amended several times in India. This Act requires all limited companies to be audited compulsorily by chartered accountants.In addition, this Act makes it compulsory in case of specific companies to maintain cost records to be audited by a cost or chartered accountant. [82] A cost audit must be performed by a person other than the statutory auditor. The Companies Act prescribes the qualifications,disqualifications, appointment, remuneration, removal, status, powers, duties and liabilities of auditors of companies. It also prescribes the books of accounts to be kept by the companies. The Act contains provisions as to signing, circulation and filing of annual reports and accounts. The Companies Act, 1956 prescribes the format of balance sheet and also the contents of balance sheet and profit and loss account together with the director's report.It further prescribes the rules on presentation of annual reports and accounts in annual general meeting.

The Government of India has promulgated an order in 1988 viz.the Manufacturing and Other Companies (Auditor's Report) Order, 1988 which superseded the earlier order issued in 1975.[83] This order requires that auditor's report on the accounts of specified companies shall include a statement on the matters specified in the order. Under this order the statutory auditors are required to give an opinion on the adequacy of internal accounting controls, compliance with loan agreements etc. and on certain operating data. Besides the Companies Act, there are many corporate laws in India

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[82]. Sec.209,233(B) of the Companies Act,1956.

[83]. GSR 909 (E) 7-4-88 no. 12/5/86-CL-V

through which accounting practices of different institutions are administered.

The banking companies in India are regulated by the two different acts. The nationalised banks are regulated by the Banking Companies Act,1970, while other banks are regulated by the Banking Regulation Act,1949. The Companies Act of 1956 also applies to the banking companies in so far as it is not inconsistent with the provisions of the Banking Regulation Act,1949. The audit of the banking companies have been made compulsory under the Banking Regulation Act of 1949. It has laid down the procedure for the maintenance of the accounts and records of a bank and their audit.

The insurance companies carrying on life insurance business as well as general insurance business were governed by the Insurance Act,1938. But the Government of India has enacted the "Life Insurance Corporation Act, 1956" after the nationalisation of life insurance business. Later on, the Government has passed the "General Insurance Business Act, 1972" to regulate the business of general insurance. At present, both life as well as general insurance in India is governed by respective act.Cooperative societies and Public Charitable Trusts in India are regulated by the Cooperative Societies Act,1913 and the Indian Trust Act 1882 respectively.

Government agencies: There are some governmental agencies created under statute which have been playing a significant role in regulating professional accounting practice vis-a-vis the accounting profession in India. There is a Company Law Division under the Ministry of Law to look after the amendments of the company law. In addition, there is a "Company Law Board" formed in compliance with the requirments of the Companies Act,1956. This board looks after the amendment, administration and proper implementation of the company law in India. Moreover there is a Registrar of Joint Stock Companies who has been given power under the Companies Act to regulate the corporate financial reporting practice. Thus compliance with the Companies Act by the limited companies in India are administered and monitored closely by the "Company Law Board" and by the Registrar of Companies.

Private (self) regulation: Professional accounting vis-a-vis the accounting profession in India has also been regulated by the profession itself. The two professional institutes are involved in this process of regulation. They are : The Institute of Chartered Accountants of India (ICAI) and the Institute of Cost and Works Accountants of India (ICWAI). The ICAI controls educational standards of professionals through the process of qualification for membership. The Institute provides the rules of independence and ethical standards for its members. It also controls the policing of auditing through the possibility of disciplinary action against members. Auditing standards are established by the ICAI through its "Auditing Practice Committee" (APC) in order to comply with the statutory requirments under the Companies Act.

The Institute is also involved in regulating accounting practices by establishing accounting standards. The ICAI has set up an "Accounting Standards Board"(ASB) consisting of members from different institutions. The Board has so far made seven accounting standards as mandatory.[84] The mandatory status of accounting standards implies that while discharging audit function, auditors must point out deviations in their report.

Regulation of International Bodies: The professional accounting in India is also influenced and some how regulated by the international bodies. The professional institutions and the Republic of India are the members of the IASC, IFAC, OCED and UNCTC. As a member of these organisations, the professional institutions and the government of India have to comply with rules, regulations and directives of these bodies.

PAKISTAN: The professional accounting in Pakistan is primarily governed through various statutory laws. Besides this, professional accounting bodies in Pakistan have also been playing a significant role in regulating professional accounting. The various laws that are actively involved in this process of regulation are :

1. The Companies Act, 1913 and the Companies Ordinance,1984

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84. Gupta,K., "Contemporary Auditing" (Tata McGrow-Hill Co.,1992) p.933

2. The Securities and Exchange Ordinance, 1969 and the Securities and Exchange Rules, 1971.
3. The Income Tax Ordinance, 1979.
4. The Banking Companies Ordinance, 1962.
5. The Insurance Companies Act, 1938.
6. The Electricity Act, 1910.
7. The Controller of Capital Issue Order, 1947.
8. The laws for Public Enterprises created under special legislation.

In addition to these laws there are some organisations including professional bodies which are involved in regulating professional accounting in Pakistan. The organisations are :

1. The Corporate Law Authority (CLA)
2. The Stock Exchange.
3. The Institute of Chartered Accountants of Pakistan (ICAP).
4. The Institute of Cost and Management Accountants of Pakistan

Some international bodies are also involved in this process of regulation. They are :

1. The International Accounting Standards Committee (IASC).
2. The International Federation of Accountants (IFAC).
3. The United Nations Code of Conduct for Multinational Companies 4. The Organisation for Economic Cooperation and Development

The various laws that govern the professional accounting practices in Pakistan are summarised below :

The Companies Act, 1913 and the Companies Ordinance, 1984: The Companies Act of 1913 and the Companies Ordinance 1984 are the two main laws that have been playing a vital role in regulating accounting practices vis-a-vis accounting profession in Pakistan. After the emergence of Pakistan in 1947, it had adopted the Companies Act of 1913 and it was in operation until 1984. The

Companies Ordinance of 1984 was enforced on 8th December 1984 by replacing the Companies Act, 1913. The consolidation of various laws in one company code was undertaken through this ordinance. This ordinance required every manufacturing companies to keep cost accounting records. Legal provisions also required cost audit on annual basis to be audited by a chartered accountant or cost accountant. This Ordinance included detailed and extensive requirements governing information disclosure relating to preparation of balance sheet and profit and loss account for listed companies. It also laid down requirements for preparation of financial statements for unlisted companies. Preparation of fund flow statement, release of half-yearly unaudited financial statements, prescribed form for auditor's report are the legal necessity for listed companies in Pakistan.[85]

The Securities and Exchange Ordinance, 1969 and Rule, 1971: The accounting and auditing practices of listed companies in Pakistan are regulated by the Securities and Exchange Ordinance of 1969 and the Securities and Exchange Rule of 1971. These laws contained various rules concerning forms and contents of financial statements. The Rules contained detailed guidelines prescribing presentation of assets and liabilities. The Rules also required listed companies to include in their annual accounts a statement of changes in financial position and a statement of pattern of shareholders. The Rules of '71 required to use a prescribed form for audit report. Moreover, duties of auditors were expanded to a great extent in case of certifying accounts.

Income tax Ordinance, 1979 : Income tax laws are not directly involved in regulating the professional accounting. Nevertheless, it does influence published accounts in so far as it relates to the accounting treatment of certain items. Moreover, Income Tax Ordinance of 1979 requires books of accounts of certain limited companies to be audited by chartered accountants.

The Banking Companies Ordinance, 1962 : Pakistan had introduced the Banking Companies Ordinance of 1962 to regulate banking companies which is in operation till now. This ordinance applied to all banking companies which contained various provisions regarding

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85. Saeed, K.A., op.cit.,pp.20-22.

accounting and auditing. It contained rules governing preparation of financial statements, reports and audit of banking companies. The Ordinance of 1962 required that accounts and financial statements of banking companies are to be audited by chartered accountants. It also prescribed the duties and liabilities of auditors of banking companies.

Insurance Companies Act, 1938 : The insurance companies of Pakistan are regulated by the Insurance Companies Act of 1938 which prescribe forms for balance sheet, classified summaries of investment and asset of life business, profit and loss account, profit and loss appropriation account, revenue account applicable to general insurance business and consolidated revenue account.

Electric Supply Companies Act, 1910 : The electric companies are regulated by Electric Supply Companies Act of 1910. It requires that every such company should prepare and render to the Government on or before the prescribed date in each year, an annual statement of accounts made up to such date in such from and containing such particulars as may be prescribed.

The Controller of Capital Issue Order, 1947 : The Controller of Capital Issue Order, 1947 has also some influence on the professional accounting in Pakistan. This Order prohibits issue of capital in Pakistan, or a public offer for sale of securities or renewal or postponement of date of repayment of a security maturing in Pakistan without the consent of Controller of Capital Issues .This Order contains many provisions requiring accounts to be audited and certified by chartered accountant on certain matters.

Entities created under special legislation : Public enterprises and corporations which are created under special ordinances are governed by special requirements for preparation of financial statements. Preparation of financial statement,book of accounts, forms and format of the statements, audit etc. are accomplished by the legislation under which the public enterprises are created.

Corporate Law Authority : The administration of different laws were vested with various Ministries of the Government. There was no single authoritative body like the SEC (USA) to regulate and administer various statutory laws. It was thus very difficult to monitor and regulate the administration and update the laws to meet the demand of time. Realising the situation, the Government of Pakistan has formed a "Corporate Law Authority" headed by a chartered accountant as its chairman. It was created U/S 11 of the Companies Ordinance, 1984 which is now acting as the watchdog body for implementation and administration of the Companies Ordinance, 1984 and auxiliary Acts and Ordinances.

Professional institutes : The professional institutes in Pakistan have been playing a unique role in regulating professional accounting. The professional institutes regulate the professional accounting by providing education and training of articled students, disciplining the members and through setting accounting standards and auditing guidelines. There are two professional accounting institutes viz. the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP). The ICAP is a statutory

autonomous body and is administered by a Council of sixteen.[86] The council is assisted mainly by the three Standing Committees known as Executive Committee, Examination Committee and Investigation Committee. On the other hand, the Cost and Industrial Accountants Act, 1966 (XIV of 1966) regulates the profession of Cost and Management Accountants in Pakistan.

The International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC): Both the professional accounting institutes of Pakistan have become members of International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC). By virtue of their membership of the IASC and the IFAC, they have undertaken the responsibility to support the accounting standards and auditing guidelines and to ensure the compliance with the standards and guidelines. In Pakistan, standards issued by IASC has been given legal coverage under their Companies Ordinance, 1984 in respect of listed companies only.

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[86]. ICAP ed."Comparative Study of Syllabi and Other Requirements of Institute of Chartered Accountants in SAFA Countries" (1991) p.I (Annexure)

CHAPTER-IV

PROFESSIONAL ACCOUNTING IN BANGLADESH

CHAPTER-IV

PROFESSIONAL ACCOUNTING IN BANGLADESH

4.1 HISTORY OF ACCOUNTING PROFESSION IN BANGLADESH

In order to understand the perspective of the accounting profession in Bangladesh, the growth process of accounting and the profession may be divided into several stages. On the basis of information gathered from the review of existing literature, the following stages have been identified:

Early stage: The system of accounting and auditing is believed to have existed in Indian Sub-continent under the Mauryas, Chandra Gupta and other Hindu Kings. Kautilya in his "Arthashastra" had maintained about the accounting and auditing of state finance.[1]

From 1850-1881 :The early legislation relating to companies in the then British India was modelled more or less on the British pattern.[2] The British India got its first Companies Act in 1850.[3] One of the important provisions included in the said Act was a half-yearly audit and a report on the accounts audited to be given by the auditor. At that time,public companies used to appoint an European auditor for safeguarding the interests of the European shareholders,and an Indian auditor for safeguarding the interest of the Indian shareholders. The Joint Companies Act of 1850 which did not contain any elaborate provisions directly dealing with the keeping of accounts, the making of accounts, their audit or their circulation to members.

The Indian Companies Act of 1866, for the first time made elaborate provisions in respect of audit of accounts of companies.[4] This Act required the directors to cause true accounts to be kept of the stock in trade of the company of the sums of money received and

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1. Saxena R.G., "Principles of Auditing". Himalaya Publishing House (2nd edition,1982) p.3.
2. Gupta,K., op.cit.,(1990)p.3.
3. Saeed,K.A., "Auditing:Principles & Procedures", Accounting & Taxation Service Inc.(1990)p.17
4. Kapadia,G.P., "History of the Accounting Profession in India" ICAI(1973) p.29

expended by the company and the matters in respect of which such receipt and expenditure took place as also the credits and liabilities of the company. As regards audit the statute required that once at least every year, the accounts of the company should be examined and the correctness of the balance sheet ascertained by one or more auditor or auditors. While the first auditors were to be appointed by the directors, the subsequent auditors could be appointed by the company in general meeting. This legislation required the auditors to make a report to the members upon the balance-sheet and accounts and state whether, in their opinion, the balance-sheet was a full and fair balance-sheet containing the particulars required by these regulations and properly drawn up so as it exhibited a 'true and correct' view of the state of the company's affairs.

From 1882 to 1912: A new act "The Indian Companies Act of 1882" was enacted after the Act,1866. Except for a very minor verbal differences the provisions contained in the Act remained the same as in the regulations under the Act of 1866. The Act,1882 was followed by three separate Acts, viz. the Companies Memorandum of Association Act of 1895, the Companies Branch Registered Act of 1900 and the Companies Amendment Act, 1910, all the three together constituting the law on the subject.[5]

From 1913 to 1932 : The Companies Act of 1913 was passed to be effective from 1st April,1914. This Act was,in fact,a model of the English Act of 1908. This Act made audit of company accounts compulsory. It also contained specific provisions relating to proper books of accounts and contents of the balance sheet and its authentication. For the first time the qualifications of the auditor, his powers and duties,and the procedure for his appointment were laid down in the Act. In 1930, the Government of Bombay formulated a scheme for the training of entrants to the profession of accountancy. Accordingly,a qualifying examination known as' Government Diploma in Accountancy' (G.D.A.) and an articleship of three years were prescribed. This scheme was approved by the Government of India as a qualification for granting "Unrestricted Certificates" by provincial governments entitling the

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5. Gouri Sanker Aiyar,V.V.,"The Principles of Company Law", Eastern Book Company (1st ed. 1957) p.3

holders to practice throughout British India. Around 1930, the control over accountants in practice was shifted from provincial governments to the Central Government in order to maintain a uniform set of standards throughout the country. Accordingly, the Central Government started maintaining a 'Register of Accountants'. An Accountancy Board was set up by the Government and was attached to the Sydenham College of Commerce and Economics, Bombay. This functioned till 1932.

From 1932 to 1947: The Government framed "Auditors Certificates Rules,1932" in order to meet the changing requirements of time and to have a centralised control over accounting profession. The objectives of this Rules are :

1. Registering apprenticeships;
2. Conducting examinations; and
3. Conducting and regulating accounting profession.

This Act required the passing of two examinations by Registered Accountants - first and final. It further laid down the tenure of the prescribed training which was required to be completed during the period of apprenticeship. A Board named "Indian Accountancy Board" (IAB) was established to help government in discharging the necessary responsibilities in respect of the accountancy profession.

From 1947 to 1971: Pakistan adopted the 'Auditor's Certificate Rules of 1932' just after its independence. The affairs of the accountancy profession were then administered under the Auditor's Certificate Rules, 1950. A person who passed the 'Registered Accountants' first and final examination and satisfied the Ministry of Commerce that he had completed the prescribed practical training could have his name placed on the register maintained by the said Ministry and was entitled to use the designation "Registered Accountant (R.A.)".

An advisory body called the "Council of Accountancy" was then set up under the Auditors Certificates Rules, 1950, which recommended the establishment of the Institute of Chartered Accountants in Pakistan.[6] The Government accepted the recommendations and the Department of Accountancy assisted by the officials of the institute and a number of its members prepared the Draft Ordinance to be passed. Meanwhile in 1952, the Registered Accountants formed

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6. Saeed,K.A., op.cit. p.19

a private body known as "Pakistan Institute of Accountancy" with the object of looking after their own interests.Ultimately in 1961 an autonomous body- "The Institute of Chartered Accountants of Pakistan" (ICAP) was established under the Chartered Accountants Ordinance, 1961. The Pakistan Institute of Industrial Accountants was registered in the year 1951 for the advancement of industrial and cost accounting. In July 1966, the National Assembly of Pakistan passed an Act entitled the "Cost and Industrial Accountants Act, 1966 (XIV of 1966)". This Act regulates the profession of Cost and Industrial Accountancy in Pakistan.

From 1971 to onward: Bangladesh emerged as an independent state in 1971. Just after independence, a serious problem arose due to the absence of an institute in Bangladesh. The ICAP had no branch office in Bangladesh except a regional committee at Dhaka. Realising the problem the Government of Bangladesh promulgated the Bangladesh Chartered Accountants Order,1973 and on January 1973 the Institute of Chartered Accountants of Bangladesh (ICAB) was established with retrospective effect from January 1st, 1972. The Bangladesh Chartered Accountants Bye Laws, 1973 was promulgated subsequently making them effective from January 6th, 1973. On the other hand, Government of Bangladesh promulgated the Cost and Management Accountants Ordinance, 1977 (No. LIII of 1977) to constitute an Institute of Cost and Management Accountants of Bangladesh (ICMAB) for the purpose of regulating this profession. Both the ICAB and the ICMAB have become the member of International Federation of Accountants (IFAC) and the International Accounting Standards Committee(IASC). The ICAB had only 80 members at the time of its formation and now it has over 600 members. The membership statistics of the Institute for the last twelve years is given below:

1st July	1981	320
	1982	358
	1983	388
	1984	440
	1985	477
	1986	498
	1987	516
	1988	525
	1989	541
	1990	569
	1991	588
	1992	611

The statistics of members in practice and in service of the ICAB for the last twelve years are given below:

Year	Members in Practice	Members in Service
1982	115	243
1983	135	253
1984	141	299
1985	171	306
1986	182	316
1987	187	329
1988	191	334
1989	196	345
1990	199	370
1991	199	389
1992	206	405

The growth in membership of the Institute is shown below in the Figure No.1 and members growth status-wise is also shown in the Figure No.2.

Figure No.1

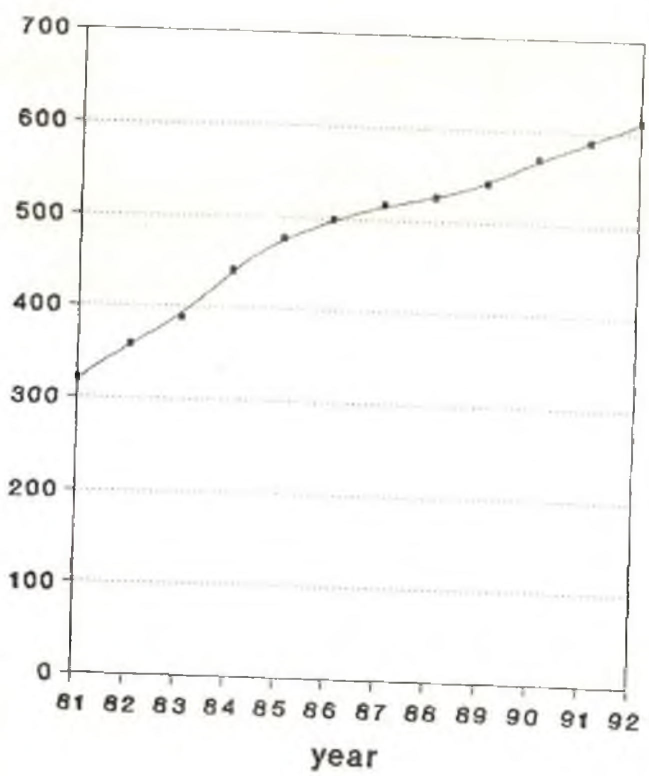
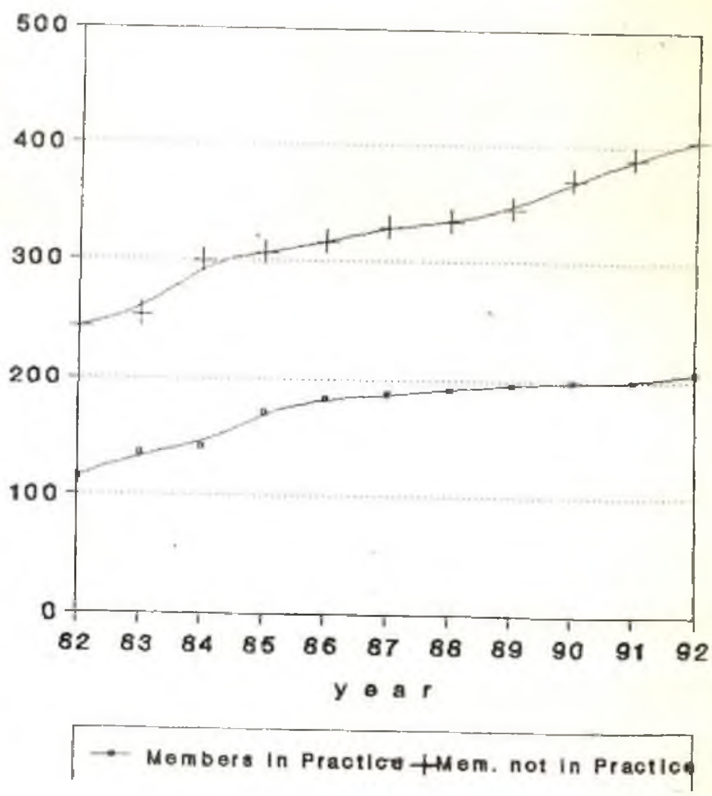


Figure No.2



4.2 PROFESSIONAL ACCOUNTING BODIES AND THEIR MANAGEMENT IN BANGLADESH

There are two professional accounting bodies in Bangladesh. They are

(1) The Institute of Chartered Accountants of Bangladesh (ICAB)

(2) The Institute of Cost and Management Accountants of Bangladesh (ICMAB).

4.2.1 The Management of the Institute of Chartered Accountants of Bangladesh (ICAB)

The Institute of Chartered Accountants of Bangladesh has been established under the Bangladesh Chartered Accountants Order, 1973 [7] with a view to regulating and administering accounting profession in the country. It also stands for the development of the profession.

The management and administration of the institution has been assigned on a council composed of twenty members. The members of the council are elected by members of the institute from amongst the fellows of the institute. Initially, out of this twenty members seventeen (17) members were to be elected by the members of the institute from amongst the fellows. Remaining three members were to be nominated by the government. The members nominated by the government must be government official not below the rank of Joint Secretary taking one each from the Ministries of Commerce, Finance and Education [8] provided that this sub-clause conferring upon the government the right of nomination shall cease to exist on the expiry of the life of the three consecutive councils.[9] Now, all the members of the council are elected solely from amongst the member of the ICAB. The present council is composed of one president, three vice-presidents, and sixteen members. The President shall be the chief executive of the council. The President and the Vice-President or Vice-Presidents shall hold office for a period of one year from the date on which they are chosen but so as not to extend beyond their term of office as members of the council and subject to their being members of the council at relevant time,

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7. President Order No. 2 of 1973 (The Bangladesh Chartered Accountants Order, 1973)
8. Sec. 1(10)2(b) of P.O. No.2 of 1973
9. Sec. 10 (2)(b), P.O. No. 2 of 1973

they shall be eligible for election for a total period not exceeding three consecutive years.[10] The duration of the council shall be three years from the date of the first meeting of the council on the expiry of which it shall stand dissolved and council shall again be constituted. The functions vested on the council shall include:

a) the examination of candidates for enrollment and the prescribing of fees therefor;
b) the regulation of the engagement and training of articled students;
c) the prescribing of qualifications for entry in the register;
d) the recognition of foreign qualifications and training for purposes of enrollment;
e) the granting and refusal of certificate of practice under this order of 1973;
f) the maintenance and publication of a register of persons qualified to practice as chartered accountants;
g) the levy and collection of fees from members, examinees and other persons;
h) the removal of names from the register and restoration to the register of names which have been removed.
i) the regulation and maintenance of the status and standard of professional qualification of the member of the institute;
j) the carrying out, by financial assistance to persons other than members of the council or in any other manner, or research in accountancy;
k) the maintenance of a library or libraries and publication of books and periodicals relating to accountancy;
l) the exercise of such disciplinary powers over the members and servants of the institute as may be prescribed;
m) the formation of such standing committees as may be prescribed;
n) such other powers as may be necessary for the efficient running of the institute.

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10. Sec. 13(3) of P.O. 1973

The functions and duties vested on the council are accomplished through various committees. The following are the standing committees to be formed by the members of the council.

1. The Executive Committee;
2. The Examination Committee;
3. The Investigation and Disciplinary Committee;
4. The Articled Students Committee;
5. The Technical and Research Committee;

Besides these standing committees, there are some other committees. These are:

1. Professional Development Committee;
2. Real Estate Committee;
3. Education and Training Committee;
4. Convention/Seminar Committee;
5. Taxation and Company Law Committee;
6. International Relation Committee;
7. Review Committee for Published Accounts and Reports;
8. Implementation Committee-UNDP Project
9. Board of Studies
10. Editorial Board

The Executive Committee shall consist of the President and the Vice-President or Vice-Presidents, ex-officio, and not more than three other members of the council elected by the council provided that the council may co-opt such members of the institute as it thinks fit.[11] For the maintenance of the council office, the Executive Committee may employ, suspend, discharge or reemploy the Secretary and other necessary staff in such terms and conditions as it may deem fit. The other functions of the Executive Committee also include maintenance of true and correct accounts of all receipts and payments, maintenance of the register of members, articled students and all other Registers; custody of the property, assets and funds of the institute; investment of the funds; admission of associates and fellows, removal and restoration of names of members, cancellation of certificates of practice, issue of certificates of membership, publication of list of members and

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[11]. Inserted Vide Notification No.S.R.O. 10-L/78 dated 17.1.78 and published in the Bangladesh Gazette (Extra) of same date

the institute's journal; any other function delegated to it by the council; provided, however, that the council shall always have the power to review any decision of the Executive Committee in the exercise of its aforesaid functions.

The Examination Committee, Investigation and Disciplinary Committee, Articled Students Committee, Technical and Research Committee,and other general committees consist of the President and Vice-President or Vice-Presidents as ex-officio, and not more than three other members of the council elected by the council; provided that the council may co-opt such number of members of the institute as it thinks fit.[12]

The annual meeting of the council shall be held in every calendar year and that not more than fifteen months shall have elapsed since the date of the previous annual meeting.[13] The council may whenever it thinks fit convene a special meeting of the institute and shall do so within four weeks from the receipt by the Secretary of a requisition in writing signed by not less than 20% of the members and stating the object of the proposed meeting. All meetings of the institute shall be presided over by the President or in his absence by the senior Vice-President or in absence of both the person elected, by the members from among the members of the council present, or in absence of all of them from among the members present[14] Ten members present in person shall constitute a quorum for meeting of the institute. For the meeting of the standing committees, the chairman of those committees may at any time and shall on requisition by any two members of a standing committee, call a meeting of the committee.
The council has mainly two sources of funds :(1) Membership fees and (2) Government grant. The council shall keep proper accounts and have the annual accounts duly audited. A copy of the audited accounts and the report of the council shall be forwarded to the government.

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12. Vide Notification No.S.R.O 10-L/78 dated 17.1.78 and published in the Bangladesh Gazette of same date.
13. Article 29 of the President Order '73
14. Article 33 of the President Order '73

4.2.2 The Management of the Institute of Cost and Management Accountants of Bangladesh (ICMAB)

The Cost and Management Accountants Ordinance, 1977 (No. LIII of '77) has been promulgated by the Government to constitute an Institute of Cost and Management Accountants of Bangladesh for the purpose of regulating the profession of Cost and Management Accountants. In addition, the council of the institute with the approval of the Government make "Regulations 1980" to regulate and administer the cost and management accounting profession. The management and administration of the institute is entrusted on a council composed of twelve members; of which eight persons to be elected by the members of the institute from amongst the fellows[15] and four persons to be nominated by the Government. An officer or employee of the institute shall not be eligible for election or nomination as a member of the council. The council shall elect from amongst its members the honorary office-bearers, namely: 1. A President; 2. Two Vice-Presidents; 3. A Secretary and 4. A Treasurer.[16]

The President shall be the chief executive of the council. The council has a duration of three years from the date of its first meeting on the expire of which a new council shall be constituted. Notwithstanding the expire of the duration of the council, it shall continue to function until a new council is constituted, and upon such constitution, the council so functioning shall stand dissolved. The persons and functions of the council shall include:

a) the examination of candidates for membership of the institute and the prescribing of fees for such examination;
b) the registration and training of students;
c) the prescribing of qualifications for entry of persons as members of the institute;
d) the recognition of foreign qualifications and training or experience for purposes of membership of the institute;
e) the granting, refusal and cancellation of certificate of practice;

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15. Act XXXIX of 1990
16. Sec. 11 by Act XXXXIX of 1990

f) the maintenance of the register and publication of the list of members of the institute;
g) the levy and collection of fees from members, students and examinees;
h) the removal of names from the register and restoration to the register of names which have been removed;
i) the regulation and maintenance of the status and standard of professional qualifications of members of the institute;
j) the carrying out, by giving financial assistance to persons other than members of the council or in any other manner, of research in cost and management accounting;
k) the rendering of professional expertise service in the field of cost and management accounting and in such other related fields;
l) the maintenance of libraries and publication of books and periodicals relating to cost and management accounting;
m) the exercise of such disciplinary powers over the members, officers and employees of institute as may be prescribed;
n) such other functions as may be necessary for the efficient running of the institute.

The functions and duties assigned on the council of the institute are accomplished through the following standing committees:

1. The Executive Committee;
2. The Education Committee;
3. The Examination Committee;
4. The Research and Development Committee;
5. The Disciplinary Committee;

Besides the standing committees, there also exist some other committees. The members of these committees are from amongst the members of the council. The Executive Committee shall consist of the President, one of the Vice-Presidents nominated by the council and three other members nominated by the council from amongst its members. Each of the Education and the Examination Committees shall consist of one of the Vice-Presidents nominated by the council and four members as may be nominated by the council from members. The Disciplinary Committee shall consist of the President, Secretary and two other members nominated by the council from amongst its members. The Research and Development Committee shall consist of the President, one of the Vice-Presidents nominated by the council and four members nominated by the council from amongst its members. Every other committee shall consist of such members as the Council may decide. The President shall be the Chairman of every committee of which he is member and in his absence, the Vice-President, if he is a member of the committee, shall be the Chairman. The Standing Committee shall perform such functions as may be prescribed and other committees shall perform such functions as the council may direct.

The first meeting of a council shall be held within one month of the date of its being constituted and thereafter the council shall meet at least once in every three months.[17] On a requisition, in writing, by at least one-third of the members of the council for the time being, the President shall call a special meeting within three weeks of the receipt of such requisition.[18] Five members present in person shall constitute a quorum for a meeting of the council. There must be an annual general meeting of the institute provided that there shall not be more than fifteen months lapse for holding annual general meeting after the holding of the last annual general meeting. In annual general meeting, the following business shall be transacted:[19]

a) the election of members of the council when due;
b) appointment of auditors;
c) consideration of the annual report of the council and the annual accounts of the institute with auditors reports thereon;
d) other business as may be determined by the council or as may be allowed by the chair;

The council may, whenever it thinks fit, convene a special meeting of the institute and shall do so in four weeks from the receipt by the Secretary of a requisition, in writing, signing by not less than one fifth of the total number of members of the institute.[20]

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[17]. Sec.24 of The Cost And Management Accountants Regulation,1980
[18]. Sec.26 of The Cost And Management Accountants Regulation,1980
[19]. Sec.34(2) of The Cost And Management Accountants Regulation,1980
[20]. Sec. 35 of Regulation, 1980

The council of the institute shall have to keep proper accounts of the funds distinguishing capital from revenue. The annual accounts shall be subject to audit by a chartered accountant with the meaning of the Bangladesh Chartered Accountants Order, 1973 (P.O.No.2 of 1973).[21] No member of the council or a person who is in partnership with such member shall be eligible for appointment as auditor. Copies of annual audited accounts and reports of the council shall be forwarded to the Government and to all members of the institute.

4.3 THE CONTROL MECHANISM AND REGULATORY FRAMEWORK OF PROFESSIONAL ACCOUNTING IN BANGLADESH

The professional accounting vis-a-vis accounting profession in Bangladesh has been regulated primarily through various statutory laws. The Companies Act of 1913 and the Securities and Exchange Rules of 1987 are the two main laws that regulate the professional accounting in Bangladesh. Beside these, there are many statutory laws for different statutory organisations. On the other hand, the professional institutes have also been playing a dominant role in regulating professional accounting vis-a-vis accounting profession in Bangladesh. The international accounting bodies have also some implications on professional accounting in Bangladesh as both the professional institutes of Bangladesh are the members of the international accounting bodies. Furthermore,the code of conduct and guidelines prepared by the UNO and OCED for multinational companies have also been playing a role in regulating the financial reporting practices of multinational companies since Bangladesh is a member of those bodies.

Professional accounting in Bangladesh has been regulated through the following statutory laws:

1. The Companies Act, 1913;
2. The Securities and Exchange Rules, 1987;
3. The Bangladesh Bank (Nationalisation) Order,1972 and the Banking Companies Act,1962 and 1991;
4. The Insurance Companies Act,1938 and the

[21]. Sec. 18 (4) of the Ordinance, 1977

Bangladesh Insurance Corporations Act,1973;
5. The Income Tax Ordinance, 1984;
6. The Controller of Capital Issue Order,1947 and 67,
7. The Various Orders creating the public sector corporations and other governmental bodies.

These statutory laws are mandatory and the administration of these laws are vested with the various Ministries of the Government.Besides the above mentioned laws,there are some institutions and international bodies that are actively involved in regulating professional accounting in Bangladesh. The institutions involved in regulating accounting practices in Bangladesh are:

1. The Registrar of Joint Stock Companies ;
2. The Dhaka Stock Exchange (DSE) ;
3. The Institute of Chartered Accountants of Bangladesh;
4. The Institute of Cost and Management Accountants of Bangladesh (ICMAB) ;
5. The Securities and Exchange Commission(SEC).

International Bodies that have an definite implications in regulating accounting practices through various non-mandatory standards and guidelines are:

1. International Accounting Standards Committee (IASC)
2. International Federation of Accountants (IFAC).
3. US Code of Conduct for Transnational Corporations.
4. OECD - Guidelines for Multinational Companies.

A discussion on above mentioned laws,institutions and international bodies that have a definite implications on professional accounting are summarised below.

THE COMPANIES ACT,1913: The Companies Act of 1913 is one of the main laws that primarily regulates the professional accounting vis-a-vis accounting profession in Bangladesh.This Act contains many provisions which regulate the activities of professional accountants as well as the accounting practices of limited companies.The Companies Act of 1913 regulates the professional accounting practices of companies by incorporating many provisions which prescribes the nature of books to be kept by the company; the forms and contents of financial statements and reports; submission and publication of accounts and reports; authentication of accounts and reports; qualification, appointment, removal, rights, duties and liabilities of auditors; and many other matters connected with accounting. The following sections of the Companies Act have a definite implications on professional accounting practices in Bangladesh:

Section 130 requires every company to keep proper books of account with respect to all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place; all sales and purchases of the goods by the company; the assets and liabilities of the company. It also directs where the books of accounts should be kept.
Section 131 requires every company to present audited balance sheet and profit and loss account before the company in annual general meeting. **Section 131A** requires every balance sheet to be attached with director's report which is to contain the information regarding the state of affairs,amount of dividends, and the amount transfer to reserves. **Section 132** states the contents of balance sheet and profit and loss account.It also requires that the balance sheet shall be in the form marked "F" or as near thereto as circumstances admit. **Section 132A** states the contents to be included in the balance sheet of a subsidiary company. **Section 133** contains provision for authentication of balance sheet by the manager or managing agent,if any and by the directors of the company. **Section 134** requires every company other than private company to send copies of balance sheet and profit and loss account to the Registrar of Joint Stock Companies. **Section 135** provides members of a company the right to receive the copies of balance sheet,profit and loss account and also the auditors' report. **Section 144(1)** contains legal requirements governing auditor's qualifications. Whereas **Section 144 (5)** entices some restrictions on appointment of auditors. **Section 144 (7)** contains laws relating to removal of auditors. On the other hand **Section 145(1)** states the powers and duties of auditors. The requirement for compulsory audit for public limited company is stated in **Section 77(4)**. Whereas **Section 145(2)** contains provisions regarding the contents and requirements of audit report. **Regulation 107** of Table A of the

First Schedule states the contents of the profit and loss account of public limited company in addition to matters referred to in **Section 132(3).**

THE SECURITIES AND EXCHANGE RULES,1987: The Securities and Exchange Rules of 1987 is another important law that has a definite implications on professional accounting in Bangladesh. The government of the Peoples Republic of Bangladesh had promulgated the Securities and Exchange Rules in 1987 in order to protect the interest of the investors and for the smooth running of the capital markets.The Securities and Exchange Rules of 1987 provides that stock exchange must register with the government and as such the companies so listed on such exchanges must abide by the rules of Securities Exchange. The Securities and Exchange Rules of'87 provides the Secretary,Ministry of Finance, Government of the Peoples Republic of Bangladesh with the authority to enforce the compliance of the Exchange Rules of 1987.

The Securities and Exchange Rules, 1987 contains many provisions relating to accounting and auditing and thereby regulates the accounting practices of listed companies. As such rule 12 (1) of Exchange Rules,87 requires every listed companies to furnish to the shareholders, the stock exchange and the government an annual report which include a balance-sheet and profit and loss account. Rule 12 (2) provides that the balance sheet and profit and loss account included in the annual report be prepared in accordance with the requirements laid down in the schedule and the balance sheet so prepared shall be in Form 'A' annexed to the schedule. Whereas rule 12 (3) requires that balance sheet and profit and loss account shall be audited by an auditor who is a chartered accountant. It also requires that auditor's report be prepared in accordance with the 'Form - B' annexed to the schedule. Rule 12 (4) provides that every issuer shall furnish the annual report to the shareholders at least fourteen days before the general meeting at which the report is to be laid and shall simultaneously furnish a copy of such report to the stock exchange and to the government. On the other hand Rule 13 provides that every issuer shall, within one month of the close of the first half of its year of account, prepare and transmit to the stock exchange,security holders and to the government a profit and loss account and a balance sheet whether audited or otherwise.

THE INSURANCE COMPANIES ACT, 1938 AND BANGLADESH INSURANCE CORPORATION ACT, 1973 : The Insurance Companies Act of 1938 and the Bangladesh Insurance Corporation Act of 1973 are the two laws that have a profound influence on the accounting practices of insurance companies. Both the laws contain many provisions as to the accounting and auditing of insurance companies and thereby regulate the professional accounting practices of insurance companies. The Insurance Companies Act of 1938 requires that a balance sheet and profit and loss account must be prepared in accordance with the regulations and forms in the first and second schedule of the Act [22] This Act contains provision for liabilities of auditors for wrongly and falsely certifying return, report,certificate,documents etc. and also prescribed their punishment.[23] On the other hand the Insurance Corporation Act,1973 also provides that each corporation shall maintain proper accounts and shall,at the expiry of each year, prepared in prescribed form with reference to that year a balance sheet,a profit and loss account and revenue account. This Act also made it on the part of the Bima Corporations to furnish returns, reports and statements to the government from time to time. This Act also requires corporations to furnish to the government and the controller of insurance within six months of the close of the year,the audited accounts,statements and abstracts.

BANGLADESH BANKS (NATIONALISATION) ORDER, 1972 AND THE BANKING COMPANIES ACT,1962 AND 1991: Bangladesh Banks (Nationalisation) Order,1972 and the Banking Companies Act, 1962 & '91 are the main statutory laws that regulate the accounting practices of banking companies in Bangladesh. These laws contain many provisions relating to accounting and auditing of banking companies. The Banking Companies Act,1991 requires every banking companies to prepare a balance sheet and profit and loss account in the forms set in the first schedule of the Act. [24] This Act also requires that the balance sheet and profit and loss account so prepared shall be audited by a person duly qualified under Chartered Accountants Order,1973 or any other law for the time being in force to be an auditor of companies.[25] This ordinance provides that the auditor shall have the powers of,exercise the function vested

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[22]. Sec.11 of the Insurance Companies Act, 1938 (Act IV of 1938)
[23]. Sec. 104 of the Insurance Companies Act, 1938(Act IV of 1938)
[24]. Sec. 38 of the Banking Companies Ordinance, 1991.
[25]. Ibid ., Sec. 29 (1)

in, and discharge the duties and be subject to the liabilities and penalties imposed on auditors of companies by Sec. 145 of the Companies Act, 1913.[26] It also prescribed some matters to be stated in the auditor's report in addition to the matters required to be stated in the Companies Act, 1913. It further requires every company to send to the Registrar of Joint Stock Companies copies of balance sheet and accounts.[27] On the other hand, Bangladesh Banks (nationalisation) Order, 1972 also lays down that the banks shall have to furnish to the Government, and the Bangladesh Bank a copy of the audited balance sheet together with a copy of profit and loss account.

THE INCOME TAX ORDINANCE, 1984: The Income Tax Ordinance has no direct involvement in regulating professional accounting vis-a-vis accounting profession in Bangladesh, although it has an implication on financial reporting in so far as it relates to the accounting treatment of certain items viz. depreciation and method of accounting. The Income Tax Ordinance, 1984 provides that all income shall be computed in accordance with the method of accounting regularly employed by the assessee. This ordinance also requires every public or private company and registered firms to furnish a copy of the trading account, profit and loss account and the balance sheet in respect of income year certified by a chartered accountant. The Ordinance of 1984 further provides that any person shall be guilty and shall be punishable with imprisonment or with fine, or with both if he makes a statement in any verification in any return or any other document furnished under any provisions of this ordinance which is false and which he either knows or believes to be false or does not believe to be true. In addition, he shall be liable if he knowingly and willfully aids, abets, assist, incites or induces another person to make or deliver a false return, accounts, statement, certificate or declaration under this ordinance. On the other hand the Finance Act, 1991 contains a new provision whereby a professional accountant will be liable for faulty tax audit. The Income-Tax Ordinance, 1984 thus regulates the activities of professional accountants in case of tax assessment.

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[26]. Ibid. Sec. 39 (2)

[27]. Ibid., Sec.41

THE CONTROLLER OF CAPITAL ISSUE ORDER, 1947: The control over issue of capital in Bangladesh is exercised under the Capital Issues (continuance of control) Order of 1947 and 1967 through the Controller of Issues, Ministry of Finance, Government of Bangladesh. This order does not have any direct impact on professional accounting. But it contains some provisions which have some implications on accounting. This order contains provisions requiring accounts to be audited and certified by chartered accountants on certain matters. This Order further requires every application for additional capital to be accompanied with balance sheet and profit and loss account for the last three years, duly certified by auditors.[28] This order also requires that no bonus shares shall be issued unless a certificate has been obtained from a chartered accountant.

THE BANGLADESH INDUSTRIAL ENTERPRISES (NATIONALISATION) ORDER, 1972: The accounting practices of nationalised sector corporations have been regulated by the Bangladesh Industrial Enterprises (Nationalisation) Order,1972. This Order contains many provisions which prescribe the nature of books of account and reports to be maintained,how these books of account and reports shall be presented and published, how these books of account and records can be authenticated etc. This Order provides that the corporation shall maintain proper accounts and other relevant records and prepare annual statement of accounts, including a profit and loss account and balance sheet. These accounts of the corporation shall be audited by chartered accountants who shall be appointed by the government. The corporation shall furnish to the government a statement of accounts audited by auditors together with the annual report. This order also provides that auditors shall in their report state whether in their opinion the balance sheet is a "full and fair" balance sheet and contains all necessary particulars and is properly drawn up so as to exhibit a true and correct view of the state of affairs of the corporation.[29]

THE REGISTRAR OF JOINT STOCK COMPANIES: The "Registrar of Joint Stock Companies" has been playing an important role in regulating accounting and reporting practices of companies in Bangladesh. The

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28. Sec. 13 (d) (e) (h) of the order, 1947.
29. Article 21 (1) (2), 22 (1) (2) (3) of the Order, 1972.

Registrar of Joint Stock Companies is an authoritative organ of the government created under the Companies Act, 1913 upon which power has been conferred to regulate accounting practices of limited companies. According to the Companies Act limited companies are required to send copies of audited accounts, statement of profit and loss account and balance sheet to the Registrar. Therefore, the Registrar is to ensure that the accounts are filed. The Registrar of Joint Stock Companies has been given the investigative power i.e. he may call for any information or explanation which he thinks necessary to submit to him within a specified time. If such information and explanation is not furnished within the specified time, or the information does not disclose full and fair statement of matters to which it purports to relate, the Registrar shall report the circumstances to the Government. He may strike defunct company off register whenever he has a reasonable cause to believe that the company is not carrying on business.[30] Moreover, he may enforce compliance with provisions of the Act through court.[31]

THE DHAKA STOCK EXCHANGE: The Dhaka Stock Exchange is a nonprofit membership organisation which is registered as a public limited company under the Companies Act of 1913. Its activities are regulated by the Securities and Exchange Rules, 1987 and the Companies Act, 1913. The Stock Exchange is to govern the admission of securities to listing with a view to ensure a fair and timely assessment of listed companies. According to the Securities and Exchange Rules, every listed company shall have to furnish annual report together with the balance sheet and the profit and loss account to the stock exchange. It also provides that every listed company shall, within one month of the close of the first half of its year of account, prepare and transmit to the stock exchange a profit and loss account and a balance sheet. But it does not provide stock exchange with necessary powers to take any action against the non-complier of rules. The Dhaka Stock Exchange does not monitor the quality of published accounts to the parties concerned. The stock exchanges of developed countries have been playing a key role in regulating financial reporting and reporting practices. From this stand point Dhaka Stock Exchange is very much a nascent institution which in fact, makes no contribution to

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30. Sec. 247 of the Companies Act, 1913
31. Sec. 249 (A) of the Companies Act, 1913

controlling accounts published by listed companies.[32]

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH (ICAB) : The Institute of Chartered Accountants of Bangladesh is a self regulating professional accounting body established under the Bangladesh Chartered Accountants Order, 1973. The Institute is entrusted with a great responsibility of regulating the profession and administering its members and students. It prescribes qualifications for membership; issues certificate; set up syllabi; imparting theoretical and practical training to articled students; holding examinations; conducting post qualifying training to update knowledge and skill of members. The institute establish code of conduct through which professional accountants are governed. The institute has started issuing accounting standards and auditing guidelines in order to bring qualitative change in professional accountant's work. In fact, the ICAB has been playing a dominant role in regulating professional accounting vis-a-vis accounting profession in Bangladesh.

THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH (ICMAB): The Institute of Cost and Management Accountants of Bangladesh is also a self-regulating professional accounting body established under the Cost and Management Accountants Ordinance, 1977. The Institute is entrusted with the responsibility to develop the profession by prescribing qualifications for membership, issuing certificate of practice, conducting post qualifying training and seminars to update knowledge and skill of the members, provide education of the students, holding examinations and awarding degrees. The ICMAB has established code of conduct to discipline its members. The Institute has been thus regulating the profession of Cost and Management Accountants in Bangladesh.

THE SECURITIES AND EXCHANGE COMMISSION: The Government of Bangladesh has recently established a Securities and Exchange Commission to regulate various corporate laws for the smooth running of securities market in Bangladesh.

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32. Parry & Khan., op.cit., p. 65

THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE (IASC): The International Accounting Standards Committee (IASC) is an international professional accounting body, established for regulating professional accounting in order to have a greater harmonisation in accounting practices internationally. The specific objectives of IASC are :

1. to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance.
2. to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements.

The IASC has no legal status. Nevertheless, many professional bodies around the world have made IASC-standards as mandatory. Since professional institutes of Bangladesh have become the member of IASC and have started adopting accounting standards, professional institutes have to take necessary steps that standards are complied with.

THE INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC): The International Federation of Accountants (IFAC) is an international professional accounting body established with a view to develop and enhance a coordinated profession with harmonised standards. The IFAC is issuing auditing guidelines which are applied whenever an independent examination of financial information of any entity is carried out with a view of expressing an opinion therein. Thus the IFAC can play an important role in the field of professional accounting and be used as a useful tool to regulate the activities of professional accountants specially in the area of auditing. Both the professional institutes of Bangladesh are the members of the IFAC.The Institute of Chartered Accountants of Bangladesh has issued some auditing guidelines. But the institute does not have any power to enforce these guidelines.

DRAFT UNITED NATIONS CODE OF CONDUCT ON TRANSNATIONAL CORPORATIONS: A number of multinational companies are operating in Bangladesh. These companies, in addition to national laws, are needed to be regulated at the international level. Thus in order to regulate transnational and multinational companies, United Nations (UN) has established a code of conduct. This code of conduct contains many provisions which regulate the accounting practices of multinational companies. The United Nations Code of Conduct requires that transnational corporations are to disclose to the public in the countries in which they operate by appropriate means of communication, clear, full and comprehensible information on the structure, policies, activities and operations of the transnational corporation as a whole. The information should include financial as well as non-financial items. The financial information to be disclosed annually should include (1) a balance sheet; (2) an income statement, including operating results and sales; (3) a statement of allocation of net profits or net income; (4) a statement of the sources and uses of funds; (5) significant new long-term capital investment and (6) research and development expenditure. Thus United Nations Code of Conduct on transnational corporations has to play a key role in regulating the accounting and disclosure practices of transnational companies operating in Bangladesh.

THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) GUIDELINE : The Organisation for Economic Cooperation and Development Guideline may be an useful tool that may help to regulate the accounting practices of multinational companies. The OECD is an international organisation established by the government of twenty four of the world's most industrial countries. The OECD issued its Declaration on Investment for Multinational Enterprise. The OECD established guideline for the disclosure of information which prescribed the nature of books to be kept, the nature of information to be disclosed, the accounting policies and many other things.

4.4 THE LIABILITIES OF PROFESSIONAL ACCOUNTANTS IN BANGLADESH

Professional accountants all over the world are subject to all laws that govern behaviour. Additionally, professional accountants must take legal responsibility for their examinations and the reports they render. They are liable for every aspects of their public accounting work,including auditing, taxes, management advisory services,accounting and book keeping services. Thus as a professional,a chartered accountant may incur either civil liability, criminal liability or both. In Bangladesh, various statutory laws have prescribed the liabilities of professional accountants. The liabilities of professional accountants under various statutory laws are summarised below.

CIVIL LIABILITIES: Civil proceedings can be instituted against professional accountants. The civil liabilities of an auditor may arise in two ways: 1) Liability for negligence and 2) Liability for misfeasance.

1) Liability for negligence: An auditor of a limited company is an agent of the shareholders. He is required to exercise reasonable care and skill in the performance of the work entrusted to him and if he fails to do so then the question of his liability with reference to negligence arises. This matter is discussed below:

a. Where an auditor is proved to be negligent but no loss is sustained by his client arising out of his negligence,he is not liable. This laws has the support of various judicial pronouncement.

b. An auditor cannot restrict his liability by entering into an agreement as his duties are defined and laid down in the Companies Act,1913, and therefore, any such agreement would be against the law and will be void. He will be liable for damages in spite of such an agreement.

c. An indemnity clause inserted in the articles of a company by which the directors, managing agents, auditors and other officers of the company are relieved from liability has been declared void.[33] However, the court may relieve an auditor form liability for negligence or misfeasance if it is proved that he acted honestly and reasonably.

d. If the auditor fails to perform his job with reasonable care and skill and consequently his client suffers a loss due to his negligence, he is liable to make good the loss on an action being taken against him by the company.

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[33]. Section 86 (C) of the Companies Act, 1913

e. Any action against the auditor for negligence can be taken any time during the life time of the company.

2) **Liability for misfeasance**: The term misfeasance' means breach of duty involving the company in a loss. Misfeasance proceedings can be instituted against the auditor by the liquidator or a creditor or by a contributory of the company only after a company has gone into liquidation. When a company is in liquidation, its past and present auditors are liable to make good all losses sustained by the company on account of their negligence of duty or breach of trust if misfeasance proceedings are against them within the prescribed time.[34]

CRIMINAL LIABILITIES: Statutory laws in Bangladesh have prescribed the situations where auditor can be held liable criminally. Criminal liability of an auditor arises out of an act constituting a crime e.g.when an auditor wilfully makes a false statement either in the balance sheet or any other document. The Companies Act of 1913 has contained the following sections under which an auditor may be guilty of a criminal offence.

Section

141A An auditor may be held criminally liable whenever a public prosecution is initiated against him for the offence created out from any report made under Section 138.

145(5) An auditor may be liable to a fine up to TK 100 if his report does not comply with the requirements of section 145(2) and (2A).

236 If a charge of falsification of accounts or forgery is brought against an auditor, he may be liable to imprisonment for a term which may extend to seven years and also to a fine.

237 An auditor may be prosecuted if it is proved that he has

[34]. U/S 235 of the Companies Act, 1913

been guilty of any criminal offence in relation to the company.

282 If an auditor makes a false statement in any report, certificate, balance sheet etc. knowing it to be false, he is liable to imprisonment for a term which may extend to three years and also to a fine.

LIABILITIES FOR LIBEL: An auditor may be held liable for libel. An auditor should submit his report in a manner which may not result in exposing him to action on grounds of defamation. The audit report is considered as a privileged document. It is not likely to result in liability for libel, provided that the following ingredients are in it:

1. It does not misstate facts;
2. It does not actuated by malice;
3. It does not go beyond what is relevant to its subject;
4. The statement made is bonafide.

LIABILITIES TO THE THIRD PARTIES: Although there is no privity of contract between the auditor and the third parties yet he may be held liable to the third parties for damages in tort if the plaintiff can prove:

1. that the statement or balance sheet signed was materially untrue;
2. that the auditor know that the statements were untrue;
3. that the statements were made with an intent that a third party should act on it;
4. that the third party did act upon such statements and consequently suffered loss.

LIABILITIES UNDER THE PENAL CODE: Apart from the specific liabilities under the Companies Act and other statutory laws, professional accountant may be liable under the penal code for frauds, and for furnishing false information. The penal code lays down: whosoever issues or signs any certificate required by law to be given or signed, or relating to any fact which such certificate is by law admissible in evidence, knowing or believing that such certificate is false in any material point, shall be punishable in the same manner as if he gives a false evidence.[35] Penal code defines false evidence as: whoever being legally bound by an oath or by an express provision of law to state the truth,or being bound by law to make a declaration upon any subject, makes any statement which is false, and which he either knows or believes to be false or does not believe to be true,is said to give false evidence.[36] If the false evidence is given in any stage of a judicial proceeding - imprisonment of either description for seven years and fine. In any other case imprisonment of either description for three years and fine.[37]

<u>LIABILITIES UNDER INCOME TAX ORDINANCE, 1984</u>: A professional accountant may be guilty of an offence punishable with imprisonment for a term which may extend to three years, or with fine,or with both, if he --

a) makes a statement in any verification in any return or any other document furnished under any provisions of this ordinance which is false and which he either knows or believes to be false or does not believe to be true.

b) knowingly and wilfully aids, abets, assists, incites or induces another person to make or deliver a false return, account, statement, certificate or declaration under this ordinance, or himself knowingly and wilfully makes or delivers such false return, account, statement certificate or declaration on behalf of another person.[38]

The Finance Act, 1991 contained a new provision whereby a professional accountant would be liable for faulty tax audit. If the chartered accountant wilfully or knowingly withheld any information relating to the particulars of assesse's income, it may impose upon such chartered accountant a penalty of a sum not exceeding two and a half times the amount of tax which would have

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35. The Bangladesh Penal Code (Sec. 198 of Indian Penal Code, XLV of 1860)
36. Ibid. Sec. 191.
37. Ibid., Sec. 193.
38. Sec. 165 of the Income tax Ordinance, 1984

been avoided had the total income as certified by such chartered accountant been accepted as correct.[39]

LIABILITIES UNDER INSURANCE ACT: Apart from the specific liabilities under the Companies Act and other statutory laws, a professional accountant is also liable under Insurance Act of 1938. It contained: whoever in any return, report, certificate, balance sheet or other document, required by or for the purposes of any of the provisions of this Act, wilfully makes a statement false in any material particular, knowing it to be false, shall be punishable.

4.5 PROFESSIONAL ETHICS AND CODE OF CONDUCT

All the members of the institute are bound by a code of professional ethics contained in the Bye-laws of the Ordinance, 1973. The ordinance contains four schedules for professional ethics.A chartered accountant in practice shall be guilty of professional misconduct as per Part I of Schedule- C if he -

01. places his professional service at the disposal of or enters into partnership with an unqualified person or persons in a position to obtain business of the nature in which chartered accountants engage by means which are not open to a chartered accountant:

    Provided that this paragraph shall not be construed as prohibiting a member from practicing in a country outside Bangladesh in association with a person who is entitled under the law in force in that country to perform functions similar to those which a chartered accountant in practice is entitled to perform in Bangladesh.

02. allows any person to practise in his name as a chartered accountant unless such person is also a chartered accountant and is in partnership with or employed by him;
03. pays or allows or agrees to pay or allow, directly or indirectly,any share, commission or brokerage in the fees or profits of his professional business, to any other person than a member of the institute or a partner or a retired partner or

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[39]. Sub. Section (3) has been inserted into the Sec. 128 of Income tax Ordinance,1984

the legal representative or a widow of a deceased partner;

04. accepts or agrees to accept any part of the profits of the professional work of a lawyer, income-tax practitioner, auctioneer, broker or other agent or any other person who is not a member of the institute;

05. accepts a position as auditor previously held by another chartered accountant without first communicating with him in writing;

06. accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Sec.144 (6) of the Companies Act, 1913, in respect of such appointment, have been duly complied with;

07. accept a position as auditor previously held by some other chartered accountant in such conditions as to constitute undercutting;

08. publishes or sanctions the publication of expressions of thanks or appreciation by clients or promotes in any way laudatory notices with regard to professional matters;

09. solicits clients or professional work either directly or indirectly by circular,advertisement, personal communication or interview or by any other means;

10. advertises his professional attainments or services or uses any designation or expressions other than chartered accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in Bangladesh or recognised by the Government of Bangladesh or a title indicating membership of the Institute of Chartered Accountants or any other institution that has been recognised by the council;

11. allows his name to be inserted in any directory, either in the main section or in classified list whether printed or not, so as to appear in a leaded type or in any manner, which could be regarded as of an advertising character;

12. gives estimates of future profits for publication in a prospectus or otherwise, or certifies for publication statements of average profits over a period of two or more years without at the same time stating the profits or losses for each year separately.

13. engage in any business or occupation other than the profession of chartered accountants unless permitted by the council so to engage:

Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company or a co-operative society unless he or any of his partners is interested in such company as an auditor.

14. allows a person not being a member of the institute or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements or any other document required by his client;
15. discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of his client or otherwise than as required by any law for the time being in force.
16. is grossly negligent in the conduct of his professional duties;
17. fails to keep moneys of his client in a separate banking account or to use such moneys for purposes for which they are intended;
18. has been guilty of any act or default discreditable to a chartered accountant or a member or the institute;

19. (i) contravenes any of the provisions of the order or the bye-laws made thereunder;
    (ii) is guilty of such other act or omission as may be specified by the council in this behalf, by notification in the Gazette of Bangladesh;

20. not being a fellow styles himself as a fellow;
21. does not supply the information called for or does not comply with the requirements asked for by the council or any of its committees;
22. includes in any statement, return or form to be submitted to the council any particulars knowing them to be false;
23. permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast;
24. without first obtaining the permission of the council associates himself with or promotes any body of accountancy, association or institute of accountancy, etc. in Bangladesh.

The remaining seven rules related with auditor's independence are described in Chapter No. VII.

4.6 ACTIVITIES OF THE ICAB FOR THE DEVELOPMENT OF THE PROFESSION

The Institute of Chartered Accountants of Bangladesh (ICAB) is the prime professional accounting body which has taken a leadership role in the nourishment of the profession. In order to regulate the accounting profession effectively and to improve the quality of services of members and students of the institute,the ICAB has taken the following steps:

1. **Accounting standards and auditing guidelines**: The ICAB has started adopting accounting standards and auditing guidelines based on standards and guidelines issued by the IASC and IFAC for achieving harmonisation in accounting practices. The ICAB has so far adopted 15 accounting standards and 12 auditing guidelines. These are:

- (i) Disclosure of accounting policies;
- (ii) Information to be disclosed in financial statements;
- (iii) Accounting for property plant and equipment;
- (iv) Depreciation accounting;
- (v) Valuation and presentation of inventories in the context of the Historical Cost System;
- (vi) Statement of changes in financial position;
- (vii) Presentation of current assets and liabilities;
- (viii) Unusual and prior period items and changes in accounting polices;
- (ix) Accounting for construction contracts;
- (x) Accounting for research and development costs;
- (xi) Contingencies and events occurring after the balance sheet date;
- (xii) Revenue recognition;
- (xiii) Accounting for taxes on income;
- (xix) Capitalisation of borrowing costs;
- (xv) Accounting for the effects of changes in foreign exchange.

Auditing Guidelines are:

(i) Objective and scope of the audit of financial statements;
(ii) Audit engagement letter;
(iii) Basic principles governing an audit;
(iv) Audit planning;
(v) Study and evaluation of accounting system and related internal controls in connection with an audit;
(vi) Analytical review;
(vii) Control of the quality of audit work;
(viii) Audit evidence;
(ix) Documentation;
(x) Fraud and error;
(xi) Auditor's report;
(xii) Auditing in an EDP environment.[40]

2. **Professional ethics and code of conduct**: Professional ethics and code of conduct is basically the moral fabric for a profession. As the image of the profession is largely dependent on the observance of the ethics and code of conduct by the members, the ICAB has thus established professional ethics and code of conduct for its member. Moreover, the institute has constituted a 3-member committee to prepare the "Manual of Professional Ethics" containing in details the objectives and implications of various provisions of the Bangladesh Chartered Accountants Order, 1973.

3. **Disciplinary committee:** In order to ensure adherence to professional ethics and code of conduct by the chartered accountants, the institute has set up a"Disciplinary Committee" which is responsible to look into cases of alleged violation of ethics and conduct. The committee has already been taking action against violators of ethics and code of conduct.

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[40]. The Bangladesh Accountant, (Oct-Dec, 1990) p.3

4. Coaching class: The ICAB has started arranging coaching classes for its students. A student desires to appear for the first time in the intermediate and final examination shall not be allowed to do so unless he/she furnishes a certificate of attendance from the Director of Studies of the institute.[41]

5. Correspondence-course: The institute has been running correspond courses since 1983 for the benefit of its articled students and these courses have been made compulsory for the students.

6. Continuing Professional Education (CPE): The ICAB has been arranging seminars, training courses, and workshops as part of its "Continuing Professional Education" programme to keep professionals in touch with latest development in professional education. The ICAB has also introduced "Computer Training Courses" for the members and the students of the institute.

7. Study manuals: The ICAB has been publishing study manuals containing suggested answers of past questions for the benefit of the students. It has so far published 20 text manuals.

8. Research activities: The institute has so far conducted two research work viz. "Evaluation of Financial Statements as a Communication Device in Bangladesh" by Mahabub Ahmed and "A Survey of Published Accounts in Bangladesh" by Michael Parry and Fardous Khan. The institute also actively considers to conduct more research studies.

9. Audit fees: The institute has set up a special committee for establishing a reasonable rates of fees for audit and other professional work. Based on the recommendations of the said committee, the institute has circulated a fee-schedule amongst the members of the institute as an attempt to bring uniformity in the practice.

10. Library and journals: The institute has been maintaining a central library at Dhaka and two regional libraries at Chittagong and Khulna. It has also been publishing journal "The Bangladesh Accountant" on a quarterly basis.

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[41]. Annual Reports & Accounts, ICAB, 1990-1991, p.10

11. **Prizes for best published accounts:** The institute has introduced prizes for best published accounts and reports. As such a review committee has been set up to select the best accounts and reports.

12. **Scholarship:** In order to attract brilliant students to the profession of accounting, the institute offers 12 scholarships every year @ Tk.250.00 each per month from out of its own fund.

4.7 LIMITATIONS OF THE ICAB

It is very often alleged that the ICAB has not been able to regulate its members effectively and cannot play the proper role in maintaining transparency and accountability of its members. The limitations and weaknesses of the ICAB are summarised below:

1. **No auditing standards:** The ICAB has not yet formulated any definite audit standards although it has so far issued 12 auditing guidelines.Audit standards are the basic principles and practices which auditors are expected to follow in the conduct of an audit. Whereas auditing guidelines give guidance on procedures by which the auditing standards may be applied. Recognizing the need of standards Edward Stamp commented, "Auditing standards are the universal fountainhead on which the credibility of the auditor ultimately depends".[42] As ch, professional bodies around the world including Srilanka have established auditing standards. But countries like India and Pakistan have not yet established it.

2. **No separate standard setting body:** The institute has not been able to constitute a separate standard setting body. It is well recognised that for effective implementation of standards an approach of consensus is necessary. Thus professional bodies around the world have taken the initiative to establish separate standard setting body involving all interested parties. There are separate

[42]. Stamp, E. op.cit., p. C-21-56

standard setting bodies in the USA, UK, Australia, New Zealand, India and the like.But in Bangladesh, there is no seperate body for setting accounting standards suitable to existing situations.

3. **Non-mandatory nature of standards:** It is well recognized that standards can not be implemented unless it is mandatory and backed by law. Keeping this in view, the Institute of Chartered Accountants of Srilanka (ICASL) has,its own initiative, made accounting and auditing standards mandatory. But the ICAB has not been able to make accounting standards and auditing guidelines as mandatory. As a result, accounting standards and auditing guidelines are not complied with (See Chapter No.IX) in Bangladesh.

4. **Very slow in adopting standards:** The ICAB has been very slow in adopting accounting standards and auditing guidelines. The minimum time required for adopting accounting standard from the IASC - issuing date is 2 years and maximum is 11 years. But the average time required is six to ten years. The comparative position of selected countries in respect of the time required for issuing some accounting standards are shown in the following table.

Table No.4.1

Shows the time required for adopting AS from the issuing date

Name of the standards	IASC Issue Date	ICAEW Issue Date	ICASL Adoption Date	ICAI Adoption Date	ICAB Adoption Date
1. Prior Period and Extra Ordinary Items and Changes in Accounting Policies	1st January 1979	May 1974 (Rev. April (SSAP-75	1st January 1980	November 1982	1st January 1990
2. Contingencies and Events Occurring After Balance Sheet Date	1st January 1980	1st Septembe 1989 (SSAP-17	1st January 1980	November 1982	1st January 1990
3. Statement of Changes in Financial Position	October 1977	July 1975 (SSAP-10	1st January 1980	1st January 1980	1st January 1985
4. Accounting for Construction Contract	1st January 1980		1st April 1981	November 1983	1st January 1990
5. Accounting for Research and Development	1st January 1980	December 1977 (SSAP-13	1st January 1980	January 1985	1st January 1990.

5. **No mandatory Continuing Professional Education (CPE):** The institute has not yet adopted any policy supporting mandatory professional education for its members for retention of rights to practice although professional institutes of many countries have already made it mandatory for its members. The countries making CPE mandatory are given in the following table:

Table No.4.2

Shows the countries making CPE as mandatory

Country	UK	USA	SriLanka	India	Pakistan	Bangladesh
Nature of CPE	Mandatory	Mandatory	Mandatory	Non Mandatory	Mandatory	Non Mandatory

6. **Fails to implement audit-fees**: Adequate fee is one of the prerequisites for quality services. As such, the ICAB has prepared a schedule for minimum audit and consultancy fees for the members of the institute. But the ICAB has failed to devise any mechanism to ensure compliance of the order. Thus, audit fees fixed up by the ICAB are not complied with. A survey carried out by the researcher covering 30 listed companies revealed the following statistics relating to the compliance of the order.

Table No.4.3

Shows the extent of compliance with the order
N = 30

Nature\Types of Companies	Private Sector	Public Sector	Multinational	Total	% of Compliance
1.Compliance	1	1	2	4	13%
2.Non-Compliance	23	3	0	26	87%

It is observed from the table that 87% of the companies vis-a-vis auditors do not comply with the rules relating to audit fees.

7. **No monitoring device**: The ICAB has come under criticism in that it has not established any monitoring device for the quality of audit works rendered by professional accountants.
The institute has never put forward any way monitoring the quality of audit work nor has it given any explanation for elevating the partner of such firm to rule making bodies.

8. **No public participation**: Professional bodies around the world have been taking more public representation in their administration to stimulate public confidence on them. But the ICAB is without public representation. The opinion survey under this research study reveals that all respondent-groups except professional accountants believe that "public interest" can not be protected without public participation in the administration of the ICAB. A statistics of public participation in the administration of professional bodies of sample countries is given below :

Table No.4.4

Shows the statistic of public participation in some professional institutes around the world

Name of the bodies	AICPA	ICASL	ICAI	ICAP	ICAB
1.Total council Member	21	12	30	16	20
2.Public/government Representative	03	06	06	04	-
3.Percentage of public representation	15%	50%	20%	25%	0%

9. **Deficiencies in ethical rules**: The present ethical rules of the ICAB is deficient in many respects as -

i. Present rules does not recognise the principles of conduct in seven broad heads suggested by the IFAC.

ii. The ethical rules although provide a rule whereby no one is allowed to express an opinion on financial statements of any enterprise in which he, his firm, or a partner in his firm has a "substantial interest" unless he disclosed the interest in his report. Yet the rule does not clarify the term "substantial interest".

iii. This does not contain any specific rules restricting auditors to invest in client's company as shareholders.

iv. This does not also contain any rule prohibiting a member or member firm from engaging in certain type of consulting services which would create a loss of independence.

v. It does not have any rule whereby audit firms are required to report the total fees received from the client for Management Advisory Services.

These deficiencies in ethical rules widen the opportunity for professional accountants to indulge unethical and undesirable practices. As a result, it is very often alleged that auditor's reports in Bangladesh are prepared without any or partial verification.[43]

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[43]. Alam, A.K.M., op.cit., p.26

10. **Weak disciplining**: The ICAB has a code of conduct for its members and also has a disciplinary committee. But the violation of code of conduct is not generally found although some research studies including the present one reveals that there exists gross irregularities and inadequacies in financial reporting practices in Bangladesh. Nevertheless, disciplinary action against defaulters is almost absent. Moreover, the nature of punishment given is very light, generally of reprimands and admonishment. A comparative statistics of disciplinary actions taken by different professional bodies are shown in the following table.

Table No.4.5
Shows the statistics of disciplinary actions taken by the different professional bodies of some countries in the year 1991

Nature of Punishment / Name of Bodies	Reprimand	Suspension 0 - 5 years	Expulsion 5 years- Permanent	Total
1. NZSA (Newzealand)[1]	-	7	3	10
2. ICAEW (UK) [2]	4	9	3	16
3. Australia [3]	6	3	7	16
4. ICAI (India) [4]	-	6	1	07
5. ICAB [5]	2	-	-	02

1. New Zealand Society of Accountants, 83 Annual report, 1991
2. The Accounting ; July, August, Sept. 1991
3. The Australian Accountant; June, July, Oct, November, December 1991
4. The Chartered Accountant; Vol. XLI. No.4. Oct, 1992 p.351
5. Annual Reports and Accounts 1990-'91, ICAB

11. **Fails to take necessary steps to improve the quality of the work**: The IFAC's "Guideline on Ethics for Professional Accountants" notes that "a distinguishing mark of a profession is the acceptance of its responsibility to the public". As such there must exist adequate quality control programmes to provide reasonable assurance that professional accountants adhere to the highest standards in performing audit and related services. In order to adhere to the highest standards of work and to pledge allegiance to the public interest, professional bodies around the world have taken various steps. The AICPA has thus taken various steps - it has introduced a quality review programme for CPA firms called "Peer Review" programme, established a "Quality Control Standards Committee" in 1978 to issue pronouncements on quality control standards. The AICPA also established a "Public Oversight Board" consisting of 5

members from outside the public accounting profession to discipline its members more effectively. Moreover, meetings of the AICPA senior committees and governing council were made open to public since 1978 in order to augment public confidence.[44] Some other professional bodies around the world supported and adopted such policy. In developing countries like Pakistan, the ICAP decided to associate two non-professional members in the disciplinary committee with a view to ensure that decisions of Investigation Committee are fair and impartial.[45] In recent past, a view is getting momentum in the professional arena in that relying only on the complaints from the public or users may not be a good criteria for judging ethical standards compliance. A wider ranging view will have to be taken. Professional bodies on its own initiative should call explanations to its members whose conduct may not live up to high standards of professional behavior. In response to this view, professional bodies in some countries have already established various committees. In Hongkong, a "Professional Standards Monitoring Committee" is established to review published financial statements. In Pakistan, "Quality Control Review Committee"; in the UK, 18-member "Review Panel"; in New Zealand "Professional Standards Committee" were established. Furthermore, professional bodies in some countries have taken initiative by recommending that publicly traded companies should establish audit committees to nominate auditors.

In Bangladesh, the ICAB has not yet taken adequate, proper and effective steps to improve the quality of audit work. Quality control measures like 'peer review' programme; 'quality control standard/ review committee'; 'public oversight board'; 'divisions of firms' have not been introduced. Moreover, there is no public representation in the administration and in the disciplinary committee of the ICAB. In fact, adequate and effective measures have not yet been taken by the accounting profession in Bangladesh.

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44. Buckley & O'sullivan., op.cit.,p.8

45. "Privatisation and Deregulation", Journal published in SAFA seminar held on 17-18. November 1992 in Pakistan, p.25.

CHAPTER-V

REGULATIONS GOVERNING FINANCIAL REPORTING AND DISCLOSURE

5.1 Meaning of "financial reporting" and "disclosure"

5.2 Need and importance of disclosure

5.3 Reasons for the regulation on financial reporting and disclosure

5.4 The regulations and the requirements for the financial reporting of selected countries:

USA

UK

JAPAN

INDIA

PAKISTAN

5.5 Corporate financial reporting in Bangladesh

5.6 Meaning of audittor's report

5.7 Requirements of the International Federation of Accountants regarding auditor's report

5.8 Audit report requirements in selected countries:

USA

UK

JAPAN

INDIA

PAKISTAN

5.9 Requirements for audit and auditor's report in Bangladesh

5.10 "True and Correct" view vs." True and fair" view

5.11 Drawbacks of auditor's report in Bangladesh from the review of literature

CHAPTER-V

REGULATIONS GOVERNING FINANCIAL REPORTING AND DISCLOSURE

Financial reporting and disclosure practice differs from country to country.[1] Educational, socio-cultural, legal, political, economic characteristics and even technological environment affect financial reporting.[2] Hence variation in this field is a common phenomenon. It has been often alleged that legal provisions relating to financial reporting and disclosure are not clear, comprehensive and adequate in Bangladesh. Thus an attempt has been made in this chapter to overview the existing literature on financial reporting requirements of selected countries with special reference to Bangladesh.

5.1 MEANING OF "FINANCIAL REPORTING" AND "DISCLOSURE"

The corporate financial reporting is a comprehensive package of information of all kinds which most completely describes an organisation's economic activity. It is, in fact, the process through which an entity communicates with outside world. Various definitions of financial reporting commonly assert that external financial reporting is concerned with the production of general purpose financial statements that provide "information to meet the common interests of external users who generally cannot prescribe the information they want from an organisation".[3] It may also be thought of as a process. Bedford conceptualizes this process as consisting of the following four procedural steps:[4]

1. **Perception:** Perception of the significant activity i.e. financial transactions of the accounting entity.

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1. Reynalds, P.D."French Accounts",C.A. Accountancy, Dec.1961.p.733
2. Arpan & Radebaugh,op.cit,pp.5-25
3. SFAC. No.4,Dec.1980.p.6
4. Bedford,N.M,"Extensions in Accounting Disclosure" (Englewood Cliffs, N.J: Prentice-Hall,Inc,1973)p.208

2. **Symbolisation:** Symbolisation has taken the form of recording in accounts, journals, and ledgers using well established book keeping and measurement procedures.

3. **Analysis:** Analysis process has been viewed as one of developing reports to provide insights into the nature of entity activities.

4. **Communication:** It refers to transmission of the analysis to users for making in business and economic decisions.

Step 1 and 2 constitute the process of accounting "measurement", whereas steps 3 and 4 constitute the "disclosure" of information. Thus, measurement and disclosure articulate with one another to give corporate financial reporting its substance.

The term "disclosure" according to the dictionary means" to bring into view, uncover, to make known, or the act of revealing any secret.[5] But in accounting, it refers to the supply of information relating to an organisation to the interested outsiders. In other words, disclosure means providing information in the financial statements in a way that assists the users in taking decisions. In fact, it is the process of communicating the accounting measurements to some users of that information to facilitate a decision.[6] However, it is asserted by all that disclosure is very much fundamental to financial reporting.

5.2 NEED AND IMPORTANCE OF DISCLOSURE

The significance of proper and adequate reports and disclosure cannot be over-emphasized in a free economy where the market allocates the resources to different sector of the economy. Lack of adequate disclosure can create ignorance in the security market and can result in misallocation of resources in the economy.[7] Thus accounting reports should disclose that which is necessary to make users not misleading. Stressing the need for full disclosure, Buzby

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5. Webster's New Third International Dictionary (1961)p.645
6. Bedford,N.M.,op.cit.p.208
7. Baumol, W.J.,"The Stock Market and Economic Efficiency (Fordham University Press)1965.pp.1-8

pointed out that disclosure should be sufficiently adequate so as not to mislead the users.[8]

Both the users and preparers of financial statements recognise the need for adequate disclosure for the following reasons:

1. Adequate corporate disclosure exists as a means of discharging a corporation's accountability to investors and to facilitate the allocation of resources to their most productive uses.[9]
2. Disclosure reduces ignorance and uncertainty. Because disclosure of information is considered to be the chief means of reducing the uncertainty under which external users make decision.
3. It helps to maximise economic welfare, since the more information people have the more likely they are to make optimal decisions regarding the allocation of resources within the economy.
4. In an open capital market investors action will raise the price of disclosing company's stock. The implication of such investor behavior is obvious.[10]
5. Increased disclosure improves the subjective probability distribution of a security's expected returns in the mind of an investor by reducing the uncertainty associated with that returns stream. This will entice an individual to pay a larger amount for a given security than he/she would otherwise, thus lowering a firm's cost of capital.[11]
6. Full disclosure improves allocation of capital and thereby improves the productivity in the economy.
7. Disclosure will also help to motivate management. The greater the level of information management have to provide the more they will want to be seen to have

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[8]. Buzby, S.L., "The Nature of Adequate Disclosure" J.O.A., (April, 1974) p.41

[9]. Mendelson, M. and S. Robbins, "Investment Analysis and Securities Markets" Newyork: Basic Books, Inc, (1976) p.755

[10]. Singhvi, S.S. and H.B. Dasai, "An Empirical Analysis of the Quality of Corporate Financial Disclosure". The Accounting Review (Jan, 1971) pp.136-38

[11]. Choi. F.D.S., "Financial Disclosure in Relation to a Firm's Capital Cost", Accounting and Business Research, (Autumn, 1973) pp.182-92

performed well.[12]

8. Full disclosure also helps to stabilise the fluctuation in stock prices. Various studies show that stock prices that tend to approximate the true or "intrinsic security value" in an environment of full disclosures".[13]

5.3 REASONS FOR THE REGULATION ON FINANCIAL REPORTING AND DISCLOSURE

It is the notion of some people that there is no justification for the regulation of accounting information. Because market force will automatically exert pressure on firms and other capital raisers to provide financial information. As a result, there will exist voluntary reporting and disclosures. But in reality, voluntary means of achieving desired information are not self-evident. Various empirical studies appear to be inconsistent with such voluntary release of financial information. Justification for regulation of the accounting information relies on the existence of market imperfection which indicate that free-market force would result in sub optimal corporate disclosures. The regulation for mandatory disclosure of accounting information can be viewed from the two standpoint. These are: 1. Early rationale and 2. Rationales from the economic literature.

Early rationale:

Most of the early rationales for mandatory corporate disclosure regulation have a consensus on a common point, that investors in general cannot distinguish between efficient and less efficient firms, for following reasons.

1. It is very often argued that people in administration are able to manipulate stock prices to their own advantages, as they may have much more information than is available via other sources. But they do not provide the

[12]. Zeff.S.,"Greater Disclosure Fever Spreading Across the Globe" in World Accounting Report (Feb,1979)p.2

[13]. Singhvi & Dasai,op.cit,p.129

information to the market, as a result, market cannot discriminate between efficient and less efficient firms as accurately as it otherwise might. Hence, mandatory disclosure of information enforceable by government will improve the ability of the capital market to discriminate between firms and will allocate capital properly.

2. There are many investors who cannot interpret accounting numbers, as such, they cannot compare the reported earnings of firms that use different accounting procedures. As a result, these investors can be affected by their inability to understand different accounting procedures. Thus, there is a need for mandatory disclosure regulation that can protect these investors.

3. As earnings of firms are calculated using several methods of valuation, the earning numbers are meaningless and stock prices based on those numbers do not differentiate between efficient and less efficient firms. Thus there is a need for a mandatory imposed uniform accounting procedures.

4. Different accountants produce different accounting numbers from the same set of facts under unregulated practice. Because in an unregulated system, the accountant has the freedom to choose among a set of accounting procedures and has to make subjective estimates. In order to eliminate divergent accounting practices, there requires mandatory disclosure regulation.

Rationales from the Economic Literature:

1. **Market failure:** One of the arguments is cited as support for the mandatory regulation of external financial reporting involves Pareto optimality (whereby no one's well being can be improved without harming some one else's well-being). But the existence of market failure thwart attainment of Pareto optimality. An accounting market failure is alleged to exist because the output of information in accounting reports, in the absence of regulation, is non-optimal in a Pareto sense. Thus, in

order to mitigate this problem there must exist mandatory regulation for accounting information.

2. **The public good problem:** Information contained in accounting reports is assumed to be a public good. However, accounting information has both public and private good attributes. The public good attribute of information does not of itself lead to a market failure per se. The failure comes about if the private producers cannot exclude non-purchasers of the good from using it or cannot perfectly price discriminate among purchasers. Investors who do not hold securities in the firm can obtain the information in the firms report without paying anything toward the information's production. In such situation, the managers underproduce information in the absence of regulation. Thus there is an alleged market failure.

3. **The screening problem:** There exists information asymmetry in real world as one party to potential transaction has more information than another. The problem is applicable to accounting information in that corporate managers have more information about the value of the corporation than do outside investors. Those firms whose share prices are under valued have an incentive to expand additional resources on financial information to signal that fact. The remaining, overvalued firms implicitly signal that fact by not providing additional information, and the value of their shares drops to the average value for the overvalued group. Now, some of those firm's shares are 'under valued' and they expand resources to provide additional information. The process continues until only the very worst performing firms do not signal. Here signaling motivates corporate disclosure.

4. **The speculative problem:** The speculative problem concerns about over production of information by individuals outside the firms for speculative purposes, which requires regulation to mitigate the problem.

5.4 THE REGULATIONS AND THE REQUIREMENTS FOR THE FINANCIAL REPORTING OF SELECTED COUNTRIES

The corporate financial reporting and disclosure practice differs from one country to another. Because financial statements and reports of a country are usually prepared in accordance with their national standards and customs. As a result, there are major and wide differences in accounting and reporting practices. In order to know about the reporting practices at a global level, the regulations and the reporting requirements of selected countries are described below :

USA: The corporate financial reporting practice in the USA has been governed by a unique combination of public and private regulations. The accounting principles and standards are issued by the "Financial Accounting Standards Board (FASB)" and the Securities and Exchange Commission (SEC).But in reality, the SEC has generally relied on the private-sector to establish accounting and reporting standards, it plays an active oversight role in the standard-setting process and has exerted a powerful influence over the establishment and interpretation of corporate reporting guidelines and accounting principles.
The financial reporting practices of publicly held companies in the USA are governed by the following three basic laws:

1. The Securities Act, 1933;
2. The Securities Exchange Act, 1934.
3. Corporation law of the state in which it has been incorporated.

In order to administer these laws and to protect the interest of investors,an agency known as "Securities and Exchange Commission" (SEC) was established in 1934. It is the principal securities regulatory authority in the United States. The SEC has the authority to establish the form and content of and requirements for financial statements of publicly held companies whose securities are registered with it. The SEC issues Financial Reporting Releases (FRR) that are used to adopt, amend or interpret rules and regulations relating to accounting, auditing or financial statements disclosures.

Companies subject to the SEC must prepare their financial statements in accordance with generally accepted accounting principles as set forth in the statements of the FASB. In addition, such companies must comply with Regulation S-X of the Commission. This regulation does not cover which financial statements are required with an SEC filing but rather prescribes the form and contents of financial statements to be included in filings with the Commission. The companies under the governance of the SEC are subject to prepare financial statements which normally include:

(1) Balance sheet. **(2)** Statement of income and retained earnings. **(3)** Statement of changes in financial position. **(4)** Statement of surplus. **(5)** Statement of changes in stock holders equity.[14]

Footnotes are also considered an integral part of the financial statements. The presentation of comparative financial statements for more than one period is required for publicly held companies registered with the SEC. The Commission requires registered companies to submit periodic reports to it and to shareholders. The following periodic reports are required to be filed with the SEC:

Form 10-K: Form 10-K is an annual report filed with the SEC within 90 days after the close of the fiscal year. It contains audited financial statements consisting, cash flows and some additional information specified by the SEC.

Form 10-Q: Form 10-Q is a report containing less detailed, unaudited financial information, due within 45 days after the end of each of the first three fiscal quarters.
Form 8-K: Form 8-K is a report containing information that must be filed with the SEC within 15 days of the occurrence of certain significant events which relate to bankruptcy or changes in control, assets, directors, or any other significant event that a prudent investor should know about. Changes in a company's auditor must be filed within five days.[15]

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14. Coopers and Lybrand ed. "International Accounting Summaries" John Wiley & Sons(1991) p.U-32.
15. Ibid.p.U-31.

The form and content of and requirements for financial statements are governed by the following SEC regulations:

Regulation S-X: The principal accounting regulations applicable to financial statements filed with the SEC are codified in regulation S-X. This regulation does not cover which financial statements are required within SEC filing, but rather prescribe the form and content of those statements. Regulation S-X consists of eighteen articles.[16]

Regulation S-K: Regulations applicable to the content of non financial statement portions of filing with the SEC are codified in Regulation S-K.
Article 5 of Regulation S-K sets forth specific provisions with regard to the form and content of financial statements of commercial and industrial companies. The disclosures of information under Article 5 are summarised below:

BALANCE SHEET: The items of balance sheet are usually grouped on assets and liabilities sides under the following sub-heads:

Assets side: (i) Current Assets; (ii) Investments; (iii) Intangible Assets; (iv) Fixed Assets; (v) Other Assets.

Liabilities side: (i) Current Liabilities; (ii) Deferred Incomes; (iii) Longterm Debt; (iv) Other Liabilities; (v) Reserve; (vi) Capital and Surplus.

ASSETS SIDE:

Current assets: Current assets include:

1. **Cash and cash items**: State separately; (a) cash on hand and unrestricted demand deposits; (b) legally restricted deposits held as compensating balances against short term borrowing arrangements; (c) time deposits and immediately

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[16]. 17 CFR 210,U.S. Code of Federal Regulations

certificate of deposit; (d) funds subject to repayment on call or immediately after the date of the balance sheet required to be filed, and (e) other funds.

2. **Marketable securities:** Include only securities having a ready market and which represent the investment of cash available for current operations; securities which are intended to be used for non-marketing capital purposes shall be excluded.
3. Accounts and notes receivable.
4. Allowances for doubtful accounts and notes receivable.
5. **Unearned income:** Unearned discounts, finance charges, and interest included in receivables shall be shown separately and deducted from the applicable receivable caption.
6. **Inventories:** State separately, or in a note referred to herein, if practicable, the major classes of inventory such as (1) finished goods; (2) inventoreed costs relating to long-term contracts or programs; (3) work on progress; (4) raw materials; and (5) supplies. The basis of determining the amounts shall be stated.

If "cost" is used to determine any portion of the inventory amounts, describe the method or determining cost. This description shall include the nature of the cost elements included in inventory. If"market" is used to determine any portion of the inventory amounts, describe the method of determining "market" if other than current replacement cost. The method by which amounts are removed from inventory shall be described.

7. **Other current assets:** State separately any amounts in excess of 5% total current assets. The remaining items may be shown in one amount.
8. Prepaid expenses.
9. Total current assets, when appropriate.

<u>**Investments**</u>: Investments shall be shown as:

10. **Securities of affiliates:** State the basis of determining the amount. State separately in the registrant's balance sheet the amounts which in the related consolidated balance sheets (a) eliminated, and (b) not eliminated.

11. **Indebtedness of affiliates-not current:** State separately the indebtedness which in the related consolidated balance sheet is (a) eliminated, and (b) not eliminated.
12. **Other security investments:** State parenthetically or otherwise, the basis of determining the aggregate amounts shown in the balance sheet for the portfolio of equity securities and for all other securities.

Intangible asset:

13. **Other investments:** State separately, by class of investments, any items in excess of 5% of total assets.

Fixed asset:

14. **Property, plant and equipment:** State separately, or in a note referred to herein, if practicable, each major class, such as land, buildings, machinery and equipment, leaseholds or functional grouping, and the basis of determining the amounts.
15. **Intangible assets:** State separately each major class and the basis of determining their respective amounts.
16. & **17.** Accumulated depreciation, depletion, and amortisation of tangible and of intangible assets.

Other assets and deferred charges:

18. **Other assets:** State separately (a) certain non-current receivables; (b) each pension or other special fund; (c) legally restricted deposits held as compensating balances against long-term borrowing arrangements; and (d) any other item not properly classed in one of the preceding assets captions which is in excess of 5% of total assets.
19. **Prepaid expenses and deferred charges:** State separately any material items.
20. **Preoperating expenses and similar defferrals:** State separately each major class and, in a note referred to herein, the policy for deferral and amortization.
21. & **22. Deferred organisation and debt expense:** State the policy for deferred and amortization of the expenses.
23. **Deferred commissions and expense on capital shares:** State

the policy for deferral and amortization. These items may be shown as deductions from other stockholders equity.

24. Total assets and when appropriate, other debits.

LIABILITIES, RESERVES, AND STOCKHOLDER'S EQUITY:

Current liability:

25. **Account and notes payable:** State separately payable to (1) banks for borrowings; (2) factors or other financial institutions for borrowings; (3) holders of commercial paper; (4) trade creditors; (5) parent and subsidiaries; (6) other affiliates; (7) underwriters, promoters, directors, officers, employees and principal holders of equity securities of the person and its affiliates; and (8) others.
26. **Accrued liabilities:** State separately; (a) payrolls; (b) taxes indicating the current portion of deferred income taxes; (c) interest and (d) any other material items.
27. **Other current liabilities:** State separately; (a) dividends declared; (b) current portion of bond, mortgages; (c) any other item in excess of 5% of total current liabilities. The remaining items may be shown in one amount.

Long-term debt:

28. **Bonds, mortgages and similar debt;**

    A. State separately or in a note referred to herein, each issue or type of obligation and such information as will indicate; (1) the general character of each type of debt including the rate of interest; (2) the date of maturity; (3) if the payment of principal or interest is contingent, an appropriate indication of such contingency; (4) a brief indication of priority; (5) if convertible, the basis, and (6) the combined aggregate amount of maturities and sinking fund requirements for all issues.

B. The amount and terms of unused commitments for long-term financing arrangements that would be disclosed under this rule if used shall be disclosed in the notes to the financial statement.

29. **Unamortized debt discount and premium.**

30. **Indebtedness to affiliates-not current:** State separately indebtedness which in the related consolidated balance sheet is (a) eliminated, and (b) not eliminated.

31. **Other long-term debt:** Include under this caption all amounts of long term debt not provided for under caption 28(a) and 30 above.

Other liabilities and deferred credits:

32. **Other liabilities:** State separately any item not properly classed in one of the preceding liability captions which is in excess of 5% of total liabilities.

33. Commitments and contingent liabilities.

34. **Deferred credits:** State separately amounts for (a) deferred income taxes; (b) deferred tax credits and (c) materials of deferred income excepting the current portion.

Reserves, Minority Interest, Redeemable and Nonredeemable Pref. Stock:

35. **Reserves:** State separately each major class and indicate clearly its purpose.

36. **Minority interest in consolidated subsidiaries:** State separately in a note referred to herein amount represented by preferred stock and the applicable dividend requirements if the preferred stock is material in relation to the consolidated stockholders equity.

37. Preferred stocks subject to mandatory redemption requirements or whose redemption outside the control of the issuer is to be stated separately.

38. Preferred stocks which are not redeemable solely at the option of the issuer.

Common stocks and other stockholder's equity:

39. **Common stocks:** State for each class of shares, the title of the issue, the number of shares authorised, the number of shares outstanding, the dollar amount thereof,and if convertible, the basis of conversion. Show also the dollar amount, if any, of capital shares subscribed but unissued, and of subscriptions receivable thereon.

40. **Other stockholder's equity:** a) Separate capital shall be shown for 1) additional paid-in-capital 2) other additional capital, and 3) retained earnings: i) appropriated and ii) unappropriated. b) If undistributed earnings of unconsolidated subsidiaries and 50% or less owned persons are included, state the amount in each category parenthetically or in a note referred to herein (c) For a period of at least 10 years subsequent to effective date of a quasi reorganization, any description of retained earnings shall indicate the point in time from which the new retained earnings dates and for a period of at least 3 years shall indicate the total amount of the deficit eliminated.

41. Total liabilities, reserves and stockholders equity.

PROFIT AND LOSS STATEMENTS:

Regulation S-X of the SEC has prescribed the following items to be included in the profit and loss statement of commercial and industrial companies:

a. All items of profit and loss given recognition in the accounts during each period covered by the income statement for each such period.

b. Only items entering into the determination of net income or loss may be included.

c. If income is derived from sales of tangible products and/or operating revenues of public utilities and/or other revenues, each class which is not more than 10% of the sum of the items may be combined, with another class. If these items are combined the cost of tangible goods sold, operating expenses of public utilities, and costs and expenses applicable to other revenues may be combined in the same manner.

1A. **Net sales of tangible products:** State separately, if practicable a) sales to unconsolidated affiliates, including 50- percent owned person, and b) sales to others. If the total of sales and revenues under caption 1A, 1B and 1C includes excise taxes shall be shown parenthetically or otherwise.

2A. **Cost of tangible goods sold:**

a. State the amount of cost of tangible goods sold as regularly computed under the system of accounting followed. State separately here of in a note referred to here in, if practicable, (a) purchases from unconsolidated affiliates, including 50-percent owned persons, and (b) purchases from others. Indicate the amount of beginning and ending inventories and state the basis of determining such amounts.

b. Merchandising organisations, both wholesale and retail may include occupancy and buying costs under this caption.

1B. **Operating revenues of public utilities:** State separately, if practicable, revenues from (a) unconsolidated affiliates, including 50% owned persons, and (b) others.

2B. **Operating expenses of public utilities:** State separately, if practicable, purchases from and services rendered by (a) unconsolidated affiliates, including 50% owned persons, and (b) others.

1C. Other revenues such as royalties, rents, and the sales of services and intangible products, e.g. Engineering and Research and Development. State separately, if practicable, revenues from and sales to (a) unconsolidated affiliates, including 50% owned persons, and (b) others.

2C. **Costs and expenses applicable to other revenues:** State the amount of costs and expenses applicable to other revenues and regularly computed under the system of accounting followed.

3. **Other operating costs and expenses:** State separately any material amounts not included in caption 2A, 2B, or 2C above.

3A. **Research and development expenses:** State here, or in a note referred to herein the amount of the total research and development costs charged to expense.

4. **Selling, general, and administrative expenses:** Any unusual material items shall be disclosed parenthetically or otherwise.

5. **Provision for doubtful accounts and notes.**

6. **Other general expenses:** It includes items not normally included in caption 4 above, state separately any material amount.

Other income:

7. **Dividends:** State separately, if practicable, the amount of dividend from: a) securities of affiliates, b) marketable securities, and c) other securities.

8. **Interest on securities:** State separately; if practicable, the amount of interest from: (a) securities of affiliates, (b) marketable securities and (c) other securities. Disclose, parenthetically or in a note refereed to herein, interest from securities of companies the investment in which are accounted for by the equity method.

9. **Profit on securities:** Profits shall be stated net of losses. No profits on the person's own equity securities, or profits of its affiliates on their own equity securities, shall be included under this caption. State, here or in a note referred to herein, the method followed in determining the cost of securities sold.

10. **Miscellaneous other income:** State separately any material amounts indicating clearly the nature of the transactions out of which the items arose.

Income deductions:

11. **Interest and amortisation of debt discount and expense:** State separately: (a) interest on bonds, mortgages, and similar debts; (b) amortisation of debt discount and

expense; and (c) their interest.

12. **Losses on securities:** Losses shall be stated net of profits. No losses on the person's own equity securities, or losses of its affiliates on their own equity securities, shall be included under this caption. State, here or in a note referred to herein, the method followed in determining the cost of securities sold.
13. **Miscellaneous income deductions:** State separately any material amounts, indicating clearly the nature of the transactions out of which the items arose.
14. Income or loss before income tax expense.
15. **Income tax expense:** Only taxes based on income.
16. Minority interest in income of consolidated subsidiaries.
17. Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons. The amount reported under this caption shall be stated net of any applicable tax provisions, State, parenthetically or in a note referred to herein, the amount of dividends received from such persons.
18. Income or loss before extra ordinary items.
19. Extra ordinary items less applicable tax. State separately any material items and disclose parenthetically or otherwise, the tax applicable to each.
20. Cumulative effects of changes in accounting principles: State separately any material items and disclose parenthetically or otherwise, the tax applicable to each.
21. Net income or loss, and
22. Earnings per share data. Refer to the pertinent requirements in the appropriate filing form.

<u>Statement of surplus</u>: The analysis of surplus must be given for each class of surplus shown in the balance sheet for each period for which a profit and loss statement is filed. A statement of surplus should contain balance at beginning of period, net income or loss from profit and loss statement, other additions to surplus, deductions from surplus other than dividends, dividends, balance at close of period.

Proxy statement: A proxy statement must be furnished to each shareholder of a registrant prior to meeting.[17] If directors will be elected at the meeting, the proxy statement must be accompanied by the report that contains the following:

1. Financial statements for the last 2 fiscal years;
2. Five year selected financial data as required by Form-K;
3. A brief description of the general nature and scope of the business;
4. Management's discussion and analysis of financial condition and results of operations;
5. Information relating to the issuer's industry segments, classes of products or services, foreign and domestic, and export sales;
6. Directors, officers and their occupations;
7. The principal markets for the issuer's securities, and the quarterly dividends paid in the last 2 years.

In the USA, regulations relating to accounting and financial reporting are designed to address almost every possible situation and therefore, these are detailed. It is often said that there are probably more regulations in the USA than in the rest of the world put together.[18] As such American investors are claimed to be best informed investors in the world.[19]

UNITED KINGDOM (UK): The financial reporting practices in the UK are primarily governed and controlled by the statutory laws. It has also been governed by the profession. Reporting standards are established by the Parliament and separately by the profession. The reporting practices of listed companies are also subject to regulation by the stock exchange. The Parliament through statute and the profession through accounting standards regulate the financial reporting practices in the UK.

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17. Rules 14a-3,4, 1934 Act.
18. Choi,F.D.S.and G.G.Mueller.,op.cit.,p.97
19. Lynn,T.D.F.,President of the AICPA, speech delivered before Financial Executive Institute,Newyork on 21.1.1965.

The existing Companies Act contains the following legal requirements with respect to financial reporting in the UK:

Accounting records: Every company must keep accounting records which must contain: (i) A day to day record of money received by and spent by the company; (ii) A record of assets and liabilities of the company; (iii) Statements of the stock held by the company at the end of each financial year; (iv) A record of goods sold and purchased, with details of the goods, buyers and sellers sufficient to enable them to be identified.

Accounting reference period: The Companies Act provides that the directors must prepare accounts based on accounting reference period.

Annual accounts: The annual accounts mean to include :

1. The profit and loss account;
2. The balance sheet;
3. The director's report;
4. The auditor's report; and
5. The group accounts when companies have subsidiaries.

Form and contents: The financial statements and accounts to be prepared by a company must be complied with the prescribed format. The Companies Act provided that companies must present their accounts in one of the specified formats and must ensure that the notes to the accounts comply with new disclosure requirements. Companies may choose between two balance sheet formats and four profit and loss account formats. The system is rigid in that once a format has been chosen, items listed must appear in the order and under the headings and sub-headings given in the format.

Information required in financial statements: General provision:

(a) **Disclosure of accounting policies:** The accounting policies adopted by a company in determining the amounts of the balance sheet items and the profit and loss of the company are to be stated including its policies with respect to the depreciation

diminution in value of assets and for the translation for foreign currency.

(b) **Comparatives:** Corresponding amounts for the immediately preceding financial period must be shown.

(c) **Accounting principles:** The basic principles to be used for determining the amount of all items shown in a company's accounts are:

1. The company shall be presumed to be carrying on business as a going concern;
2. Accounting policies shall be applied consistently from one financial year to the next;
3. The amount of any item shall be determined on a prudent basis;
4. All incomes and charges relating to the financial year are to be taken into assets on an accrual basis;
5. The amount of each individual asset or liability including in the aggregate amount of any item is to be determined separately.

(d) **True and fair view:** Any information supplementary to the requirements of the Act which is necessary for the accounts to give a "true and fair" view must be disclosed.

BALANCE SHEET: The items of balance sheet can be presented either on vertical form or horizontal form. The horizontal version "format 2" presents the data in two columns, headed "assets" and "liabilities". Whereas format I presents the same fact in the vertical form.

The items to be disclosed in the balance sheet and their presentation according to the Schedule No.4, Part-1 Section B of the Companies Act,1985 are given below.

A. **Called up share capital not paid:** Any amount of this description, under the prescribed formats be shown either separately as the first class of assets or as a separate item under current assets - debtors.

B. **Fixed assets**: Fixed assets are to be shown in the balance sheet under the separate headings of intangible assets, tangible assets and investments.

i. **Intangible fixed assets**:

1. **Development costs**: An amount under this heading may only be included in special circumstances and a note must be given, as to any such amount, of the period over which the costs are being written off and the reasons for capitalising them.
2. **Concessions, patents, licenses, trade mark**: Concessions, patents, trade mark and similar rights and assets are only to be included if acquired for valuable consideration or created by the company itself.
3. **Goodwill**: Goodwill may only be included if acquired for valuable consideration. The amount of such consideration must be written off over a period not exceeding its useful economic life and the reasons for choosing that period must be disclosed in a note.

4. **Payments on account**:

ii. **Tangible fixed assets**: Separate disclosure is required of (1) Land and buildings: the separate amounts attributable to freehold and leasehold land must be shown. The building is sub-divided between long leasehold and short leasehold. (2) Plant and machinery. (3) Fixtures, fittings, tools and equipments. (4) Payment on account and assets in course of construction.

iii. **Fixed assets investments**:
(1) Shares in group companies. (2) Loans to group companies. (3) Shares in related companies. (4) Loans to related companies. (5) Other investments other than loans. (6) Other loans-the aggregate outstanding amount of any loans to enable employees to acquire shares in the company wherever shown must be disclosed separately. (7) Own shares-the nominal value of shares held is to be shown separately.

Supplementary information: For each heading of investments shown, they must be disclosed in notes.

(a) the amount ascribable to listed investments and the respective amounts thereof listed on a recognised stock exchange and otherwise; and **(b)** the aggregate market value of listed investments and both market and stock exchange value of any investments of which the former value is taken as being higher than the latter.

C. **Current assets:** Current assets are to be shown in the balance sheet under the separate headings of stocks, debtors, investments and cash at bank and in hand.

i. **Stock:** Separate disclosure is required of (1) Raw materials. (2) Work in progress. (3) Finished goods and goods for resale. (4) Payment on account.

ii. **Debtors:** Separate disclosure is required of (1) Trade debtors. (2) Amount owned by group companies. (3) Amount owned by related companies. (4) Other debtors .(5) Called up share capital not paid - any amount of this description may, under the prescribed formats, be shown either under debtors or separately as the first class of assets. (6) Prepayments and accrued income.

iii. **Investments:** Separate disclosure is required of (1) Shares in group companies. (2) Own shares: The nominal value of shares held is to be shown separately.(3) Other investments.

Supplementary information:

(a) Disclosure of information concerning listed investments and market value.
(b) Method of determining the purchase cost of investments which are tangible assets.
(c) Investments included at current cost.

iv. **Cash at bank and in hand:**

D. **Prepayments and accrued income**: Any amount of this description may, under the prescribed formats be shown either separately as the last class of assets or under debtors.

Liabilities: The prescribed balance sheet formats provide for liabilities to be classified under the main headings. A liability not covered by any of the items listed in the format adopted may be separately shown in the balance sheet.

E. **Creditors**: The two headings of creditors in "Format 1" (E & H) are combined in "Format 2" but in the latter, amounts falling due within one year and after one year are to be shown both separately and in aggregate.

(1) Debenture loans: The amount of any convertible loans is to be shown separately. The following information is to be given as to any debenture issued during the financial year:
(a) the reason for making the issue; (b) the classes of debenture issued; and (c) for each class, the amount issued and consideration received.
(2) Bank loans and overdraft; (3) Payment received on account such amount may alternatively be shown as a deduction from stocks; (4) Trade creditors; (5) Bill of exchange payable; (6) Amounts owned to group companies; (7) Amounts owned to related companies; (8) Other creditors including taxation and social security are to be shown separately from other creditors; (9) accruals and deferred income—any amount of this description may, under the prescribed formats, be shown either under creditors or as a separate class of liabilities.

F. **Net current assets**: This heading appears only in "Format-1". Prepayments and accrued income wherever shown, are to be taken into account in determining the amount of this item.

G. **Total assets less current liabilities**: This heading appears only in "Format-1".

I. **Provisions for liabilities and charges**: Separate disclosure is required of:

(1) Pensions and similar obligations. (2) Taxation,

including deferred taxation—the amount of any provisions for taxation other than deferred taxation is to be stated. (3) Other provisions—particulars are to be given of the amount of any provision included which is material.

J. **Accruals and deferred income**.

K. **Capital reserves**: These are to be dealt with under the headings of called up share capital, share premium account, revaluation reserve, other reserves and profit and loss account.

I. **Called up share capital**: The amount of allotted share capital and the amount thereof which has been paid are to be shown separately. The following information is also required:

(a) Authorised share capital and, where shares of more than one class have been allotted, the number and aggregate nominal value of shares of each class allotted;

(b) Redeemable shares;

(c) Allotment of shares;

(d) Options or conversion rights;

(e) Fixed cumulative dividends in arrear.

II. **Share premium account**.

III. **Revaluation reserves**: Any profits or losses on revaluation of assets under the "alternative accounting rules", are to be credited or debited, as the case be, to a separate revaluation reserve, this reserve must be shown in the balance sheet under a separate heading in the position given for the item 'revaluation reserve' but need not however be shown under that name.

IV. **Other reserves**: Disclosure of information on movement in all other reserves is required to be stated. Separate disclosure is required of:

(1) Capital redemption reserve; (2) Reserve for own shares; (3) Reserves provided for by the articles of association; (4) Other reserves.

V. **Profit and loss account.**
'Minority Interest' has been added by the Companies Act,1989, but it has not been allocated a reference.

Profit and loss account: There are four profit and loss account formats. The choice of format is left to the directors. 'Format-1' and 'Format-2' are vertical presentations of the items where as 'Format-3' and 'Format-4' are horizontal presentation. The Act requires to contain the following items in the profit and loss account:

Turnover: Turnover is defined as the amounts derived from the provision of goods and services falling within the company's ordinary activities, after deduction of trade discounts, value added tax and any other taxes based of turnover. The amount attributable to each geographical market supplied by the company and in respect of each class of business carried on by the company:

(i) The turnover attributable to that class; and
(ii) The pre-tax profit or loss attributable to it.

Cost of sales, distribution cost and administrative expenses:

These items, in "Format 1 and 3", are to be stated after taking into account any necessary provisions for depreciation or diminution in value of assets.

Wages, salaries etc.: "Format 2 and 4" provide for the profit and loss account to whom an analysis under this heading as between (i) Wages and salaries; (ii) Social security cost; and (iii) Other pension costs. Whereas "Format 1 and 3" is adopted, aggregate costs so analysed are to be discussed in the notes.

Average number of employees: Information is to be given in the notes as to the average weekly number of persons employed in the year and analysis of this number of persons employed in the year and an analysis of this number by separate categories.

Director's emoluments: Director's emoluments are to be stated separately in a note to the accounts. In addition, the following must be disclosed:

(i) Any amount paid to obtain the services of a director; (ii) The aggregate amount paid to third parties for making available the services of a director; (iii) The emoluments of the highest paid directors if these exceeds the chairman's emoluments; (iv) The number of directors in each rising bond of £ 5,000; (v) The number of directors who have waived emoluments and the amount waived.

Chairman emoluments: The emoluments as chairman of each person so acting during the year are to be stated in a note to the accounts

Emoluments of employees receiving more that £ 30,000 per annum: Emoluments of employees receiving more than £ 30,000 per annum, excluding pension scheme contributions, are to be shown.

Supplementary information

The details of the topics set out below must be given to supplement the information contained in the profit and loss account, whichever format is chosen.

Charges: The amount of interest payable or similar charges needs to be disclosed in the following circumstances:

i) if repayment, otherwise than by instalment, is to be made before the end of the period of five years beginning with the day next following the end of the financial year; (ii) when a loan or overdraft is payable by instalment, the last of which falls due for payment before the end of that period, then the interest or similar charge must be disclosed; or (iii) interest or charges of any other kind payable by the company.

Share capital: The amounts set aside for redeeming share capital or loans must also be shown separately.

Listed investments: Income from listed investments whether from shares in group companies and from shares in related companies must be disclosed under the relevant heading in all the profit and loss formats.

Rents: The amount of rents from land, after deduction of ground rent, rates and other outgoings are to be disclosed only for those companies where such rents form a substantial part of this revenue.

Hire: The amount charged to revenue for the hire of plant and machinery.

Auditor's remuneration: The amount of the auditor's remuneration which will include any sums paid by the company in respect of the auditor's expenses.

Extra ordinary and exceptional items: The Act requires disclosure of any extra ordinary income or charges arising in the financial year, the effect of any transaction which is exceptional and the effect of any amount relating to any preceding financial year which is included in any item in the profit and loss account.

DIRECTOR'S REPORT:

One element of company's annual accounts is the director's report. The directors of a company must prepare a report in respect of each financial year. Depending on the circumstances and size of the company, its director's report must contain the following information:

General provisions:

1. A review of the development of the business in the company and its subsidiary undertakings during the financial year and of their position at the end of it;
2. A statement of the principal activities of the company and its subsidiary undertakings in the course of the financial year and any significant change in those activities during the year.
3. Particulars of any important events affecting the company or any of its subsidiary undertakings which have occurred since the end of the year;
4. An indication of likely future developments in the business of the company and its subsidiary undertakings; and
5. An indication of the activities of the company, and its subsidiary undertakings in the field of research and development.

Dividend and reserves: The amount of any dividend which the directors have recommended and the amount which they propose to carry to reserve must be stated.

Director's name: The name of the persons who, at any time during the financial year, were directors of the company must be given.

Significant changes in fixed assets: If any significant changes in the fixed assets of the company or any of its subsidiaries have occurred during the financial year, particular of the changes must be given in the report.

Director's interest: Information is required regarding director's interest in shares or debenture of the company or any other company in the group at the financial year-end, with corresponding details as at the beginning of the year, in accordance with the register kept by the company.

Acquisition of company's own shares: Where a company acquires its own shares by purchase, forfeiture or in other ways, or subjects its own shares to a charges, the directors report shall state the number and value of shares.

Political and charitable donations: Political and charitable contribution made by the company or group for the year must be disclosed.

Other matters: Other matters affecting the company or its subsidiaries to be disclosed :

> (a) Particulars of any important events which have occurred since the end of the year, (b) an indication of likely future developments in the business; (c) an indication of activities, if any, in the field of research and development.

Employee information: Information regarding the employment of disabled persons, arrangements for health , safety and welfare at work of the company's employees and details of the employees involvement in company must be given in the director's report.

Employee involvement: It includes a statement describing such action as has been taken by the company to introduce, maintain, or develop:

(a) the provision of information to employees; (b) employee consultation on decisions affecting employees interest; (c) employee incentive schemes; and (d) employees awareness of the economic and financial factors affecting the company's performance.

THE STOCK EXCHANGE:

The reporting practices of listed companies in the UK are subject to regulation by the stock exchange, whose "Yellow Book" now has the status of legal regulations made under the Financial Service Act (FSA). The stock exchange requires listed companies to issue their annual report and accounts within six months of the end of the accounting reference period to which they relate. It also requires that the following information is given in a company's annual reports and accounts:

a. Any significant departure from an applicable standards practice should be noted;
b. An explanation is required whenever a material difference between a trading forecast and the actual results shown in the accounts exist;
c. A geographical analysis is required of net turnover and contribution to trading results of those operating outside the UK;
d. Name of the principal country in which each subsidiary operates must be disclosed;
e. A company's borrowing should be analysed into two categories, showing bank loans and overdrafts separately from other borrowing of the company or group. The aggregate amounts repayable as at the end of the financial year shall then be disclosed for each category;
f. The company or group is to show the amount of interest capitalised in respect of the financial year;
g. Director's interests in the capital of any member of the group must be disclosed;

h. Details of any interest in shares of the company held by a person other than any director must be given;
i. Information regarding a close company for taxation purposes must be given;
j. Disclosure of contracts of significance in which a director, shareholders, subsidiaries are involved, should be disclosed;
k. Particulars of any contract for the provision of services by such a person to the company or any subsidiary must be disclosed;
l. When any director has waived or agrees to waive, his emoluments, particulars of the arrangement must be disclosed, along with details of the emoluments which have accrued during the past financial year;
m. Waivers of dividend by any shareholders must be reported;
n. Details of the purchase of own shares by the company should be disclosed.

JAPAN: The corporate financial reporting practice in Japan is regulated by the statutory laws. The Japanese Commercial Code and the Securities and Exchange Law (SEL) are the two main laws that regulate accounting and reporting practices in Japan. All joint stock corporations are subject to the reporting requirements of the Japanese Commercial Code which is administered by the Ministry of Justice. On the other hand, all corporations whose shares are listed on a securities exchange or are traded in the over-the-counter market, are subject to the reporting requirements of Securities and Exchange Law (SEL), which is administered by the Ministry of Finance. The financial statements, form and contents of financial statements, and other disclosure requirements under both the laws are summarised below:

Financial statements: Under the Commercial Code, a Joint Stock Corporation is required to prepare the following financial statements at the end of each fiscal year :

(1) Balance Sheet, (2) Income Statement; (3) Business Report; (4) Proposal for appropriations of retained earnings; (5) Supporting schedules, and (6) Notes to financial statements.

The objective of financial statements prepared in accordance with the Commercial Code is to protect creditors and current investors. Accordingly, disclosures on the availability of earnings for dividend distributions, credit worthiness and earning power are of primary importance. Under Commercial Code, the statements and supporting schedules are prepared for a single year and for the parent company only. A statement of changes in financial position or of cash flows is not required.

On the other hand, under the Securities and Exchange law, in addition to the financial statements required by the Commercial Code, publicly traded companies are required to prepare financial statements to be included in two periodic securities reports:

1. The Annual Securities Reports filed with the Ministry of Finance within three months after the fiscal year-end and;
2. The semiannual securities report filed within three months after the semiannual period-end.

The annual securities report must include consolidated financial statements. In addition, a cash flow statement is included in the annual and semi-annual securities reports, but is not considered a basic financial statement and thus is not subject to audit. Financial statements under the SEL present two-year comparative data and include details of major accounting policies.

Form and content: The form and content of financial statements required under the Commercial Code are dictated by the Regulations concerning the Balance Sheet, Income Statement, Business Report and Supporting Schedules of Joint Stock Corporations, Ministry of Justice Ordinance No.31 of 1963. It is subsequently amended in 1982. Whereas the form and content of the financial statements required under the SEL are prescribed by the Regulations concerning Financial Statements and Related Matters, Ministry of Finance (MOF) Ordinance No.59 of 1963 as amended by MOF Ordinance No.28 of 1976 , as amended by MOF Ordinance No.38 of 1977.

Although the basic financial statements required under the SEL are the same as those required under the Commercial Code, the terminology, form and content of the financial statements and supporting schedules are more precisely defined in the SEL financial regulations.

BALANCE SHEET: Balance Sheet under all Japanese laws shows the assets on the left hand side and the liabilities on the right hand side. The assets side under the Commercial Code shows current assets, fixed assets and deferred charges. Fixed assets are classified as tangible fixed assets, intangible fixed assets and investments and other. The liabilities side shows current liabilities, long term liabilities and shareholders equity. Equity consists of capital stock, capital reserve, legal reserve and retained earnings. On the other hand, assets are classified under the SEL as current assets, non current assets and deferred charges, with non-current assets further divided into tangible fixed assets, intangible fixed assets and investments. Liabilities are classified as current and non current. Share holder's equity is divided into capital stock, capital surplus, legal reserves and retained earnings. The balance sheet is drawn up in "T-Form" under both the laws.

Income statements: The Income statement under both the laws in Japan is drawn up in a vertical form and is divided into two major sections viz., ordinary and extra-ordinary items. The ordinary items are further divided into operating and non-operating sections. Operating expenses are deducted from operating revenues to arrive at operating income. The non-operating incomes and expenses are adjusted with operating income to obtain ordinary income. Extra ordinary items include prior period adjustment, gain or loss on sale of fixed assets and other items. Extra ordinary gains and losses are respectively added to and substracted from ordinary income to derive income before income tax. Income taxes are deducted from income before income tax to find out net income.

Business report: Financial statements of Joint Stock Corporations required under the Commercial Code also include a Business Report, which should states the following matter in the report:

1. Description of principal business activities, location of offices and factories, description of stock including number of shareholders; description of employees and other information regarding the company;

2. Operations and result of business in the fiscal year by division including a description of financial activities and capital expenditure;
3. Results of operations and changes in the financial position for at least past three years as well as an explanation of major trends and fluctuations specifically regarding sales, net income per share;
4. Significant problems confronting the company;
5. Relations with a parent company, status of a significant subsidiaries;
6. Major lenders, amount of borrowing and number of shares owned by these lenders;
7. Names of directors and statutory auditors, their position or assignment;
8. Names of major shareholders and their share holdings;
9. Post balance sheet event.

Proposal for appropriation of retained earnings: The Commercial Code also requires a proposal for appropriation of retained earnings. Appropriations are made out of unappropriated retained earnings at the end of the year for reserves, dividends, bonuses to directors and statutory auditors and for other appropriations.

Supporting schedules: The following supporting schedules to the balance sheet, income statement or business report are required under the Commercial Code although it has not prescribed any form for the schedules:

> (1) Changes in fixed assets and accumulated depreciation, (2) Changes in capital stock and reserves, (3) Changes in bonds and other long and short term borrowings, (4) Debt guarantee, (5) Collateralised asset, (6) Reserves, (7) Amounts due from or due to controlling shareholders, (8) Equity ownership in subsidiaries and the number of shares of the company's stock held by these subsidiaries, (9) Amount due from subsidiaries, (10) Transactions with directors, statutory auditors and controlling shareholders, (11) Remuneration paid to directors and statutory auditors, (12) Treasury stock and the parent company's stock held as collateral, (13) Equity ownership in more than 25% owned invested companies and the number of company's stock held by these invested companies, (14)

Transactions with subsidiaries and changes in receivables and payables from or to subsidiaries, (15) Directors and statutory auditors who held concurrent posts in other companies, (16) Selling general and administrative expenses, (17) Details of leased assets.

Notes to financial statements: In addition to supporting schedules, the Commercial Code further requires that the following items should be disclosed in the notes to financial statements:

(1) Significant accounting policies for preparation of the financial statements, (2) Any material changes in accounting principles, the reasons for the changes and their effect on the financial statements. Similar disclosures is required for changes in accounting estimates, (3) Accumulated depreciation of tangible fixed assets including the method, (4) Major tangible fixed assets held under a lease contract, (5) Accounts receivable and payable and transaction amounts with subsidiaries and the controlling shareholder if such amounts are not presented independently in the financial statements, (6) If major assets are presented at acquisition cost but market value is significantly less, (7) Any loss contingencies that exist on receivable and receivable assigned or pledged as collateral, (8) Total amounts of receivable and payable with directors and statutory auditors, (9) Major assets and labilities denominated in foreign currency, (10) Any assets pledged for mortgage, (11) Details of authorised and issued shares including dividend restrictions, (12) Government grants and assistance received and deducted from the cost of fixed assets, (13) Contingent liabilities for guarantees, notes discounted or endorsed and estimated liabilities for matters under litigation, unless these are presented in the financial statements, (14) If reserves are established based on Article 287(2) of the Commercial Code and presented under the caption of "Reserves", (15) Research and development cost in excess of statutory reserves, (16) Both earnings per share and net assets per share, (17) The number of authorised shares and issued shares, (18) Any other matter necessary for understanding the financial position and results of operations.

Corporate disclosure of listed companies under the Securities and Exchange Law (SEL) is almost same as required under the Commercial Code. But the provisions of the SEL regarding the preparation of financial statements, note to accounts, terminology and supporting schedules are comprehensive and precisely defined and are intended to protect the interests of the investors.

The following matters are to be disclosed under the SEL in the notes to the financial statements, in addition to notes required under the Commercial Code:

> (1) If assets are revalued during the current period, the fact, reasons thereof, date of the revaluation, book value of the assets immediately before revaluation, amount revalued, and method of accounting of the revaluation difference, (2) If "the cost or market value whichever is lower" principle is applied, this fact and the amount of the write-down should be disclosed, (3) Number of shares authorised and issued, (4) The amount subscribed for new shares, number of new shares to be issued, date of capital increase, and the amount to be transferred to capital reserve if any, (5) Any deficit which was offset with capital or legal reserve within two years prior to the beginning of the period along with the name of such reserve, amount offset, and date of offset, (6) Net assets per share, (7) Types of major taxes, if provision for taxes is not presented in detail, (8) The amount of stock dividends, included in dividends, (9) Where material, disclosure of post balance sheet events that did not exist in the balance sheet date is required in the notes.

The following supporting schedules are also required for commercial and industrial companies:

> (1) Marketable securities, (2) Tangible fixed assets, (3) Intangible fixed assets, (4) Investments in affiliated companies, (5) Investments in equity of affiliated companies, other than capital stock, (6) Loans to affiliated companies, (7) Bonds payable, (8) Long-term borrowings, (9) Borrowings to affiliated companies, (10) Capital stock, (11) Capital surplus, (12) Legal reserve and other appropriation, (13) Depreciation, depletion and amortisation of fixed assets and

deferred charges, (14) Reserves and allowances.

But the most important feature of Japanese corporate reporting practice is that the financial reporting, disclosure, and the regulatory framework is essentially determined by the government with the accounting profession having minimal influence.

INDIA: The corporate financial reporting practices in Indian have been regulated primarily by the statutory laws. The Companies Act,1956 contained various provisions specifying basic accounting policies, assets valuation rules, a wide range of disclosure, nature of books and accounts to be maintained, formats of balance sheet and profit and loss account. On the other hand, the ICAI through "Accounting Standards Board" has issued accounting standards and thereby participate in regulating financial reporting in India.

Accounts: the Companies Act requires that every company shall keep at its registered office proper books of accounts with respect to:

a. all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;
b. all sales and purchases of goods by the company;
c. the assets and liabilities of the company;
d. in case of a company pertaining to any class of companies engaged in production, processing, manufacturing and mining activities, such particulars relating to utilisation of material or labour or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particulars in the books of account.[20]

Annual accounts: The Companies Act requires that the board of directors shall, at every annual general meeting lay before the company:

01. A profit and loss account for the period (Sec.210);

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[20]. Sec.209(1) of the Companies Act,1956

02. A balance sheet; (Sec.210)
03. An income and expenditure account in case of a company not carrying on business for profit; (Sec.210)
04. The director's report (Sec.217)
05. The auditor's report (Sec.227)
06. Comments of the Controller and Auditor General of India in case of public sector corporation (Sec.619(4))

Forms and contents: The Companies Act governs the form and contents of the balance sheet as set out in Part I of Schedule VI or as near thereto as the circumstances permit and a profit and loss account should comply with the requirements of Part II of Schedule VI, so far as they are applicable thereto.

Disclosure: The Companies Act, 1956 requires the following items to be disclosed in the balance sheet.

ASSETS SIDE: The following items are to be disclosed in the assets side of the balance sheet.

1. Fixed assets: The Act requires to disclose the following items under the head fixed assets (Sec.211):

(a) Goodwill; (b) Land; (c) Buildings; (d) Leaseholds; (e) Railway sidings; (f) Plant and machinery; (g) Furniture and fittings; (h) Development and property; (i) Patents, trade marks and designs; (j) Live stock; (k) Vehicles etc.

Under each head the original cost and additions thereto and deductions thereform during the year, and the total depreciation written off or provided up to the end of the year are to be stated. Depreciation written off or provided shall be allocated under the different assets heads and deducted in arriving at the value of the fixed assets. In every case where the original cost cannot be ascertained, without unreasonable expenses or delay, the valuation shown by the book is to be given.

2. **Investments**: The Act requires to state the nature and the mode of valuation of investment. Investment should be disclosed separately under the following manner:

01. Investments in Government or Trust Securities;
02. Investments in shares, debentures or bonds;
03. Immovable properties;
04. Investment in the capital of partnership firms.

Aggregate amount of company's quoted and unquoted investments and also the market value of quoted investments shall be shown.

3. <u>Current assets, loans and advances</u>:

A. **Current assets**: The following items are to be disclosed under current assets:
01. Interest accrued on investments;
02. Stocks and spare parts—mode of valuation shall be stated;
03. Loose tools;
04. Stock in trade;
05. Work-in-progress (mode of valuation of stock and work-in-progress shall be stated, the amount in respect of raw material shall also be stated separately where practicable);
06. Sundry debtors: (a) Debts outstanding for a period exceeding six months, (b) Other debts,

[The amounts to be shown under Sundry Debtors shall include the amounts due in respect of goods sold or services rendered or in respect of other contractual obligation but shall not include the amounts which are in the nature of loans or advances. In regard to sundry debtors particulars to be given separately of:

a) debts considered good and in respect of which the company is fully secured; and
b) debts considered good for which the company holds no security other than the debtor's personal security; and
c) debts considered doubtful or bad.]

07. Cash balance on hand;
08. Bank balance: (a) With scheduled banks: (b) With others.

B. **Loans and advances**:

09. Advances and loans to subsidiaries;
10. Advances and loans to partnership firms in which the company or any of its subsidiaries is a partner;
11. Bill of exchange;
12. Advances recoverable in cash or in kind or for value to be received as rates, taxes, insurances etc;
13. Balances with Customs, Port Trust etc.

4. **Miscellaneous expenditure**:

01. Preliminary expenses;
02. Expenses including commission, brokerage on underwriting or subscription of shares or debentures;
03. Discount allowed on the issue of shares or debentures;
04. Interest paid out of capital during construction;
05. Development expenditure not adjusted and
06. Other sums.

5. **Profit and loss account**: Debit balance of profit and loss account shall be stated after deduction of the uncommitted reserves, if any.

LIABILITY SIDE: According to the Companies Act,1956, liabilities are classified under the following sub-heads.

(1) Share capital; (2) Reserves and surplus; (3) Secured loans; (4) Unsecured loans; (5) Current liabilities and provisions.

1. **Share capital**: Authorised, issued, subscribed capitals shall be shown, each under a separate head so as to distinguish one from another. If shares allotted as fully paid up by way of bonus shares, the source from which bonus share issued shall be specified.

Calls unpaid shall be stated specifying amount unpaid by directors and by others. Amount originally paid up as forfeited shares shall be stated. But capital profit on reissue of forfeited shares should be transferred to capital reserve.

Terms of redemption or conversion of any redeemable preference capital, if any, to be stated, together with earliest date of redemption or conversion. Particulars of any option on unissued share capital to be specified and particulars of the different classes of preference shares also to be stated.

2. **Reserves and surplus**: The reserves and surplus shall be stated specifically as follows:
(1) Capital reserves; (2) Capital redemption reserve; (3) Share premium account: Share premium account shall be stated showing details of its untilisation in the manner provided in Sec.78 of the Companies Act, 1956 in the year of utilisation; (4) Other reserves: Other reserves specifying the nature of each reserves and the amount in respect thereof. Debit balance in profit and loss account, if any, shall be deducted from the other reserves; (5) Surplus: The balance in profit and loss account after providing for proposed allocations for dividend, bonus or reserves etc. shall be stated; (6) Proposed additions to reserves; (7) Sinking funds;

Additions and deductions since last balance sheet to be shown, under each of the specified heads.

3. **Secured loans**: (1) Debentures--Terms of redemption or conversion, if any, are to be stated together with earliest date of redemption or conversion; (2) Loans and advances from banks; (3) Loans and advances from subsidiaries; (4) Other loans and advances.

Loans from directors and manager should be shown separately. Moreover, the nature of security to be specified in each case. Where loans have been guaranteed by managers and directors, or a mention thereof shall be made and also the aggregate amount of such loans under each head.

4. **Unsecured loans**:

01. Fixed deposits;
02. Loans and advances from subsidiaries;
03. Short term loans and advances: (a) From banks; (b) From others.

04. Other Loans and Advances: (a) From banks (b) From others.

Loans from directors and manager should be shown separately. Interest accrued and due on unsecured loans should be included under the appropriate sub-heads under the head "Unsecured Loans". Where loan have been guaranteed by manager or directors, a mention thereof shall also be made together with the aggregate amount of such loans under each head.

5. **Current liabilities and provisions**:

A. **Current liabilities**: (1) Acceptances; (2) Sundry Creditors; (3) Subsidiary companies; (4) Advance payments and unexpired discounts for the portion for which values has still to be given; (5) Unclaimed dividends; (6) Other liabilities, if any (7) Interest accrued but not due on loans.

B. **Provisions**: (1) Provisions for taxation; (2) Proposed dividends; (3) For contingencies; (4) For provident fund scheme; (5) For insurance, pension and similar staff benefit scheme; (6) Other pensions;

A footnote to the balance sheet may be added to show separately: (1) Claims against the company not acknowledged as debts; (2) Uncalled liability on shares partly paid;(3) Arrears of fixed cumulative dividends;(4) Estimated amount of contracts remaining to be executed on capital account and not provided for; (5) Other moneys for which the company is contingently liable.

PROFIT AND LOSS ACCOUNT

According to the Companies Act,1956, every profit and loss account of a company shall give a "true and fair" view of the profit and loss of the company for the financial year, and shall comply with the requirements of Part II of Schedule VI , so far as they are applicable thereto and disclose information accordingly. The Act requires that the profit and loss account must disclose the following information in respect of the period covered by the account.

01. **<u>The turnover</u>:** (a) The turnover must be disclosed. The aggregate amount for which sales are effected by the company, giving the amount of sales in respect of each class of goods dealt with by the company, and indicating the quantities of such sales in each class separately. (b) Commission paid to sole selling agents, (c) Commission paid to other selling agents, (d) Brokerage and discount on sales, other than the usual trade discount.

02. (a) **<u>In case of manufacturing companies</u>:**

(1) The value of the raw materials consumed, giving itemwise break-up and indicating the quantities thereof;

(2) The opening and closing stocks of goods produced, giving break-up in respect of each class of goods traded in by the company and indicating the quantities thereof.

(b) **<u>In case of trading companies</u>:** The purchases made and the opening and closing stocks, giving break-up in respect of each class of goods traded in by the company and indicating the quantities thereof.

(c) **<u>In case of supplying services</u>:** The gross income derived from services rendered or supplied shall be disclosed.

(d) In the case of a company which falls under more than one of the categories mentioned in (a),(b) and (c) above, it shall be sufficient compliance with the requirements herein if the total amounts are shown in respect of the opening and closing stocks, purchases , sales and consumption of raw materials with value and quantitative break-up and the gross income from services rendered is shown.

(e) In the case of other companies, the gross income derived under different heads.

(3) in giving the break-up of purchases, stocks

and turnover, items like spare parts and accessories, the list of which is too large to be included in the break-up, may be grouped under suitable headings without quantities, are shown as separate and distinct items with quantities thereof in the break-up.

03. In the case of all concerns having work-in-progress, opening and closing figures of works completed.
04. The amount provided for depreciation, renewals or diminution in the value of fixed assets.
05. The amount of interest on the company's debentures and other fixed loans.
06. The amount of charge for Indian income- tax and other Indian taxation on profits.
07. The amount reserved for repayment of share capital and repayment of loans.
08. The aggregate, if material, of any amounts set aside or proposed to be set aside to reserves or withdrawn from reserves.
09. The aggregate, if material, of the amount set aside to provisions made for meeting specific liabilities, contingencies or commitments or of the amounts withdrawn from such provisions as no longer required.
10. Expenditure incurred on each of the following items, separately for each item:

(a) Consumption of stores and spare parts; (b) Power and fuel; (c) Rent; (d) Repairs to buildings; (e) Repairs to machinery; (f) (i) Salaries, wages and bonus (ii) Contribution to provident and other funds (iii) Workmen and staff welfare expenses; (g) Insurance; (i) Miscellaneous expenses.

11. (a) The amount of income from investments, distinguishing between trade investments and other investments; (b) Other income by way of interest, specifying the nature of income; (c) The amount of income tax deducted if the gross income is stated under sub-paragraph (a) and (b) above.

12. (a) Profit or losses on investments showing distinctly the

extent of the profit or losses earned or incurred on account of membership of a partnership firm, to the extent not adjusted from any previous provision or reserve;(b) Profit or losses in respect of transactions in circumstances of an exceptional or non-recurring nature, if material in account; (c) Miscellaneous income.

13. (a) Dividends from subsidiary companies; (b) Provisions for losses of subsidiary companies.
14. The aggregate amount of the dividends paid and proposed, and stating whether such amounts are subject to deduction of income tax or not.
15. Effect of any changes on the basis of accounting, if material.

The profit and loss account shall also contain by way of a note detailed information showing separately the following payments provided or made during the financial year to the directors, or managers, if any, by (a) the company, (b) the subsidiaries of the company, and (c) any other person:

(1) Managerial remuneration, U/S 198 of the Act paid or payable during the financial year to the directors or managers if any;
(2) Other allowances and commissions, including guarantee commission;
(3) Any other perquisites or benefits in cash or in kind;
(4) Pensions: (a) pension; (b) gratuities; (c) payment from provident fund, excess of own subscription and interest thereon; (d) compensation for losses of office; (e) consideration in connection with retirement from office.

The profit and loss account shall further contain by of a note detailed information as regards amounts paid to the auditor, whether as fees or otherwise for services rendered (a) as auditor, (b) as advisor, or in any other capacity, in respect of taxation matters, company law matters or management services, (c) in any other manner.
Licensed and installed capacity, actual production in respect of each class of goods manufactured, to be disclosed by way of a note.

The profit and loss account shall also contain by way of a note:

(a) the value of imports calculated on C.I.F basis; (b) expenditure in foreign currency; (c) the amount remitted during the year in foreign currency on account of dividend; (d) earnings in foreign currency.

DIRECTOR'S REPORT:

The Companies Act, 1956 requires a statement of the board of directors to be appended to the balance sheet (Sec.217). The statement shall include:
(i) the state of company's affairs; (ii) the amounts, if any proposed to be carried to reserves; (iii) the amount, if any, recommended to be paid by way of dividend; (iv) material charges and commitments, if any affecting the financial position of the company which occurred between the end of the financial year of the company to which the balance sheet relates and the date of the report; (v) the conservation of energy, technology absorption, foreign earnings and outgo in a manner to be prescribed.

The report shall also include a statement of those employees in receipt of remuneration of Rs. 72,000 in the aggregate for the financial year or Rs 6,000 per month if employed for part of the financial year and if an employee is a relative of a director then the name of such director. Also if any employee holds by himself or along with his spouse and dependent children 2% or more of the equity capital of the company and draws remuneration in excess of that drawn by the managing director or the whole time director, the name of such an employee is to be included in the director's report.

PAKISTAN: The corporate financial reporting in Pakistan has been regulated basically by the statutory laws. The Companies Ordinance, 1984, the Securities and Exchange Ordinance, 1969 and the Securities and Exchange Rules, 1971 are the main laws that govern the reporting standards for publicly traded companies. The reporting practices of specialised institutions are governed by separate legislation. The accounting standards issued by the professional institutions have also a great influence on the reporting practices in Pakistan. Because these accounting standards have been given legal coverage. These standards are mandatory and a legal necessity for the listed companies in Pakistan.

The provisions contained in the Companies Ordinance, 1984 in regulating financial reporting are summarised below:

Financial statements: The fourth and the Fifth Schedule annexed to the Companies Ordinance, 1984 includes detailed requirements governing information disclosure relating to the preparation of financial statements. "Financial statements" for listed companies in Pakistan includes: (1) Balance sheet, (2) Profit and loss Account, (3) Statement of changes in financial position or statement of sources and application of funds. On the other hand, "Financial statements" for unlisted companies include only (1) Balance sheet and (2) Profit and loss account.

Balance sheet: Every balance-sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year. The balance sheet shall, in the case of a listed company, comply with requirements of the Fourth Schedule so far as applicable thereto and in case of any other company, comply with the requirements of the Fifth Schedule so far as applicable thereto [Sec.234(1)(2) Ordinance,1984]
Subject to the provisions of this Ordinance, in the case of a listed company--such International Accounting Standards and other standards shall be followed in regard to the accounts and preparation of the balance sheet and profit and loss account as are notified for the purpose in the Official Gazette by the Authority [Sec.234(3)(1) Ordinance,1984].

The assets and liabilities shall be classified under the heading appropriate to the company's business distinguishing as regards assets between fixed assets, long-term investments, loans and advances, long-term pre-payments and deferred costs and current assets and as regards liabilities between share capital and reserves, long-term loans, debenture and deferred liabilities and current labilities and provisions.

FIXED ASSETS:
Fixed assets shall be distinguished between tangible and intangible and shall be classified under appropriate sub-heads, duly itemized such as:

(i) **Tangible:** (a) land; (b) buildings; (c) plant and machinery; (d) furniture and fittings; (e) vehicles; (f) capital work in progress; and (g) others (to be specified)

(ii) **Intangible:** (a) goodwill; (b) patents, copyright, trade marks and designs and; (c) other (to be specified) [Paragraph 2A Part II Schedule 4].

Under each sub-head, other than capital work-in-progress, the original cost or the amount of valuation, as the case may be, and the additions thereto and deductions therefrom since the date of the previous balance-sheet shall be stated and the aggregate amount written off, or provided or retained, up to the date of the balance-sheet by way of provision for depreciation or amortisation or diminution in the value shall be shown as deduction therefrom.

Where sums have been written off on a reduction of capital or revaluation of assets and where sums have been added by writing up the assets, the first balance-sheet subsequent to the reduction or revaluation or writing up shall show the original cost, the reduced or increased figures, as the case may be, along with the date of and amount of the reduction or increase made, basis thereof and name and qualification of the valuer. Every balance sheet subsequent to the reduction or revaluation or writing up, shall show the year and the total amount of the reduction or revaluation or writing up and the element thereof excluded from or included in the book value of the asset.

Any exchange gain or loss in any year, as a consequence of fluxuation in rate of exchanges, the amount thereof under each such head shall be disclosed together with the depreciation policy thereof.

Long-term investments:

01. There shall be shown under separate subheads the aggregate amount respectively of the company's:

(i) investments in subsidiary companies, controlled firms, managed modarabas and other associated undertaking; (ii) investment in listed companies and modarabas other than those included in(i) above; (iii) investment in listed companies and modarabas other than those included in (i) above; (iv) investments in immovable properties; (v) investments in redeemable capital; (vi) investments in debenture and bonds issued by government, municipal committee or other local authority; and (vii) other investments (to be specified)

02. Under each of the above mentioned sub-heads, where applicable there shall be stated:

(i) the nature and extent of the investment made; (ii) the name of each company, firm, government, municipal committee and local authority; (iii) in case of shares, various classes and different paid up values together with the terms of redemption if any, in case of preference shares; (iv) in case of modarabas and the number of certificate; and (v) in case of debentures and bonds, the terms of redemption if any, and the rate of interest.

03. In case of investments in unlisted companies and modarabas, the name of the chief executive, managing agent or modarabas company's shall be stated.

04. Percentage of the equity held by the company in an investee company or modarabas or a controlled firm or other associated undertaking where it exceeds 10% of the investee's total equity shall be disclosed.

05. The mode of valuation of investments shall be stated separately and if investments in listed companies or modarabas are valued otherwise than at market value, the aggregate amount of the market value thereof shall be shown.

06. Provisions, if any, made or diminution in the value of investments and in respect of losses of subsidiary companies shall be shown as deduction from the gross amounts of the respective sub-heads.

Long-term loans and advances:

01. There shall be shown under separate sub-heads, distinguishing between considered good and considered bad and doubtful, aggregate amounts respectively of the company's:

    (i) Loans and advances to subsidiary companies, controlled firms, managed modarabas and other associated undertakings; (ii) Loans and advances to the directors, chief executive, managing agents and executives of the company and to any of them severally or jointly with any other personal; (iii) Other loans and advances.

02. The name of each borrower in case of loans to subsidiary or controlled companies, the terms of loan and advance, types of collateral, the aggregate amount of loans and advances to directors or executives, the terms of repayments etc. shall be stated.

03. Provisions, if any, made for bad or doubtful loans and advances shall be shown as deduction from each type loans.

04. Loans and advances due for payment after a period of twelve months from the date of balance sheet shall be shown under this head indicating separately: (i) outstanding for periods exceeding three years; and (ii) others.

Long-term deposits, prepayments and deferred cost:

There shall be stated separately long-term deposits, long-term prepayments and deferred costs. Any material item shall be disclosed separately. In respect of each material item of prepayment and deferred costs, the basis on which each item is being amortised or written off shall be stated and in respect of each item of deferred costs the reasons for carrying forward such costs shall be stated.

Current assets:

01. Current assets shall be classified under sub-heads appropriate to the company's affairs, including where applicable, the following:

(i) Stores and spare parts; (ii) loose tools; (iii) stock-in-trade, distinguishing, between (a) stock of raw materials and other components (b) work-in-progress (c) stock of finished products and (d) other stocks; (iv) trade debts-debts considered good and debts considered doubtful or bad shall be separately stated. Debts considered good shall be distinguished between secured and unsecured; (v) trade deposits and short term prepayments and current account balances with statutory authorities; (vi) loans and advances showing separately those considered good and those considered doubtful or bad; (vii) bills receivable; (viii) marketable securities; (ix) interest accrued or interest outstanding; (x) other receivables specifying separately the material items; (xi) tax refunds due from government; (xii) cash and bank balances, distinguishing between (a) amount in hand, (b) amount in transit and (c) balance with banks indicating the nature thereof.

02. The basis of valuation, the method of determining the 'cost' or "net realisable value" in case of stores, loose tools and stock-in-trade shall be stated.

03. The aggregate amount due by associate undertakings, controlled firms, managed modarabas, directors, chief executive, managing agents, in case of short term loans and advances, trade deposits and bills receivable shall be stated separately.

04. Provisions, if any, made for diminution in the value of or loss in respect of any current assets shall be shown as a deductions from the gross amount of the respective asset.

Share capital and reserves:

01. Share capital and reserve shall be classified under the following subhead:

(i) paid up capital, distinguishing between different classes of shares and the amount paid up in respect of each class; and (ii) reserves, distinguishing between capital reserves and revenue reserves, capital reserves shall include capital redemption reserve, share premium account, profit prior to incorporation or any reserve not regarded free for distribution by way of dividend, while revenue reserves shall include general reserve, dividend equalisation reserve, and unappropriated profit. Additions to and deduction from each item of reserves shall be shown in the balance-sheet under the respective items. Accumulated loss--adverse balance of profit and loss account shall be shown as deduction from the capital and reserves.

02. (i) Authorised, issued, subscribed and called up share capital shall be shown separately, distinguishing between various classes of shares and stating the number and value of each class. In case of preference shares, the rate of dividend shall also be stated; (ii) calls unpaid as a deduction from called up share capital, distinguishing calls unpaid by (a) directors, (b) managing agents, (c) executives, and (d) others;

(iii) paid up share capital, distinguishing in respect of each class between (a) shares allotted for consideration paid in cash, (b) shares allotted for consideration other than cash and (c) bonus shares stating the number and value of each class shall be shown in the balance-sheet; (iv) particulars of any option on unissued shares, the terms of redemption or conversion in case of redeemable preference shares and the number of shares of each of class held by the holding company shall be shown in the balance sheet.

03. Where circumstances permit, authorised, issued, subscribed and paid up capital or any two or more of them may be shown as one item.

Surplus on revaluation of fixed assets:

Where a company revalues its fixed assets, the increase in, or sums added by writing up of, the value of such assets as appearing in the books of accounts of the company shall be transferred to an account to be called "Surplus or Revaluation of Fixed Assets Account" and shown in the balance sheet of the company after Capital and Reserves. Additions to, deductions from adjustments in or applications of the surplus on revaluation, whether resulting from disposal of the revalued assets or otherwise, shall also be stated.

Redeemable capital:

01. The finance obtained by issue of, or representing, redeemable capital shall be distinguished between:

    (i) participatory redeemable capital and other redeemable capital; and
    (ii) secured and unsecured.

02. Under each class, the finance obtained shall be distinguished as obtained on the basis of or representing:

    (i) participation term certificates;
    (ii) musharika agreement;
    (iii) term finance certificates;
    (iv) long-term running finance utilised under mark-up arrangement; and
    (v) other securities or instruments.

03. **There shall be shown:**

    (i) face value or nominal value;
    (ii) nature of instrument evidencing investment of holder in such capital;
    (iii) all material terms and conditions of the agreement for the issue, including:

(a) consideration received or to be received by the company;

(b) mode and basis of repayment or redemption stating the purchase price or mark-up amount to be repaid;

(c) arrangement for sharing of profit and loss;

(d) provisions, if any, for creation of a participatory reserve by the company;

(e) the right of the holders to convert the outstanding balance of such capital;

(f) the details of events of default in payments or otherwise which have occurred and resulted in or may result in exercise of the option.

Debentures and long term loans:

01. Borrowing in respect of debentures shall be separately shown classified as secured and unsecured together with a statement of the assets upon which they are secured and where more than one class of liabilities is so secured, their relative priorities and material terms with respect of payment of interest and redemption shall be stated.

02. There shall be stated in respect of each class of debentures:

(a) the rate of interest; (b) terms of redemption or conversion; (c) particulars of any redeemed debentures where the company has the power to re-issue; (d) if any sinking fund exists.

03. Long-term loans shall be classified as secured and unsecured and under each class shall be shown separately:

(i) loans from banking companies and other financial institutions; (ii) loans from subsidiary companies, controlled firms, managed modarabas and other associate undertakings; (iii) loans from directors, managing agents and employees of the company; (iv) other loans.

04. There shall be stated in respect of each loan:

(a) the rate of interest; (b) instalments or period in which the loans has to be repaid; (c) any other material terms.

Liabilities against assets subject to finance lease:

The aggregate amount of liabilities related to assets subject to finance lease shall be shown either as the total of the minimum lease payments or as the net present value of the liabilities.

Deferred liabilities:

Liabilities as are under recognised accounting principles appropriately classified as deferred liabilities shall be shown distinguished as (a) for taxation; (b) for pension, gratuity and other staff benefit schemes; (c) other deferred liabilities showing separately.

Long term deposits:

The aggregate amount of deposits classified according to nature and repayment period shall be shown along with rate of interest payable thereon and other material terms. Deposits shall be classified as- (a) from customers; (b) from employees and (c) from other.

Current liabilities:

01. Current liabilities and provisions shall, so far as they are appropriate to the company's business, be classified under the following sub-heads:

    (i) short term loans, distinguishing between secured and unsecured and between loans taken from-
        (a) banking companies and other financial institutions;
        (b) subsidiary companies, controlled firms, managed modarabas and other associated undertakings;
        (c) directors and managing agents; and
        (d) others.
    (ii) current portion of long-term liabilities;
    (iii) deposits stating separately those repayable on demand and others along with rate of interest payable thereon, if any;
    (iv) creditors;
    (v) accrued liabilities;
    (vi) bills payable;
    (vii) advance payments and unexpired discounts for the portion for which value is still to be given;

(viii) interest accrued on secured loans;
(ix) interest accrued on unsecured loans;
(x) other liabilities;
(xi) provision for taxation, showing separately excise duties, custom duties, sales tax etc.;
(xii) proposed dividend; and
(xiii) other provisions and accrual for contingencies

02. Where any short term loans or any other liabilities of the company are secured otherwise than by the operation of law on any assets of the company, the fact that the liabilities are so secured shall be stated.
03. No liability shall be shown in the balance sheet or the notes thereto at a value less than the amount at which it is repayable at the date of the balance sheet.

<u>Contingencies and commitments</u>:

There shall be added a foot note to the balance sheet, showing separately:

01. arrears of fixed cumulative dividends on preference shares together with the period for which the dividends are in arrear.
02. aggregate amount of any guarantees given by the company shall be stated separately.
03. except where the amount of the contingent loss has been accrued in the financial statements or the possibility of a loss is remote, the following information regarding the existence of contingent loss:

    (a) the nature of contingency; (b) the uncertain factors that may affect the future outcome; (c) an estimate of the amount of loss or the range of amount of loss or a statement that such an estimate can not be made. Similar information regarding the existence of a contingent gain shall be provided if it is probable that gain will be realised;
04. aggregate amount or estimated amount of contracts for capital expenditure.
05. other sums for which the company is contingently liable.

06. any other commitment, if the amount is material.

PROFIT AND LOSS ACCOUNT

The profit and loss account shall be made out as to disclose clearly the operating results of the company during the financial year covered by the account and shall show, arranged under the most convenient heads, the gross income and the gross expenditure of the company during the financial year disclosing every material feature and in particular the following:

(1) (i) the turnover and showing as deduction there from: (a) commission paid to sole selling agents; (b) commission paid to other selling agent; and (c) brokerage and discount on sales.

(ii) income from investments, showing separately, income from each associated undertaking and from other investments;

(iii) income from modaraba or modarabas certificates;

(iv) income arising from redeemable capital;

(v) income by way of interest on loans and advances and other interest;

(vi) profit on sale of investments;

(vii) profit on sale of fixed assets;

(viii) income arising from unusual items;

(ix) income arising from prior period items;and

(x) other income, showing separately every material item and the nature of each such item.

(2) (i) the value of stock-in-trade, including raw materials and components, work-in-progress and finished products, as at the commencement and as at the end of the financial year;

(ii) purchase of raw materials and components and finished products;

(iii) instead of the above information, cost of raw materials and components consumed and cost of purchased finished goods sold.

(3) **expenditure on:**

(i) stores and spare parts consumed;
(ii) fuel and power;
(iii) salaries and wages including bonus, contribution to provident and other funds and expenses on staff welfare;
(iv) rents, municipal rates and provincial and local taxes;
(v) insurance;
(vi) reports and maintenance; and
(vii) patents, copyrights, trade marks, designs, royalties and technical assistance.

(4) The aggregate amount of auditor's remuneration, whether fees, expenses or otherwise, for service rendered as auditors or in any other capacity showing separately the remuneration for service rendered as auditors and the remuneration for services rendered in any other capacity and stating the nature of such other services.

(5) Other expenses, showing separately every material item and the nature of each item.

(6) (i) the amount provided for depreciation, renewals, or diminution in the value of fixed assets;
(ii) if such provision is not made by means of a charge for depreciation, the method adopted for making such provisions shall be disclosed;
(iii) where such provision is made by means of a charge for depreciation, the value of the assets and the additions or depletions thereto, the depreciation methods and the depreciation rates used for fixed assets under each sub-head of paragraph 2A of Part-II of 4th Schedule shall be disclosed;
(iv) where no such provision has been made, the reasons for making it and the amount of depreciation which should have been provided and the quantum of arrears of depreciation, if any, shall be disclosed.

(7) (i) the amount of interest on borrowings, showing separately the amount of interest on the company's debentures, on other longterm loans, and on short term loans and showing by way of a note the amount

of interest on borrowings from the associated undertakings, directors and the managing agents, if any;

(ii) loss of provision for loss on redeemable capital;

(iii) loss on sale of investments;

(iv) loss on sale of fixed assets;

(v) debts written off as irrecoverable distinguishing between trade and other debts;

(vi) provision for doubtful or bad debts;

(vii) provision for diminution in value of investments;

(viii) loss or expenses arising from unusual items and provisions therefor;

(ix) loss or expenses arising from prior period items;

(x) provision for losses of subsidiaries, controlled firms and associated undertakings;

(xi) provisions for taxation on income, capital gains and other taxes distinguishing between the provision for Pakistan taxation and the provision for taxation elsewhere;

(xii) where provision for taxation in respect of the profits of the period is reduced by the writing back of a part or the whole of the provision for deferred liability made in previous periods the amount written back shall be shown is deduction from the gross charge for taxation; and

(xiii) other provision for meeting specific liabilities, contingencies or commitments.

(8) The amount set aside or proposed to be set aside as reserves, showing separately the respective amounts in respect of each item of reserve and the amount of the dividend proposed.

(9) The profit and loss arising from "hedge" and "forward" contract, trading in "futures" and "badla" and other transactions of similar nature shall be shown separately in the profit and loss account.

(10) The following shall be stated by way of a note:

(i) the aggregate amount charged in the financial statements shall be shown under appropriate head such as-

(a) fees; (b) managerial remuneration; (c) remuneration or commission based on net profits or turnover; (d) reimbursable expenses; (e) pensions,gratuities, company's contribution to provident, supper annuation and other staff funds, compensation in connection with retirement from office; (f) commission indicating the nature and the basis thereof; (g) other perquisites and benefits in cash or in kind stating their nature and approximate money values.

(ii) in the case of sale of fixed assets otherwise than through a regular auction, the particulars of the assets and in aggregate

(a) cost or valuation, as the case may be (b) the book value and (c) the sale price and the mode of disposal shall be disclosed.

(11) The following information shall be disclosed in respect of transactions with associated undertakings showing separately the aggregate amounts of:

(i) purchases from and sales to of goods and services;

(ii) brokerage or discount or commission together with the nature and the basis thereof;

(iii) interest indicating the nature thereof.

(12) The profit and loss account shall be so drawn up as to disclose separately the manufacturing, trading and operating results. In the case of manufacturing concern, the cost of goods manufactured shall also be shown.

DIRECTOR'S REPORT:

The Companies Ordinance, 1984 requires that the directors shall make out and attach to every balance-sheet a report with respect to the state of the company's affairs, the amount, if any, which they recommend should be paid by way of dividend and the amount, if any, which they propose to carry to the Reserve Fund, General Reserve or Reserve Account shown specifically in the balance-sheet or to a Reserve Fund, General Reserve or Reserve Account to be shown specifically in a subsequent balance-sheet {Sec.236(1)}.

In case of a public company or a private company which is a subsidiary of a public company, the director's report shall, in addition to the matters specified above,-

(a) disclose any material changes and commitments affecting the financial position of the company which have occurred between end of the financial year of the company to which the balance-sheet relates and the date of the report;
(b) so far as is material for the appreciation of the state of the company's affairs by its members, deal with any changes that have occurred during the financial year concerning the nature of the business of the company or of its subsidiaries, or in the classes of business in which the company has interest, whether as a member of another company or otherwise, unless the authority exempts any company from making such disclosure on the ground that such disclosures would be prejudicial to the business of the company;
(c) contain the fullest information and explanation in regard to any reservation, observation, qualification or adverse remarks contained in the auditor's report;
(d) circulate with it information about the pattern of holding of the shares in the form prescribed; and
(e) state the name and country of incorporation of its holding company, if any, where such holding company is established outside Pakistan [Sec.236(2)].

5.5 CORPORATE FINANCIAL REPORTING IN BANGLADESH

The corporate financial reporting in Bangladesh has been primarily regulated by the statutory laws. Two important basic laws that govern the reporting standards for publicly traded companies are:

(1) The Companies Act, 1913 and
(2) The Securities and Exchange Rules, 1987.

Moreover, reporting standards for companies are also governed by the Institute of Chartered Accountants of Bangladesh (ICAB). Companies listed in stock exchange have come under the purview of both the Companies Act and the Securities Exchange Rules,1987.

The provisions contained in the Companies Act that govern the corporate financial reporting are summarised below:

Books and records: According to the Section 130(1) of the Companies Act, every company shall cause to be kept proper books of account with respect to:

(i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; (iii) the assets and liabilities of company.

Annual account: The Companies Act requires every limited companies to prepare: i) A Balance sheet; and

ii) A Profit and Loss Account [Sec.131(1)].

Circulation of reports: The Companies Act, according to the Section 131(3), requires every company other than private company to send a copy of the audited balance sheet and profit and loss account together with a copy of the auditor's report to every member at his registered address.

Filing of annual reports: Every public company is required to file with the registrar three copies of the balance sheet and profit and loss account or income and expenditure account, if relevant, duly signed by the manager or the secretary of the company within twenty-one days from the date of the annual general meeting [Sec.134(1)].

Form and contents: The Companies Act, 1913 prescribes the form and contents of balance-sheet. It requires that balance-sheet shall contain a summary of the property and assets and of the capital and liabilities of the company which shall be prepared in accordance with the requirements indicated by the items contained in the form marked" F" in the Third Schedule, giving such particulars as will disclose the general nature of those liabilities and assets and how the value of the fixed assets has been arrived at [Sec.131(1)].

Disclosure of items in balance sheet:

PROPERTY AND ASSETS SIDE:

01. **Fixed capital expenditure** - Distinguishing as far as possible between expenditure upon:

(a) Goodwill, (b) Land, (c) Building, (d) Leasehold, (e) Railway Sidings, (f) Plant, (g) Machinery, (h) Furniture, (i) Development of Property, (j) Plants, (k) Trade Marks and Design, (l) Interest paid out of capital during construction etc.

In every case the original cost and the additions thereto and deductions therefrom during the year, and the total depreciation written off under each head require to be stated. Where sums have been written off on a reduction of capital or a revaluation of assets every balance sheet after the first balance sheet subsequent to the reduction or revaluation shall show the reduced figures, with the date of and the amount of the reduction made.

02. **Preliminary expenses.**
03. **Commission or brokerage:** Commission or brokerage paid for underwriting or placing or subscribing shares or debenture until written off are to be stated.
04. **Discount allowed** - Discount allowed on issue of shares or so much as has not been written off at the date of the balance sheet is to be stated.
05. **Store and spare parts.**
06. **Loose tools.**
07. **Live stock and vehicles.**
08. **Stock in trade**- The mode of valuation of stock-in-trade is to be stated.
09. **Bills of exchange:**

(i) Distinguishing book debts between those considered good and in respect of which the company is fully secured and those considered good for which the company holds no security other than the debtor's personal security;

(ii) Distinguishing between debts due by directors or other officers of the company or any of them either severally or jointly with any other persons to be separately stated.

10. **Advances:** Recoverable in cash or in kind or for value to be recovered showing separately;
    - (i) Loans given to subsidiary company;
    - (ii) Loans including temporary advances made at any time during the year to directors or managers of the company.
11. **Investments:** The nature of investment as well as the mode of valuation of investments is to be stated. The investment should be stated distinguishing-
    - (i) investment in government or trust securities;
    - (ii) investment in shares, debentures or bonds showing separately shares fully paid up and partly paid up;
    - (iii) investments in shares, debentures or bonds of subsidiary companies.
    - (iv) immovable properties.
12. **Interest accrued on investment.**
13. **Cash and other balances:**
    - (i) Amount in hand;
    - (ii) Balance with agents and bankers.
14. **Profit and loss.**

CAPITAL AND LIABILITIES SIDE:

01. **Share capital:** Share capital is to be stated distinguishing between various classes as:
    - (a) Authorised Capital;
    - (b) Issued Capital;
    - (c) Subscribed Capital;
        - i) Shares issued as fully paid up pursuant to any contract without payments being received in cash;
        - ii) Share issued for payments in cash;
    - (d) Called up Capital;
    - (e) **Calls unpaid:** Calls unpaid shall be deducted from the amount of called up capital specifying the amount unpaid by-
        - i) due from managing agents
        - ii) due from others.

(f) Forfeited shares: The amount originally paid up shall be added with share capital. Where circumstances permit issued and subscribed capital and amount called up may be shown as one item.

02. **Reserves**

03. **Debentures:** Debentures are to be shown stating the nature of security.

04. **Any sinking fund.**

05. **Any other fund created out of net profits:** It includes any other development fund.

06. **Any pension or insurance fund:** Provision for bad and doubtful debts shall be stated in case of companies other than banking companies.

07. **Loans:**

(a) Secured: (i) loans on mortgage or fixed assets, (ii) loans on debenture, (iii) loans from banks stating the nature of security, (iv) liability of subsidiary companies, (v) other secured loans, stating the nature of security, (vi) interest accrued on mortgages, debentures or other secured loans.

(b) Unsecured: (i) loans from banks, (ii) fixed assets, (iii) short- term loans, (iv) advances by directors or managers and managing agents, (v) interest accruing but not due and interest accrued and due, (vi) liabilities to subsidiary companies.

08. **Unclaimed dividends**

09. **Liabilities:**

(a) For goods supplied, b) For expenses, c) For acceptances and d) For Finances.

10. **Advance payments and unexpired discounts:** For the portion of which value has still to be given, e.g. in the case of the following classes of companies--
News paper, Fire insurance, Theatre, Club, Banking and Steamship companies.

11. Profit and loss

12. Contingent liabilities--

i) Claims against the companies not acknowledged as debts

ii) Arrears of cumulative preference dividends.

PROFIT AND LOSS ACCOUNT

No standard form has been prescribed in the Companies Act, 1913 for the profit and loss account of a company. But the Act of 1913 requires the following specific disclosure of information to be included in the profit and loss account.

01. The amount of gross income arranged under the most convenient heads and distinguishing the several sources from which it has been derived.[21]

02. The amount of gross expenditure, arranged under the most convenient heads and distinguishing between:

i) Establishment expenses;
(ii) Salaries;
(iii) Other like matters;
(iv) Remuneration of managing agent;
(v) Remuneration of directors;
(vi) Amount of deferred charges written off during the year and reason for the balance to be carried forward;
(vii) In a note or in a statement, any remuneration or other emoluments received by a director from another company of which he is a director by virtue of a nomination;
(viii) Depreciation written off.

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[21]. Compulsory Regulation 107 of Table A annexed to the Companies Act, 1913 (VII of 1913)

DIRECTOR'S REPORT

The Companies Act requires that the directors shall make out a report and attach the same with every balance sheet.[22] The report must be in regard to:

a. The state of affairs of the company;
b. The amount, if any, which the Board proposes to carry to the Reserve Fund, General Reserve, or Reserve Account in such balance sheet;
c. The amount, if any, which the Board recommends should be paid by way of dividend.

The requirements for information in the director's report are thus limited to the state of affairs, dividend and amount transfer to the reserves.

THE SECURITIES AND EXCHANGE RULES, 1987

The corporate financial reporting of listed companies are governed, in addition to the Companies Act, by the Securities and Exchange Rules, 1987. The provisions contained in the Securities and Exchange Rules, 1987 relating to financial reporting are summarised below;

Annual report: The Securities and Exchange Rules(SER) requires that the annual report to be furnished by a listed company to the shareholders, the stock exchange and the government include a balance sheet and profit and loss account [Rule 12(1) & 10(1)].

Submission of report: The Securities and Exchange Rules, 1987 requires that every issuer shall furnish the annual report to the shareholders at least fourteen days before the general meeting and also furnish a half-yearly report within one month of the close of the first half of its year of account.

Form and contents: The Securities and Exchange rules prescribes the form and contents of annual report. The balance sheet and profit and loss account shall be prepared in accordance with the

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[22]. Sec.131A(1) of the Companies Act,1913.

requirements laid down in the Schedule and the balance sheet so prepared shall be in "Form-A" annexed to the Part-1 of the Second Schedule [Rule12 (2), 1987].

CONTENTS OF BALANCE SHEET

Property and assets side:

01. **Fixed assets:** Fixed assets shall be distinguished between tangible and intangible and shall be classified under appropriate sub-heads, duly itemized, such as:

    (i) **Tangible:** (a) Land (distinguishing between freehold and leasehold); (b) Building; (c) Plant and Machinery; (d) Furniture and fittings; (e) Vehicles; (f) Capital Work in Progress including interest paid out of capital, if any; and (g) Others.

    (ii) **Intangible:** (a) Goodwill; (b) Patents, Copy rights, Trade Marks and Designs; and (c) Others.

Fixed assets under each sub-head other than capital work in progress, the original cost and the conditions thereto and additions therefrom since the date of the previous balance sheet and the accumulated depreciation written off shall be stated. Where the original cost of assets can not be ascertained without unreasonable expense or delay, the valuation shown by the books shall be given.

02. **Long-term prepayments and deferred cost:** Any material items shall be stated separately together with the basis on which each item is being amortised or written off, and in respect of each item of deferred costs the reason for carrying forward such costs shall be stated.

03. **Investments, loans and advances:** The mode of valuation and the provisions for diminution in the value of investments and advances and in respect of losses of subsidiaries shall be stated, as deduction from the gross amounts of the respective sub-heads. There shall be shown under separate sub-heads the aggregate amounts of investment which are described below:

(A) Investments in and loans and advances to subsidiary companies, controlled firms and any other associated undertakings stating names of subsidiary companies, controlled firms and other associated undertakings and the nature and extent of investment made and loans and advances given in each case.

(B) Investments in listed companies other than investments in subsidiary companies and other associated undertakings stating names of the bodies corporate and the nature and extent of investments made in each case.If valued otherwise than at market value stating aggregate market value.

(C) Investments in unlisted companies other than investments in subsidiary companies, controlled firms and other associated undertakings stating names of the bodies corporate or firms or undertakings and the nature and extent of investment made in each case.

(D) Investments in debenture and bonds issued by Government, Municipalities or other local authorities stating the names of Government etc. and the nature and extent of investment made in each case.

(E) Investments in immovable property.

04. **Current assets:**

(1) Current assets shall be classified under sub-heads appropriate to the company's affairs, including, where applicable, the following:

(i) stores, spareparts and loose tools, distinguishing each from the other stating mode of valuation including the method of determining the cost;

(ii) stock-in-trade, distinguishing, where practicable, between (a) stock of raw materials and components, (b) work-in-progress

(c) stock of finished products and (d) other stock stating the mode of valuation including the method of determining the cost.

(iii) sundry debtors shall be stated distinguishing between debts considered good and debts considered doubtful or bad.

Provision made against the latter should be shown under the liabilities side. In addition, the following particulars shall be stated separately:

(a) aggregate amount due by directors, managing agents, managers and other officers of the company and any of them severally or jointly with any other person;

(b) aggregate amount due by associated undertakings;

(c) maximum amount of debts of the preceding items at any time since the date of incorporation or since the date of previous balance sheet, whichever is the later by way of a note.

(iv) loans and advances due from subsidiaries, controlled firms and other associated undertakings shall be shown separately. Loans and advances considered good or bad shall be separately stated.

(v) short-term prepayments and deferred charges;

(vi) bills receivable;

(vii) interest accrued or interest outstanding;

(viii) balance on current account with the managing agents, managers, directors and officers;

(ix) tax refunds due from government, showing separately excise duties, custom duties, sales tax, income tax etc.;

(x) cash and bank balance shall be shown distinguishing between (a) amount in hand(b) amount in transit and (c) balances with banks and agents.

(2) The basis of valuation, the method of determining the 'cost' or "market" value in case of stores, loose tools and stock in trade shall be stated.

05. assets in respect of which different methods or basis of valuation or of provision for depreciation or diminution in

value are used shall be regarded as assets of different classes.

06. Preliminary expenses, discount allowed on shares and the expenses incurred on the issue of shares or debentures shall be treated as assets and shown separately under each head.

CAPITAL AND LIABILITIES SIDE:

07. **Share capital and reserves:**

(1) Share capital and reserve shall be classified under the following sub head:

(i) paid up capital, distinguishing between different classes of shares and the amount paid up in respect of each class; and

(ii) reserves, distinguishing between capital reserves and revenue reserves, capital reserve shall include capital redemption reserve, share premium account, profit prior to incorporation or any reserve not regarded free for distribution by way of dividend, while revenue reserves shall include general reserve, dividend equalisation reserve, and unappropriated profit. Addition to and deduction from each item of reserves shall be shown in the balance sheet under the respective items.

(2) There shall be shown in the balance sheet:

(i) authorised, issued, subscribed and called up share capital, distinguishing between various classes of shares and stating the number and value of each class;

(ii) calls unpaid as a deduction from called up share capital, distinguishing calls unpaid by directors, managing agents, managers, officers and others;

(iii) paid up share capital, distinguishing in respect of each class between (a) shares allotted for consideration paid in cash, (b) shares allotted for consideration other than cash and (c) bonus shares stating the number and value of each class shall be shown in the balance sheet;

(iv) particulars of any option on unissued shares, the terms of redemption or conversion in case of deemable preference shares and the number of shares of each class held by the holding company shall be shown in the balance sheet.

(3) Where circumstances permit, authorised, issued, subscribed and paid up capital or any two or more of them may be shown as one item.

08. Long-term loans and deferred liabilities:

(1) Long-term loans shall be classified as secured and unsecured, under each class shall be shown separately:

(i) debentures;

(ii) loans from banking companies and other financial institutions;

(iii) loans from subsidiary companies, controlled firms and other undertakings; and

(iv) loans from directors, managing agents and managers; and

(v) other loans.

(2) Debentures shall be shown stating rate of interest, terms of redemption, particulars of redeemed debentures which the company has power to reissue and also the amount of debentures held by a nominee of the company.

(3) Deferred liabilities shall include items such as-

(i) deferred liability for taxation,

(ii) consumer's deposits with utility companies and

(iii) amounts allocated or set aside and retained for worker's participation fund, provident fund, pension, gratuity, insurance and other staff benefit schemes. Every material item shall be stated separately.

09. **Current liabilities and provisions:** Current liabilities and provisions so far as they are appropriate to the company's business be classified under the following sub-heads:

- (i) short term-loans, distinguishing between secured and unsecured and between loans taken from:
  - (a) banking companies and other financial institutions;
  - (b) subsidiary companies, controlled firms and other associated undertakings;
  - (c) directors, managing agents and manager;
  - (d) instalment of long-term debt; and
  - (e) others.
- (ii) deposits;
- (iii) creditors;
- (iv) accrued expenses;
- (v) bills payable;
- (vi) advance payment and unexpired discounts;
- (vii) interest accrued on secured loans;
- (viii) interest accrued on unsecured loans;
- (ix) other liabilities to be specified;
- (x) provision for taxation showing separately excise duties, custom duties, sales tax, income tax etc.;
- (xi) proposed dividend; and
- (xii) other provisions, if any.

Where any short-term loans of any other liabilities of the company are secured otherwise than by the operation of law on any assets of the company,the fact that the liabilities are so secured shall be stated, together with a statement of the assets upon which they are secured.

10. There shall be added a foot-note to the balance sheet, showing separately:

- (i) claims against the company not acknowledged as debt;
- (ii) uncalled liability on partly shares;

(iii) arrears of fixed cumulative dividends on preference shares together with the period for which the dividends are in arrear;

(iv) the aggregate amount of contracts for capital expenditures to be executed and not provided for;

(v) other sums for which the company is contingently liable;

(vi) the capacity of the industrial unit, actual production and the reasons for shortfall, if any;

(vii) the basis on which foreign currencies have been converted into taka; and

(viii) the general nature of any credit facilities available to the company under any contract not available of at the date of the balance sheet.

PROFIT AND LOSS ACCOUNT

The profit and loss account shall be so made out as to disclose clearly the operating results of the company during the period covered by the account and shall show, arranged under most convenient heads, the gross income and the gross expenditures of the company during the period, disclosing every material feature and in particular the following:

(1) (i) the turnover and showing as deduction therefrom- (a) commission paid to sole selling agents; (b) commission paid to other selling agents; (c) brokerage and discount on sales.

(ii) income from investments, showing separately income from each subsidiary company, controlled firms, associated undertakings and from other investments

(iii) income by way of interest on loans and advances and other interests;

(iv) income from sale of bonus vouchers;

(v) profit on sale of investments;

(vi) profit on sale of items of fixed assets;

(vii) other income, showing separately every material item and the nature of each such items.

(2) (i) the value of stock-in-trade, including raw materials and components, work-in-progress and finished products, as at the commencement and the value at the end of the period;

(ii) purchase of raw materials and components and finished products.

(3) Expenditure on-

(i) stores and spare-parts consumed;

(ii) fuel and power;

(iii) salaries and wages, distinguishing between manufacturing salaries and wages, if any, and other salaries and wages and also showing by way of a note the amount included in salaries and wages in respect of persons who are directors of the company;

(iv) rent, municipal and local taxes;

(v) insurance;

(vi) repairs and maintenance;

(vii) patents, copyrights, trade marks, design, royalties and technical assistance.

(4) The aggregate amount of auditor's remuneration, whether fees, expenses, or otherwise, for services rendered as auditors or in any other capacity showing separately the remuneration for services rendered in other capacity and stating the nature of such other services.

(5) Other expenses, showing separately every items of an exceptional nature and every material items.

(6) The amount provided for depreciation, renewals or diminution in value of fixed assets. The value of the assets by various groups, the additions or depletions thereto, the rate at which depreciation is charged, the rate(s) at which depreciation accelerated or for extra shifts shall be shown in the form of an annexure. Where such provision is not made by means of a charge for depreciation, the method adopted for making such provision shall be stated. If no provision for depreciation is made during the period, the fact that no provision has been made and the reasons for not making it shall be stated, and the amount which should have been provided shall be disclosed.

(7) The amount of interest on borrowings, showing separately the amount of interest on the company's debentures, on other long-term loans and on short term loans, and showing by of a note the amount of interest on borrowings from the directors, the managing agents and the manager.

(8) The following expenses shall be disclosed:

(i) loss on sale of investments;
(ii) loss on sale of items of fixed assets;
(iii) debts written off as irrecoverable;
(iv) provision for doubtful and bad debts;
(v) provision for diminution in value of investments;
(vi) provision for losses of subsidiary companies, controlled firms and associated undertakings;
(vii) remuneration of managing agents;
(viii) provision for taxation on income, capital gains and other taxes, distinguishing for taxation elsewhere;
(ix) other provision for meeting specific liabilities, contingencies or commitments.

(9) The amount set aside or proposed to be set aside as reserves, showing separately the respective amounts in respect of each item of reserves; and the amount of the dividend proposed.

(10) The profit and loss arising form "hedge" and "forward" contract, trading in "future" and "badla" shall be shown separately in profit and loss account.

(11) <u>Information to be stated by way of a note</u>:

1. The aggregate amounts paid during the period shall give full particulars of such aggregate amounts, shall be shown under appropriate heads such as:
(a) fees; (b) managerial remuneration; (c) remuneration or commission based on net profit or turnover; (d) reimbursable expenses; (e) pensions; gratuities, company's contribution to provident, super annuation and other staff funds, compensation in connection with retirement from office; (f) commission indicating the nature and the basis thereof; (g) other perquisites and

benefits in cash or in kind stating their nature thereof;
(h) the amount of commission, the calculation of commissions payable by way of a percentage of net profits to the directors, managing directors, shown therein are affected by any change on the basis of accounting.

2. In the case of sale of fixed assets otherwise than through a regular auction, the particulars of the assets including accumulated depreciation charged, the cost, the book value, the sale price, the mode of disposal and the particulars of the purchaser shall be disclosed.

(12) The profit and loss account shall be so drawn up as to disclose separately the manufacturing, trading and operating results. In the case of manufacturing concern the cost of goods manufactured shall also be shown. Where an undertaking has more than one unit of operation or line of business the working results of each such unit or line of business should be separately given.

(13) The profit and loss account shall give the corresponding amounts for the immediately preceding accounting year for any items shown in the profit and loss account.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH

The Institute of Chartered Accountants of Bangladesh (ICAB) has also been playing a role in regulating financial reporting in Bangladesh. The institute has so far issued fifteen accounting standards (AS) which are not mandatory but recommendatory in nature. The standards specially relating to financial reporting and disclosure are:

1. AS No.1- Disclosure of accounting policies;
2. AS No.2- Information to be disclosed in financial statements.

Accounting standards-1: It contains the following rules as to the preparation and presentation of financial statements.

Accounting assumptions: Going concern, consistency, and accrual are fundamental accounting assumptions. If a fundamental assumption is not followed, that should be disclosed together with the reasons.

Accounting policy: Financial statements should include clear and concise disclosure of all significant accounting policies which have been used. This policies should normally be disclosed in one place.

Other policy: Financial statements should show corresponding figures for the preceding period. In addition, any change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

Financial statements: Financial statements covers:

(1) Balance sheet; (2) Income statements or profit and loss account; (3) Statements of changes in financial position; (4) Notes and other statements and (5) Explanatory material which are identified as being part of the financial statements.

Accounting standard-2: AS-2 issued by the ICAB contains the following information to be disclosed in the financial statements:

General disclosures: **(1)** All material information should be disclosed that is necessary to make the financial statements clear and understandable.

(2) The name of the enterprise,the country of incorporation, the balance sheet date, and the period covered by the financial statements should be stated. A brief description of the nature of the activities of the enterprise, and the currency in terms of which the financial statements are expressed should be given if they are otherwise apparent.

(3) The amounts and classifications of items should be supplemented, if necessary, by additional information to make their meanings clear. Significant items should not be included with, or offset against, other items, without separate identification.

Specific disclosure: Balance sheet: The following disclosures should be made generally:

(i) Restrictions on the title to assets; (ii) Security given in respect of liability; (iii) The methods of providing for pension and retirement plans; (iv) Contingent assets and liabilities, quantified, if possible; (v) Amounts committed for future capital expenditure.

Long-term assets

1. **Property, plant and equipment**- The following items should be disclosed:

   (a) Land and buildings, (b) Plant and equipment, (c) Other categories of assets, suitably identified, (d) Accumulated depreciation.

Separate disclosure should be made of leaseholds and of assets being acquired on instalment purchase plans.

2. **Other long-term assets**- The following items should be disclosed separately stating the method and period of depreciation and any unusual write-off during the period:

(a) **Long-term investments:** Investments in subsidiaries; investment in associated companies; other investments, stating the market value of listed investments.

(b) **Long-term receivables:** Accounts and notes receivables-trade; receivables from directors; inter company receivables; associated company receivables; other.

(c) **Good will;**

(d) Patents, trade marks and similar assets;

(e) Expenditure carried forward.

Current assets: The following items should be disclosed separately:

(a) **Cash:** It includes cash on hand and current assets and other accounts with bank. Cash which is not immediately available for use should be disclosed.

(b) **Marketable securities other than long-term investments:** The market value should be disclosed if different from the carrying amount in the financial statements.

(c) **Receivables:** Accounts and notes receivable--trade; receivables from directors; intercompany receivables; associated company receivables, other receivables and prepaid expenses.

(d) **Inventories.**

Long-term liabilities

The following items should be disclosed separately, excluding the portion repayable within one year:

(a) Secured loans, (b) Unsecured loans, (c) Intercompany

loans, (d) Loans from associated companies,
A summary of the interest rates, repayment terms, covenants, subordinations, conversion features and amounts of unamortised premium or discount should be shown.

Current liabilities
The following items should be disclosed:

(a) Bank loans and overdrafts; (b) Current portion of long term liabilities; (c) Payable: Accounts and notes payable-trade; payable to directors; inter company payable; taxes on income; dividends payable; other payable and accrued expenses.

Other liabilities and provisions
The significant items included in other liabilities and in provisions and accruals should be separately disclosed.

Shareholder's interest
The following disclosures should be made separately:

(a) **Share capital:**
For each class of share capital: The number or amount of shares authorised, issued, subscribed, called up and paid up; calls in arrear; the par or nominal value per share; the movement in share capital accounts during the period; the rights, preferences, and restrictions with respect to the distribution of dividends and to the repayment of capital; cumulative preferred dividends in arrears; forfeited shares.

(b) Other equity, indicating the movement for the period and any restrictions on distribution; capital paid-in excess of par value; revaluation surplus; reserves; retained earnings.

Specific disclosures-income statement

The following information shall be disclosed:

(a) Sales or other operating revenues; (b) Depreciation; (c) Interest income; (d) Income from investments; (e) Interest expense; (f) Taxes on income; (g) Unusual charges; (h) Unusual credits; (i) Significant inter company transactions; (j) Net income.

AUDITOR'S REPORT

5.6 MEANING OF AUDITOR'S REPORT

The auditor's report is the end product that arises out of audit of financial statements and/or reports of an economic entity required by law, custom or agreement. It is the medium through which an auditor expresses his opinion on the financial statements or other data under audit.[23] Audit report is a formal communication by the auditor to the shareholders throwing light on the state of affairs of the company as recorded and depicted in the books of account. It includes both a statement of facts and also the opinion of the auditor.

5.7 REQUIREMENTS OF INTERNATIONAL FEDERATION OF ACCOUNTANTS REGARDING AUDITOR'S REPORT

The International Federation of Accountants (IFAC) has issued two specific auditing guidelines relating to audit report. International Auditing Guidelines No.3 "Basic Principles Governing an Audit" sets out very clearly the requirements as to the audit and report:

21. The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of his opinion on the financial information. This review and assessment involves forming an overall conclusion as to whether:

(a) the financial information has been prepared using acceptable accounting policies, which have been consistently applied.

(b) the financial information complies with relevant regulations and statutory requirements;

(c) the view presented by the financial information as a whole is consistent with the auditors knowledge of the business of entity: and

(d) there is adequate disclosure of all material matters

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23. Gupta,K.,op.cit.p.280

relevant to the proper presentation of financial information.

22. The audit report should contain a clear written expression of opinion on the financial information. An unqualified opinion indicates the auditors satisfaction in all material respects with the matters dealt with in Paragraph 21.

23. When a qualified opinion, adverse opinion of a disclaimer or opinion is given the audit report should state in a clear and informative manner all of the reasons thereof.

International Auditing Guideline No.13 "The Auditors Report on Financial Statements" provides guidance to auditors on the form and content of the auditor's report issued in connection with the independent audit of the financial statements of any entity. The auditor's report should include the following basic elements:

Title: An appropriate title should be used. This helps the reader to identify the auditor's report and to easily distinguish it from reports that might be issued by others.

Address: The report should be appropriately addressed as required by the circumstances of the engagement and local regulations. The report is usually addressed either to the shareholders or the board of directors of the entity whose financial statements are being audited.

Identification of financial statements: The report should identify the financial statements that have been audited. This should include the name of the entity and the date and period covered by the financial statements.

Reference to auditing standards or practices: The report should indicate the auditing standards or practices followed in conducting the audit by reference to International Auditing Guidelines or to standards or practices established within a country. The reader needs this as an assurance that the audit has been carried out in accordance with established standards or practices.

Opinion on the financial statements: The report should clearly set forth the auditors opinion on the presentation in the official statements of the entity's financial position and the results of its operation.

The words suggested to express the auditor's opinion are "give a true and fair" view of/or presents fairly........ "in accordance with" (indicate relevant national standards or international accounting standards). Sometimes the auditor is required to give an opinion as to conformity with the law". Often such conformity will also satisfy the requirements for the auditor to express the opinion referred to above.

Signature: The report should be signed in the name of the audit firm, the personal name of the auditor or both, as appropriate.

Auditor's address: The report should name a specific location, which is usually the city in which the auditor maintains his office.

Date of report: The report should be dated. This informs the reader that the auditor considered the effect on the financial statements and on his report of events or transaction about which he become aware up to that date.

5.8 AUDIT REPORT REQUIREMENTS IN SELECTED COUNTRIES

The audit reporting practices vary more or less from country to country. In some countries, audit reporting practices are heavily dominated by the public regulations but in other countries by the private (self) regulations. However, audit reporting requirements of countries under review are summarised below:

USA: The audit report in the USA is primarily governed by the accounting profession through AICPA's auditing standards although securities laws require balance sheet and profit and loss statements to be certified by an independent public or certified accountant. [25, 26, Sch.A. 1933]. The SEC does not have a formal position regarding standards and pronouncements of Auditing Standards Board (ASB). However, the SEC has cited those auditing standards in administrative and injunctive actions.

The guidelines used to write the audit report are the standards or reporting established by the AICPA. The following standards of reporting are related to the subject of how various types of reports should be written.

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.

2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore, should be sated.

All audit reports must conform to the four AICPA standards of reporting. The official elaboration of these standards is given in various Statements on Auditing Standards of AICPA, the most important of which are summarised below:

SAS No.2 (AU 508): "Reports on Audited Financial Statements" specifies the meaning, form, and content of the different types of audit reports and the circumstances when each should be issued.
SAS No.15 (AU 505): "Reports on Comparative Financial Statements" specifies the form and content of audit reports on financial statements presentation in comparative form and the related responsibilities of auditors associated with such statements.
SAS No.1 (AU 420 & 546): It explains how to report on consistency and inconsistency in the application of Generally Accepted Accounting Principles.
SAS No.2 has been replaced by **SAS No.58** in 1988 [24] which requires standard audit report to contain the following things:

1. Title and address: Audit reports must have a title containing the word "independent" to emphasize audit independence. Moreover, all reports to be addressed to the person or organinsation that

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24. O'Reilly,V.M. et al. ed.in" Montogomary's Auditing".(John Wiley & Sons,II ed.1990) p.633

engaged the auditors.

2. **Introductory paragraph:** The introductory paragraph identifies the financial statements that were audited and contrasts managements' responsibility for the financial statements with the auditor's responsibility to express on opinion on those statements.

3. **Scope paragraph:** The scope paragraph makes several important points-

(i) it states that the auditor performed the audit in accordance with GAAS;

(ii) it describes the objectives of an audit;

(iii) it provides a brief description of what an audit includes by detailing several factors inherent in the audit process that affect the assurance the auditor provides on the financial statements;

(iv) it clarifies that the procedures performed by the auditor are, in his opinion, sufficient to enable expression of an opinion on the financial statements.

4. **Opinion paragraph:** In the opinion paragraph, the auditor communicates the results of the audit. This paragraph expresses an informed, expert opinion on the financial statements.

5. **Signature and date:** The independent auditor generally signs the firm's name on the report manually. In filings with the SEC a manual signature may be required. The audit report must contain the date which represents the date of completion of all substantive auditing procedures performed at the clients business locations.

In the USA, departures from the auditor's standard report is allowed under the following circumstances:

(i) **Scope limitation:** If it is impossible or impracticable to apply certain audit procedures the auditor believes necessary, he will have to modify the wording of the standard report.

(ii) **GAAP:** A departure from GAAP, including adequate disclosures, may have a material effect on the financial statements, the wording of the standard report will have to be modified.

(iii) **Lack of independence:** if the auditor is not independent, he must disclaim an opinion on financial statements.

UNITED KINGDOM (UK): The auditor's report in the United Kingdom is governed and guided by the following statutes, standards and guideline:

1. **The statute:** The Companies Act,1985 as amended by the Companies Act of 1989 contains various rules with regards to auditor's report of companies.

2. **The auditing standards:** In 1989 the professional accounting bodies in the UK approved a standard on the audit report. This standard contains the rules on unqualified reports and also on qualified reports and gives 13 audit report examples.

3. **The auditing guideline:** The accounting bodies approved in June 1989 a guideline on "Reports by auditors under company legislation in the UK".

The statute: the Companies Act, 1985 as amended by the Companies Act,1989 contains the following provisions with regards to auditor's report. The Act requires a company's auditors to make a report to its members on the accounts examined by them, and on every balance sheet and profit and loss account, and on all group accounts, copies of which are to be laid before the company in general meeting during the auditor's tenure of office (Sec.236 of 1985). The Act also requires that the report must be read before the company in general meeting and be open to inspection by any member [Sec.241 (2)].

Contents of the report: The Act requires that the report must state:

(a) Whether in the auditor's opinion the balance sheet, profit and loss account and group accounts have been properly prepared in accordance with provisions of the Companies Act; and without prejudice to (a).

(b) Whether in their opinion a true and fair view is given

(i) in the case of the balance sheet, of the state of the company's affairs at the end of its financial year;

(ii) in the case of the profit and loss account, of the company's profit or loss for its financial year;

(iii) in the case of group accounts, of the state of affairs and profit or loss of the company and its subsidiaries dealt with thereby, so far as concerned members of the company [Sec.235(2)].

If the auditors think that proper accounting records or returns have not been kept or received, or that the balance sheet and the profit and loss account are not in agreement with the accounting records and returns, they must state that fact in the report [Sec.237(2)]. If auditors fail to obtain all the information and explanations which,to the best of their knowledge and belief, are necessary for their audit, they must state the fact in the report [Sec.237(4)]. If the accounts do not contain particulars of the chairman, and directors emoluments, waived emoluments, pensions and compensation for loss of office, or particulars relating to the number of higher paid employees, the auditors' report must normally include the details [Sec.237(5)]. The auditor must also, in preparing their report, consider whether the information given in the director's report relating to the financial year in question is consistent with the accounts. If there is an inconsistency they must state that fact in their report [Sec.237(6)].

In preparing their report the auditors must carry out certain investigations, namely those which will enable them to form an opinion as to:

(a) Whether proper accounting records have been kept by the company and proper returns adequate for their audit have been received from branches not visited by them.

(b) Whether the balance sheet and the profit and loss account are in agreement with the records and returns [Sec.237(1)].

The auditing standard: The auditing standard applies to all audit reports requires the auditor to state clearly:

The addressee: The report must be appropriately addressed. In case of companies, the "addressee" means the members of the company.

The financial statements audited: The report must identify the financial statements that have been audited.

The auditing standards followed: The report should indicate the auditing standards. It should be specified and will normally be those referred to in the Explanatory Foreword.

The audit opinion: The report should clearly set forth the auditor's opinion of the entity's financial position and the results of its operation. It will normally be expressed in "true and fair" terms; but the specific requirements may prescribe the use of expressions such as "properly presents" or "presents fairly in accordance with". When expressing an opinion in" true and fair" terms the auditor should be satisfied that accounting policies adopted are appropriate to the enterprise; or have been consistently applied or have been adequately disclosed. Any significant departures from accounting standards should be disclosed and explained in financial statements, or the reason for not disclosing financial effects should be stated.

Any other information or opinions prescribed by statutory requirements: Any other information or opinions prescribed by statutory or other requirements must be stated in the report.

The identity of the auditor: The identity of the auditor must be stated in the report. The report should name a specific location in which the auditor maintains his office.

The date of the report: Audit report must contain the date. The date should be that when auditor signs the report. But the auditor cannot sign until it is approved by management. Therefore, the audit report must be signed only after all the audit work has been completed.

JAPAN: Audit reporting practice in Japan has been governed greatly by statutory laws. The auditing standards which act as criteria for audits by Certified Public Accountants are maintained by the Business Accounting Deliberation Council which is an advisory body to the Ministry of Finance.[25] The council has issued Auditing Standards and Working Rules of Field Work in 1950. The existing Japanese auditing standards are literally carbon copies of US standards.[26] The language used in the report is quite descriptive.

The scope of work required under the Commercial Code is essentially in accordance with auditing standards generally accepted in Japan. However, the standard form of auditor's report on financial statements prepared for Commercial Code purposes uses the phrases "state properly" and "conformity with laws and ordinance". In addition, the report includes an opinion that "proposed appropriations" of retained earnings are also in conformity with such laws and ordinances and the articles of incorporation of the company. Moreover, the auditor must express an opinion on the reasonableness of accounting and related financial amounts included in the notice of the general shareholder's meeting.

INDIA: The audit and audit report in India has been regulated primarily by the statutory law i.e. the Companies Act, 1956. This Act has prescribed the form as well as the contents of auditor's report. This Act also requires that the auditor shall make a report to the members of the company on the accounts examined by him, and on every balance sheet and profit and loss accounts and on every other document declared by this Act, to be part of or annexed to the balance sheet or profit and loss account, which are laid before the company in general meeting during his tenure of office, and the report shall state whether, in his opinion and to the best of his information and according to the explanations given to him, the said accounts give the information required by this Act in the manner so required and give a "true and fair" view [Sec.227(2) of 1956]:

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25. The Japanese Institute of Certified Public Accountants ed. "Corporate Disclosure in Japan" (July 1987)pp.12-13
26. Choi and Mueller,op.cit,p.335

(i) in the case of the balance sheet, of the state of the company's affairs as at the end of its financial year; and

(ii) in the case of the profit and loss account, of the profit or loss for its financial year.

The Act also requires that auditor's report should state:

(a) Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;

(b) Whether in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examinations of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him.

(c) Whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with books of account and returns.

(d) Whether the report on the accounts of any branch office audited under Section 228 by a person other than the company's auditor has been forwarded to him as required by clause (c) of Sub-section (3) of that section and how he has dealt with the same in preparing auditor's report.[27]

Where any of the matters referred to in the above clause is answered in the negative or with a qualification, the auditor's report is required to contain some additional information as per the requirements of the Manufacturing Companies Order, 1975 (Amended in 1988). Under this order, the statutory auditor is required to give opinion on the adequacy of internal accounting controls, accounting records and procedure, compliance with loan agreements, and on certain specified operating data.

PAKISTAN: The audit and the audit reporting practice of companies in Pakistan is governed primarily by the Companies Ordinance,1984. The Ordinance of 1984 prescribes the form (Form 35A) and contents

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[27]. Inserted by the Companies (Amendment) Act,1960.

of auditor's report. The auditor of a company in Pakistan is required to make a report to the members of the company on the accounts examined by him [Sec.255(3)]. After the report has been signed, the auditor should forward it to the office of the company leaving it for the directors to convene the general meeting and send the account to the members.The Ordinance of 1984 requires every public company to file with the Registrar five copies in the case of listed companies and three copies in case of any other companies of the balance sheet and profit and loss account together with the auditor's report (Sec 242). The Companies Ordinance ,1984 requires that auditor's report should contain the following clauses [255(3)]:

1st clause: Whether or not they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of the audit.

2nd clause: Whether or not in their opinion proper books of account as required by the Ordinance have been kept by the company. Sec.230 requires that every company must keep proper books of accounts for recording:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
(b) all sales and purchases of goods by the company;
(c) all assets of the company;
(d) In the case of a company engaged in production, processing, manufacturing or mining activities, such particulars relating to utilisation of material or labour or to other inputs or items of cost as may be prescribed if such class of companies is required by the Authority by a general or a special order to include such particulars in the books of accounts.

3rd clause: Whether or not in their opinion the balance sheet and profit and loss account or the income and expenditure account have been drawn up in conformity with the Ordinance and are in agreement with the books of accounts.

4th clause: Whether or not in their opinion and to the best of their information and according to the explanations given to them, the said accounts give the information required by this Ordinance in the manner so required and give a true and fair view:

(i) in the case of balance sheet, of the state of the company's affairs as at the and of its financial year;

(ii) in the case of the profit and loss account or the income and expenditure account or the profit or loss or surplus or deficit, as the case may be, for its financial year, and

(iii) in the case of the statement of changes in financial position or sources and application of funds of a listed company of the changes in the financial position or the sources and application of funds for the financial year.

5th clause: Whether or not in their opinion:

(i) the expenditure incurred during the year was for the purpose of the company's business; and

(ii) the business conducted, investments made and expenditure incurred during the year were in accordance with the objects of the company.

6th clause: Whether or not in their opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that ordinance.[28]

5.9 REQUIREMENTS FOR AUDIT AND AUDITOR'S REPORT IN BANGLADESH

The audit and the auditor's report in Bangladesh is governed mainly by statutory laws. The profession through the institute has also been involved in regulating audit reporting practice. The ICAB has issued two specific guidelines relating to audit report. These are:

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[28]. XVIII of Zakat and Ushr Ordinance, 1980 established U/S. 7 of that Ordinance.

"Basic Principles Governing an Audit" and" The Auditor's Report on Financial Statements".

Statutory requirements as to audit and auditor's report for companies are summarised below:

The Companies Act: The Companies Act requires that the balance sheet and profit and loss account of a company shall be audited by the auditor of the company and the auditor's report shall be attached thereto [Sec. 131(2)]. It also requires that every company other than a private company is required to send a copy of the audited balance sheet and profit and loss account or income and expenditure account together with a copy of the auditor's report to every member at his registered address at least fourteen days before the meeting at which these are to be presented [Sec.131(5)]. But the Act does not make the attachment of auditor's report to the accounts a mandatory one. It provides either-

(a) the report must be attached to the accounts, or
(b) the report must be referred to at the foot of the accounts and read before the company in general meeting (Sec.140).

As regards the contents of audit report, Section 145(2) of the Companies Act, 1913 requires to state:

(a) whether or not they have obtained all the information and explanations they have required; and
(b) whether or not in their opinion the balance sheet and the profit and loss account referred to in the report are drawn up in conformity with the law; and
(c) whether or not such balance sheet exhibits a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company; and
(d) whether in their opinion books of accounts have been kept by the company as required by Section 130(2A) where any of the matters referred to in clauses (a), (b), (c) and (d), of Sub-section (2) is answered in the negative or

with a qualification, the report shall state the reason for such answer.

The Securities and Exchange Rules, 1987: This Rules also regulates the audit and the audit report of listed companies. The Rules, 1987 requires that the balance sheet and the profit and loss account shall be audited by an auditor who is a chartered accountant and the report of the auditor shall be in the "Form-B" annexed to the Second Schedule [Rule 12(3)] of the SER,1987.
The "Form-B" requires that, in addition to matters stated in Section 145(2) of the Companies Act of 1913, the auditor's report must include the following points:

1. The "Form-B" requires that the auditors would obtain all the information and explanations which they required in connection with examination of the balance sheet and the related profit and loss account; and would report only "after due verification" of the aforesaid information and explanations.
2. The "Form-B" requires auditors to conform whether the balance sheet and the profit and loss account comply with the Securities and Exchange Rules, 1987 in addition to the Companies Act, 1913.
3. The "Form-B" requires auditors to state specifically that the balance sheet and the profit and loss account are in agreement with books of account.
4. The "Form-B" also requires auditors to report whether the balance sheet and profit and loss account, in their opinion and to the best of their information and according to the explanations given to them, exhibits a true and correct view of the state of the company's affairs.
5. The "Form-B" requires auditors to state in their report that the expenditure incurred was for the purposes of the company's business.

5.10 "TRUE AND CORRECT" VS. "TRUE AND FAIR" VIEW

The Companies Act,1913 requires auditors in audit report to state whether the balance sheet give a "true and correct" view of the state of the company's affairs as at the end of the financial year.

Whereas, in almost every other countries around the world have used the terms "true and fair" view or "fairly presents". The term "true and correct" view is now rarely used.

The British Joint Stock Companies Act,1844 for the first time required companies to "present a full and fair" balance sheet. Then British Companies Act,1900 required simply a balance sheet exhibiting a "true and correct" view of the state of the company's affairs. The Companies Act of 1948 in the U.K. for the first time required balance sheet and profit and loss account to give a "true and fair" view. Since then, all accounts prepared for the purpose of compliance with the Companies Acts have been required to give a "true and fair" view.

In practice the word 'true' is difficult to pin-down as it also incorporates a high level of abstraction. However, in accounting terms we can consider synonyms like 'in accordance with facts or reality'; not false or erroneous; representing the think as it is. A dictionary definition of "true" also includes "in accordance with reason or correct principles or received standard" which brings us back to generally accepted accounting principles and the standards accounting practices. True can also mean in accordance with the fact.

Whereas the idea "fairness" involves a number of thoughts and elements namely in accordance with expectations, relevance, informational needs, concordance with accounting purposes, objectivity, freedom from bias, disclosure and materiality.
The "true and fair" view is a Companies Act concept and is therefore a legal notion. However neither the Acts nor the Courts of any countries have ever attempted to define it. The idea of "true and fair" view is a high level of abstraction. The law appears to require that accounts follow the correct principles of commercial accountancy. What are correct principles can be established by determining what accountants actually do. To day what accountants actually do is to conform to the standards whether it is international or the concerned accounting bodies.

5.11 DRAWBACKS OF AUDITOR'S REPORT FROM THE REVIEW OF LITERATURE

Following shortcomings and deficiencies with respect to auditor's report from the review of the literature are reported in Bangladesh:

1. **No prescribed form:** The Companies Act,1913 does not prescribe the form of auditor's report but it only pinpoints the matters to be stated in the report. Laws of many countries have prescribed the forms as well as the contents of auditor's report. Moreover, International Auditing Guideline No. 13 "The Auditor's Report on Financial Statements" issued by the IFAC provides specific guidance to auditors on the forms and contents of the auditor's report. It recommends standard wording for the various types of reports.

2. **Reference of auditing standards:** Reference of auditing standards in the auditor's report are not required by any laws in Bangladesh although IAG No.13 requires that the scope paragraph of any audit report should be described by reference to the auditing practices followed in conducting the audit.

3. **Identification of the statement of changes in financial position:** The Companies Act, 1913 does not include statement of changes in financial position as a reference in the report to certify whether this is drawn up in conformity with the law.

4. **"True and fair view:** The Companies Act,1913 uses the term "true and correct" instead of "true and fair" view. In almost every other countries the terms "true and fair" or "fairly presents" have been adopted. The term "true and correct" is now rarely used . The term "true and fair" view is more realistic and useful than that of "true and correct" view.

5. **Revenue account:** The Companies Act,1913 does not require to express an opinion on the revenue account. In requires only whether or not the balance sheet exhibits a true and correct view of the state of the company's affairs [Sec.145(2)(c)].

6. **Attachment of audit report**: The Companies Act,1913 does not make the attachment of auditor's report to the accounts mandatory (Sec.140). Thus the statutory rules for the attachment of audit report to the accounts compare unfavourably with the requirements in most developed countries.

7. **"Examination"**: Statutory laws in Bangladesh require to use the term "examine" instead of "audit". The term "audit" is more directly informative.

8. **"Detailed report"**: Statutory laws in Bangladesh do not require to produce a detailed audit report for manufacturing concerns. But in many countries, auditors are required to produce a detailed report for manufacturing concerns by giving an opinion on the adequacy of internal accounting controls, accounting records and procedures, compliance with loan agreements, and in certain specified operating data.

It is observed from the review of the literature that legal requirements governing financial reporting in the countries under review are clear, detailed and comprehensive compared to the reporting practices of Bangladesh. Countries like India, Pakistan, and the United Kingdom have enacted new companies laws to meet the changing need of the time. But Bangladesh has not yet replaced its Companies Act,1913.

CHAPTER-VI

PROFESSIONAL ACCOUNTING EDUCATION

6.1 Importance of professional accounting education

6.2 Professional accounting education-requirements of the IFAC

6.3 Professional accounting education requirements of selected countries:

USA

UK

JAPAN

INDIA

PAKISTAN

6.4 Professional accounting education in Bangladesh

6.5 Limitations of professional accounting education on the basis of literature review.

CHAPTER-VI

PROFESSIONAL ACCOUNTING EDUCATION

The field of accounting, in recent past, has experienced major changes. The continual sophistication of ultra-modern technology, with billion dollars capital investment, growing internationalisation of accounting practices and many other significant changes have had an impact on accounting throughout the world. The education and qualifications of accountants have naturally been affected by these changes. In an attempt to overcome this problem, many countries have already taken steps and in many other countries it is undergoing radical changes. In the backdrop of international development, it is very often alleged that the education and training provided by the professional institutions in Bangladesh is inadequate and outdated. An attempt is thus made here to overview the educational requirements of selected countries and the development made by them as compared with requirements and development in Bangladesh.

6.1 IMPORTANCE OF PROFESSIONAL ACCOUNTING EDUCATION

Professional accounting education provides specialised accounting knowledge and skills required of accountants by imparting advanced education and extensive training which make them competent to perform the services they are called upon to do. The importance of professional accounting education is well recognised as it plays a vital role in producing competent accountants. Moreover, it can make a significant contribution to economic development of a country.[1] Because it is through the accounting education which helps to provide necessary information useful for planning and controlling economic activities at the macro level.

Reliable and relevant economic information is probably the most important requirement for economic development. Thus the financial

1. Enthoven, A.J.H., "Accountancy Education in Economic Development Management" (North Holland Publishing Co. 1981) pp.63-66

statements must be reliable helping to install confidence in corporate operations, Information generated for investors and creditors are authenticated by professional accountants. Thus professional accounting education can play a vital role in this regard. The professional accounting education aimed at educating and training students to apply accounting fundamentals, rules and procedures, accounting information to others, involves the study of professional ethics and organisation operation and enables the students to relate to diverse interests and groups . Moreover, the increased demands of internationalisation of investment and of business activity also require adequate professional accounting education. Because internationalisation of business activity can be made only by stiffer standards of professional competence which can be provided only by the professional accounting education. Stressing the need of this education Tinbergen states that it does not only imparting knowledge but also acts as a powerful instrument for economic growth and thus the people in developing countries is to secure such education to improve their lot.[2]

6.2 PROFESSIONAL ACCOUNTING EDUCATION-REQUIREMENTS OF THE IFAC

As there exists differences in the legal, educational social, economic, and commercial environments of the countries in which accounting and auditing are practiced, the accounting profession and the education of accountants have tended to develop differently from country. In an effort to narrow the differences in the education and qualifications of professional accountants , the International Federation of Accountants (IFAC) has issued seven International Accounting Education Guidelines(IAEG) since 1982.[3] These guidelines are summarised below:

1. **Prequalification education and training**: This guideline sets standards for general education, professional studies and examination leading to qualification, and practical experience. A degree in secondary education has been set as the minimum educational standards for admission to membership.[4] It also states

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2. Tinbergen Report, United Nations, 1970.p.12
3. International Accounting Education Guidelines, Nos.1-4, IFAC, Newyork (February,1982--August,1984)
4. Paragraph 17, IAEG No.1, IFAC (1982)

that the education of a person seeking to commence a course of study leading a membership in an accountancy body should be equivalent to that which would enable entry to a university degree programme or equivalent education course. IAEG No. 1 establishes a minimum level, implying that the guidelines should contain the following three board features:

1. **Universal**-applying to all persons who qualify for membership in a member body of IFAC, whether that person may be engaged in public practice, industry and commerce , education, or government service.

2. **Entry level**-providing a framework of essential elements of professional education and training for a person to obtain membership in the professional society and to exercise the profession.

3. **Minimum level**-serving as minimum guidelines that should be improved upon wherever possible by member body.

Regardless of the method of obtaining the knowledge and skills, IAEG No.1 recommends that the professional education programme for a qualified professional accountant be no less than the equivalent of three years of study.[5]

2."**Continuing Professional Education"** (**CPE**): It sets standards for the successful development and operation of a programme of continuing professional education. IAEG No.2 recommends that all member bodies develop "programmes of continuing professional education supported by adequate teaching resources" and that member bodies should have as their objective the acceptance, as a norm for each member, of a minimum of 30 hours per annum of structured learning activity supplemented as appropriate by regular unstructured learning.[6]

3. **Test of professional competence**-This guideline does not prescribe a specific test of professional competence but covers in

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[5]. Paragraph 5, IAEG No.1, IFAC (1982)
[6]. Paragraph 16. IAEG No.2, IFAC (1982)

general terms the matters that should be considered when an educational program or professional competence is being assessed by a test.

4. **The core of knowledge, professional subjects**: This guideline specifies the core of knowledge of professional accountants which includes:

Professional Subjects:
1. Auditing;
2. Business Finance;
3. Electronic Data Processing and Information Systems;
4. Financial Accounting;
5. Managerial Accounting;
6. Taxation;

Supportive Subjects:
1. Behavioral Science;
2. Economics;
3. Law;
4. Mathematics;
5. Statistics;

5. **Practical experience**: It specifies the role of practical experience in the qualifications of accountants. IAEG No.1 recommends that a period of relevant practical work experience should be a condition precedent to the right to engage in public practice and that there should not be less than three years of that practical experience.

6. **Code of knowledge for supportive subjects**: This guideline specified in more detail the content of the supportive subjects for professional accountants.

7. **Education & training requirements for accounting technicians**: This provides guidelines for the education and training of persons who pursue careers in the field of accounting to support the work of the professional accountant.

6.3 PROFESSIONAL ACCOUNTING EDUCATION REQUIREMENTS OF SELECTED COUNTRIES

The professional accounting education requirements of selected countries are summarised below:

USA: The professional accounting education in the USA has been largely in the hands of the states. Each state has its own educational requirements. But the qualification of Certified Public Accountants is granted separately by the states under the direct supervision of American Institute of Certified Public Accountants (AICPA). There is a uniform qualifying CPA examination all over the country conducted by the AICPA.
Basic educational requirements for entry in USA vary from state to state. Many states require 5th year of college study and many states even up to the level of Master's Degree. But graduation is the minimum qualification that is required to sit for the qualifying examination. The most distinctive features of professional education in the USA in that candidates can take the qualifying test of competence prior to obtaining practical experience, and by taking advanced degrees, they often reduce the extent of the practical experience required.[7] The tendency in the USA has been to offset the need for practical experience with additional education. The AICPA will require beginning in the 21st century that new members have a total of 5 years (150 hours) of education. Eight states already have this requirement.[8] In fact, professional career in United States has placed more emphasis on education than on training.

The uniform CPA examination consists of (1) Accounting practice; (2) Accounting theory; (3) Auditing and (4) Business Law.

In addition to four subjects, several states require an additional examination on professional ethics. The CPA examination is largely conceptual in nature and broad in scope. It consists of multiple-

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7. Needles, B.E.Jr. "Standards for International Accounting Education: A Consideration of the Issues" in "Comparative International Accounting Educational Standards" ed. Centre of International Education & Research in Accounting (1990) p.10.

8. Ibid,p.10

choice questions, problems and essay questions. The Accounting practice section normally consists of five longer problems and five sets of short problems in multiple-choice format. Each problem or set of multiple-choice questions usually has a time limit of 40-60 minutes. Each sets of multiple-choice questions usually consists of 14 to 20 problems. The multiple-choice questions in the practice section will actually consists of questions on concepts rather than problems requiring computations. One the other hand, incometaxes are normally covered in two sets of short problems in multiple choice format. Normally one set of multiple-choice questions will cover financial accounting and another will cover quantitative methods and/or managerial and cost accounting. The longer practice problems often consists of two or three distinct problems on related subject matter.[9] The Accounting Theory, Auditing and Business Law sections normally consists of four or five essay.

UK: In the UK, the professional accounting education has been in the hand's of private organisations, where state has been playing a minimal role. There are six distinct professional accounting institutes in the UK, each with its own educational requirements. The minimum entry requirements for the Institute of Chartered Accountants in English and Wales (ICAEW) are five " General Certificate of Education" passes including English and Mathematics, two of which must be at "A" level; or a full time post "A" level foundation course at an approved polytechnic. Under the current English system, students of any discipline with the requisite qualifications and a non-graduate may have the opportunity to get admission in the CA course.[10] The basic requirements in English and Wales (ICAEW) are as follows:

1. **A graduate with relevant degree:** He requires a three year training period and passage of two professional examination.[11]

2. **A graduate without a relevant degree**: He requires a conversion course, plus a three year training period and passage of two professional examinations.

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9. Fetyko,D.F., et el, ed. "CPA Review", Vol.1 (2nd ed., 1981-82) p.3
10. Needless,B.E.,Jr.op.cit.p.8
11. ICAEW. ed. "Effective Education and Training for the 21st century"(1986)

3. **Non-graduate:** A non-graduate requires a completion of full time foundation course for approximately 9 months plus a four year training period and passage of two professional examinations.

The syllabi of ICAEW are as follows:

Conversion course: Financial Accounting, Data Processing, Law, Economics, Quantitative Techniques, Management Accounting.

Professional Examination- I: Financial Accounting-I, Law, Auditing-I, Taxation-I, Management Accounting and Financial Management-I.

Professional Examination- II: Financial Accounting-II, Management Accounting and Financial Management-II, Auditing-II, Taxation-II.

The membership of the Institute of Chartered Accountants in Ireland (ICAI) is obtained by passing the examinations conducted by the Institute and by completing a training period under contract with a member firm. The training period for graduate students is 3.5 years while 5 years is required for the non-graduate. Non-graduate also require a one year obligatory "Foundation Training Commencement Course". Non-graduates seeking entry into a training contract must be atleast 17. The institute's examination is in four parts comprising of three professional examinations and a final admitting examinations. The subjects included in the syllabi are:

Professional Examination-1: Financial Accounting-1, Law-1, Statistics, Organisation and Management Control System, Economics.

Professional Examination-2: Financial Accounting-II, Law-II, Data Processing and Management Information Systems, Taxation-I.

Professional Examination-3: Financial Accounting III, Auditing-I, Taxation-II, Management Accounting.

Final Examination: Auditing-II, Financial Management, Multi Discipline Paper-I, Multi Discipline Paper-II.

To be a member of the Institute of Chartered Accountants of Scotland (ICAS) a candidate must have completed a training contract in a training officer authorised by the institute in the UK and have passed the institute's professional examinations. The preliminary qualification required for training is a degree awarded by a university in the UK or another such university degree specially approved by the council or a degree awarded by the Council for National Academic Awards (CNAA). All graduates are required to undertake 3 years contractual period of practical training in an authorised training office. The institute teaches as well as examines its own students and classes are conducted on a block release basis throughout the training contract at the institute's own education centres.

The subjects included in the syllabi are:

Preliminary: A multiple choice examination in elementary accounting, Mathematical technique, Elementary taxation.

Part-1: Financial Accounting, Taxation-I, Data Processing, Auditing-I.

Part-2: Business Finance, External Reporting, Managerial Accounting, Internal Reporting, Auditing-II, Professional Organisation and Ethics.

Part-3: A multiple discipline case study to test candidates ability to apply theoretical knowledge.

Professional in the UK get their practical and theoretical knowledge through article clerkship coupled with correspondence tuition. No institutional training has been introduced. Any body wants to be a professional accountant in the UK requires a mandatory practical experience under a articleship. In fact, professional career in the UK has placed more emphasis on training than on education.

JAPAN: In Japan, if any one wants to be a certified public accountant he must have to cross three stages. He must have either a university degree or to pass a uniform examination consisting of mathematics and a thesis. He then eligible for the second examination. It is generally held once a year. This examination covers the following subjects:

(1) Book keeping; (2) Financial statements; (3) Cost Accounting; (4) Management; (5) Economics and 6) The Japanese Commercial Code.

The candidate's entire performance is considered and graded accordingly. After passing the second examination, a successful candidate is eligible to work as junior Certified Public Accountant in public practice. After three years of apprenticeship, one year of training and two years practice experience, a junior CPA must have to cross the third (final) stages a test of technical competence that covers four areas:

(1) Auditing; (2) Financial Analysis; (3) Other Accounting practices (Systems, taxes) and 4. A Thesis.

The final examination is conducted twice a year. A distinctive feature of professional accounting education in Japan is that a prospective public accountant is to face an oral test to check whether he has acquired desired competence.

INDIA: The professional accounting education in India has been basically controlled by the professional institutes. The Institute of Chartered Accountants of India (ICAI) sets the minimum entry qualification for articleship, prescribes qualifications for membership, fixes up syllabi and holding examinations. In India, the minimum entry qualification into the institute as student is graduation. But this degree shall not pertain to music, dancing,painting, architecture, biology, literature and the like. Non-graduate candidates may entry by qualifying in the entrance examination conducted by the institute. Those with an undergraduate degree in accountancy, auditing or mercantile law must have 50% of the total marks or with any other subjects in the aggregate a minimum of 55% of the total marks may enter into the course without appearing in the entrance examination. The candidates without an undergraduate degree must be atleast sixteen years of age and have to qualify in the entrance examination.

The entrance examination covers (i) Elements of Accounting; (ii) English; (iii) Elementary Business Mathematics; (iv) General Knowledge and Economics.

The pass marks in individual papers is 40% and in aggregate 50%. The candidate having articleship will undergo a practical training for a period of three years with a practicing chartered accountants. To be able to take the intermediate examination, a candidate must obtain an eligibility certificate from the Director of Studies. After passing the intermediate examination, the candidate may spend nine months to one year of the practical training in industry or another organisation approved by the institute. There are two types of examinations-Intermediate and Final. The ICAI requires a candidate to secure a minimum of 40% marks in individual papers and a minimum of 50% in aggregate at one sitting in the entire examination or group of the examinations, where passing by group is permitted. The papers included in the C.A. courses are as follows:

Intermediate Examination: 7 papers each carrying 100 marks.

Group I: Paper 1: Accounting.
Paper 2: Accounting and Elements of Income tax Law.
Paper 3: Cost Accounting.
Paper 4: Auditing.

Group II: Paper 5: Mercantile Law, Company Law and Industrial Law.
Paper 6: Business Mathematics and Statistics.
Paper 7: Organisation & Management and Economics.

Final Examination: Five core and three specialisation papers each carrying 100 marks.

Group I: Paper 1: Advanced Accounting.
Paper 2: Management Accounting.
Paper 3: Auditing.
Paper 4: Company Law.

Group II: Paper 5: Direct Taxes.
Paper 6, 7 and 8 are to be chosen from any of the combination of A, or B, or C.

Combination: Paper 6 : Corporate Management.
A Paper 7 : Managerial Economics and National Accounting.

Paper 8 : Secretarial Practice.

Combination: Paper 6 : Operation Research and Statistical Analysis.

B Paper 7 : System Analysis and Data Processing.
Paper 8 : Cost Systems and Cost Control.

Combination: Paper 6 : Management Information and Control.

C Paper 7 : Tax Planning and Tax Management.
Paper 8 : Management and Operational Audit.

PAKISTAN: The professional accounting education in Pakistan is governed by the professional institutions. The education and training of the students are carried out by the Institute of Chartered Accountants of Pakistan (ICAP). The Institute fixes the entry qualification, prescribes the qualification for membership, sets up questions,holding examinations. The minimum qualification required for students is graduation degree from an university. The Institute also admits students holding ICMA, MBA or BBA degree. The Institute offers practical training to its prospective students known as "trainee student". The period of training ranges from 4 to 5 years depending on the academic qualification. The period of training in case of commerce graduate is 4 years and for non-commerce graduate 5 years. In Pakistan, only English is allowed as medium of instruction for CA examinations.

There are two types of examinations- Intermediate and Final, which are held twice a year. A commerce graduate is allowed to take the intermediate examination after completing 7 months of training. Whereas , a non-commerce graduate is allowed to sit for intermediate examination after completing 13 months of training. Students who have passed both groups of C.A. intermediate examination are allowed to sit for final examination only after completing 12 months of training. Students failing in only one paper may be referred in that paper to sit in isolation. If students pass the referred paper, they deemed to have passed examination. If they fail, they have to appear in all papers again. The Institute if Chartered Accountants of Pakistan has prescribed a detailed list of books for its students. They are also furnished with upto-date study materials under postal tuition and correspondence course programmes. The assignments, after being checked by a panel of examiners, are returned to the students as feed backs to enable them to be at the right tracks. Performances of the students are continually checked and thus, adequate guidance are communicated. ICAP has also provides counselling services to its students, who visit or write to Board of Studies. Board also maintains a computer library to help students to develop their computer skills. The Institute has developed a "Book-Bank" to enable students to borrow books of different subjects on long-term basis in order to update the knowledge of the professional accountants. The ICAP has made "Continuing Professional Education" as mandatory.[12] The subjects included in the C.A. course in Pakistan are:

Intermediate:

Group 1:	Paper 1:	Accounting I	100 Marks
	" 2:	Accounting II	100 "
	" 3:	Auditing I	100 "
	" 4:	Cost Accounting & Taxation (50+50)	100 "
Group 2:	Paper 1:	Mercantile Law & Co. Law (50+50)	100 "
	" 2:	Economics; Business Organisation & Management (60+40)	100 "
	Paper 3:	Business Mathematics & Statistics	100 "

Final Examination:

Group 1:	Paper 1:	Advanced Accounting III	100 "
	Paper 2:	Advanced Accounting IV	100 "
	Paper 3:	Auditing II	100 "
	Paper 4:	Co. Law and Secretarial Practice	100 "
Group 2:	Paper 1:	Cost Accounting	100 "
	Paper 2:	Management Accounting	100 "
	Paper 3:	Mercantile Law	100 "
	Paper 4:	Taxation	100 "

12. The Pakistan Accountant, Vol.No.XXIII.(July-Sept.1991)p.9

6.4 PROFESSIONAL ACCOUNTING EDUCATION IN BANGLADESH

The professional accounting education in Bangladesh has been governed by the profession through the professional institutes. The Institutes prescribe entry qualification for articleship, qualification for membership, sets syllabi and holding examination. A person desiring to register as an articled student must have a second class graduation degree from a recognised university having secured at least one first division in the S.S.C or H.S.C or two second divisions in these examinations. A second class honours graduate or a second class Master degree holder of a recognised university or a second class graduate of IBA may also register as articled students of the institute. A candidate not possessing the above qualification is also eligible to get articleship provided he qualifies in the entry examination conducted by the institute.

> The entry examination comprises of one paper of 100 marks covering **(i)** English; **(ii)** Arithmetic; **(iii)** General Knowledge and **(iv)** Economics.

Only members of the institute are authorised to train articled students. The period of training ranges from 3 to 3.5 years depending on academic qualification. Second class Honors graduate and second class IBA- graduate and second class Master's degree holder require three years of training. The period of training for other students is 3.5 years. There exists two stages examination-Intermediate & Final. A student is allowed to appear in the intermediate examination after completing 15 months of articleship. After passing intermediate examination a candidate can appeal at the final examination only after completing another 12 months of service. The subjects included in the C.A course are:

Intermediate:

Group A	Paper I	: Financial Accounting I	100	Marks
	Paper II	: Auditing I	100	"
	Paper III	: Cost Accounting & Statistics (50+50)	100	"
	Paper IV	: Taxation I	100	"
	Paper V	: Commercial Law	100	"
	Paper VI	: Economics	100	"
Group B	Paper I	: Financial and Commercial Knowledge	100	"

Final Examination: It is composed of two groups, each group includes four papers-

Group I:	Paper I :	Financial Accounting II	100 Marks
	Paper II :	Management Accounting	100 "
	Paper III:	Taxation II	100 "
	Paper IV :	Company Law	100 "
Group II:	Paper I :	Financial Accounting III	100 "
	Paper II :	Auditing II	100 "
	Paper III:	Management & Data Processing (50+50)	100 "
	Paper IV :	Financial Management	100 "

6.5 LIMITATIONS OF PROFESSIONAL ACCOUNTING EDUCATION IN BANGLADESH ON THE BASIS OF LITERATURE REVIEW

An overview of the existing literature on the professional accounting education identifies the following limitations and deficiencies in respect of the professional accounting education in Bangladesh.

1. **No restrictions in entry level for non-commerce students**: The ICAB started admitting graduates from any discipline without imposing any restrictions for non-commerce students. It was probably due to shortage of commerce graduates. But in recent past commerce education has been substantially upgraded and there are adequate number of commerce graduates. Graduates pertaining to music, dancing, painting, architecture, literature, biology and the like are not allowed to register as student in many countries including India. In UK, non-graduates or students from other discipline may enter in the course by taking a "Foundation or Conversion Course". The ICAB has recently introduced "Foundation Course". But no classes have yet been taken by the ICAB.

2. **Entrance examination**: Both the ICAI and the ICAP (temporarily suspended) have been taking a comprehensive entrance examination comprising of four papers of 400 marks allowing 3 hours time for each paper. On the other hand ICAB has been taking a simple one-hour entrance examination of only 100 marks which does not include any paper on book-keeping and accounting.

3. **Non-inclusion of important subjects**: The ICAB does not include some important subject in the course like Business mathematics, Information technology, Operation research, Business organisation, Business communication etc. Moreover, the ICAB includes costing for only 50 marks although it is recognised as one of the most important subjects in modern world.

4. **No fixed passing-requirement**: The ICAB has no rigid passing requirements. Whereas ICAI has a definite passing policy which requires that a candidate is to secure a minimum of 40% marks in individual papers and a minimum of 50% in aggregate in the entire examination.

5. **No fixed date for the declaration of results**: The ICAB has no standing policy specifying the date of declaration of results. But the ICAI has a definite policy fixing approximate dates for the declaration of results.

6. **Professional ethics**: Ethics is considered as one of the vital elements of the profession. The quality and reliability of the auditor's work is thus dependent, to a great extent, on the observance of the ethics by the members of the profession. As such many countries like Japan, Germany, France, Barbados, USA, Ireland have included "Professional Ethics" as one of the subjects in their course. But ICAB lacks in incorporating such subject in curriculum.

7. **No mandatory CPE**: Continuing Professional Education has been made mandatory in many countries including Srilanka and Pakistan. But the ICAB has not yet made it mandatory.

8. **No oral test**: The professional competence of students, in many countries are being tested through an oral examination. This will, infact, test the students ability to apply his knowledge to practical situation. This practice exists in Japan, Germany, France, Belgium and the like. But the ICAB has not yet taken the matter into consideration.

9. **Thesis**: Submission of a thesis on a professional paper is required in countries like Japan, Germany, France, Belgium, Indonesia and so on. But this is not required in Bangladesh.

10. **Case study**: A paper comprising of multi discipline case study has been included in the syllabi of the many professional institutes around the world. But the ICAB has not yet included any paper on case study.

11. **Non-compliance with IFAC-guidelines**: International Accounting Education Guidelines issued by the IFAC recommends to include among other a subject on "Behavioral Science" as a supportive subjects. But the ICAB does not prescribe any subjects on behavioral science in the curriculum.

CHAPTER-VII

INDEPENDENCE OF PROFESSIONAL ACCOUNTANTS

7.1 Meaning of professional accountant's independence

7.2 Conflicts of interest in the professional accountant's role

7.3 The auditor-firm sources of power

7.4 Theories on professional accountants' independence

7.5 Factors affecting independence

7.6 Improving and strengthening auditor's independence

7.7 Independence requirements and state of independence in selected countries:

USA

UK

JAPAN

INDIA

PAKISTAN

7.8 Independence requirements in Bangladesh

7.9 State of auditor's independence in Bangladesh

CHAPTER-VII

INDEPENDENCE OF PROFESSIONAL ACCOUNTANTS

7.1 MEANING OF PROFESSIONAL ACCOUNTANT'S INDEPENDENCE

Professional accountant's independence and autonomy in the performance of the attest function has always been considered a cornerstone of the profession.[1] The audit function without independence has no value and relevance in society. The value of auditing services depends upon the fundamental assumption that professional accountants are independent of their clients.[2] Independence, according to the dictionary, means "The condition or quality of being independent, the fact of not depending on another; exemption from external control or support; individual liberty of thought and action" or "Not contingent on or conditioned by anything else; not depending on the existence or action of others, or each other" or "Not influenced or biased by the opinion of others; thinking or acting for oneself."

Independence is a sense of being self-reliant and not subordinate to the judgment of the client.[3] It is a qualitative standard that requires the accountant to act with integrity and objectivity in the performance of any and all services. In this context professional standards of the AICPA states "Independence has traditionally been defined by the profession as the ability to act with integrity and objectivity"[4]

Independence means taking an unbiased viewpoint in the performance of audit tests, the evaluation of the results, and the issuance of the audit report.[5] Not only is it essential that professionals maintain an independent attitude in fulfilling their responsibility, but financial statements have confidence in that

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1. AICPA.Restatements of The Code of Professional Ethics.p.7
2. Shockley, R.A."Perceptions of Auditor's Independence: An Empirical Analysis" in "The Accounting Review" Vol.LV.No. 4 (Oct'81)p.785
3. Hartley,R.V.and T.L.Ross, "MAS and Audit Independence: An Image Problem."The Journal of Accountancy" (November 1972)pp. 42-51
4. CCH, AICPA Professional Standards, ET. 52.02
5. Arens, A.A and J.K. Loebbecke., op. cit.,p.74

independence. These two objectives are frequently identified as independence in fact and independence in appearance. Independence in fact exists when the professional accountant is actually able to maintain an unbiased attitude through the audit, whereas independence in appearance is the result of others interpretations of this independence.

7.2 CONFLICTS OF INTEREST IN THE PROFESSIONAL ACCOUNTANT'S ROLE

The professional accountant is potentially involved in three conflicts of interests:

(1) The Auditor-Firm conflict of interest;
(2) The Shareholders-Management conflict of interest;
(3) The Self-interest-Professional Standards conflict.

These conflicts represent different sources of pressures on the professional accounting to produce a report not according to professional standards and represent potential threats to the independence of the professional accountant.

i) **The auditor-firm conflict of interests**: The professional accountant's report may contain fact and evaluations that may cause potential investors not to invest in the firm and creditors to decide against the granting of loans. As such the value of stock may go down and management might come under criticism. In such situation management and shareholders have the same interest. Management (Firm) with the tacit agreement of shareholders, therefore, has much to gain by influencing the auditor's report in order to present more favorable results before third parties, and a potential conflict of interest is thus created between the auditor and firm.

ii) **The shareholders-management conflict of interest**: The professional accountant may be caught between shareholders and management. To the extent that shareholders rely on the auditor's report in their evaluation of management's performance, the accountant's fee and freedom of action may be dependent on the content of the report. Management is likely, therefore, to try and influence the auditor to produce a more favourable report in order to impress shareholders.

iii) **The self-interest—professional standards conflict:** A professional accountant may find himself in a situation where he can benefit from violating professional standards or loss by refusing to violate the standards. He also may be tempted to agree to the wishes of management rather than risk being replaced by a more compliant accounting firm. These can be viewed as internal conflicts between the professional accountant's self-interest and his professional integrity.

7.3 THE AUDITOR-FIRM SOURCES OF POWER

It is expected that professional accountants will resist pressures expected by the firm to produce a report that is not based solely on professional standards. The ability of professional accountants to withstand such pressures is a function of the relative powers of the parties to the conflict. The sources of power of firm and professional accountants are summarised below.

The firm's source of power: Firms can choose the professional accountant from a large group of professionals. A firm selects the auditor, determines his employment condition, and displaces him at will. Moreover, firm's management provides the auditor with the facilities and information needed for the performance of his duties. Thus the firm's sources of power are:
(1) Ability to hire and fire auditor;
(2) Ability to determine auditor's fees;
(3) Ability to determine work condition.

Auditor's source of power: Professional accountants also have some powers. Their power lies in the services they render and depends on the importance attributed by clients to these services. One of the professional accountant's sources of power stems from the nature of the problem they solve. The problem solved by the professionals can be routine or nonroutine. In general, the highest the proportion of nonroutine problems dealt by a professional, the more power he wields vis-a-vis the client. Another source of professional accountant's power stems from the party benefitting from the service. The beneficiary of the service may also be of two types:

i) **Pay client and ii) Not pay client.**

In this context, in general, the higher the proportion of services the professional renders directly to the playing client, the more important are these services to him and the greater professional's power. Another important professional accountant's source of power is the code of professional ethics and standards. Ethics and standards prescribes professional code of conduct is vigorously and visibly enforced, the professional accountants power increases. Thus professional accountants source of power stems from:

1. Nature of the problem solved (Routine or nonroutine).
2. Beneficiaries from the services (Firm or third parties).
3. State of professional ethics and standards.

7.4 THEORIES ON PROFESSIONAL ACCOUNTANT'S INDEPENDENCE

Theories relating to professional accountants' independence are summarised below:

POWER THEORY: This theory was developed by A. Goldman and B. Barlev. According to this theory independence of auditor (professional accountant) is determined by the amount of power the auditor has compared to the auditee. Independence is dependent on the power balance between the auditor and the firm. If the auditor is in a powerful position compared to his client then he can remain independent in rendering his audit work. According to Goldman and Barlev power relationships indicates a power asymmetry in favour of the firm. They argue that attempt to influence the auditor to take an action that is not inconformity with professional standards may be successful because of an asymmetrical power relationship infavour of the firm in a conflict situation.[6] According to them, the power of a professional accountant vis-a-vis a client may be described by the following matrix.

	Problem solved	
Beneficiary	Non-Routine	Routine
Paying clients	1) Highest	2) Medium
Others	3) Low	4) Lowest

The amount of power wielded by professionals vis-a-vis paying clients

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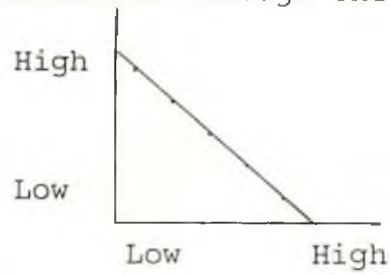
6. Goldman, A. and B.Barlev., "The Auditor-Firm Conflict of Interests: It's Implications for Independence". in "The Accounting Review" (October 1974)p.712

These two experts believe that the auditing profession is characterized by Cell No.4. The auditor is so classified because the auditor is providing a service not for the paying client, but primarily for the benefit of a third party. In addition, the auditor service is considered to be basically routine type. According to Goldman and Barlev, there are mainly two reasons for which a professional accountant is in a low position of power. The first one is related with the nature of professional accountant's work. Professional accountant's work is regarded as a routine work. Goldman and Barlev model suggests that the more non routine the auditors service, the greater the importance the firm attaches to the specific auditors expertise. The result would be an increase in the power of the auditor. Thus this model leads to the conclusion that management advisory services (non-routine) tend to increase the independence of the auditor as these services are non routine in nature. The relation between power and degree of routinism of auditor's service may be described through the following diagram.

Power of withstand
threats of replacement



Routinism of auditor's service.
[Source:The Accounting Review,April,1976,p.338]

The second reason for which the auditor is in a low position of power is related with the nature of party benefitting from the services. The services rendered by the professionals do not always directly benefit the party paying for it, rather they work for the benefit of the third party. As a result, professionals are lacking power. Thus Goldman and Barlev commented:

> In general, the higher the proportion of services the professional render directly to the paying client, the more important are these services to them and the greater the professional's power.[7]

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7. Ibid,p.711

Goldman and Barlev concludes that power relationships indicates a power asymmetry in favour of the firm. This is so because the traditional sources of professional power are lacking in auditing due to the routine type nature of auditor's work and their service is primarily for the benefit of the third party. Thus they concluded that pressures to violate professional rules of conduct are inherent in the firm-auditor relationships, while auditor's ability to resist such pressure is limited.[8]

CRITICISM OF POWER THEORY: The power theory has been criticised for the following reasons.

1. **Management advisory services (non-routine work) are of little value to the firm**: Power theory leads to the conclusion that management advisory services (non routine work) tend to increase the independence of the auditor. But Nicholas and Price criticised this idea. They are of the opinion that management advisory services are of little significance to the firm. These consulting services are not important than audit. The requirement of a third party compels the firm to conduct an audit. Generally, the firm does not expect to gain new information from the audit i.e. the firm does not depend on the audit to detect or prevent irregularities, or to determine financial position or results of operations. The information from the non routine services or even the actual information from the audit is of little or no significance to the firm.[9] Thus in conflict situations, the professional accountant's activities are not highly valued by the firm.

2. **The relation between the parties are unchangeable**: Goldman and Barlev have suggested that changing the attest function from routine to non routine does alter the motivation of the firm or its valuation of a specific auditor's expertise. But this idea has been questioned seriously.A firm places a low value on the auditor's services because of the nature of the firm's relationship to third parties; not because of the nature of requirement of the regulatory body or other reasons.A firm can not perform audit; only a

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8. Ibid,p.712

9. Nicholas, D.R.and K.H.Price.,"The Auditor-Firm Conflict: An Analysis Using Concepts of Exchange Theory". in "The Accounting Review" (April 1976)p.339

professional with the appropriate credentials can. Changing the audit function from routine to non routine would not alter this basic relationship between the auditor, the firm and the third party. Since this basic relationship between the three parties remains unchanged, it seems unlikely the goals of each party would change. In this situation, the firm would not place any greater significance on the services the auditor can offer regardless of how non routine the auditing function might be. Thus in the conflicting situation the non- routineness of the auditor's service does not increase the significance of the auditor's service.

3. **Non-routinism does not impact on power**: The assumption underlying the Goldman and Barlev model is that in case of more non routine auditor's services, the greater the importance the firm attaches to the specific auditor's expertise. This relationship between power and routinism is not justified. Changing the auditing function from routine to non routine does not alter the dependency of the firm on the auditor, does not change the firm's basis of social power or willingness to utilise this power. Regardless of how non- routine the auditing function might be, the firm still retains the ability to hire and fire the auditor. In addition, the firm would not be less likely to employ reward and coercive power if the final report were not consistent with its desires, regardless of the non-routine nature of the auditing function.[10]

4. **Routinism in the attest function has a favourable impact on power**: Goldman and Barlev (G & B) model is based on the assumption that the higher the proportion of non routine activities performed by the professional, the more power the professional wields. But this is not true. Rather the power of the auditor to withstand attempts to influence the audit is positively related to the degree of routinism of the audit function. It is always argued that in a more routine and structured environment, violations or improperties on the part of the firm in pressuring the auditor to an inappropriate report may be detected more easily. In addition, such cases may be sanctioned more easily or prosecuted successfully by regulatory body or by the courts.[11]

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[10]. Ibid.p.339

[11]. Ibid.p.341

EXCHANGE THEORY: Nicholas and Price severely criticised and challenged "Power Theory". Power theory developed by Goldman & Barlev suggests that the power of the auditor increases with the increase of non routine functions. Nicholas and Price differs with this opinion. Instead of power theory, they analysed the relationship by using "Exchange Theory" which stands on the different pattern of dependencies.

According to Cartwright and Zander (1968.p.216), "power is defined as the capability of one party to influence the attitude or behaviour of another party." Thus, in the auditor-firm conflict situation, the power of the firm can be represented by its ability to influence the audit of the another. "The independence of the auditor can be represented by the auditor's ability to withstand such influence- attempts. Understanding the exercise of power between two parties and success of such attempts to influence behaviour require examination of the relationship between both parties and their relationship to third parties. These relationships can be analysed by using the concepts of dependency as related to power formalised by Emerson."

Describing a two party relationship, Emerson (1962,p.32) stated that power of A over B rests implicitly in B's dependence on A. The greater the dependency of one individual on the rewards and/or punishments that other party can mediate, the greater will be the power of the party to gain compliance with his or her wishes. Since power in any dyadic relationship is a function of the dependency of each party on the other, the alleged asymmetrical power relationship between the auditor and the firm can be analyzed by examining the pattern of dependency between both parties. The auditor-firm relationship can be explained using dependency concepts of Emerson through the following pair of equations.

1) Pab = Dba
2) Pba = Dab

Where P = Power
a = Firm
b = Auditor
D = Dependency

Equation No. (1) suggests that the power of the firm over the auditor is equivalent to the dependency of the auditor on the firm. In the same way, Equation No. (2) expresses that the power of the auditor over the firm is equivalent to the dependency of the firm on the auditor.

Goldman and Barlev suggests that the power relationships indicates a power asymmetry infavour of the firm due to the result of the audit function being routine compared to non- routine or that a third party is the preliminary beneficiary of the auditor's services. But Nicholas and Price opposed this view and argued that imbalance of power is a result of the differing pattern of dependence that exists between the auditor and the firm. They argued that changing the auditing function from routine to non routine does neither alter the dependency of the firm on the auditor nor change firm's basis of social power. Instead, they suggested that the power of the auditor to withstand attempts to influence the audit is positively related to the routinism of the audit function. In a more routine environment, violations on the part of the firm in pressuring the auditor to issue an inappropriate report may be detected more easily. The relation between power and the degree of routinism of the audit function according to Exchange theory, is shown in the following figure.

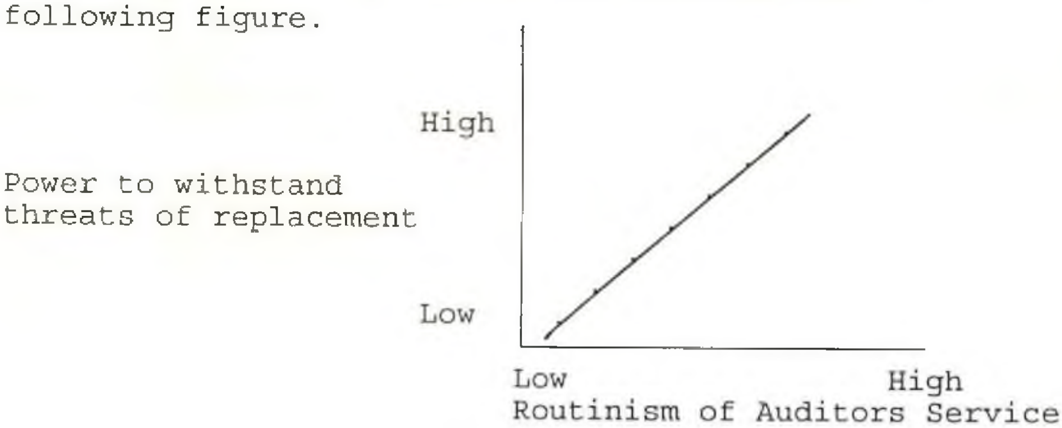

Diagram shows the relation between power and degree of routinism of attest function.

[Source: The Accounting Review,April 1976,p.340]

Nicholas and Price argues that the firm may possess considerable reward and coercive power over the auditor, but the exercise of such power in obtaining compliance from the auditor depends on the rewards and costs that the firm perceives that will accrue from such actions. In the same way, whether the auditor is responsive to the firm's influence attempts may depend on whether auditor perceives that the rewards from compliant behaviour will outweigh the costs. In effect, the exercise of power implies an exchange relationship.

7.5 FACTORS AFFECTING INDEPENDENCE

Following are the factors that affect independence of auditors:

1. **Auditor's appointment and replacement**: The very process of auditor's appointment and replacement is regarded as one of the dominant factors that affects the independence. If auditors are frequently come under hire and fire they will have a greater uncertainty in their minds so that they will not work independently. So there should have some provisions which will increase the ability of the auditor to withstand pressure to comply with the firm's demands. Provisions that make the replacement of auditors by the firm more difficult will increase auditor's power. In order to ensure independence, corporate laws and auditor's code of conduct of different countries thus contain certain provisions as to the appointment and replacement of auditors. Many professional institutes in different countries require a member who was offered an audit engagement to first communicate with the former auditor and to enquire whether there is any professional reason why he should not accept the nomination. The SEC in the USA requires a registrant to report a change in the accountant and to indicate whether there were disagreements with the former accountant that, if not resolved to his satisfaction, would have caused him qualify his opinion. A letter by the former accountant commenting on the registrants report must be submitted along with the report. This report requirement in effect increases auditor's independence.

2. **Accounting standards**: Accounting standards are considered as very important factors that affect independence. The flexibility of accounting techniques is one of the factors decreasing auditor's independence.[12] If there exists questionable multichoice accounting rules then pressure from client's side will be more to select a rule which will show a better managerial performance. Regulatory bodies should specify the rules for dealing in specific situations so that auditors can get clear-cut rules to deal with and thereby auditor's can enjoy more independence.

3. **Auditing standards**: Auditing standards are also factors that affect independence. Definite auditing standards increase

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[12]. Hartley, R.H.and T.L.Ross.,op.cit.p.45

independence. As such auditing standards should be made more clear so that the auditor can work more objectively.

4. **Legal liability**: Legal liability is another factor that has an influence on independence."Although no contractual relations exist between auditor and third parties, it was recognised some time ago that third parties are major users of auditor's services and therefore their interest should be protected. An auditor may be thus penalised severely whenever a court concludes that he is not independent. The courts have certainly provided major incentives for auditors to remain independent." Goldman & Barlev is of the opinion that legal liability may be the most effective method of increasing auditor's independence.[13]

5. **Audit committee**: An audit committee can be used as an important tool in ensuring independence. There should be an audit committee in every company composed of outside directors. The committee will be responsible for maintaining an environment for independent audit. Obviously, such an arrangement limits the power of the firm's management over the auditor and thereby ensures independence.

6. **Fees**: Auditor's fees is also a factor that has an influence on independence. The amount of fee income from company audits may well be a significant proportion of the total income of the auditor, and thus there is a danger of him being too dependent on particular fees from companies. An auditor may not be able to remain independent in his judgment because of the danger of losing the audit fee as a result of a dispute with it.

7. **Personal relationship**: Personal relationships between the auditor and the client is another factor affecting auditor's appearance in independence.

8. **Financial interests**: Financial interest has also a definite impact on independence. If the auditor, or members of his staff, had financial interests in a client company then there would be a loss of apparent independence, and also a possibility of the auditor being mentally influenced by them during his audit.

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[13]. Goldman & Barlev., op.cit.p.714

9. **Conflicting interests**: Conflicting interest is another factor affecting auditor's independence. The auditor may have interests involving a client company which conflict at least with the appearance of independence. These can include the auditor having clients in competition or dispute with one another; management services offered by the auditor; and other past and future appointments related to the company which the auditor may have been or could be involved.

10. **Management advisory services (MAS)**: Management advisory services has been the most important and controversial factor affecting independence. Various research studies have been conducted on this topics producing conflicting results. Certain empirical results support for the position that rendering MAS increases audit firm's independence. However, evidence and arguments opposing the provisions of MAS to audit clients are more common. Critics argue that independence of auditors is impaired by the performance of MAS. Cohen, M.F. indicated that consulting services that go beyond those related to information and control systems raise serious questions concerning auditor's independence.[14]

11. **Size of auditing firms**: Size of the firms is recognised as one of the vital factors affecting independence. It is argued that larger audit firms are often considered less subject to loss of independence than are smaller firms. Large firms are more able to resist pressures because they are less dependent on any single client firm and more likely to behave independently.[15]

12. **Tenure**: An audit firm's tenure has been considered as a factor affecting independence. Long association between corporation and an accounting firm may lead to such close identification of the accounting firm with the interests of its client's management that truly independent action by the accounting firm becomes difficult.[16] On the other hand some people argue that a firm gains a deeper familiarity and insight into the client's operations through audit repetition, thus facilitating more efficient, less costly audit service than is possible for a fresh auditor.

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14. Carey.J.L., op. cit.,pp.198-99
15. Mautz, R.K, and Sharaf, "The Philosophy of Auditing" (AAA, 1961)p.213
16. U.S. Senate (1976)p.21

13. **Competition**: Competition is another factor affecting the independence of auditor. There exists two point of views with respect to the desirability of competition. Some believe that there exists too little competition that makes problem to the public accounting profession. Others oppose this view.

14. **Auditor's reputation/image**: Auditor's reputation or image is an important factor affecting independence. Reputation gives auditors incentives to be independent.[17] It is costly to establish a track record and reputation for discovering and reporting contract breaches, but once established, reputation increases the demand for the auditor's services and fees. If found to have been less independent than expected, the auditor's reputation is damaged and the present value of the auditor's services is reduced.[18]

7.6 IMPROVING AND STRENGTHENING AUDITOR'S INDEPENDENCE

If people starts to doubt the independence of auditors then audits may be perceived to be valueless. Thus auditor's independence should be ensured so that users can rely on reports with complete confidence. The following measures can be taken to improve and strengthen auditor's independence.

1. **Government involvement in auditor's appointment**: It is often argued that true independent auditor is one employed directly by the government, who has nothing to lose through fear, or gain through favour, in conducting an audit. Auditor's appointment by the shareholders or directors implies a certain lack of independence. Thus government involvement in appointing auditors can improve auditor's independence. Auditor's appointment by the government would give the auditor security of employment and leave him free to give a totally objective opinion on the accounting information in the company's affairs, although it is expensive and difficult to administer.

2. **Establishing audit committee**: The independence of auditor can be strengthened by establishing audit committees.These committees will be responsible for maintaining an environment for independent

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[17]. Benston, G.J., "Accountant's Independence and Financial Reporting", Financial Executive (August 1975) pp.10-14

[18]. Watts,R.L.and J.L. Zimmerman, op. cit.,pp.315-316

audit. The existence of these committees, with specific functions, ensures that the auditor can get his views heard by the Board of Directors. Audit committees, in fact, will reduce the power of the management to pressurise the auditor.

3. **Disclosing financial interests and personal relationships**: By disclosing financial interests and personal relationships, the independence of auditors in appearance can be improved. At present, there are no statutory requirements that an auditor should even disclose these interests. In order to make his position clear, an auditor should be required to disclose full details of financial interest (owning shares) he might have in a client company. This will undoubtedly clear away auditor's position and thereby increase auditor's independence.

4. **Clear-cut accounting standards**: Clear-cut accounting standards will strengthen auditor's independence. The flexibility of accounting techniques i.e. multi-choice accounting principles is regarded as the biggest problem so far as appearance of independence is concerned. Thus, reducing the auditors' choice among many principles available is likely to increase the possibility of detection of this practice and thereby decrease pressures on auditors and increase independence.

5. **Clear-cut auditing standards**: Another way to improve and strengthen auditor's independence is to set a clear-cut auditing standards. Auditing standards should be made more clear so that auditors can work more objectively and thereby strengthening their independence.

6. **Legal liability**: The penalty on auditors for their works may improve the independence of auditor. If an auditor is not independent he should be severely punished.

7. **Strict professional ethics**: Existence of strict professional ethics would ensure independence. Professional accountants must be guided by the professional ethics. If any member fails to observe ethics properly, his membership should be cancelled.

8. **Rotation**: The independence of auditors can also be strengthened through mandatory rotation of auditors. The Metcalf Staff Study

recommended mandatory rotation of auditors to ensure independence.[19] It has been suggested that the long-term nature of the company audit engagement tends to create a loss of auditor independence, due to an increasing familiarity with the company's management and staff which works against the shareholders and the public's interest.

9. **Divisionalised auditing firms**: Auditing firms should be encouraged to have separate divisions for each type of responsibilities if it is economically feasible,because this will improve and strengthen independence. In an empirical study it is observed that independence-concern decreases when non-audit services are conducted by a separate division.[20]

10. **The audit court**: It is argued that auditor can never be independent in appearance for several reasons. Thus the task of independent audit judgment should be removed from the auditor and given to a judicial audit court where eminent professional accountants would be appointed to judge the suitability of the accounting practices utilised by the company in producing its annual financial statements. The auditor in this situation would act as an evidence gatherer, responsible only for presenting the accounting facts to the court for its judgment and opinion.[21]

11. **Peer review**: "Peer Review" programme has been considered as one of the effective measures improving and strengthening professional accountant's independence. It is basically an audit of the auditor conducted by the professional bodies. Its objective is to assist an audit firm in determining whether its audit practice is conducted effectively and in accordance with the auditing standards.

12. **Penalizing firms**: Penalizing firms may be used as a measure for improving auditors' independence. The professional's present disciplinary process is criticised,because it actually punishes individuals, not firms. The Cohen Commission thus recommended to penalize firms.

13. **Disclosing disciplinary activities**: The action taken by the disciplinary committee should be made public so that it would

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19. Metcalf Staff Study,op.cit.,p.21
20. Pany,K.and P.M.J.Reckers.,op. cit.,pp.50-61
21. Lee,T.,"Company Auditing",ICAS,Gee & Co.(2nd edition 1982) p.101

increase public confidence which, in turn, ensure independence. The secrecy with which the professional institutes operated,made it impossible to evaluate the effectiveness of the disciplinary mechanism.

14. **Continuing professional education**: The existence of Continuing Professional Education (CPE) programme helps eliminating substandard performance which,in turn, strengthen independence. Realising this, professional bodies of different countries have made CPE mandatory.

15. **Restrictions on certain type of MAS**: Restrictions on certain type of MAS may be considered as a measure of improving independence. Thus some professional bodies around the world have imposed restrictions on certain types of consulting services which would create a loss of independence or are predominantly commercial in character.

7.7 INDEPENDENCE REQUIREMENTS AND STATE OF INDEPENDENCE IN SELECTED COUNTRIES

The independence requirements of selected countries are summarised below:

USA: In the USA, both the government and the profession have been playing a vital role in ensuring auditor's independence. The sources of independence requirements here stem mostly from AICPA's code of professional ethics and the SEC's application of independence standards. A stringent and an elaborate written specification of independence rules have been prescribed in the USA. Referring to the state of independence Robertson commented that America in particular has produced for more stringent rules on independence than other countries.[22]

The accounting profession in the USA has not always had a strict rule on independence. Until 1933, it was common practice for public accountants to own stock and/or hold an office or directorship in companies they audited. The Federal Trade Commission's first regulations provided that accountants were not independent with respect to any client in whom they had any interest, directly or

[22]. Robertson,B.M., op.cit., p.365

indirectly, or with whom they are connected as officer, director or employee. The SEC regulations issued in 1936 changed the rule to prohibit any substantial interest, direct or indirect. Disputes soon developed over the meaning of "substantial" and this caused the SEC to delete the word in 1950.[23] The US Government through the Securities and Exchange Commission (SEC) has taken steps to induce professional accountants to remain independent. In an attempt to foster and preserve independence, the SEC has adopted Rule 2-01 of Regulations S-X which is as follows:

a. The Commission will not recognise any person as a certified public accountant who is not duly registered and in good standing as such under the laws of the place of his residence or principal office.
b. The Commission will consider an accountant not independent with respect to any person or any of its parents, its subsidiaries or other affiliates (1) in which, during the period of his professional engagement or at the date of his report, he or his firm or a member thereof, had, or was committed to acquire, any direct financial interest or any material indirect financial interest; or (2) with which, during the period of his professional engagement, at the date of his report or during the period covered by the financial statements, he or his firm or a member thereof, was connected as promoter, underwriter, voting trustee, director, officer, or employee.
c. In determining whether an accountant is in fact independent with respect to a particular registrant, the commission will give appropriate consideration to all relevant, circumstances including evidence bearing on all relationships between the accountant and that registrant, or any affiliate thereof and will not confine itself to the relationships existing in connecting with the filing of reports with the Commission.

Under Rule 2(e) the Commission may deny, temporarily or permanently, the privilege of appearing or practicing before it in any way to any person who is found by the Commission after notice of and opportunity for hearing in the matter (i) not to possess the requisite qualifications to represents others or (ii) to be

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[23]. Causey, D.Y., op.cit.p.25

lacking in character or integrity or to have engaged in unethical or professional conduct, or **(iii)** to have willfully violated, or willfully aided and abetted the violation of any provisions of the federal securities laws, or the rules regulations there under.

In addition to Rule 2-01 of Regulation S-X, there are specific additional requirements on independence which are detailed in periodic releases of the commission. The ASR No.126 of 1972 issued by the SEC contained specific requirements which has had an important effect in ensuring auditor's independence. The SEC interpretations on independence are made by staff members in the office of the accountant. The accounting profession in the USA has also been playing a significant role in ensuring auditor's independence. The profession through the AICPA has taken steps to induce practitioners to remain independent and to strengthen public confidence in the auditor's independence. The principal approach to solve the independence problem has been through the promulgation of a code of ethics by the AICPA. The rules, interpretations and rulings on independence are the most attention in the AICPA's concepts than most other areas of the code. There are atleast 9 interpretations and over 60 rulings related to independence.[24] The following rules of conduct issued by the AICPA are directly concerned with fostering and preserving independence.

Rule-101: A member or a firm of which he is a partner or shareholder shall not express an opinion on financial statements of an enterprise unless he and his firm are independent with respect to such enterprise. Independence will be considered to be impaired if, for example:

A. During the period of his professional engagement, or at the time of expressing his opinion, he or his firm
   1. a. Had or was committed to acquire any direct or material indirect financial interest in the enterprise ; or
      b. Was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the enterprise ; or
   2. Had any joint closely held business investment with the

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[24]. Carmichael and Willingham.,op.cit.,p.43

enterprise or any officer, director or principal stockholder thereof which was material in relation to his or firms net worth; or

3. Had any loan to or from the enterprise or any officer director or principal stockholder thereof. This latter proscription does not apply to the following loans from a financial institute when made under normal lending procedures, terms and requirements :
   a. Loans obtained by a member or his firm which are not material in relation to the net worth of such borrower.
   b. Home mortgage.
   c. Other secured loans, except loans guaranteed by a member's firm which are otherwise unsecured.

B. During the period covered by the financial statements, or the period of the professional engagement or at the time of expressing an opinion, he or his firm
   1. Was connected with the enterprise as a promoter, underwriter or voting trustee, a director or officer or any capacity equivalent to that of a member of management or of an employee; or
   2. Was a trustee for pension or profit-sharing trust of the enterprise.

Rule 102-Integrity and objectivity: A member shall not knowingly misrepresent facts, and when engaged in the practice of public accounting, including the rendering of tax and management advisory services, shall not subordinate his judgement to others. In tax practice, a member may resolve doubt in favour of his client as long as there is reasonable support for his position.

Rule 302-Contingent fees: Professional services shall not be offered or rendered under an arrangement whereby no fee will be charged unless a specified finding or result is attained, or where the fee is otherwise contingent upon the findings or results of such services.

Rule 504-Incompatible occupations: A member who is engaged in the practice of public accounting shall not concurrently engage in any business or occupation which would create a conflict of interest in rendering professional services. If independence either because of violation of code of conduct or because of an improper state of mind is questioned or questionable a public accountant may be subjected to action of Trail Board of the institute. This board has authority to suspend or expel members from the AICPA for violations of professional ethics which results in publication in the CPA Newsletter.

In an attempt to ensure and strengthen auditor's independence, the following measures have been taken in the USA in addition to the SEC and AICPA's specific rules on independence.

1. **SEC-disclosure requirements**: In an attempt to ensure independence the SEC has amended "Form 8-K" to broden its disclosure requirements. The SEC now requires firms to report any replacement of auditors through "From 8-K".[25] Firms making any changes must state whether there were any resolved or unresolved disagreements with the former auditor concerning accounting principles, auditing procedures or financial disclosure. The filing must be accompanied by a letter from the former auditor giving his or her version of the termination.

2. **Audit committee**: An audit committee is composed of outside directors who are responsible for helping auditors remain independent of management, has proved effective in safeguarding auditor independence. Thus Newyork Stock Exchange has made it mandatory for all listed companies to establish an audit committee.[26]

3. **Division for accounting firms**: In order to improve the quality of audit and to strengthen independence, the AICPA has established a division for CPA firms. The division has two sections: the SEC Practice Section (SECPS) and the Private Companies Practice Section (PCPS). The firms belonging to the SEC Practice Section is to follow some requirements.

4. **Quality control standards** : In order to improve the quality of audit, the AICPA established the Quality Control Standards Committee which has identified nine basic elements of quality control. The CPA firm must agree to, and adhere to these quality control standards.

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[25]. The SEC.ASR.No.165(1974)

[26]. Arens and Loebbeck.,op.cit.,p.79

5. <u>**Partner rotation**</u> : The assignment of a new audit partner to be in charge of each SEC engagement is required if another audit partner has been in-charge of the engagement for a period of seven consecutive years. The incumbent partner is prohibited from returning to in-charge status on the engagement for a minimum of two years.[27]

6. <u>**Concurring partner review**</u> : All audits of partner of publicly held companies must have a review by a partner other than the engagement partner, who must concur with the audit report before it can be issued.

7. <u>**Restriction on certain type of services**</u> : The CPA firm must refrain from performing certain types of management advisory services for audit clients that are publicly held. These services include psychology testing, public opinion polls, merger, or any services which would create a loss of independence.

8. <u>**Reporting on MAS performed**</u> : An Auditor is required to report to the audit committee or board of directors of each SEC audit client the types of management advisory services performed for the client during the audit year, and the total fees for such services received.

9. <u>**Mandatory peer review**</u> : In order to improve the quality of audit and to strengthen independence, the AICPA has introduced a review programme under which each firm must have a periodic review of the quality controls and auditing and accounting practices by another CPA firm.

10. <u>**Continuing education**</u> : In order to keep professional accountants in touch with the latest development in education, the AICPA has introduced mandatory Continuing Professional Education for all accountants in public practice as requirement for retention of rights to practice.

11. <u>**The"Public Oversight Board" (POB)**</u> : The AICPA has established a" Public Oversight Board for Securities and Exchange Commission Practice Section" in an attempt to discipline its members more effectively so that auditors independence can be ensured. This board is composed of the members from outside public accounting profession.

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[27]. Ibid,p.21

12." <u>Joint Ethics Enforcement Plan" (JEEP)</u> : The AICPA has introduced "Joint Ethics Enforcement Plan" through the integration of the ethics committees, the trail boards of state CPA societies, and the institute to discipline its members effectively and thereby improve independence.

13. <u>Independence "Sign Off" report</u> : Many accounting firm in the USA have started adopting a type of independence 'sign off' report which contains some information concerning independence.

14. <u>Independent standard setting body</u> : An independent standard setting body will enhance public confidence which, in turn, improve independence in appearance. There exists an independent standard setting body in the USA named "Financial Accounting Standards Board". It has been provided with the power to formulate accounting standards.

15. <u>Separate regulatory agency</u>: There is a separate independent regulatory agency named the "Securities and Exchange Commission" which administers various statutes and thereby regulates the public accounting profession in the USA. It has the power to make and enforce both accounting and auditing rules. Violation of any rules are strictly governed by the commission.
Legal environment in the USA also favours auditors to remain independent. Because American legal system, with its class actions and contingent fees, makes it very much easier for plaintiff to collect damages from a negligent auditor. This, in fact, escalate public confidence which in turn ensures independence in appearance.

<u>UK</u>: A new Companies Act has been enacted in the UK in 1989. It introduces new rules to ensure that only persons who are properly supervised and appropriately qualified are appointed company auditors, and that audits are carried out properly and with integrity and independence. As such, there will be two types of supervisory body : 1) Recognised Supervisory Bodies (RSB) of which all company auditors must be members, 2) Recognised Qualifying Bodies (RQB), which will offer the professional qualification required to become a member of an RSB. The Recognised Supervisory Bodies must ensure that only (i) individuals who hold appropriate qualification and (ii) firms controlled by qualified persons are eligible for appointment as auditors. The RSB must also ensure that

such persons are fit and proper and that audit work is carried out properly and with integrity.

In addition to ensure independence, the Companies Act, 1989 contains the following provisions relating to auditor's ineligibility:

1) A person is ineligible to be a company's auditor if he is an officer or employee of the company or a partner or employee of such person.[28] It also provides that a person will be ineligible if he is not sufficiently independent of the company although it leaves lack of independence to be defined by regulation.

2) If an auditor ceases to be eligible under the rules of the Recognised Supervisory Board [RSB] of which he is a member, he must immediately vacate office and give written notice to the company. If such a person continues to act, or fails to give written notice, he is guilty of an offence.

3) If auditor acts when ineligible the Secretary of State may direct the company to appoint another auditor to carry out a second audit or to review the first audit stating whether a second audit is required. If a direction is given by the Secretary of State, the company has 21 days to comply.[29] The Secretary of State must send a copy of the direction to the registrar and the company must, within 21 days of receiving any report on the first audit, send a copy of that report to the registrar. The costs of the review and the second audit may be recovered from an auditor who continues to act while knowing himself to be ineligible.

The Companies Act also contains some provisions designed to protect the auditor from dismissal without recourse. Whenever an auditor is going to be removed he must be notified. On receiving the special notice proposing his removal, an auditor may make written representation which must then be circulated to company members by the company or,[30] where this is not possible, the representation may be read to the meeting at which the auditor's removal is considered.[31] Apart from being removed by the company, an auditor may also resign. If he believes that there are matters, about which company members ought to know, he may also requisition an extraordinary meeting for the purpose of considering the

[28]. Sec.27 of the Companies Act,1989

[29]. Sec. 29 of the Companies Act,1989

[30]. Sec.388(2)(3) of the Companies Act,1985

[31]. Sec.388(4) of the Companies Act,1985

circumstances of his resignation.[32] The Companies Act lacks in containing certain rules which could cause loss of independence. It does not contain provision restricting auditors to invest in client's company. It fails to contain a provision prohibiting a member from engaging certain types of consulting services. It does not also contain a provision prohibiting an auditor to depend on only one client. Furthermore, auditors are provided with enough power to report any relevant matters directly to regulatory authorities which they obtain during their course of work under the Financial Service Act of 1986.This will help auditors to remain independent of management.

The profession, on the other hand, has taken various steps to ensure auditor's independence. In view of the growing importance of the profession's need to remain independent, the ICAEW has established a detailed statement on professional independence which has included 32 rules covering matters relating to fees, personal relationships, financial involvement and conflict of interest. Some of the important rules contained in the independence statement are : Restriction on auditor to invest in client's company; fees from any one source should not exceed 15% the gross recurring professional fees; personal relationship with the officer of the client's company is prohibited; loans to or from the client, its officer directors are prohibited. In addition, the institute has recently issued a statement entitled "Changes in a Professional Appointment" which deals with possible problems arising on the transition from one auditor to another.
Moreover, there is an independent standard setting body in the U.K. and Continuing Professional Education [CPE] has also been made compulsory for practicing member.[33]

JAPAN: There are two important laws in Japan: The Securities Exchange Law and the Commercial Code. The Ministry of Finance establishes the reporting standards under the Securities Exchange Law. On the other hand, the Ministry of Justice establishes the reporting standards under the Commercial Code. There are two types of audit viz. statutory audit and independent audit. Under the Commercial Code, a statutory auditor is employed by the corporation

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32. Sec.391(1) of the Companies Act,1985

33. Anderson, Rex., "Continuing Professional Education", in "The Cost and Management" Vol. XVI. No.6 (Nov-Dec, 1988), ICMAB.p.26

who is not required to be a Certified Public Accountant. Whereas the independent auditor is appointed by the shareholders at the annual general meeting with the approval of statutory auditors, who must be a Certified Public Accountant registered with the JICPA. Corporations whose securities are listed on a Japanese Stock Exchange or which plan to publicly offer or sell their securities are subject to audit by independent public accountants under the Securities and Exchange Law. The Business Accounting Deliberation Council, an advisory body to the Ministry of Finance has been given the power to prepare accounting and auditing standards.[34] The Japanese government through Ministry of Finance exercises significant control over the accounting profession. In order to ensure independence Japanese government has taken various steps. As such, both by statute and by an ordinance of the Ministry of Finance, a CPA must not hold "a financial interest" in a client, and the auditor's opinion must so state. Furthermore, an auditor cannot serve a client in the cost year either he or his spouse had been an officer or employee or had any other important interest in the client. Besides this, to ensure independence, fees of the statutory auditors of publicly held companies are set by the agreement between the JICPA and the Kei-dan-ren (national association of manufacturer). Moreover, the Ministry can even establish a fee structure which is binding on all independent auditors.

The accounting profession, on the other hand, has also been playing a significant role in ensuring auditor's independence. Rules relating to independence have been established by the Certified Public Accountants Law and in further detailed by the JICPA with respect to financial and other relationships with clients. The JICPA in its publication relating to independence states:

> The audit of financial statements published by corporation must be conducted by a person or specialized organization having adequate technical competency and experience in auditing and having no special interest in the corporation that is being audited.

It further states about independence:

> In verifying given facts, evaluating certain action and formulating his opinion thereon, the auditor must always maintain and respect impartiality.

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[34]. JICPA ed. "Corporate Disclosure in Japan." (July 1987) pp.12-13

In addition, code of conduct and Professional Ethics relating to independence states:

> Members shall refrain from auditing an enterprise, with which they have such relationships as to possibly create doubts regarding his independence and integrity (Rules 8). Members shall critically review their relationships with, and interests in, an enterprise, etc. before accepting an audit engagement from it. (Rule 9)

In addition to Ethical Rules, the JICPA has issued auditing standards. Auditing standards relating to general standards are concerned with auditors qualifications, independence, exercise of due professional care and the confidential nature of their work.

INDIA: The government and the profession in India have taken various steps to ensure auditor's independence. The Companies Act of 1956 contains some specific provisions to ensure auditor's independence. It lays down certain conditions which may disqualify a person to act as an auditor of a company because he may not be able to maintain independence under those conditions. The Act prescribes that a person shall not be qualified for appointment as auditor of a company unless he is a chartered accountant within the meaning of the Chartered Accountants Act, 1949.[35] The Companies Act provides that none of the following persons shall be qualified for appointment as auditor of a company:

a) a body corporate;
b) an officer or an employee of the company;
c) a person who is a partner, or who is in the employment of an officer or employee of the company;
d) any person indebted to the company for an amount exceeding 1,000 rupees or who has given any guarantee or provided any security in connection with indebtedness of any third person to the company for an amount exceeding Rs.1,000.
e) a person who, for one of the reasons given above, is not qualified for appointment as an auditor of the company which is a member of a group, is not also qualified for appointment as auditor of any other company which is a member of the same group, either as holding or subsidiary company.
f) an undischarged insolvent or an insane person.

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35. Sec. 226(1) of the Companies Act of 1956

If any person after being appointed auditor incurs any of these disabilities, his appointment shall thereupon be terminated according to section 226(3) of the Companies Act,1956. In order to avoid biasness and ensure independence, the Companies Act of 1956 requires auditors to be appointed not be elected. As such the right to appoint the auditor is given, as a general rule, to the body of shareholders.[36] Despite this provision some people have been voicing that it is not enough to ensure independence as the shareholders in India are not able to take decisions independently of the management. They are not, in general, aware of their rights.[37] The Companies Act, 1956 seeks to rectify the situation to some extent. Accordingly, the public financial institutions, nationalised banks, and general insurance companies have a decisive say in the appointment of auditors of a company in which they hold 25% or more of the subscribed capital.[38]

In an attempt to ensure independence, the services and position of company auditors has been made very secure. The directors of a company are not empowered under any conditions to remove an auditor from office. The auditor can be removed before the expiry of his term only with the previous approval of the central government[39] except in the case of the first auditors. Retiring auditors who are not being reappointed after the expiry of their term or auditors who are being removed prior to the expiry of their term, have the right to make written representations to the members of the company and to be heard orally at the general meeting.[40] Moreover,the Companies Act places a ceiling on the number of company audits that a person can hold.[41] Thus the Companies Act seeks to provide a number of safeguards to ensure the independence of auditors. In addition, the Department of Company Law Affairs, in a circular, stated that a statutory auditor of a company cannot also be its internal auditor as he will not be in a position to give an independent report.[42]

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36. Sec. 224 of the Companies Act of 1956
37. Gupta,K. op.cit.p.278
38. Sec. 224(A) of the Companies Act,1956
39. Sec. 224(7)of the Companies Act,1956
40. Sec. 225 of the Companies Act,1956
41. Sec. 224(1B) of the Companies Act,1956
42. Circular No. 29/76 dated 27-8-76, See "Clarifications and Circular on Company Law",Department of Company Affairs (1977)p.142

The profession, on the other hand, through the ICAI has taken steps to ensure auditor's independence. The ICAI recognises the question of independence by establishing code of conduct. The ICAI does not have a separate set of rules on independence. But Clause 10 of the Part 1 of First Schedule prohibits the acceptance of contingent fees based on a percentage of profits of the company. The code also does not permit auditors to express his opinion on the financial statements of a business in which he himself, his firm, or a partner in his firm, or his relative, has any interest, unless he discloses the interest in his report (Clause 4 of Second Schedule). This rule has been further made stringent in that a member shall be guilty of professional misconduct if he expresses an opinion on financial statements of any business or enterprise in which one or more persons who are his relatives have either by themselves or in conjunction with such member, a substantial interest, unless he discloses the interest also in his report.[43] Besides this, the ICAI has constituted "Auditing Practice Committee" whose function is to develop statement of standard auditing practice. It has issued some auditing standards of which SAP-1 relates to independence.

PAKISTAN: Both the government and the profession in Pakistan have been playing an important role in ensuring auditor's independence. Government through statutory laws have taken measures to ensure independence. The Companies Ordinance, 1984 contains some provisions to pave the way for an independent examination of financial statements. The Ordinance of 1984 provides that the following persons shall not be qualified for appointment as auditor of a company:

1. A person who is, or at any time during the preceding three years was, a director, other officer or employee of the company,
2. A person who is a partner of, or in the employment of, a director, officer or employee of the company,
3. The spouse of a director of a company,
4. A person who is indebted to the company, and
5. A body corporate.[44]

The above disqualifications extend to company's subsidiary or holding company or a subsidiary of that holding company. If any

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43. Notification No.1.CA(44)/71 of the ICAI
44. Sec. 254 of the Companies Ordinance,1984

person after being appointed auditor incurs of any of the above mentioned disqualifications, his appointment shall thereupon be terminated. In order to ensure independence, the Companies Ordinance of 1984 requires auditors to be appointed by the shareholders in the Annual General Meeting (AGM). It also requires that retiring auditors shall be notified not less than seven days before the date fixed for the Annual General Meeting.[45] It is further provided in the law that a retiring auditor can make a written representations to the member of the company. This should be sent to every member of the company. However, if a copy of the representation is not sent, the auditor may, without prejudice to his right to be heard in person, require that the representation shall be read out at the meeting.[46] Moreover, every company is required to send intimation to the registrar, within 14 days from the date of retirement, removal or otherwise ceasing to hold office of an auditor.[47] Although Ordinance'84 contains some provisions to ensure auditor's independence yet it does not contain a provision prohibiting person holding shares from being appointed as auditor nor is there any restriction on the buying and selling of shares.

The profession, on the other hand, through the Institute of Chartered Accountant of Pakistan(ICAP) has taken steps to ensure auditor's independence. The ICAP has established a code of conduct for its member, although it does not devise a separate statement on professional independence. Yet some of the rules of the Code have significant impact on auditor's independence. The code does not permit auditors to express his opinion on the financial statement of a business in which he, his firm or a partner in his firm has a"substantial interest" unless he discloses the interest in his report(Rule 4 of Sch.2). The code also prohibits the acceptance of contingent fees based on a percentage of profits of the company (Rule 9 of Part I). It prohibits auditor certifying a report or accounts in his name without examining them by himself (Rule 2,Sc II). Fails to report a material fact known to him, required to be disclosed in his professional capacity is regarded as misconduct(Rule 5 of Sch.II).

The Pakistan government has constituted a "Corporate Law Authority" to regulate various corporate laws of the country. The government

45. Sec. 253(2) of the Companies Ordinance,1984

46. Sec. 253(3) of the Companies Ordinance,1984

47. Sec. 253(6) of the Companies Ordinance,1984

of Pakistan has done a tremendous job by giving legal coverage to the standards developed and notified by the Corporate Law Authority. This has been a good steps in extending the mandatory requirement for compliance of various standards prescribed by the professional institutes of Pakistan. This will help auditors to work more objectively and with integrity.

In order to able to function effectively in changing environment and to fulfil its responsibility to the public, the ICAP has recently made Continuing Profession Education [CPE] mandatory for its members.[48]

7.8 INDEPENDENCE REQUIREMENTS IN BANGLADESH

The independence of auditor has been an important subject of discussion not only in Bangladesh but also in other countries even in developed countries. Independence is regarded as one of the most valued attributes of the auditors. Without it there would be, in fact, no public accounting profession.

In Bangladesh, there are some rules for ensuring auditor's independence. The sources of independence requirements here stem mostly from government's regulations and professional institute's code of conduct and auditing guidelines. The Companies Act,1913 contains some specific provisions to ensure independence. On the other hand, the professional institutes have established code of conduct and issued auditing guidelines in order to ensure independence. The rules of independence contained in the Companies Act of 1913, professional ethics & code conduct, and auditing guidelines are summarised below.

The Companies Act,1913:
The existing Companies Act of 1913 contains the following specific provisions which seem to have contributed the auditor's independence in Bangladesh.

Appointment: 1) The Companies Act,1913 prohibits the appointment of a chartered accountant as the auditor of the company:

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48. Shah,A.A., op.cit.,p.9

i) if he is a director or officer of the company;
ii) if he is a partner of such director or officer;
iii) if, in the case of a company other than a private company not being the subsidiary company of a public company, a person in the employment of such director or officer;
iv) if he is indebted to the company.

If any person after being appointed auditor becomes indebted to the company his appointment shall thereupon be terminated.[49]

2) The basic rule contains in the Companies Act in that every company shall each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.[50]

Remuneration: The Companies Act of 1913 provides that the remuneration of auditors shall be fixed by the shareholders of the company in general meeting, except that the remuneration of any casual vacancy, may be fixed by the directors.[51]

Power and duties: The Companies Act of 1913 provides auditors with the following power and duties:

1. Every auditor shall have a right of access at all times to the books and accounts and voucher of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.[52]

2. The Companies Act provides that the auditor shall make a report to the shareholders of the company on the accounts examined by them, and on every balance sheet and profit and loss account laid before the company in general meeting, and the report shall state:

a. Whether or not they have obtained all the information and explanations they have required; and
b. Whether or not in their opinion the balance sheet and the

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[49]. Sec. 144(5) of the Companies Act,1913
[50]. Sec.144(3) of the Companies Act,1913
[51]. Sec.144(9) of the Companies Act,1913
[52]. Sec.145(1) of the Companies Act,1913

profit and loss account referred to in the report are drawn up in conformity with the law; and

c. Whether or not such balance sheet exhibits a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company; and

d. Whether in their opinion books of account have been kept by the company as required by Section 130.[53]

3. The Companies Act, 1913 provides that the auditors of a company shall be entitled to receive notice to attend any general meeting of the company at which any accounts which have been examined or reported on by them are to be laid before the company and may make any statement or explanation they desire with respect to the accounts.[54]

4. The Companies Act, 1913 provides that if any auditor's report does not comply with the requirements of Section 145(2) (keeping of proper books of accounts; furnishing of information and explanation, certification of true and correct view), every auditor who is knowingly and wilfully a party to the default shall be punishable with fine which may extend to TK.One [100] hundred.[55]

Ethics and Code of Conduct:

In order to attain highest standard of performance and to ensure independence, the ICAB has established ethics and code of conduct for the guidance of its members.But it has not introduced specific rules on independence except clause 18 of Bangladesh Chartered Accountants Bye Laws, 1973 which states:

1. A chartered accountant in practice will be guilty if he expresses his opinion on financial statements of any business enterprise in which he, his firm or a partner in his firm has a substantial interest unless he disclosed the interest also in his report.

In addition to above clause, the following rules and code of conduct are helpful for ensuring auditor's independence.

2. A chartered accountant in practice shall be guilty of misconduct if he certifies any documents, exhibits,

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[53]. Sec.145(2) of the C.A.1913

[54]. Sec. 145(4) of the Companies Act,1913

[55]. Sec. 145(5) of the Companies Act,1913

statements, schedules, or other forms of accountancy work which have not been verified entirely under the personal supervision of himself, a member of his staff, another member of the institute or his partner:

> Provided that the above will not apply in cases of accounts of foreign branches or subsidiaries of his clients which have been duly certified by public accountant (Clause 12)

3. He charges or offers to charge, accepts or offers to accept in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings or result of such employment except in cases which are permitted under any regulations of government or requirements of law (Clause 14).
4. He fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading (Clause 19).
5. He fails to report a material mis-statement known to him to appear in a financial statement with which he is concerned in a professional capacity (Clause 20).
6. He fails to obtain sufficient information to warrant the expression of an opinion or his qualification are sufficiently material to negate the expression of an opinion (Clause 22).
7. He fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances. (Clause 28).

Auditing Guidelines:

The ICAB has started issuing auditing guidelines. The auditing guidelines issued by the ICAB relating to independence states:

> The auditor should be straight forward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.[56]

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[56]. Basic Principles Governing an Audit, ICAB (1984)p.31.

7.9 STATE OF AUDITOR'S INDEPENDENCE IN BANGLADESH

The issue of independence is complex and sensitive in the socio-economic environment of Bangladesh. Although independence is regarded as one of the most valued attributes of the auditors, yet it has not yet been given proper thought which, in turn, impairs the confidence of people on audited published accounts. The auditor's independence in Bangladesh has been come under severe criticism. It is the general notion of the people that there exists inadequate independence. Various articles, research studies, surveys revealed that the state of auditor's independence in Bangladesh is not at all satisfactory. Parry & Khan in a research study concludes that auditors in Bangladesh are not always be adequately independent.[57] As a result, the credibility of auditor's report is seriously questioned by the users of such reports.[58] In another study all respondents from the six accounting firms indicate lack of independence. One of the firms pointed out that it was impossible to work as independent auditors in Bangladesh.[59] However,the following deficiencies in impediments seem to have impaired the auditor's independence in Bangladesh.

1. **Inadequacies in the legal framework**: Although the Companies Act,1913 contains some provisions relating to independence, yet these are not adequate. The existing Companies Act of 1913 lacks in containing the following specific provisions which would rather improve independence of auditors:

1) It does not contain any provisions restricting the removal of auditors at the whims and fancies of directors which may create a sense of insecurity in the mind's of auditors.

2) It does not provide auditor the right to appeal to an independent tribunal when the intention of his removal is distinctly ulterior.

3) It does not contain provisions imposing severe punishment incase of abuses of position. Existing law provides a fine not

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57. Parry & Khan, op.cit,p.260.

58. Alam,A.K.M.S., "The Cost and Management", Vol.XVI,No.3(May-June 1988)p.27

59. Haque, M.S.,"Impact of Social, Cultural and Economic Environment on Accounting & Auditing" in The Journal of Management, Business and Economics(April 1984)p.160.

exceeding Tk 100 only for the violation of Section 145(5) which is too meager.

4) The Companies Act does not contain any provisions prohibiting persons holding shares in the equity capital of a company from being appointed as auditors nor is there any restrictions on the buying and selling of shares.

5) The law does not prohibit persons being appointed as auditors who has a personal relationships with director or manager of client company.

6) The Companies Act does not contain provisions prohibiting persons from being appointed as auditor who was connected with the client's enterprise as a promoter, underwriter, voting trustee or trustee for any pension or profit sharing trust.

2. **Lapses in professional ethics**: Professional bodies in many countries have established a specific and detailed standards on independence. The ICAB has laid down no specific rules on independence except Clause 18 of Part-C of the Bangladesh Chartered Accountants Bye Laws, 1973, which states that a chartered accountant in practice will be guilty if he expresses his opinion in financial statements of any enterprise in which he, his firm or a partner in his firm has a" substantial interest unless he disclosed the interest also in his report. The term "substantial interest"has not been clearly defined in the ICAB's manual. Rather in any event, it rests on the professional's own conscience to judge. The Professional Ethics & Code of Conduct established by the ICAB fails to include the following matters relating to auditor's independence.

1) The code does not include a rule restricting any investment by the auditor in the client as shareholder or lender.

2) The code does not include a rule restricting auditor to depend upon one client.

3) It does not establish a rule restricting an auditor to provide services to the client other than audit in such a way that fees from non-audit services exceed those from audit services.

4) The code does not include a rule restricting auditor to render audit services for substantial years to the same client.

5) The existing code does not establish a rule providing fees for the prior years audit should be paid prior to commencing the current audit.

3. **Auditor-client relationship**: Personal relationship between auditor and client can endanger auditor's appearance of independence. An auditor or members of his staff may be related to the members of the company's management and work force which may result in a loss of independence. Now the question is what about the state of relationship that exists between auditor and client in Bangladesh. The predominance of an "elite group" and close informal relationship exists within themselves in the organised sector of the economy of Bangladesh, has been given much predominance in accounting arena. It has been alleged that a situation exists where at certain levels in organisations, everybody seems to be known or some how can be connected with everybodyelse within and between organisations.[60] Such informal relationship within and between organisations and personalities presents an opportunity to harbour a relationship close to some kind of mutual co-existence of auditors and management in Bangladesh.

4. **Size of accounting firm**: The size of accounting firm is increasingly been recognised as an important factor affecting independence of auditor. Larger audit firms are often considered less subject to a loss of independence than are similar firms.[61] There are too many accounting firms in Bangladesh, most of which operate as proprietorship basis with all the attendant limitations.[62] Auditing profession here is thus characterised by scattered small firms or individual practice and hence more susceptible to client pressure.[63] Supporting this view Shamsul Haque revealed that only large and reputed accounting firms enjoy the freedom of work in Bangladesh. The new and small firms are usually dictated by their clients.[64]

5. **Low audit fees**: Audit fees is also an important factor affecting auditor's independence. Professionals could devote more time to dig out errors and frauds if they were given adequate fees. In

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60. Ibid.p.160.
61. Shockley, R.A., op.cit.p.213
62. Ahmed, J., op.cit.p.11
63. Talukdar, Y.,op. cit.,p.13
64. Haque,M.S., op.cit,p.158

Bangladesh, fees paid for audit are in general low.[65] It is revealed from a survey that 51% of the audit works have been performed with a fee of less than TK.20,000.[66] Low fee has compelled firms to rush around many clients. As a consequence unethical practices are bound to creep in.[67]

6. **Reporting practice**: Financial reporting practice has also an implication on independence. The demand for fair reporting helps to ensure auditor's independence. In Bangladesh, it is reported that there is a lack of demand for fair audit and reporting from the users of financial statements. Thus a widespread resentment exists in the professional circle that fair reporting is not wanted or appreciated in Bangladesh. There is a contra-indications to fair reporting.[68]

7. **Accounting and auditing standards & guidelines**: Accounting and auditing standards and guidelines help accountants to work more objectively, which in turn, strengthen auditor's independence. Non-existence of standards encourage clients to select a rule from the alternatives which will produce misleading results. In order to achieve uniformity in accounting and to ensure independence the ICAB has started issuing accounting standards and auditing guidelines. But it does not devise any mechanism to ensure compliance thereof. These standards are not mandatory in nature. As such these are not followed in practice.

8. **No audit committee**: Audit committee has been proved effective in safeguarding auditor's independence. An audit committee composed of outside directors is entrusted with the responsibility of maintaining an environment for independent audit.[69] This type of arrangement limits the power of the firm's management over the auditor and thereby ensure independence. But there are no such audit committees in Bangladesh.

9. **No "Peer Review" programme**: "Peer Review" is a quality review programme of accounting firms which had already demonstrated accounting firm's quality control procedures. This practice brings

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65. Howladar, N.M. and M.J. Parry., op.cit., para 28.6
66. Alam, A.K.M.S., op.cit.p.25
67. Ahmed.J.loc.cit.p.11
68. Talukdar, Y., op.cit.p.31
69. Arens & Loebbecke, op.cit.p.

public confidence which, in turn, ensure auditor's independence. But no such quality review programme has yet been introduced in Bangladesh.

10. **No public reporting**: The activities of the disciplinary committee of the professional bodies should be made public so that it will enhance the confidence of the public which, in turn, strengthen independence. But this has not been seen in Bangladesh.

11. **No divisionalised accounting firms**: Empirical study shows that independence- concern decreases when non-audit services are conducted by a separate division.[70] Accounting firms should be encouraged to have separate divisions as it strengthen independence in appearance. But there exists no divisionalised accounting firms in Bangladesh.

12. **No rotation:** An audit firm's tenure has been cited as having an impact on the risk of a loss of independence.[71] The Metcalf Staff Study thus recommended mandatory rotation of auditors.[72] There is no such provision contained in any laws in Bangladesh. Moreover, the rotation of auditors in companies is very negligible which raises a serious question concerning the integrity of auditors. The following table shows the rotation of auditors of sample companies listed in Dhaka Stock Exchange.

Table No.7.1

Shows the rotation of auditors for the last 7 years of sample companies. (1986-1992)

Particulars	Multinational Companies	Public-sector Comp.	Private-sector Comp.	Total
No. of Companies surveyed	4	8	38	50
1. No changes of auditors since 1985	4	5	36*	45
2. Changes of auditors since 1985	-	3	2	5

* Includes 3 companies established 3 years back in 1989.

13. **No restriction on MAS**: Many experts indicated that consulting

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70. Pany, K and P.M.J.Reckers, op.cit. pp.50-61
71. Shockley, R.A., op.cit.p.789
72. U.S.Senate (1976)p.21

services that go beyond those related to information and control systems raise serious questions concerning auditor's independence.[73] Thus the SEC in the USA has adopted rules which prohibited a member from engaging in certain types of consulting, or any services which would create a loss of independence. In Bangladesh, there is no such a rule which prohibits a professional from engaging in certain types of consulting services.

14. <u>No good relation exists between auditor & tax administration</u>: Good relation between auditor and tax administration would ensure a favorable environment that will improve auditor's independence. But the situation in Bangladesh is just reverse. Here audited accounts are not regarded by revenue officer as reliable which places auditors in an invidious position. Honesty on his part results in the company paying excess tax and possibly the loss of a client." Dishonesty minimises tax liability, retains a client, but in the long run reduces the credibility."[74]

15. <u>Low image</u>: Image of the profession has an impact on independence. High image adds a high degree of credibility to auditor's work. Auditors have a high social prestige in developed countries. As a result, they are better able to resist client's pressure. But the professionals in Bangladesh have lost a great deal of social respect and prestige.[75] They have comparatively a lower image.[76] This is one of the reasons for which auditors in Bangladesh are much more susceptible to client's pressure.

16. <u>No" Oversight Board</u>": The AICPA in USA has established a Public Oversight Board, composed of members from outside public accounting profession to discipline its members more effectively. The board can intervene whenever they think that public interest is not being served. There exists no such board in Bangladesh.

17. <u>No public representation</u>: Public participation in the administration of the professional bodies would enhance public confidence and uphold the image of the profession, which has a profound impact on independence. As such professional bodies all over the world take public representation in their administration.

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73. Carey,J.L., op.cit.pp.198-99
74. Parry & Khan., op.cit.,p.247
75. Ahmed,J.op.cit.p.9
76. Parry & Khan,loc.cit.pp.255-56

18. <u>Absence of constant monitoring of published accounts</u>: Professional bodies of many countries publish "survey of published accounts" regularly which will, no doubt, improve the reporting practices of those countries. But there is no constant monitoring of published accounts in Bangladesh which prevents people from knowing trends,techniques and principles followed by our enterprises.

19. <u>No mandatory continuing professional education</u>: Education obtained at the qualification level is found to be too inadequate to cope with the changing circumstances. So there requires continuing education which keeps accountants in touch with the latest development of education. This will uphold the image of the profession. But the ICAB has not yet made continuing professional education as mandatory.

20. <u>Poor mechanism for the implementation of ethical guidelines</u>: The ICAB has established ethical guidelines for its members and devised a mechanism to implement this. But the misconduct or violation of rules by the professionals is almost absent in Bangladesh. This implies that either everything is alright or the mechanism to dig out professional misconduct is very poor. Various research studies revealed gross irregularities in auditing and reporting practices which indicated that the mechanism to dig out inadequacies are ineffective and inefficient.[77]

21. <u>Environment</u>: Accounting is a product of its environment.[78] So is auditing. But the environment in Bangladesh, according to some experts, do not provide auditors to remain independent. The environment in which the auditor is operating in Bangladesh itself encourage dependence rather than independence.Commenting on the environment of Bangladesh, M. Habibullah noted, **"We certify statements wrongly prepared, we are sons of the soil. We are contiminated by the dirty environment".**[79]

Thus it is observed from the review of the literature that professional accountants' independence is largely lacking in Bangladesh compared to other countries because adequate measures (Peer Review, compulsory rotation of auditors, audit committee, restrictions on MAS, public reporting etc.) have not yet been taken in Bangladesh.

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77. Alam,A.K.M.S., op.cit.p.27
78. Scott,G.M.,"Accounting and Developing Economies", University of Washington (1970)p.85
79. Habibullah,M."Accounting as a Tool of Communication", in "Accounting: Some Aspects in Relation to Bangladesh",ed. ICAB & UNDP(1984)p.94

CHAPTER-VIII

FINDINGS-ONE (PERCEPTION STUDY)

INTERESTED PARTIES PERCEPTION ABOUT CONTROL OF PROFESSIONAL ACCOUNTING IN BANGLADESH.

8.1 Respondents' perception about the public control on professional accounting in Bangladesh.

8.1.1 Compliance with the prescriptions of the Companies Act,1913 while preparing financial statements.

8.1.2 Compliance with the requirements of the Securities and Exchange Rules,1987.

8.1.3 Exercise of rights and powers by the professional accountants in Bangladesh.

8.1.4 Fulfilment of duties by the professional accountants.

8.1.5 Inadequacy of legal provisions relating to accounting and financial reporting in Bangladesh.

8.1.6 Extension of professional accountant's power.

8.1.7 Effectiveness of the Registrar of Joint Stock Companies.

8.1.8 Limiting the member of audits.

8.1.9 Success of the ICAB in protecting "public interest" in absence of public participation in the administration of the ICAB.

8.1.10 Legal coverage of accounting standards and auditing guidelines.

8.2 Respondents' perception about self-control on professional accounting in Bangladesh.

8.2.1 Compliance of accounting standards issued by the ICAB.

8.2.2 Observance of auditing guidelines.

8.2.3 Introduction of "peer review" programme.

8.2.4 Effectiveness of the ICAB in disciplining its members.

8.2.5 Inadequacies of professional accounting education.

8.2.6 Introduction of mandatory Continuing Professional Education (CPE)

8.2.7 Training of articled students

8.2.8 Separate standard setting body.

8.3 Respondents' perception about the areas of professional accounting suitable for public control.

8.3.1 Education and training of C.A. students.

8.3.2 Disciplining the members of the profession.

8.3.3 Setting up of accounting and auditing standards.

8.3.4 Financial reporting.

8.3.5 Compliance of the standards.

8.4 Respondents' perception about auditor's independence in Bangladesh.

8.4.1 Management influence over auditor's appointment and remuneration.

8.4.2 Auditor's inability to withstand management pressure.

8.4.3 Absence of audit committees.

8.4.4 Image of the profession.

8.4.5 Auditor's continued appointment with particular client (Tenure)

8.4.6 Auditor's appointment for fixed term.

8.5 Respondents' perception about financial reporting in Bangladesh.

8.5.1 Usefulness of annual reports.

8.5.2 Timeliness of annual reports.

8.5.3 Reliability of annual reports.

8.5.4 Ways of improving financial reporting.

CHAPTER-VIII

FINDINGS-ONE (PERCEPTION STUDY)

INTERESTED PARTIES' PERCEPTION ABOUT CONTROL OF PROFESSIONAL ACCOUNTING IN BANGLADESH.

"Professional accounting" refers that portion of accounting which is handled by professional accountants, primarily involving the attested function culminating in auditor's report and which are required by law to produce. Professional accounting throughout this study is meant to cover the following areas:

1. Education and training of professional accountants;
2. Disciplining the members of the accounting profession;
3. Setting up of accounting and auditing standards;
4. Financial reporting, and
5. Compliance of standards and procedures,

"Professional accounting" throughout the world is controlled by a combination of public and self (private) regulation.[1] Government in most countries impose controlling measures by enacting various laws and by providing controlling powers to various stock exchanges and other regulatory authorities. These controls are termed as public control. On the other hand, professional accounting throughout the world is also primarily regulated by the members of the profession through their institutes. This control is termed as self(private) control. In Bangladesh, both types of controls are in effect. In order to ascertain the exact control practices and their impacts in Bangladesh, the study is divided into the following three sections:

1. The first section relates to the review of the existing literature as already explained in chapter 3,4,5,6 & 7.
2. The second section relates to the survey of opinions of experts directly or indirectly involved in professional accounting.
3. The third section relates to measure the impact of

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[1]. Bromwich, M.and A. Hopwood.,"Some Issues in Accounting Standard Setting" in "Accounting From the Outside" ed.by.A.G.Hopwood., Garland Publishing.Inc. (1988)p.517.

control through content analysis of 50 annual reports of listed companies in the Dhaka Stock Exchange.

This chapter covers the survey of opinions to identify the perception of various interested parties about the control of professional accounting in Bangladesh. The following parties are involved in the study as respondents:

1. The preparers and the authenticator's of financial statements;
2. The users of the financial statements;
3. The regulators and
4. The academics.

As the research problem is related to the impact of public control on professional accounting in Bangladesh, the respondents were asked to express their views relating to the following issues:

(i) State of public and self-control on professional accounting in Bangladesh; **(ii)** Preference of control (either public or private) on areas relating to professional accounting; **(iii)**Extent of professional accountant's independence in Bangladesh; **(iv)** State of financial reporting practices in Bangladesh.

The reliability of financial information contained in the annual reports, although primarily lies with the preparers of the financial statements, yet the professional accountants has a significant role to play, because the independent verification of financial statements by the professional accountants gives reasonable assurance to the users as to whether the statements are materially true and fair. Financial statements once audited by professional accountants are generally accepted to users as authentic and reliable.

Thus the activities of professional accountants are needed to be controlled and regulated. The ultimate effect of control either public or self on professional accounting is to ensure that the professional accountants can work independently and can pass unbiased opinion. Thus, in order to measure the effect of control on professional accounting in Bangladesh, respondents were asked to indicate the extent of their support or agreement on issues relating to control, independence and reporting practices. A 5-point scale has been used where "5" indicates strong "Agreement"

[Support] and "1" indicates "Total disagreement" [Not at all supported]. In a 5-point scale "3" is used as the assumed mean. If it is found that the extent of respondents agreement(support) is very high, then the conclusion can be drawn that the existing control measures, independence and reporting practices are suitable to the present environment. Otherwise steps may be taken by the appropriate authority to improve the quality of control, to raise level of independence and to increase the requirements of the financial reporting practices in Bangladesh.

For the purpose of analysis, the findings of the study have been grouped into the following sub-section:

1. Public control on professional accounting in Bangladesh;
2. Self-control on professional accounting in Bangladesh;
3. Choice of control (Public / Self) on areas of professional accounting in Bangladesh;
4. Financial reporting in Bangladesh;
5. Compliance with the standards and procedures.

8.1 RESPONDENT'S PERCEPTION ABOUT PUBLIC CONTROL ON PROFESSIONAL ACCOUNTING IN BANGLADESH

All the four groups of respondents viz. the preparers, the users, the regulators and the academics were asked to indicate the extent of their support (agreement) on the issues relating to public control on professional accounting in Bangladesh. They were asked to express their views on the following 10 issues relating to public control:

(1) Compliance with the prescriptions of the Companies Act,1913 while preparing accounts and financial statements; (2) Compliance with the prescriptions of the Securities and Exchange Rules, 1987; (3) Exercise of powers by the professional accountants ; (4) Fulfilment of powers by the professional accountants; (5) Adequacies of legal provisions relating to accounting and reporting; (6) Extension of statutory powers of professional accountants; (7) Effectiveness of the Registrar of Joint Stock Companies in controlling corporate reporting; (8) Limiting the number of companies to be audited by a professional accountant; (9)

Success of the ICAB in protecting public interest in absence of public participation in its administration; **(10)** Legal coverage of accounting standards and auditing guidelines issued by the ICAB.

For each question, a mean (average scores) value was computed for all four groups of respondents based on a 5-point scale. Then "t-value" was calculated to determine the difference between the mean value from a stated value of "3", because "3" was taken here as assumed mean. If the average score is more than 3, respondents are considered satisfied (agreed) and if it is just "3" or less than 3, respondents are considered "unsatisfied" (disagreed). The statistical analysis on issues relating to public control on professional accounting in Bangladesh is shown in the Table No. 8.1, 8.2 and 8.3

8.1.1 Compliance with the prescriptions of the Companies Act,1913 while preparing financial statements

The Companies Act,1913 regulates the public accounting practices in Bangladesh. The Companies Act,1913 contains various provisions as to the preparation of accounts,books to be kept by the companies, contents of profit and loss account and balance sheet, presentation of accounts at the annual general meeting, authentication of accounts, signing of the accounts, filing of the accounts with the Registrar of Joint Stock Companies etc.
It also prescribes the rights and liabilities of the statutory auditors. The question frequently arises whether these public regulations are complied with or not. As such, the following null hypothesis was formulated to test its validity :

Ho: Companies do not follow the prescriptions of the Companies Act, 1913 while preparing financial statements.

The preparers' of financial statements, the users' of financial statements, the regulators, and the academics were asked to indicate their perceptions as to whether the provisions of the Companies Act are complied with or not. The average scores of those respondents in a given 5-point scale are: 3.39, 3.33, 3.54 and 3.41 respectively. Their respective calculated t-values are: 5.71, 2.12, 1.94 and 1.88. Hypothesis thus can be rejected in all cases. This

Table No.8.1

Shows respondent's perception about public control

Questions relating to public control		Preparer	Users	Regulators	Academics
		N=71 Tab t=1.66	N=39 Tab t=1.68	N=11 Tab t=1.79	N=12 Tab t=1.78
1. Compliance with the prescription of the Companies Act,1913 while preparing financial statements	Average score t-value (cal) Rejection(R)	3.394 5.71 Rejected	3.333 2.12 Rejected	3.5455 1.94 Rejected	3.416 1.88 Rejected
2. Complaince with the prescriptions of the SER,1987 while preparing financial statements	Average score t-value	2.4648 -5.99 Not Rejected	2.4359 -5.89 Not Rejected	2.4545 -1.94 Not Rejected	2.333 -4.69 Not Rejected
3. Exercise of powers by professional accountants according to the provisions of the Com.Act,1913.	Average score t-value	2.9296 -.63 NR	2.5385 -3.65 NR	2.6364 -1.79 NR	2.4167 -2.55 NR
4. Fulfilment of duties by the professional accountants according to the provisions of the Companies Act,1913	$\bar{X}$ t-value	2.9437 -.51 NR	2.3590 -6.85 NR	2.727 -1.15 NR	2.250 -3.45 NR
5. Inadequacies of legal provision relating to accounting and financial reporting	$\bar{X}$ t-value	3.6197 4.64 R	4.2821 9.70 R	3.4545 1.61 R	3.750 3.00 R
6. Extending statutory powers to professional accountants	$\bar{X}$ t-value	3.8451 7.16 R	3.8462 5.66 R	3.9091 3.63 R	3.50 2.17 R
7. Effectiveness of the Registrar of Joint Stock Companies	$\bar{X}$ t-value	1.6667 -14.94 NR	1.4359 -15.25 NR	1.818 -5.22 NR	1.50 -9.95 NR
8. Limiting the number of audits a C.A can undertake	$\bar{X}$ t-value	3.1831 1.07 NR	3.7436 4.45 R	2.818 -.48 NR	3.000 .00 NR
9. Success of the ICAB in absence of public participation in the administration of the ICAB	$\bar{X}$ t-value	2.9437 -.40 NR	2.4354 -4.29 NR	2.4545 -1.60 NR	2.4167 -2.03 NR
10. Legal coverage of accounting standards and auditing guidelines issued by the ICAB	$\bar{X}$ t-value	3.9437 10.06 R	4.307 14.35 R	3.8182 2.52 R	3.9167 4.75 R

R= Rejected; NR = Not Rejected.
$\bar{X}$= Average score of respondents.

Tab.t = Tabulated t
Cal.t = Calculated t

means that all the four groups of respondents assert that the provisions of the Companies Act are complied with. It is also observed that there exists no significant difference of opinions between groups at .05 level. The ANOVA-test also supports this. It is also found in the content analysis of 50 annual reports that provisions of the Companies Act,1913 are almost complied with. The reasons for compliance may be either **(i)** these are legally required or **(ii)** the requirements are minimum. However, it is apparent that the requirements under the Companies Act are almost complied with.

8.1.2 Compliance with the requirements of the Securities and Exchange Rules,1987

The Securities and Exchange Rules,1987 regulates the financial reporting practices of listed companies. The Securities and Exchange Rules,1987 contains detailed provisions regarding the contents of balance sheet, profit and loss account and auditors' report and prescribes forms for them. Now questions arise whether these rules are complied with or not.The following null hypothesis was thus formulated to test its validity :

Ho: Listed companies do not follow the regulations of the Securities and Exchange Rules [SER],1987 while preparing financial statements.

Respondents i.e. the preparers, the users, the regulators and the academics were asked to indicate their perception as to whether the requirements of the Securities and Exchange Rules,1987 are complied with or not. Respondents' average scores in a 5-point scale are: 2.46, 2.43, 2.45 and 2.33 respectively. Their t-values at .05 level are: 5.99, -5.89, -1.94 and -4.69 respectively. It is observed that in all cases the average scores is lower than the assumed value of 3. The statistical analysis reveals that hypothesis cannot be rejected in any cases. This implies that the requirements of the Securities and Exchange Rules are not complied with. It is further observed from t-test that there exists no significant differences of perceptions between groups. The ANOVA test also shows no significant difference between groups at .05 level. The content analysis also supports this. It is observed from the contents analysis that requirements of the Securities and Exchange Rules are not complied with. This may be due to - **(i)** the requirements are rather detailed and comprehensive than that of the Companies Act,1913 and **(ii)** the absence of Securities and Exchange Authority to enforce the law. However, it is apparent that the

Table No.8.2

Shows the difference of opinion between groups about the state of public control on professional accounting in Bangladesh at .05 level.

Questions relating to public control	(1) Preparers and users N=110 Tab.t=1.65	(2) Preparers Regulators N=82 Tab.t=1.66	(3) Preparers & Academics N=81 Tab.t=1.66	(4) Users and Regulator N=50 Tab.t=1.68	(5) users and Academics N=51 Tab.t=1.68	(6) Regulator & Academics N=23 Tab.t=1.72
1. Compliance with the prescriptions of the Companies Act,1913 while preparing financial statements	.39 NR	-.68 NR	.68 NR	-.64 NR	.26 NR	.79 NR
2. Compliance with the prescriptions of the SER,1987 while preparing financial statements	.21 NR	.04 NR	.58 NR	-.08 NR	.54 NR	.39 NR
3. Exercise of powers by professional accountants according to the provisions of the Companies Act	2.19 R	.99 NR	1.77 R	-.37 NR	.47 NR	.71 NR
4. Fulfilment of duties by the professional accountants according to the provisions of the Companies Act	3.53 R	.72 NR	2.43 R	-1.71 R	.53 NR	1.41 NR
5. Inadequacies of legal provisions relating to accounting	-3.23 R	.46 NR	-.38 NR	2.85 R	1.93 R	-.79 NR
6. Extending statutory powers to professional accountants	-.1 NR	-.20 NR	-1.14 NR	-.20 NR	1.16 NR	1.20 NR
7. Effectiveness of the RJSC in regulating public accounting practices	1.58 NR	-.64 NR	-.71 NR	1.68 NR	.32 NR	1.19 NR
8. Limiting the number of audits a C.A. can undrtake	-2.13 R	.79 NR	.42 NR	2.49 R	2.12 R	-.37 NR
9. Success of the ICAB in absence of public participation in the administration of the ICAB	2-.64 R	1.28 NR	1.46 NR	-.06 NR	07 NR	.09 NR
10. Legal coverage of AS and AG issued by the ICAB.	-2.53 R	.47 NR	.11 NR	2.03 R	2.00 R	-.27 NR

*R=Rejected. It means the difference is significant.
NR=Not rejected which means the difference is insignificant.

requirements of the Securities & Exchange Rules,1987 are not complied with.

8.1.3 Exercise of rights and powers by the professional accountants in Bangladesh

The Companies Act,1913 prescribes the powers of the company auditors. It has conferred powers on auditors underwhich they have right of access at all times to the books of accounts and vouchers of the company and also have rights to call for information and explanations which they may think necessary for the performance of the duty as auditors (Sec.145). The Act requires auditors to exercise these powers wherever necessary. But a question frequently arises whether the professional accountants exercise their powers according to the provisions of the Companies Act . As such, all the four groups of respondents viz. the preparers, the users, the regulators and the academics were asked to indicate their perceptions as to whether the professional accountants exercise their rights and powers according to the provisions of the Companies Act.The following hypothesis was developed to test the validity of this statement :

Ho: Auditors do not exercise the rights and powers according to the provisions of the Companies Act,1913.

Average scores of those four groups of respondents in a 5-point scale are: 2.92, 2.53, 2.63 and 2.41 respectively. The respective t-values are -.63, -3.65, -1.79 and -2.55. It is observed that average scores in all cases are lower than the assumed mean of 3. Hypothesis thus cannot be rejected in any cases. This means professional accountants do not exercise their rights and powers according to the provisions of the Companies Act,1913. It is further observed that there exists significant differences of perceptions between the preparers and the users and in between preparers and academics at .05 level. The ANOVA test shows that there exists overall differences of opinion between groups at .05 level. Preparers' average score in this respect is higher than that of users and academics. This means preparers are less critical about the exercise of powers by the professional accountants than users. But the users and the academics are extremely critical about the exercise of powers by the professional accountants and believe that they do not exercise their powers according to the provisions of the Companies Act,1913. In fact, the users have no vested interest and as such they can look at the issue more rationally.

Table No.8.3

Shows the Analysis of Variance (ANOVA) for four groups of respondents about the state of public control on professional accounting in Bangladesh

Questions relating to public control	Calculated F.value	Tabulated F.value at.05	Acceptance/ Rejection
1. Compliance with the prescriptions of the Companies Act, 1913 while preparing financial statements	0.3130	2.68	NR
2. Compliance with the prescriptions of the SER, 1987 while preparing financial statements	0.1207	2.68	NR
3. Exercise of powers by the professional accountants according to the provisions of the Companies Act,1913	2 .420	2.68	NR
4. Fulfilment of duties by the professional accountants according to the provisions of the Companies Act,1913	5.514	2.68	R
5. Inadequacies of legal provisions relating to accounting and financial reporting	4.147	2.68	R
6. Extension of statutory powers of professional accountants	0.5130	2.68	NR
7. Effectiveness of the Registrar of Joint Stock Companies	1.315	2.68	NR
8. Limiting the number of audits a C.A can undertake	2.425	2.68	NR
9. Success of the ICAB in absence of public participation in the administration of the ICAB	2.502	2.68	NR
10. Legal coverage of accounting standards and auditing guidelines issued by the ICAB	2.472	2.68	NR

NR= Not rejected. It means the variation is insignificant
R = Rejected. It means the variation is significant.

8.1.4 Fulfilment of duties by the professional accountants

The Companies Act,1913 has also laid down duties of auditors. As such, one of the principal duties of an auditor, as defined in Section 145(2) of the Act, is to report to the members of the company on the accounts examined by him and on every balance-sheet laid before the company in general meeting during tenure of his office and the report shall state, among other things, an opinion whether the balance sheet exhibits a "true and correct" view of the state of company's affairs. But very often, it is alleged that the professional accountants do not fulfil their duties according to the provisions of the Companies Act.[2] Thus, all groups of respondents were asked to indicate their perceptions as to whether the professional accountants fulfil their duties according to the provisions of the Companies Act or not. The following hypothesis was tested :

Ho: Auditors do not fulfil the duties according to the provisions of the Companies Act,1913.

The average scores of all the four groups of respondents in a given 5-point scale are: 2.94, 2.35, 2.72 and 2.25 respectively. The calculated t-values for the respondents are: -.51, -6.58, -1.25 and -3.45 respectively. Thus, it is observed that the average scores in all cases are lower than that of the assumed mean of 3. This means hypothesis cannot be rejected in all cases. Respondents are of the view that professional accountants do not fulfil their duties according to the provisions of the Companies Act. The ANOVA-test shows that there exists significant difference between groups at .05 level. It is further observed from the t-test that there exists significant differences at .05 level between preparers and users and between preparers and academics. Preparers' average score is higher than that of users and academics. This may be due to their allegiance to preparation and authentication of accounts and financial statements. But the users' and the academics' are extremely critical about the fulfilment of duties by the professional accountants. It is further observed from the content analysis of 50 annual reports of listed companies that professional accountants certify accounts without appropriate qualifications although there exists gross irregularities and violation of rules in disclosing material facts. However, it is apparent from the study that professional accountants do not fulfil their duties

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2. The Bangladesh Accountant.,op.cit.,p.9

according to the provisions of the Companies Act,1913.

8.1.5 Inadequacy of legal provisions relating to accounting and financial reporting in Bangladesh

It is often argued that the present legal provisions relating to accounting and financial reporting are inadequate, unclear and incomprehensive.[3] In order to test the appropriateness of this statement the following hypothesis was formulated:

Ho: Legal provisions relating to accounting and financial reporting are adequate and clear in Bangladesh.

Respondents (preparers,users,regulators & academics) were thus asked to indicate their perception as to whether legal provisions relating to accounting and financial reporting are inadequate or not. The average scores of the four groups of respondents in a given 5-point scale are: 3.61, 4.28, 3.45 and 3.75 respectively. Their respective calculated t-values are: 4.64, 9.70, 1.61 and 3.00. The average scores in all cases are higher than the assumed mean of 3. But hypothesis can be rejected from the preparers, the users' and the academics' standpoint. Although the regulators' average score is higher than "3" yet it is not sufficient to reject the hypothesis. Thus the preparers, the users and the academics are of the opinion that the existing legal provisions relating to accounting and financial reporting are inadequate and unclear in Bangladesh. Regulator's moderate support may be due to the minimum compliance of the provisions with the existing laws. They may think that the provisions already existed are not followed in full. So formulation of more regulations appear to be unnecessary to the regulators. The ANOVA test also reveals that there exists overall differences of opinion between groups. It is further observed from the t-test that there exists significant differences of opinion between the users and preparers and in between users and regulators, and also in between users and academics. This means users are well concerned about it. They feel extremely that the present legal provisions fail to satisfy the requirements of the usefulness of financial report. Furthermore, the content analysis of 50 annual reports reveals that some companies specially multinational companies are disclosing more information than what is required by laws. A company is said to be progressive whenever

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3. Alam, A.K.M.S.,op.cit.,p.22

its practice goes ahead of laws.[4] Thus it implies that the existing provisions are inadequate. So it is apparent that in the opinion of the respondents the existing legal provisions relating to accounting and financial reporting in Bangladesh are inadequate and not specific.

8.1.6 Extension of professional accountant's power

In order to have a strict public control on professional accounting and to protect investors against fraud, professional accountants require adequate powers. But it is said that professional accountants lack of some necessary powers.[5] In the UK, professional accountants have been provided with more statutory powers whereby they can report any relevant matters directly to the regulatory authorities without first informing the clients.[6] In Bangladesh, professional accountants do not have such power. All the four groups of respondents were thus asked to indicate their perceptions as to whether professional accountants should be provided with such type of powers or not.
Hence the following hypothesis was tested :

Ho: Professional accountants do not require more statutory powers to protect investors against fraud.

The average scores of the preparers, users, regulators and the academics in a 5-point scale are: 3.84, 3.84, 3.90 and 3.50 respectively. The respective calculated t-values are 7.16, 5.66, 3.63 and 2.17. The average scores in all cases are higher than assumed mean of 3. The hypothesis can be rejected in all cases. This means that respondents strongly believe that professional accountants should be provided with such powers. It is further observed that there exists no significant difference of opinion between groups at .05 level. The ANOVA test also supports this. It is, therefore, apparent that professional accountants should be provided with necessary statutory powers and thereby protect investors against fraud and unexpected insolvency.

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4. Saeed, K.A., op.cit., p.3
5. Baree, M.A., "Challenges of the Accounting Profession in the 90's" 3rd National Conference, 1986
6. The Bangladesh Accountant (Oct.-Dec.1988) pp.44-47

8.1.7 Effectiveness of the Registrar of Joint Stock Companies

The Registrar of Joint Stock Companies (RJSC) has been empowered under the Companies Act,1913 to receive and file information from companies and make public access to those information. He may call for any information which he thinks necessary to submit. If such information does not disclose a full and fair statement, the Registrar shall report it to the Government [Sec. 137(1-6)]. But it is very often alleged that the RJSC are not functioning properly, as a result, it has become ineffective.[7] The following hypothesis was formulated to test its validity :

Ho: The Registrar of Joint Stock Companies has been ineffective in regulating corporate financial reporting in Bangladesh.

All respondents viz. the preparers, the users, the regulators and the academics were asked to indicate their perception in a given 5-point scale as to whether the Registrar of Joint Stock Companies has been effective in regulating public accounting practices in Bangladesh or not. The average scores of the respondents are:1.67, 1.43, 1.81 and 1.5 respectively. Their respective calculated t-values are: -14.95, -15.25, -5.22 and -9.95. It is observed that the average scores in all cases are lower than the assumed mean of 3. Thus it implies that all the four groups of respondents believe that the Registrar of Joint Stock Companies has been ineffective in regulating public accounting practices in Bangladesh. It is also observed from the t-test and ANOVA test that there exists no significant difference between groups about the effectiveness of the Registrar of Joint Stock Companies in regulating public accounting in Bangladesh. Ineffectiveness of the RJSC may be due to the lack of its adequate enforcing power. Moreover, it has not been given any powers to regulate professional accountants.The amount of penalties for non-compliance of rules is also believed to be minimum. Finally, researcher conducted a survey as to whether the sample companies forwarded their reports and accounts to the Registrar of Joint Stock Companies[RJSC].It is observed that 10% of the companies did not forward their reports and accounts to the RJSC and no remedial action has yet been taken by the RJSC.

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7. Ahmed,F.and et al.,"Factors Inhabiting Industrial Finance Through Capital Markets in Bangladesh" BER.ed. Asian Foundation Finances (Oct.1993) p.34

8.1.8 Limiting the number of audits

In order to have a strict control on professional accounting and to ensure the quality of the audit, Indian Companies Act of 1956 contained a rule whereby an individual cannot be an auditor of more than twenty companies at a time. The number will not include audit of firms, branch audits and audit of foreign companies [Sec 224(IB)]. But there is no such rule in Bangladesh, although it is very often alleged that the quality of auditor's work is rather disappointing.[8] As such, all groups of respondents were asked to indicate their perception as to whether a rule limiting the number of audit a professional can undertake is necessary or not.For testing the validity of this statement,the following hypothesis was formulated :

Ho: A rule limiting the number of audits a chartered accountant can undertake is unnecessary.

The average scores of the respondents in a 5-point scale are:3.18, 3.74, 2.81 and 3.0 respectively. The respective calculated t-values are: 1.07, 4.45, -.48 and 0.0. Hypothesis can be rejected from the users' standpoint. Users believe that such rule will improve the quality of the auditors' work. On the other hand, the preparers, the regulators and the academics do not believe that this will improve the quality of the audit work.

8.1.9 Success of the ICAB in protecting "public interest" in absence of public participation in the administration of the ICAB:

Professional accounting bodies like the AICPA in the USA, the ICASL in Srilanka,the ICAI in India,the ICAP in Pakistan and many other bodies have been taking public representation in their administration to stimulate public confidence. It is often argued that in absence of public participation the professional institute can not protect "public interest".[9] But the ICAB does not include a single member from outside the profession in its administration. As such, it is apprehended that this may hamper "public interest".The following hypothesis was established to test the

8. Howlader,N.M. and M.J.Parry., op.cit.,para.26
9. Abraham,S.C., op.cit.,p.204.

appropriateness of this statement :

Ho. The ICAB will not be successful in protecting public interest in absence of public participation in its administration.

All the four groups of respondents were thus asked to indicate their perception as to whether the ICAB will be able to protect public interest in absence of public participation in its administration . The average scores of the respondents in a 5-point scale are: 2.94, 2.43, 2.45 and 2.41 respectively. The calculated t-values are: -.40, -4.29, -1.60 and -2.03 respectively. The average scores in all cases are lower than the assumed mean of 3. Hence, hypothesis cannot be rejected in all cases. This means the ICAB will not be able to protect public interest in absence of public participation in the administration of the ICAB. This may be due to the fact that professionals will look after only their own interest rather than protecting public interest. As such, there must be public representation in the administration of the ICAB whereby the members of stock exchange, chamber of commerce, academics, and members of concerned ministries can be included in the council. This participation will guard against the profession's straying from the public interest, will promote better policy and will bring public confidence on the profession.

8.1.10 Legal coverage of accounting standards and auditing guidelines

The ICAB has been adopting accounting standards and auditing guidelines as per the directives of the IASC and the IFAC. These standards and guidelines issued by the ICAB are not mandatory and have no legal coverage. Thus it is said that compliance with the standards and guidelines cannot be expected unless these are given legal coverage.[10] The following hypothesis was thus developed to test the validity of the aforesaid statement :

Ho. Accounting standards and auditing guidelines do not require legal coverage in Bangladesh.

Respondents (preparers, users, regulators and academics) were asked to indicate the extent of their support as to whether these standards and guidelines should be given legal coverage or not. The average scores of all groups of respondents in a given 5-point

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[10]. Ahmed, M., "A Short Commentary on Status of Accounting and Auditing Standards in SAFA Countries" 3rd. SAFA Conference, June 1-2, 1988.

scale are: 3.94, 4.30, 3.81 and 3.91 respectively. Their respective calculated t-values are: 10.06, 14.35, 2.53 and 4.47. The average score in all cases are much higher than the assumed mean of 3. Hypothesis can be rejected in all cases. This means all groups of respondents strongly support that standards and guidelines should be given legal coverage. It is also observed that there exists a significant difference of perceptions in between users and preparers; users and regulators and users and academics. Users' average scores is much higher than that of preparers, regulators and academics. Users strongly believe that legal coverage is vital for the effective implementation of standards and guidelines. The content analysis of 50 annual reports also reveals that accounting standards issued by the ICAB are not complied with. Thus it is apparent that accounting standards and auditing guidelines must be given legal coverage so that these can effectively be implemented.

8.2 RESPONDENT'S PERCEPTION ABOUT SELF CONTROL ON PROFESSIONAL ACCOUNTING IN BANGLADESH

In order to identify the perceptions of all the four groups of respondents about the state of self-control on professional accounting in Bangladesh, they were asked to indicate their extent of support (agreement) on the following 8 issues:

> **(1)** Compliance of the accounting standards while preparing financial statements; **(2)** Observance of auditing guidelines while authenticating financial statements; **(3)** Introduction of "peer review" programme; **(4)** Effectiveness of the ICAB in disciplining its members; **(5)** Inadequacy of professional accounting education; **(6)** Introduction of Continuing Professional Education (CPE); **(7)** Quality of training of articled students provided by the accounting firms; **(8)** Setting up of independent standard-setting body.

For each question, a mean value (average score) was computed for all the four groups of respondents based on a 5-point scale. Then "t" was calculated to determine the difference between the mean value from the stated value of "3". If the average score is more than 3, respondents are considered satisfied (agreed). If it is just "3" or less than "3" respondents are considered "dissatisfied" (disagreed). It was also planned to identify whether there was any perception gap among respondents about self-control on professional accounting in Bangladesh. As such, "t" value was calculated to determine the difference between groups and then compared with the tabulated "t" at .05 significance level. The statistical analysis is shown in the Table No. 8.4; 8.5 and 8.6.

8.2.1 Compliance of accounting standards issued by the ICAB

The following hypothesis was formulated in order to test whether the accounting standards issued by the ICAB are complied with or not :

Ho: Accounting standards issued by the ICAB are not complied with while preparing accounts and financial statements.

All groups of respondents viz. the preparers, the users, the regulators and the academics were asked to indicate their perceptions about the compliance of accounting standards while preparing financial statements. The average scores by those four groups of respondents in a 5-point scale are: 1.98, 1.56, 1.54 and 1.5 respectively.Thus hypothesis cannot be rejected in all cases. This means accounting standards issued by the ICAB are not complied with while preparing accounts and financial statements. To identify whether there was any perception- gap between the groups, t-value was calculated to determine the differences. It is observed that there are significant differences between preparers and users; and between preparers and academics. The average score by the preparers on this issue is higher than that of users and that of academics. This means preparers' are a bit less critical than other groups in respect of observance of the accounting standards. This may be due to professionals' involvement in the preparation of accounts and financial statements. It is also observed from the content analysis of 50 annual reports that accounting standards are not complied with while preparing accounts and financial statements. Thus, it is evident that accounting standards issued by the ICAB are not complied with while preparing financial statements. This may be due to lack of legal compulsion for observance. Moreover, non-compliance of accounting standards may be due to the ICAB's failure to modify Code of Ethics to require the observance of standards and thereby take any disciplinary action against members who fail to observe standards. However, strict compliance of accounting standards cannot be possible unless these are made compulsory and given legal coverage which means the implementation of public control.

Table No.8.4

Shows the respondents perception about the self-control on professional accounting in Bangladesh.

Questions relating to self-control on professional accounting		Preparers	Users	Regulation	Academics
		N=71 t=1.66	N=39 t=1.68	N=11 t=1.79	N-12 t= 1.78
1. Compliance of accounting standards issued by the ICAB	$\bar{X}$ t-value	1.985 -13.76 (NR)	1.564 -17.85 (NR)	1.545 -7.02 (NR)	1.500 -9.95 (NR)
2. Observance of auditing guidelines by the professional accountants	$\bar{X}$ t=value	2.605 -3.97 (NR)	2.025 -9.69 (NR)	2.181 -6.71 (NR)	1.833 -4.84 (NR)
3. Establishing "Peer Review" programme	$\bar{X}$ t=value	3.140 -1.03 (NR)	3.641 3.86 (R)	3.545 1.96 (R)	3.333 1.00 (NR)
4. Ineffectiveness of the ICAB in disciplining its members	$\bar{X}$ t=value	2.873 - .92 (NR)	3.820 5.14 (R)	3.272 .82 (NR)	3.196 4.0 (R)
5. Inadequacies of professi-sional accounting educa-tion in Bangladesh	$\bar{X}$ t=value	2.394 -4.53 (NR)	2.794 -1.48 (NR)	2.636 -1.17 (NR)	3.333 .84 (NR)
6. Mandatory Continuing Professional Education	$\bar{X}$ t=value	3.957 8.14 (R)	4.051 7.95 (R)	4.000 4.28 (R)	4.250 6.97 (R)
7. Training up of articled students by the accounting firms	$\bar{X}$ t=value	2.718 -3.29 (NR)	2.461 -5.60 (NR)	2.727 -5.16 (NR)	2.167 -5.00 (NR)
8. Separate standard setting body	$\bar{X}$ t=value	3.478 3.78 (R)	3.897 9.37 (R)	3.545 2.21 (R)	3.667 2.97 (R)

NR= Not Rejected.
R = Rejected.

8.2.2 Observance of auditing guidelines

As a part of self-regulation, the ICAB has adopted some auditing guidelines. Questions often arise whether these guidelines are observed or not. The following hypothesis was formulated to test whether guidelines are followed or not :

Ho: Auditing guidelines are not observed while authenticating accounts and financial statements.

All the four groups of respondents viz. the preparers, users, regulators and the academics were asked to indicate their perception about the observance of auditing guidelines while authenticating accounts and financial statements. The average scores of those four groups of respondents are: 2.60, 2.0, 2.18 and 1.88 respectively. The respective calculated t-values are -3.79, -9.79, -6.71 and -4.8. The hypothesis cannot be rejected in all cases. This means auditing guidelines are not followed by the auditors while authenticating accounts and financial statements.

It was also planned to identify whether there was any perception gap between the groups about the observance of auditing guidelines. Thus "t-value" was calculated to determine the differences. It is observed that there are significant differences of opinion between the preparers and users and between the preparers and academics at .05 level. Users and academics' scores in case of "the observance of auditing guidelines" are lower than that of preparers. This means both users and academics strongly believe that auditing guidelines are not observed by the professional while authenticating books of accounts and financial statements. This may be due to lack of legal compulsion. In addition, this non-observance of auditing guidelines may be due to the ICAB's failure to modify Code of Ethics to require the observance of auditing guidelines and thereby take any disciplinary action against members who fail to follow auditing guidelines.

8.2.3 Introduction of "Peer Review" programme

In order to minimise sub-standard audit work and to improve the quality of auditors work, professional bodies in the USA, Australia, New Zealand have introduced "peer group review" programme. But the ICAB has not yet introduced such programme in Bangladesh. As such, all the four groups of respondents were asked to indicate the extent of their support as to the introduction of peer review programme in Bangladesh. In this connection

Table No.8.5

Shows the difference of opinion between groups about the state of self-control on professional accounting in Bangladesh at .05 level

Questins relating to self control on professional accounting in Bangladesh	Preparers & Users N=110 Tab.t.1.65	Preparers & Academics N=82 Tab.t.1.66	Preparers Regulators N=81 Tab.t.1.66	Users and Academics N=50 t=1.68	Users and Academics N=51 t=1.68	Regulators & Academics N=23 t=1.72
1. Compliance of the accounting standards issued by the ICAB	3.64 R	1.23 NR	2.56 R	.10 NR	.38 NR	.18 NR
2. Observance of the auditing guidelines by the professional accountants	3.78 R	1.64 NR	1.96 R	-.78 NR	.86 NR	1.25 NR
3. Establishing "Peer Review" programme	2.26 R	1.10 NR	-.54 NR	1.01 NR	.87 NR	.46 NR
4. Ineffectiveness of the ICAB in disciplining its members	-4.31 R	1.07 NR	-3.0 R	1.57 NR	-.31 NR	1.62 NR
5. Inadequacies of professional accounting education in Bangladesh	-1.93 R	.67 NR	-2.59 R	.52 NR	-1.63 NR	-1.37 NR
6. Mandatory Continuing Professional Education	1.65 NR	.13 NR	-.99 NR	.18 NR	-.77 NR	-.86 NR
7. Training up of articted students by the accounting firm	1.89 R	1.98 R	2.51 R	.98 NR	1.50 NR	.48 NR
8. Separate standard setting body.	-2.26 R	.90 NR	-.58 NR	1.58 NR	1.09 NR	-.36 NR

R = Rejected. It means difference is significant;
NR= Not Rejected. It means difference is insigificant.

following hypothesis was formulated :

Ho: No "peer review" programme is necessary to improve the quality of the audit work in Bangladesh.

The average scores of the preparers, users, regulators and the academics are: 3.14, 3.64, 3.54 and 3.33 respectively. Respective t-values calculated in this respect are: 1.03, 3.86, 1.96 and 1.00. Hypothesis can be rejected only from the users' and regulators' viewpoint. This means users and regulators support to introduce of such a programme in Bangladesh. Even the chartered accountants in service support the introduction of "peer review" programme. On the other hand, preparers and the academics do not support this. They believe that this programme will not improve the quality of auditors' work. It was further planned to identify whether there was any significant difference of opinion between preparers and users.Analysis shows that there exists a difference of opinion between preparers and users. This means users are infavour of introducing peer review programme,whereas the preparers are against this. The preparers i.e.the professional do not want to see that their works be reviewed by others. But in fact, the quality of auditors work is not satisfactory in Bangladesh.[11] The study on 50 annual reports detected various irregularities and gross violation of rules in case of audit reporting. Thus, in order to improve the quality of the auditors' work and to have a strict control over the professional accountants "peer review" programme should be introduced.

8.2.4 Effectiveness of the ICAB in disciplining its members

The ICAB has been entrusted with the responsibility of regulating its members by the Chartered Accountants Ordinance,1973. But it is very often alleged that the ICAB has been ineffective in regulating its members.[12] As such, respondents were asked to indicate their perception about the effectiveness of the ICAB in regulating its members. The following hypothesis was thus formulated:

Ho: The ICAB has been effective in disciplining its members.

The preparers, the users, the regulators and the academics' average scores are: 2.87, 3.82, 3.27 and 3.91 respectively. The respective

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11. Ahmed, F and et.el. op.cit.,p.116; Parry & Khan,op.cit. p.220
12. Parry & Khan, J.U.Ahmed,A.K.M.S.Alam,M.Ahmed reported this in their article.

Table No.8.6

Shows the analysis of variance (F-value) for four groups of respondents about the state of self-control on professional accounting in Bangladesh.

Questions relating to self-control	Calculated F-value	Tabulated F-value at.05	Acceptance/ Rejection
1. Compliance of the accounting standards issued by the ICAB	2.124	2.68	NR
2. Observance of auditing guidelines issued by the ICAB	7.168	2.68	R*
3. Establishing "Peer Review" programme	1.843	2.68	NR
4. Ineffectiveness of the ICAB in disciplining its members	7.990	2.68	R*
5. Inadequacies of professional accounting education in Bangladesh	3.159	2.68	NR
6. Mandatory continuing professional Accounting Education	.3887	2.68	NR
7. Training up of articled students by the accounting firms	3.784	2.68	R*
8. Separate Standard Setting Body	1.813	2.68	NR

*R = Rejected. It means difference is significant;
NR = Not Rejected. It means difference is insigificant.

t-values are: -.92, 5.14, .80 and 4.0. Hypothesis thus can be rejected from the users' and academics' point of view. This means users and academics strongly believe that the ICAB has not been effective in regulating its members. On the other hand, preparers and the regulators do not believe that the ICAB has been ineffective in regulating its members. It was also planned to identify whether there was any significant difference between the groups. It is found that there are no significant differences between the groups except in two cases where difference is significant. Preparers' perception about the effectiveness of the ICAB in disciplining its members is quite different from that of users and academics. Users and academics feel alike. They believe that the ICAB has not been effective in disciplining its members. ANOVA test also shows that there exists significant differences of opinion between groups. It is observed that disciplinary action against violators of rules and code of conduct is very limited in Bangladesh although some research studies including the present one reveal that there existsirregularities and violation of rules in auditing and financial reporting. This may be due to the defective mechanism of finding out professional misconduct and violation of rules.[13]

8.2.5 Inadequacies of professional accounting education

The education and training of the students has been entrusted to the ICAB. As a part of self-regulation, the ICAB has been authorised to frame curricula, conduct examinations, to provide facilities for tuition, award certificates to successful students etc. It is very often said that the education and training provided by the ICAB is inadequate and defective.[14] The following hypothesis was formulated to test the appropriateness of the aforesaid statement:

Ho: Education and training of C.A students provided by the ICAB is adequate and updated.

As such, all respondents viz. the preparers, the users, the regulators and the academics were asked to indicate their opinions about the standard of professional accounting education provided by the ICAB. Taking "3" as assumed mean, the average scores by the respondents in a 5-point scale are: 2.39, 2.79, 2.63 and 3.33

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13. Ibid.
14. Ahmed,J.U., op.cit.,p.11

respectively. Hypothesis cannot be rejected in any of the cases. This means all groups of respondents believe that the education and training of the students provided by the ICAB is adequate and sufficient. Although it is further observed from the analysis that there are no significant differences between groups at .05 significance level except in two cases. Preparers differ with users and academics. Preparers strongly believe that the present system is adequate and not outdated. But it is observed from the literature review that although the ICAB had updated its syllabus in 1986 with the help of UNDP, these are already considered to be inadequate to meet the present needs.[15] Because the present syllabuses do not include some important subjects which are taught in foreign institutes.

8.2.6 Introduction of mandatory Continuing Professional Education [CPE]

In order to improve the quality of the professional accountants' service, professional bodies in the USA, the UK, Australia, New Zealand, Srilanka, Pakistan and the like have made Continuing Professional Education mandatory. But the ICAB has not made it mandatory. So respondents were asked to indicate the extent of their support as to the introduction of mandatory Continuing Professional Education(CPE). Thus, the following hypothesis was formulated to test whether mandatory Continuing Professional Education is necessary or not:

Ho: Mandatory Continuing Professional Education is unnecessary to update the knowledge of professional accountants.

A 5-point scale has been used for the study taking "3" as the assumed mean. The average scores by the preparers, the users, the regulators and the academics are: 3.95, 4.05, 4.0 and 4.25 respectively and the respective t-values are: 8.14, 7.95, 4.28, 6.97. This means all the four groups of respondents strongly recommend to make Continuing Professional Education [CPE] mandatory. Many countries including Srilanka and Pakistan have made Continuing Professional Education mandatory.[16] Thus, in order to keep professional accountants in touch with the latest development in education and to improve the quality thereof, the Continuing Professional Education should be made compulsory.

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15. Ibid.,p.11
16. Details in Chapter no.6

8.2.7 Training of articled students

Training of articled students is provided by the accounting firms. Only the practising chartered accountants authorised by the ICAB, known as Principal, are entitled to coach or shall cause to be coached the articled students [Rule 77(2), Bye Laws 1973]. Thus it is the sole responsibility of the principal to ensure that his articled student receive proper training which would make him an acceptable member of the profession. In addition to this normal training, the ICAB is now providing computer training. It is reported that accounting firms do not properly train up articled students attached to them.[17] The following hypothesis was formulated to test the validity of this statement:

Ho: Accounting firms in Bangladesh properly train up articled students attached to them.

All respondents were asked to indicate their perception as to whether articled students are properly trained up by the accounting firms. Scores by the preparers, users, regulators and the academics are: 2.71, 2.46, 2.72 and 2.16 respectively. Their respective calculated t-values are :-3.29, -5.60, -5.16 and -5.00. Hypothesis thus can not be rejected in all cases. This means respondents irrespective of groups feel that students are not properly trained up by the accounting firms in Bangladesh. Further analysis reveals that there are significant differences of opinion between the groups at .05 level. Preparers' opinion differ significantly from that of users, regulators, academics and even from chartered accountants in service. Preparers' score is higher than that of the remaining groups. It means professional accountants are less critical than all other groups. However, all the four groups of respondents are in consensus that accounting firms do not properly train up their articled students.

8.2.8 Separate standard-setting body

In order to harmonise the diverse accounting practices and the effective implementation of standards thereof, countries like the U.S.A, the U.K, Australia, New Zealand, India and the like have established separate independent standard setting body. There is no separate accounting standard setting body in Bangladesh. It is very often argued that absence of such a body will reduce the

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17. J.U.Ahmed.,op.cit.p.11

acceptability of standards and thereby effectiveness of implementation thereof.Thus the following hypothesis was formulated to test the appropriateness of this statement:

Ho: A separate accounting standards-setting body is not required to be established in Bangladesh.

Respondents were thus asked to express their opinion in a 5-point scale as to whether there is a need for setting up a separate standard setting body. The average score of the four groups of respondents are: 3.47, 3.89, 3.54 and 3.67 respectively. The respective t-values are: 3.78, 9.37, 2.21, and 2.97. Thus hypothesis can be rejected in all cases. This means all the four groups of respondents strongly support the establishment of a separate standard setting body.

8.3 RESPONDENTS' PERCEPTION ABOUT THE AREAS OF PROFESSIONAL ACCOUNTING SUITABLE FOR PUBLIC CONTROL

There are many areas of professional accounting which can be controlled either by public or private regulations. All the four groups of respondents viz.the preparers,users, regulators and the academics were thus asked to show their perception as to whether the following areas of professional accounting is suitable for public control or not:

1. The education and training of the C.A students.
2. The disciplining of members of the accounting profession.
3. The setting up of accounting standards.
4. The financial reporting practices.
5. The compliance of the standards & procedures.

For each question, a mean value (average score) was computed for all the four groups of respondents based on a 5-point scale. "3" was taken as the assumed mean. Then "t" value was calculated to determine the difference between the mean value from that of assumed value. If it is just 3 or less than 3, respondents considered "dissatisfied" or "disagreed". It was also planned to identify whether there was any perception--gap among respondents about the choice of control on professional accounting in

Bangladesh. As such t-value was calculated to determine the difference between groups. Calculated t-value was then compared with the tabulated "t" value at .05 significance level. The statistical analysis on issues relating to the choice of control on professional accounting is shown in Table No. 8.7; 8.8 and 8.9.

8.3.1 Education and training of C.A. students

The education and training of the students is regulated exclusively by the professional institute as authorised by the Bangladesh Chartered Accountants Order,1973. There is no public or outside control on education and training of C.A. students. But some experts even the professional institutes assert that public regulation may be required if the "public interest" is hampered or if the requisite degree of skill and learning of persons in professions are not attained.[18] It is often said that the education and training provided by the ICAB is inadequate and defective.[19] As such, respondents were asked to indicate their opinion as to whether there is any need for public control on education and training of students.The following hypothesis was developed to test whether there is any need for public control on education:

Ho: The education and training of C.A. students should be controlled by the institute through self-regulation.

The average score of the preparers, users, regulators and the academics are: 2.54, 2.84, 2.54 and 2.67 respectively. It is observed that in all cases the average score is lower than the assumed mean of 3. It means all the four groups of respondents do not want public control on education and training of the students. It is further observed that there exists no significant differences between the groups at .05 level. The ANOVA test also shows that there exists no significant difference between groups at .05 level. This means respondents are in consensus in that education and training of the students should be governed by the profession itself through self-regulation. This is probably due to the disappointing standard of education provided by the government controlled educational institutions.

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18. Davis VS. Allens.,307.2nd 800(Tenn.ct.App.1957)
19. Ahmed,J.U.,op.cit,p.11

Table No.8.7

Shows respondents perception about the choice of control.

Questions relating to the choice of control		Preparers	Users	Regulators	Academics
		N=71 Tab.t=1.66	N=39 Tab.t=1.68	N=11 Tab.t=1.79	N=12 Tab.t =1.78
1.Preference for control of education & training of the students	$\overline{X}$ t-value	2.549 2.65 (NR)	2.846 .76 (NR)	2.545 1.34 (NR)	2.667 .77 (NR)
2.Preference for control of disciplining the members of the profession.	$\overline{X}$ t-value	3.028 .16 (NR)	3.384 1.86 (R)	3.00 0 (NR)	3.667 1.79 (R)
3.Preference for control of setting up of standards	$\overline{X}$ t-value	3.225 1.47 (NR)	3.5128 3.06 (R)	3.363 1.49 (NR)	3.416 1.33 (NR)
4.Preference for control of financial reporting	$\overline{X}$ t-value	3.915 8.23 (R)	4.320 10.36 (R)	4.00 3.71 (R)	4.167 7.00 (R)
5.Preference for control of compliance with the standards	$\overline{X}$ t-value	3.746 6.32 (R)	4.205 9.40 (R)	4.272 4.67 (R)	4.083 5.61 (R)

R = Rejected.
NR= Not rejected.

Tab.t = Tabulated t

8.3.2 Disciplining the members of the profession

The task of disciplining the members of the accounting profession has been left in the hands of the professional institutes. As such members of the profession are regulated by the professional institutes. As a part of self-regulation, the Investigation and Disciplinary committees of the institutes take disciplinary action against the violators of rules and code of conduct. But it is very often argued that effective disciplining of the members cannot be expected without public control.[20] Thus countries like France, Japan, Netherlands, New Zealand and the like have introduced a mixed system whereby auditors are disciplined by a combination of public and private regulations.[21] In France, the president of the disciplinary committee is a judge. Moreover, there is a government agency engaged in monitoring the activities of statutory auditors.[22] In Japan, Tokyo Stock Exchange has been given power to discipline auditors. It has the power to examine auditors' working papers.[23] In Netherlands, Disciplinary Board and Court of Appeal are not a part of Dutch Institute, not subject to its control.[24] It is very often alleged that professional institutes have been ineffective in disciplining the members. So it is expected that there should exist a strict control over the members of the profession.In order to test the appropriateness of this statement the following hypothesis was formulated:

Ho: Disciplining the members of the profession should be governed by the profession through self-regulation.

All respondents were thus asked to indicate their perception about the disciplining the members of the profession. Average scores of the preparers, users, regulators and the academics are: 3.02, 3.38, 3.0 and 3.67 respectively. Their respective t-values are: .16, 1.86, 0 and 1.79. Hypothesis can be rejected in two cases. This means users and academics support public control in disciplining the members of the profession. Even the chartered in service support public regulation. Their average score in this respect is 3.363. It is thus observed that users, academics and chartered accountants in service are infavour of public control in

20. The Metcalf Report (Senate Sub-Committee Staff Report) The Accounting Establishment,1977.
21. Stamp, E., "Internatioal Auditing standards-Part II" The CPA Journal(July'82) p.49
22. Ibid.,p.50
23. Ibid.
24. Ibid

Table No.8.8

Shows the difference of opinion between groups about the preference of control on professional accounting in Bangladesh at .05 level

Questions relating to the preference of control	Preparers and the users N=110 Tab.t=1.65	Preparers & Regulators N=82 t=1.66	Preparers & Academics N=81 t=1.66	Users & Regulators N=50 t=1.68	Users & Academics N=51 t=1.68	Regulators & Academics N=23 t=1.72
1. Preference for control of education and training of C.A. students	t=-1.08 NR	.01 NR	-.26 NR	.71 NR	.41 NR	.22 NR
2. Preference for control of disciplining the members of the ICAB	t=-1.27 NR	.06 NR	-1.04 NR	.82 NR	-.27 NR	.78 NR
3. Preference for control of setting up of accounting & auditing standards	t=-1.51 NR	-.34 NR	-.49 NR	.44 NR	.28 NR	-.13 NR
4. Preference for control on financial reporting	t=-1.81 R	-.28 NR	-.90 NR	.87 NR	.27 NR	-.54 NR
5. Preference for control on the compliance with the standards and procedures	t=-2.47 R	-1.65 NR	-1.13 NR	-.24 NR	.48 NR	.57 NR

R -Rejected. It means difference is significant.
NR=Not Rejected. It means difference is insignificant.

Table No.8.9

Shows the analysis of variance (F-value) four groups of respondents about the preference of control on the areas of professional accounting

Questions relating to the preference of control on professional accounting	Calculated F-value at .05	Tabulated F-value	Acceptance/ Rejection
1. Preference for control of the education and training of C.A. students	.4162	2.68	NR
2. Preference for control of disciplining the members of the ICAB	.7952	2.68	NR
3. Peference for control on setting up of accounting and auditing standards	.5264	2.68	NR
4. Preference for control on financial reporting in Bangladesh	1.247	2.68	NR
5. Preference for control of the compliance with the standards & procedures	2.749	2.68	R

disciplining members of the accounting profession. This is probably due to the failure of professional institutes in taking adequate and necessary actions against the violators of rules and code of conduct. Some research studies reveal gross irregularities and violation of rules in auditing and financial reporting.[25] Thus, necessary steps should be taken so as to devise a mechanism whereby people outside the profession should have some control over the disciplining the members of the profession.

8.3.3 Setting up of accounting and auditing standards

Accounting or auditing standards can be established either by public or private regulation. In Bangladesh, there is no separate standard setting body. The ICAB has taken the policy of adopting international accounting standards and auditing guidelines. It is very often asked who should set up standards.[26] As such all respondents were asked to indicate their perception as to whether accounting and auditing standards should be established through public regulation or not.The following hypothesis was thus developed to test its validity:

Ho: Accounting and auditing standards should be established privately.

The average scores of the preparers, users, regulators and the academics are: 3.22, 3.51, 3.36 and 3.41 respectively. Their respective calculated t-values are: 1.47, 3.06,1.49 and 1.33. Hypothesis can be rejected only from the users' point of view although the average scores in all cases are more than the assumed mean of 3. Only users are strongly infavour of public regulation.

8.3.4 Financial reporting

The corporate financial reporting is governed by the public laws in the countries like the U.K. Australia, New Zealand, India Pakistan, Srilanka . Every countries have its own Companies Act to regulate corporate financial reporting. Reporting is also regulated by the accounting standards issued by the independent (private) standards setting bodies. As such controversy arises who should control corporate financial reporting. Respondents were thus asked to

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25. Parry & Khan, Alam, A.K.M.S, Ahmed, M and the like have reported in their research study.

26. Kaplan,R.S.,op.cit.,p.178

express their perception as to whether financial reporting should be controlled by public regulations or not.The following hypothesis was tested:

Ho: Financial reporting should be governed by the rules established privately.

Average score of the preparers, users of financial statements, regulators, and the academics in a 5-point scale are: 3.91, 4.32, 4.00 and 4.16 respectively. Calculated t-values of the four groups of respondents are: 8.23, 10.36, 3.71 and 7.00. Thus hypothesis can be rejected in all cases. This means respondents irrespective of groups strongly support that corporate financial reporting should be controlled through public regulations.

8.3.5 Compliance of the standards

The corporate financial reporting can be regulated either by public or private regulations. Whatever may be the nature of regulation, a question often arises who should oversee the compliance of the standards and procedures. As such respondents were asked to indicate their perception as to whether the compliance of the standards and procedures should be regulated through public control or not.The following hypothesis was formulated to test its appropriateness:

Ho: Compliance of the standards and procedure should be governed by the laws established privately.

In a given 5-point scale the preparers, users, regulators and the academics' average scores are: 3.74, 4.20, 4.27 and 4.08 and the calculated t-values are: 6.32, 9.40, 4.67 and 5.61 respectively. Thus hypothesis can be rejected in all cases. This means respondents unanimously support that compliance of standards and procedures should be governed through public regulations. Thus a public body other than C.A. institute should be established.

8.4 RESPONDENTS' PERCEPTION ABOUT AUDITORS' INDEPENDENCE IN BANGLADESH

Independence is viewed as the cornerstone of the accounting profession.[27] The audit function without independence has no value

[27]. Imhoff, E.A.Jr.,op.cit.,p.869

and relevance in society.[28] But auditors' independence in Bangladesh has come under question. It is very often alleged that auditors are not independent of their clients in Bangladesh.[29] As such all the four groups of respondents were asked to indicate their views on the following issues relating to auditors' independence in Bangladesh:

1. Management's influence over auditor's appointment and remuneration (Question no.18)
2. Auditor's inability to withstand management pressure as regards qualifying audit reports (Ques. no. 19)
3. Absence of audit committees (Ques.no. 20)
4. Image of the profession (Ques.no.21)
5. Tenure (Ques.no.22)
6. Auditors appointment for a fixed term (Ques.no.23)

For each question, a mean value was computed for all the four groups of respondents from the 5-point scale. "T-value" was calculated to determine the difference between the mean value from that of assumed value. If the average is more than 3, respondents are considered "agreed" or "satisfied". If the average is just "3" or below "3", respondents are considered "disagreed" or "dissatisfied". It was also planned to identify whether there were any significant differences of perceptions between groups. As such "t-value" and "F-value" were calculated. The statistical analysis is shown in the Table No. 8.10, 8.11 and 8.12.

8.4.1 Management [Directors] influence over auditor's appointment and remuneration

Management of companies have enjoyed much control over audit process as they effectively control the selection, tenure and dismissal of auditors.[30] This, in turn, has an impact on auditor's independence. In order to avoid management influence on auditors, the Companies Act,1913 provides that auditor's appointment and remuneration shall be fixed at the Annual General Meeting [Sec.144(3)(9)]. But it is alleged that the directors in Bangladesh effectively control Annual General Meeting and accordingly appoint

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28. Firth, M. op.cit.,p.451
29. Parry and Khan, op. cit.,p.260; Talukdar, Y.op.cit.,p.33; Alam, A.K.M.S. op. cit.,p.25
30. Abraham,S.C.,op.cit.,p.190

Table No.8.10

Shows respondents' perception about auditor's independence.

Qestions relating to auditors' independence		Preparers N=71 Tabulated=1.66	Users' N=39 t=1.68	Regulators N=11 t=1.782	Academics N=12 t= 1.782
1. Managements' (Directors') influence on auditors' appointment & remuneration	$\bar{X}$ t-value	3.690 5.27 (R)	4.076 7.03 (R)	3.454 1.82 (R)	4.250 5.0 (R)
2. Auditor's inability to withstand management pressure as regards qualifying audit report	$\bar{X}$ t-value	3.422 2.88 (R)	4.025 6.49 (R)	3.545 2.12 (R)	4.333 3.26 (R)
3. Non-existence of audit committees	$\bar{X}$ t-value	3.463 3.871 (R)	3.310 1.88 (R)	3.750 1.96 (R)	3.333 1.792 (R)
4. Image of the profession	$\bar{X}$ t-value	3.154 1.21 (R)	3.102 .70 (NR)	2.818 -.96 (NR)	3.416 1.88 (R)
5. Tenure of auditors work with a particular client	$\bar{X}$ t-value	3.239 1.73 (R)	3.897 6.58 (R)	3.181 .52 (NR)	3.166 .62 (NR)
6. Auditors' appointment for fixed term	$\bar{X}$ t-value	3.183 1.11 (NR)	2.359 -2.62 (NR)	2.454 -1.49 (NR)	2.416 -1.63 (NR)

R =Rejected.
NR=Not Rejected.

auditors and fix their remuneration.[31] Effort was thus made to test the veracity of this allegation. All the four groups of respondents were asked to indicate their perceptions as to whether the appointment and remuneration of auditors are controlled by the directors or not.In order to test the veracity of this allegation the following hypothesis was formulated:

Ho: Directors do not interfere the appointment of auditors and the fixation of remuneration thereof.

In a given 5-point scale, the average scores of the preparers, users, regulators and the academics are: 3.69, 4.07, 3.45 and 4.25 respectively. The respective calculated t-values are: 5.27, 7.03, 1.82 and 5.0. The hypothesis can be rejected in all cases as the average scores are much higher than the assumed mean of 3. Respondents thus strongly assert that the auditors' appointment and remuneration is effectively controlled by the directors of companies. It is further observed that there is no significant difference of opinion in between users and academics at .05 level. This means that they feel alike. But there exists significant differences between other groups.The ANOVA test also shows that there exists an overall difference of opinion between groups. Thus, it can be concluded that auditors in Bangladesh are not independent of their clients.This may be due to the fact that the members of the companies in Bangladesh are less organised, conscious and are not closely held.[32] Sec.144(3)(9) has thus become ineffective. So time has come to change laws and to devise a mechanism so as to ensure auditor's independence in Bangladesh.

8.4.2 Auditor's inability to withstand management pressure

The Companies Act,1913 requires auditors to report to the members of the Company on the accounts examined by them by certifying that balance sheet exhibits a true and correct view of the state of the company's affairs. But in fact, auditors instead of giving qualified report usually give clean report to the members even when they have sufficient ground to submit a qualified report.[33] Auditors may assume that they always run the risk of being replaced if they give a qualified report. As such, respondents were asked to

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31. Study Manual Auditing II Vol.,1. ed. by ICAB (1982)p.1409; M.A. Baree., "Challenges of the Accounting Profession in the 90's" 3rd National Conference,1986
32. Habibullah, M.,"Business Organisation"
33. Ahmed,J.U.op.cit.p.11

Table No.8.11

Shows the differnce of opinion between groups about the auditor's independence in Bangladesh at .05 level.

Questions relating to the independence of auditors	Preparers and users N=110 t=1.65	Preparers & Regulars N=82 t=1.66	Preparers & Acadamics N=81 t=1.66	Users & Rgulator N=50 t= 1.68	Users & Academics N=51 t=1.68	Regulator & Academics N=23 t=1.72
1. Managements (Directors) influence over auditor's appointment	t=-1.84 R	1.16 NR	-1.67 R	2.33 R	-.56 NR	-2.27 R
2. Auditor's inability to withstand management pressure as regards qualifying audit report	t=2.62 R	.15 NR	-2.50 R	1.95 R	-1.04 NR	-2.96 R
3. Non-existence of audit committees	t=-1.29 NR	1.34 NR	1.43 NR	2.28 R	2.41 R	.02 NR
4. Image of the profession	t= .26 NR	.99 NR	-.29 NR	.92 NR	-.50 NR	-1.19 NR
5. Tenure of auditors work with a particular client	t=-3.10 R	.15 NR	.21 NR	2.26 R	2.54 R	.03 NR
6. Auditor's appointment for fixed term	t=2.87 R	1.65 NR	1.80 R	-.19 NR	-.12 NR	.07 NR

R =Rejected. It means difference is significant.
NR=Not Rejected. It means difference is insignificant.

Table No.8.12

Shows the analysis of variance (F-Value) for four groups of respondents about the state of auditor's independence in Bangladesh.

Questions relating to the auditor's independence	Calculated F-value	Tabulated F-value at .05	Acceptance Rejection
1. Managements influence over auditor's appointment and remumeration	2.804	2.68	R
2. Auditor's inability to withstand management pressure as regards qualifying audit report	4.255	2.68	R
3. Non-existence of audit committees	3.685	2.68	R
4. Image of the profession	.4352	2.68	NR
5. Tenure of auditors work with a particular client	3.715	2.68	R
6. Auditor's appointment for a fixed term	3.548	2.68	R

R =Rejected. It means difference is significant.
NR=Not Rejected. It means difference is insignificant.

express their views as to whether auditors in Bangladesh run the risk of being replaced if they give qualified report.Hence the following hypothesis was tested:

Ho: Auditor's do not violate the provision of the Companies Act while giving opinion in the audit report.

Average scores of preparers, users of financial statements, regulators and the academics in a 5-point scale are: 3.42, 4.02, 3.54 and 4.33 respectively. Their respective t-values are:2.88, 6.49, 2.12 and 3.26. The hypothesis can be rejected in all cases. This means respondents assert that auditors usually give clean report even though they have enough ground to give a qualified report. It is further observed that there is no significant difference of opinion between users and academics at .05 level.But the ANOVA test shows overall variation in opinion between groups at .05 level. However, respondents strongly believe that auditors in Bangladesh are giving clean reports instead of giving qualified reports and thereby surrendering to management pressure rather than protecting public interest.

8.4.3 Absence of audit committees

Ho: Audit Committees are not required to improve auditor's independence in Bangladesh.

Audit committees are used as a tool for improving auditor's independence in countries like the USA, the UK, Australia,and New Zealand . In the USA, a study conducted by the SEC found that about 86% of SEC registrants had formed audit committees in 1984.[34] But there exists no audit committees in public limited companies in Bangladesh, although it is argued that audit committee can improve the state of independence in appearance.[35] As such, respondents were asked to express their views as to whether existence of audit committees will ensure auditor's independence or not.39.85% of the respondents believe that existence of audit committees do not have any impact on auditor's independence in Bangladesh. But 60.15% of the respondents assert that existence of audit committees will ensure auditors independence. Respondents were further asked to indicate their views as to whether non-existence of audit committee

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34. Knapp,M.C.,op.cit.p.579

35. Goldman and Barlev, op.cit.,p.713

would impair auditor's independence in Bangladesh . The average scores of the preparers, users, regulators and the academics are: 3.46, 3.31, 3.75 and 3.33 respectively. The average scores in all cases are higher than the assumed mean of 3. This means hypothesis can be rejected in all cases. So respondents irrespective of groups believe that non-existence of audit committees will impair auditor's independence in Bangladesh.

8.4.4 Image of the profession

Image or reputation gives auditor incentives to be independent.[36] In developed countries, professionals have a high social image.[37] As such, they are able to resist pressure from clients. But in Bangladesh, it is alleged that professionals are more susceptible to client pressure due to their low image.[38] As such, respondents were asked to indicate their perception as to whether the image of the profession has any impact on auditor's independence in Bangladesh.In order to test the veracity of the aforesaid allegation the following hypothesis was tested:

Ho: Image of the profession does not impair auditor's independence in Bangladesh.

In a given 5-point scale the average scores of all the four groups of respondents are: 3.15, 3.10, 2.81 and 3.416 respectively. Their respective t-values are 1.21, .70, -.96 and 1.88. Though the average score in most cases are higher than the assumed mean of 3, yet these are not sufficient to reject the hypotheses. Hypothesis can be rejected only from the academics' view point. This means academics believe that the image of the profession impairs auditor's independence in Bangladesh.. Others do not agree to this. However, image of the profession more or less affects auditor's independence. Thus profession will have to think about it and find out the ways to maintain and upgrade their image.

8.4.5 Auditor's continued appointment with a particular client

Continued appointment as auditor with a particular client tends to

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36. Benstone,G.J.,"Accountants' Integrity and Financial Reporting" Financial Executive (August 1975)pp.10-14
37. Parry & Khan,op.cit.,p.256
38. Ibid.p.257

affect their independence due to an increasing familiarity with the company management and staff.[39] As such, there should exist a rule limiting the maximum tenure after which auditors must be changed. In Bangladesh no laws or standards specify the maximum tenure of a particular auditor's work. All the four groups of respondents were thus asked to indicate their perception as to whether absence of such a provision impairs auditor's independence or not.Hence the following hypothesis was tested:

Ho: Auditor's long association with a particular client does not impair auditor's independence in Bangladesh.

The average scores of those respondent in a 5-point scale are: 3.23, 3.89, 3.18 and 3.16 respectively and their respective calculated t-values are: 1.73, 6.58, .52 and .62. It is observed that respondents' average scores in all cases are higher than the assumed mean of 3. But hypothesis can be rejected in two cases i.e. from the preparer's and users' point of view. Preparers and users believe to a greater extent that auditor's long association with a particular client impairs auditor's independence in Bangladesh. It is further observed that auditor's rotation (turn over) is almost absent in Bangladesh. So the Companies Act should be amended suitably and must incorporate a rule whereby auditors must be changed periodically.

8.4.6 Auditor's appointment for fixed term

In order to improve auditor's independence, it is said that auditors should be appointed for a fixed term within which they cannot be changed. This, according to them, will reduce the risk of their replacement by the client.[40] Respondents were thus asked to indicate their perception as to whether the appointment for a fixed term will improve auditor's independence or not.
The following hypothesis was formulated to test whether auditors' appointment for a fixed term will improve their independence:

Ho: Auditor's appointment for a fixed term will not ensure auditor's independence in Bangladesh.

Average scores of preparers, users, regulators and the academics are: 3.18, 2.35, 2.45 and 2.41 respectively. Respondents' calculated t-values are 1.11, -2.62, -1.49 and -1.63. Hypothesis

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39. US.Senate Sub-Committee Report,1976,op.cit.,p.21
40. Abraham,S.C.,op.cit.,p.173

cannot be rejected in all cases. This means auditor's appointment for a fixed term will not improve auditor's independence. It is further observed that there exist significant differences of opinion in between preparers and users and also between preparers and academics. In both cases preparers average score is higher than users and academics. Preparers may have better understanding about the behaviour of auditors at the time of audit.

8.5 RESPONDENTS' PERCEPTION ABOUT FINANCIAL REPORTING IN BANGLADESH

The ultimate impact of control on professional accounting is assumed to be reflected in the quality of financial reporting and thereby depends on the satisfaction of the users' of financial statements. A question frequently arises as to whether the quality of the financial reporting in Bangladesh is satisfactory or not. If not, how to improve the quality ? As such, all groups of respondents viz. the preparers, the users, the regulators and the academics were asked to indicate their perceptions about the financial reporting and also the way of improving the reporting practices. They were asked to assess the following issues relating to the financial reporting and ways of improving the practices.

1. Usefulness of annual reports,
2. Timeliness of annual reports,
3. Reliability of annual reports,
4. Inclusion of graphs,
5. Inclusion of ratio analysis,
6. Preparation of common size statement,
7. Prescribed form of audit- report,
8. Reference of auditing standards,
9. Inclusion of the term"true and fair view",
10. Detailed audit report,
11. Comparative figures,
12. Form of presenting figures.

For each question, a mean value was computed for all the four groups of respondents on the 5-point scale. In a 5-point scale "3" was taken as the assumed mean. "T-value" was calculated to determine the difference between the mean value from that of assumed mean. If the average score is more than 3, respondents will be considered "agreed" or "satisfied". If the average score is just "3" or below "3", respondents will be considered "disagreed" or unsatisfied". The statistical analysis relating to financial reporting is shown in Table No. 8.13; 8.14 and 8.15.

8.5.1 Usefulness of annual reports

It is often alleged that currently prepared annual reports are uninteresting and useless in Bangladesh.[41] In order to know respondents' perception about this, they were asked to indicate the extent of their satisfaction in a given 5-point scale. The following hypothesis was formulated and tested:

Ho: Currently prepared annual reports are useful in Bangladesh.

The average scores of the respondents are: 2.60, 3.07, 2.90 and 3.25 respectively. Their respective t-values are: -3.50, .52, -.56 and .82. This means respondents are of the opinion that currently prepared annual reports are useful. It is further observed that there exists a significant difference of perception between preparers and users and between the preparers and academics. The average score of preparers are lower than that of users and regulators. This means preparers strongly believe that annual reports are useful.

8.5.2 Timeliness of annual reports

Although timeliness alone does not make annual reports relevant, yet reports must be timely to be relevant, that is, it must be available before it loses its ability to influence the users. The time limit for the preparation of the reports at the annual general meeting is 9 months in Bangladesh [Sec. 131(1)]. Whereas in India and Pakistan it is only 6 months. Though the time limit seems to be wide, yet it is often alleged that annual reports in Bangladesh are presented lately[42] which impair the usefulness of reports. Thus respondents were asked to indicate the extent of their agreement as to whether delayed publication reduces the usefulness of annual reports or not.The following hypothesis was formulated to test the appropriateness of the allegation:

Ho: Delayed publication of reports does not impair the usefulness of annual reports in Bangladesh.

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41. Parry & Khan.,op.cit.,p.254

42. Alam,A.K.M.S.op.cit,p.21; Ahmed,F & Sadequl Islam, "Factors inhabiting Industrial Finance; Their Capital Market in Bangladesh, BER,Oct,1993 p.35

The average scores of the four groups of respondents in a 5-point scale are: 3.25, 3.87, 3.63 and 3.91 respectively. It is observed that in every cases the average score is higher than the assumed mean of 3. This means' hypothesis can be rejected in every cases. Respondents thus assert that the delayed publication impairs the usefulness of annual reports. It is further observed that there exists differences of opinion between groups. Significant differences exist between preparers and users and also between preparers and academics. Preparers' average score is lower than that of users and academics. This may be due to their involvement in the preparation and authentication of accounts. It is observed from the content analysis on the 50 annual reports that about 36% of the listed companies do not present their reports within specified time. So it is apparent that annual reports in Bangladesh are lately published and this delayed publication impairs the usefulness of reports. As such necessary steps must be taken to have a greater control on it so that the usefulness of annual reports can be achieved. It would be better if time limit for publication of annual reports can be reduced.

8.5.3 Reliability of annual reports

The usefulness of annual reports depends to a greater extent on the reliability of the reports. But it is alleged that reports prepared in Bangladesh are not reliable.[43] As such all groups of respondents were asked to indicate their perceptions as to whether annual reports are reliable or not.The following hypothesis was tested as to verify the aforesaid allegation:

Ho: Currently prepared annual reports are reliable in Bangladesh.

The average scores of four groups of respondents in a 5-point scale are: 2.61, 3.56, 3.27 and 3.68 respectively. Their respective calculated t-values are:-2.98, 3.54, .71 and 1.82. Thus hypothesis cannot be rejected from the preparers' and regulators' standpoint but can be rejected from the users' and academics' standpoint. This means preparers and regulators believe that annual reports prepared in Bangladesh are reliable. On the other hand, users and academics believe that annual reports are not reliable. It is further observed that there exists a significant difference of opinion between the groups. The average scores of users, regulators and academics differ significantly from that of preparers' average

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[43]. Habibullah,M.,op.cit.,p.19; Parry & Khan.,Ibid.,p.263.

Table No.8.13

Shows respondents' perception about financial reporting

Qestions relating to financial reporting in Bangladesh.		Preparers N=71 Tab.t=1.66	Users N=39 Tab.t=1.68	Regulators N=11 t=1.79	Academics N=12 t= 1.78
1. Usefulness of annual reports.	$\bar{X}$ t-value	2.605 -3.50 NR	3.076 .52 NR	2.909 -.56 NR	3.250 .82 NR
2. Timeliness of annual reports.	$\bar{X}$ t-value	3.253 1.98 R	3.871 6.80 R	3.636 2.61 R	3.916 3.53 R
3. Reliability of annual reports.	$\bar{X}$ t-value	2.619 -2.98 NR	3.564 3.54 R	3.272 .71 NR	3.583 1.82 R
Improving reporting practices					
1. Language of report.	$\bar{X}$ t-value	3.619 4.59 R	3.538 2.94 R	3.636 1.75 NR	3.083 .29 NR
2. Graph, chart, diagram	$\bar{X}$ t-value	3.859 7.21 R	3.846 7.46 R	3.636 3.13 R	3.750 3.45 R
3. Ratio analysis.	$\bar{X}$ t-value	3.802 9.53 R	3.923 7.80 R	3.534 1.89 R	3.750 5.74 R
4. Common size statements	$\bar{X}$ t-value	3.197 1.51 NR	3.256 1.88 R	3.000 0.0 NR	3.416 1.60 NR
5. Prescribed form for audit report	$\bar{X}$ t-value	2.901 -.72 NR	2.948 -.29 NR	2.916 -.22 NR	2.916 -.22 NR
6. Reference of auditing standards	$\bar{X}$ t-value	3.436 3.86 R	3.769 5.93 R	3.636 2.61 R	3.250 .64 NR
7. Use of the term "True and fair" view	$\bar{X}$ t-value	4.140 13.30 R	3.589 3.71 R	3.727 1.98 R	3.416 1.88 R
8. Detailed audit report	$\bar{X}$ t-value	3.704 5.52 R	4.051 6.57 R	3.634 2.61 R	3.833 2.16 R

Assumed Mean = 3

score. Preparers' average score is much lower than the scores of rest of the groups. This may be due to the preparers' allegiance to the preparation and the authentication of accounts. Moreover, it is observed from the study on 50 annual reports that many material information is not disclosed in the annual reports. This widens credibility gap. Thus it is apparent that the annual reports prepared in Bangladesh are almost not reliable. So necessary steps should be taken to have a strict control on financial reporting so that the reliability of the reports can be improved.

8.5.4 Ways of improving financial reporting

It was also planned to identify the ways of improving financial reporting practices in Bangladesh so that the reports can be made more useful and attractive to the users of financial statements. As such all the four groups of respondents were asked to indicate the extent of their agreement as to the inclusion of some information ,data and techniques in the annual reports. Respondents were asked to indicate their perception on the following issues relating to financial reporting in a given 5-point scale.

1. Language of the report.
2. Use of graphs, charts, diagrams etc.
3. Use of ratio analysis.
4. Common size statements.
5. Form of audit report.
6. Reference of auditing standards.
7. Use of the term "true and fair" view.
8. Detailed audit-report.
9. Comparative figures in the report.
10. Presentation of figures in the report.

For each of the above issue, a mean value was calculated for all the four groups of respondents from a 5-point scale. T-value was then calculated to determine the difference between the mean value from that of assumed value. It was also planned to calculate "t" value to determine whether there was any significant difference between groups. Furthermore,the ANOVA test was done to determine whether there were overall differences between groups. The following variables were considered in the study as techniques to enhance the usefulness of annual reports.

Table No.8.14

Shows the difference of opinion between groups about the financial reporting in Bangladesh at .05 level

Qestions relating to financial reporting	Preparers & the users N=110 Tab.t=1.65	Preparers & Regulators N=82 t=1.66	Preparers & Academics N=81 t=1.66	Users & Regulator N=50 t=1.68	Users & Academics N=51 t=1.68	Regulator-s and Academics N=23 t=1.72
1. Usefulness of annual reports.	Cal.t=-2.51 R	-1.03 NR	-2.14 R	.57 NR	-.55 NR	-.96 NR
2. Timeliness of annual reports.	t=-3.31 R	-1.08 NR	-2.01 R	.77 NR	-.16 NR	-.64 NR
3. Reliability of annual reports	t=-4.53 R	-1.83 R	-2.84 R	.81 NR	-.06 NR	-.61 NR
Improving reporting practice.						
1. Language of report.	t=.38 NR	.04 NR	1.53 NR	-.25 NR	1.24 NR	1.20 NR
2. Graph, chart.	t=.07 NR	.71 NR	.36 NR	.88 NR	.41 NR	.38 NR
3. Ratio analysis.	t=.84 NR	1.45 NR	.25 NR	1.75 R	.76 NR	.98 NR
4. Common size statements	t=-.29 NR	.57 NR	-.65 NR	.90 NR	-.56 NR	-1.18 NR
5. Prescribed form for audit report.	t=-.21 NR	-.26 NR	.04 NR	-.13 NR	.08 NR	.15 NR
6. Reference of auditing standards.	t=-1.84 R	-.66 NR	-.59 NR	.48 NR	1.64 NR	.82 NR
7. Use of the term "True & fair" view	t=-3.36 R	1.49 NR	2.93 R	-.36 NR	.68 NR	.62 NR
8. Detailed audit report	t=-1.66 R	.19 NR	-.37 NR	1.16 NR	.61 NR	.37 NR

R =Rejected. It means difference is significant. Tab.t = Tabulated t
NR=Not Rejected. It means difference is insignificant. Cal.t = Calculated t

1. **Language of report**: The preparers and the users of the financial statements strongly support that the language of the report should be in both English and Bengali. Preparers and users' average scores in a 5-point scale are 3.61 and 3.53 respectively and their respective t-values are 4.59 and 2.49. This means hypothesis can be rejected in both the cases. On the other hand, the regulators and the academics' average scores are: 3.63 and 3.08 respectively and t-values are 1.75 and 0.29 respectively. This indicates that hypothesis cannot be rejected in these two cases. Although their scores indicate that their extent of support is moderate. It is also observed that there exists no significant differences of opinion between groups at 0.05 level. The ANOVA-test also shows that there was overall no differences of opinion between groups. However, it is clear that respondents are in favour of the inclusion of both English and Bengali as the language in the annual reports.

2. **Graph, charts, diagrams**: All groups of respondents strongly support and recommend to include graph, charts, diagrams etc. in the annual report. The average scores of the preparers, the users, the regulators, and the academics are: 3.85, 3.84, 3.63 and 3.75 respectively. The t-values are: 7.21, 7.46, 3.13 and 3.45 respectively. The hypothesis can thus be rejected in all cases. This means respondents from all groups support the inclusion of graph, chart, diagram etc. in the annual reports. It is also observed from the t-test and the ANOVA test that there exists no significant differences of opinion between groups at 0.05 level.

3. **Ratio analysis**: All the four groups of respondents strongly support the inclusion of ratio analysis in the annual reports. The average scores and the calculated t-values of the preparers, users, regulators and the academics are: 3.85, 3.84, 3.63 and 3.75 respectively and 9.53, 7.80, 1.89, 5.74 respectively. The average scores in all cases are much higher than the assumed mean of 3. Thus ,hypothesis can be rejected in all cases. It means respondents strongly suggest that annual report must contain ratio analysis. The ANOVA test and "t-test" also show that there exists no significant differences of opinion between groups at .05 level.

4. **Common-size statements**: All the four groups of respondents were asked to express their opinion as to whether the preparation of common size statements is important or not. Only users of the financial statements strongly support the preparation of common size statements. But the preparers, regulators and the academics do not support it strongly. In a 5-point scale, average scores of the four groups of respondents are: 3.19, 3.25, 3.0 and 3.41

Table No.8.15

Shows the analysis of variance (F-value) for four groups of respondents about the financial reporting in Bangladesh

Questions relating to financial reporting	Calculated F-value	Tabulated F-value	Acceptance Rejection
1. Usefulness of annual reports	3.155	2.68	R
2. Timeliness of annual reports	3.958	2.68	R
3. Reliability of annual reports	7.882	2.68	R
Improving reporting practice			
1. Language of annual report	0.789	2.68	R
2. Graphs, charts, diagrams	0.239	2.68	NR
3. Ratio analysis	1.239	2.68	NR
4. Common size statements	0.365	2.68	NR
5. Prescribed form for audit report	0.029	2.68	NR
6. Reference of auditing standards	1.461	2.68	NR
7. Use of the term "true & fair" view	4.182	2.68	R
8. Datailed audit report	0.956	2.68	NR

R =Rejected. It means difference is significant.
NR=Not Rejected. It means difference is insignificant.

respectively. Calculated t-values of the preparers, users, regulators, and the academics are: 1.51, 1.88, 0 and 1.60 respectively. Hence hypothesis cannot be rejected from preparers, regulators and academic's point of view. This means they do not strongly support the preparation of common size statements. The ANOVA and t-test also shows that there exists no significant differences of opinion between groups at .05 level.

5. **Form of audit report**: The Companies Act,1913 does not prescribe the form of audit report. But in some countries the Companies Act prescribe the form of the audit report. Respondents were thus asked to indicate their perception as to whether the audit report should be prescribed or not. All the four groups of respondents do not support this strongly. Average scores of the preparers, the users, the regulators and the academics are: 2.90, 2.94, 2.91 and 2.91 respectively. Their calculated t-values are: -.72, -.29, -.22 and -.22 respectively. Hence hypothesis cannot be rejected in any cases. This means respondents irrespective of groups do not want prescribed form for audit report. It is further observed that there exists no significant difference of opinion between groups at .05 level.The ANOVA test also shows that overall there is no significant difference between groups.

6. **Reference of auditing standards**: Without the reference of standards, readers would not be able to judge whether the audit was conducted with due professional care.But the readers should be informed through the reference of auditing standards that the auditor performed the audit in accordance with the standards of the profession. The average scores of the preparers, users and regulators are: 3.43, 3.76, 3.63 and 3.25 respectively. The respective calculated t-values are: 3.86, 5.93, 2.61 and .64. The average scores in all cases are higher than that of the assumed mean of 3. The preparers, the users, and the regulators thus favour that audit reports must cite references of auditing standards. The academics' average score is although 3.25, yet it is not sufficient to reject the hypothesis. It is further observed that there exists a difference of opinion in between preparers and users at .05 level.

7. **Use of the term "True and Fair" view**: All the four groups of respondents support to include the term "true and fair" view instead of "true and correct" view in the audit report. The average

scores of the preparers, users, regulators and the academics in a 5-point scale are: 4.14, 3.58, 3.72 and 3.41 respectively and the calculated t-values are;13.30, 3.71, 1.98, 1.88 respectively. The hypothesis thus can be rejected in all cases. There exits significant differences of opinion in between preparers and academics. Preparers' average scores are higher than users and academics.This means they strongly support to include this term in the audit report.

8. **Detailed audit report**: Respondents of all groups assert that audit report should be detailed. According to the opinion of the respondents statutory auditors must give opinion on the adequacy of internal accounting controls, accounting records and procedures, compliance with the loan agreements and on certain specified operating data. The average scores of the preparers, users of financial startements, regulators, and academics are: 3.70, 4.05, 3.63 and 3.83 respectively. Their respective calculated t-values are: 5.52, 6.57, 2.61 and 2.16 . This means hypothesis can be rejected in all cases. Significant difference of opinion exist between preparers and users at .05 level. User's average score is higher than the preparer's score. This means users strongly support that audit reports should be detailed.

9. **Comparative figures**: Respondents of all categories were asked to indicate their opinion as to whether the inclusion of comparative figures in the annual report is important or not. 100% (cent percent) of the respondents suggest that annual report must contain comparative figures. They were further asked to indicate as to how many years' figure should be disclosed in the report. It is observed that 52.65% of the respondents are in favour of 3-years comparative figures. Whereas, 42.10% are in favour of 2-years figures (current and preceding year); rest of the 5.25% are infavour of "more than 3-years". Thus it is observed that respondents want 3 years figures in the

Table No.8.16

Shows respondents' opinion about the inclusion of figures in report

Nature of respondents	2-years figures current & preceding	3-years fig.	More than 3 years	Total
1. Preparers	40	30	1	71
2. Users	10	25	4	39
3. Regulators	4	7	-	11
4. Academics	2	8	2	12
	56 42.10%	70 52.65%	7 5.25%	133 100%

financial statements which is in line with U.S. practice. In the USA annual reports to stockholders must contain figures in financial statements for the last two fiscal years (Article 3 of Regulations S-X, Securities Act, 1933).

10. **Presentation of figures**: Respondents were asked to indicate their opinion as to the form of presentation of the figures in the financial statements. 76.69% of the respondents suggest that figures should be presented in vertical form. Whereas only 23.31% of the respondents support horizontal form of presentation.

Table No.8.17

Shows the respondents' preference about the form of presentation of figures

Nature of respondents	Vertical	Horizontal	Total
1. Preparers	64	7	71
2. Users	23	16	39
3. Regulators	7	4	11
4. Academics	8	4	12
	102 (76.69%)	31 (23.31%)	133 (100%)

Table No.8.18

Shows the perception gap between CA in practice and CA in service (take only those issues where significant differences exists between them) on different issues at .05 level.

Issues relating to professional accounting	CA in practice	CA in service	Calculated t-value	Tabulated t-value	
	Average score	Average score			
Exercise of powers by professional accountant according to the provisions of the Com.Act.	3.055	2.636	1.69	1.68	R
Fulfilment of duties by the professional accountant according to the provisions of the Act.	3.166	2.500	2.83	1.68	R
Establishing "Peer Review" (Quality control) programme.	2.444	3.454	1.69	1.68	R
Training up of articled students by the accounting firms.	2.916	2.500	2.09	1.68	R
Managements' influence over auditors' appointment and remuneration.	3.888	3.227	2.16	1.68	R
Establishment of audit committees.	2.277	1.277	2.11	1.68	R
Inclusion of graphs, charts etc. in the annual reports.	3.694	4.227	-2.01	1.68	R

It is observed from the perception study (opinion survey) that public regulations have a profound impact on professional accounting in Bangladesh as the requirements under the Companies Act, 1913 are almost complied with while preparing accounts and financial statements (Detailed in 8.1.1).

CHAPTER-IX

FINDINGS-TWO (CONTENT ANALYSIS)

IMPACT OF CONTROL ON CORPORATE FINANCIAL REPORTING PRACTICES

CHAPTER-IX

FINDINGS-TWO (CONTENT ANALYSIS)

IMPACT OF CONTROL ON CORPORATE FINANCIAL REPORTING PRACTICES IN BANGLADESH

Corporate financial reporting is concerned with the communication of financial and non-financial information to various parties which they need to make appropriate economic decisions. Information thus must have decision usefulness. To be useful, the information must fulfil certain qualitative characteristics i.e. it must be understandable, relevant, adequate, consistent, comparable and reliable.[1] Unreliable, inadequate, irrelevant reporting may create a systematic and significant information asymmetries in the capital market which leads to adverse consequences resulting in high transaction costs, thin markets, lower liquidity of securities, and in general,lower gains from trade.[2] This, in turn, affects the national economy of a country. Thus it must be ensured that users are provided with reliable and useful information. In providing reliable and useful information, professional accountants have an important role to play, because they authenticate financial statements prepared by the management of an entity, professional accountants' opinions on these statements give reasonable assurances to the users thereof as to whether these are true, fair and certain. Thus the activities of professional accountants are needed to be regulated so that they can work independently and can pass reliable opinion on the accounts and financial statements they are called upon to verify.

To add credibility to financial statements, and enhance the effectiveness of accounting information needed by the users, there must exist, among other things, an effective control on professional accounting so as to ensure that information conforms to generally accepted accounting principles, accounting standards and is within the ambit of law. As such, the financial reporting

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1. "A Statement of Basic Accounting Theory",AAA,(6th Printing, 1977)p.7
2. Lev,B., op.cit.,p.19

practices throughout the world have come under regulations. Governments in most countries thus impose controlling measures by enacting laws and establishing regulatory authorities. So reporting practices around the world are largely regulated by public regulations. Corporate financial reporting practices have also been controlled by private / self regulations through the professional bodies. In Bangladesh, corporate reporting practices have been regulated by public (Companies Act) as well as by private / self regulations (professional institutes). The aim of these regulations is to ensure that information contained in the annual reports is reliable, fair, adequate and relevant.

In order to measure the effect of control on professional accounting in Bangladesh, a content analysis of 50 annual reports listed in Dhaka Stock Exchange have been conducted to identify whether both public and private regulations are complied with or not; and whether annual reports contain adequate, relevant, useful, comparable information or not. If it is found that regulations either public or private are strictly complied with; information contained in the annual reports are adequate, relevant, comparable, useful and timely, then the conclusion can be drawn that the existing control measures are effective to the present environment. Otherwise, steps should be taken to improve the quality of control to have a better financial reporting practices in Bangladesh. The findings of the study relating to corporate reporting practices have been discussed below.

9.1 FINANCIAL REPORTING PRACTICES IN BANGLADESH

The corporate financial reporting practices in Bangladesh have been regulated primarily by the public laws and to a lesser extent by the private (self) regulations. Public laws are mandatory and the private laws are recommendatory. The two main public laws that regulate corporate financial reporting practices are:

1. The Companies Act,1913;
2. The Securities and Exchange Rules (SER),1987.

On the other hand, private (self) regulations that regulate the reporting practices in Bangladesh are the standards issued by the

ICAB as per the directives of the IASC and the IFAC. The reporting practices have also been influenced by the traditions (customs).

Basis of the study: Annual reports of 50 listed companies(as already stated in the methodology in Chapter-2) of the year 1991 were randomly selected for the study. Out of these 50 reports 4 were multinationals; 8 were public-sector companies and 38 were private sector companies. Name of the companies are shown in Appendix No.2.

Variables considered: In order to know the effect of control on corporate reporting practices in Bangladesh, the study considered the following variables while analysing annual reports:

i) **Mandatory-requirements**: a) Contents of annual reports; b) Contents of financial statements, c) Disclosure in financial statements, d) Timeliness of reports, e) Form of presentation f) Comparative figures.

ii) **Non-mandatory requirements**: a) Language of annual reports, b) Number of notes and schedules, c) Nature of notes and schedules d) Use of charts, diagrams, ratios etc, e) Publication of reports.

iii) **Audit reporting practices**: a) Attachment of report and types of qualification, b) Compliance with the auditing guidelines as to the form and contents of reports, c) Compliance with the statutory requirements as to the form and contents of auditors' report.

Disclosures made and shown in annual reports were evaluated on some selected major criteria based on the need of different legal provisions as well as on accounting standards. The extent of disclosures were measured in terms of the following three criteria:

1. Disclosed;
2. Not disclosed;
3. Not applicable;

The results of the analysis were shown in terms of the percentage (%) of compliance.

9.2 Contents of corporate annual reports:

Annual reports are reports that are prepared at yearly intervals containing the financial and non-financial information which shows the financial conditions and operating results of enterprises, generally include financial statements, auditor's report, director's report etc. The contents of corporate annual reports are guided by laws, standards and traditions (customs). In Bangladesh, the laws, standards, traditions prescribed the following contents of annual reports:

Laws/Standards/Traditions	Contents
1. The Companies Act, 1913 Sec.130(1);131(A); 131(2).	1. Annual accounts. 2. Director's report. 3. Auditor's report.
2. The Securities and Exchange Act of 1971 and Rules,1987. Rules 12(1)(2)(3) of '87.	1. Annual accounts. 2. Director's report. 3. Auditor's report. 4. Segmental analysis.
3. Accounting Standards issued by the ICAB (Para 3&5 of AS-I)	1. Annual accounts. 2. Auditor's report.
4. Traditions/Customs.	1. Company information. 2. Corporate objectives. 3. Highlights. 4. Chairman's statement. 5. Comparative statistics.

The study discloses the following contents of annual reports of sample companies.

Contents	Multi*	Public	Private	Total	% of Comp*
Companies under study	**4**	**8**	**38**	**50**	**100%**
Mandatory:					
1. Annual accounts	4	8	38	50	100%
2. Director's report	4	8	38	50	100%
3. Auditor's report	4	8	38	50	100%
4. Segmental analysis	1	-	-	1	2%
Non-mandatory:					
1. Company information	4	8	35	47	94%
2. Corporate objectives	-	1	3	4	8%
3. Highlights	2	-	2	4	8%
4. Chairman's statement	3	-	2	5	10%
5. Comparative statistics	3	4	1	8	16%

* Multi = Multinational; * Comp = Compliance.

The study reveals that statutory requirements as to the contents of annual reports under both the laws are strictly complied with. Only one company includes segment analysis as it is not relevant for other companies,because those companies do not have segments. On the other hand, non-mandatory requirements as to the contents of annual reports are not complied with. Only exception is the company information.It is observed that 94% of the annual reports of sample companies contain company information.

9.3 Contents of financial statements (annual accounts):

Financial statements normally include a balance sheet,an income statement, a fund statement or any other supporting statements or other presentation of financial data derived from accounting records. The statutes and the accounting standards prescribe the contents of financial statements. The contents of financial statements prescribed by laws and accounting standards are:

Laws/Standards	Contents
1. The Companies Act,1913;and the Securities and Exchange Rules, 1987.[(Sec.131(1) of C.A and Rules 12(2) of SER,87]	1. Balance sheet. 2. Profit and Loss account 3. Notes and schedules.
2. Accounting Standards issued by the ICAB (Para 3 of AS-1).	1. Balance sheet. 2. Income statement. 3. Statement of changes in financial position. 4. Notes, schedules and explanatory materials.

The study through Table No. 9.1 discloses the following practices as to the contents of the financial statements

Table No.9.1

Shows the extent of compliance with the contents of financial statements.

Contents	Multinational		Public-sector		Private sector		Total	% of compliance
	No.	% of comp	No.	%	No.	%		
Companies under survey	4		8		38		50	
1 Balance sheet	4	100%	8	100%	38	100%	50	100%
2 Profit and loss A/c	4	100%	8	100%	38	100%	50	100%
3 Statement of changes in financial position	4	100%	5	62.5%	14	37%	23	46%
4 Notes	4	100%	8	100%	34	90%	46	92%
5 Schedules	4	100%	8	100%	38	100%	50	100%

The study reveals that statutory requirements as to the contents of financial statements are strictly complied with. 100% of the companies under study meet the statutory requirements as to the contents of financial statements. But the preparation of statements of changes in financial position as per the accounting standards of the ICAB is not strictly followed. Only 46% of the companies prepared this statement. Nevertheless, no professional accountants reported (mentioned) this in their reports, although it is instructed by the ICAB that practicing members should disclose any sort of deviation from accounting standards in their reports.

9.4 Disclosure requirements in the financial statements:

The Companies Act, 1913, the Securities and Exchange Rules, 1987 and the Accounting Standards issued by the ICAB clearly prescribe rules as to the disclosure of accounting policies and information in the financial statements. Attempts were made to identify the extent of compliance with the disclosure-requirements of the statutory laws and of the accounting standards separately.

9.4.1 Compliance with the disclosure-requirements of the Companies Act, 1913:

The disclosure requirements under the Companies Act, 1913 are not clear and comprehensive. The disclosure requirements under this Act are stated in "Form-F" and in section 132(1).

The study considered only the following items in analysing whether disclosure requirements as per the Companies Act,1913 are complied with or not:

> 1) Fixed assets; 2) Stock; 3) Debtors; 4) Cash and bank; 5) Share capital; 6) Reserves; 7) Longterm loan; 8) Current liabilities.

The study through Table-9.2 discloses the following practices as to the compliance with the disclosure-requirements of the Companies Act,1913.

Table No.9.2

Shows the extent of compliance with the disclosure requirements of the Companies Act,1913

Particulars	Disclosed				Not Disclosed	Not Applicable	% of Compliance
	Multinational	Public Sector	Private Sector	Total			
No.of Reports Under Study	4	8	38	50			100
1. **FIXED ASSETS**							
a. Nature of assets	4 (100%)	8 (100%)	37 (97%)	49	1	-	98%
b. Basis of valuation	4 (100%)	6 (75%)	27 (71%)	37	11	-	74%
c. Depreciation written off	4 (100%)	8 (100%)	37 (97%)	49	1	-	98%
2. **STOCK**							
a. Mode of valuation	4 (100%)	6 (75%)	28 (74%)	38	11	1	77.5%
3. **DEBTORS**							
a. Types of debtors	3 (75%)	4 (50%)	8 (21%)	15	30	5	33%
b. Realisability	3 (75%)	4 (50%)	10 (26%)	17	28	5	38%
c. Further classification	3 (75%)	1 12.5%)	5 (13%)	9	36	5	20%
4. **CASH & BANK**							
a. Types of cash	4 (100%)	8 (100%)	34 (89%)	46	3	1	94%
5. **SHARE CAPITAL**							
a. Different classes	4 (100%)	8 (100%)	37 (97%)	49	1	-	98%
b. No. of shares & face - value	4 (100%)	8 (100%)	37 (97%)	49	1	1	98%
c. Shares allotted for cash or in consideration other than cash	4 (100%)	6 (75%)	11 (29%)	21	10	19	68%
6. **RESERVES**							
a. Amount kept for reserve	3 (75%)	2 (25%)	18 (47%)	23	10	17	70%
7. **LONG TERM LOAN**							
a. Types of loan	2 (50%)	3(37.5%)	14 (37%)	19	17	14	53%
b. Further classification	2 (50%)	2 (25%)	10 (26%)	12	25	13	33%
8. **CURRENT LIABILITY**							
a. Types & amount	4 (100%)	8 (100%)	36 (95%)	48	2	-	96%

The study reveals (Table No.9.2) that disclosure requirements under the Companies Act, 1913 are almost complied with. Disclosure requirements as regards fixed assets, stock, cash, share capital and current liabilities are strictly complied with while debtors, reserves,long-term loan are not strictly followed. It is observed from the above table that the compliance with the disclosure requirements in case of multinational companies are better than that of public and private sector companies.

9.4.2 Compliance with the disclosure-requirements of the Securities and Exchange Rules,1987:

The Securities and Exchange Rules, 1987 contains detailed regulations concerning forms and contents of financial statements. It requires a wide range of disclosures compared to the Companies Act,1913. The present study considered the following terms in analysing whether disclosure requirements as per the Securities and Exchange Rules, 1987 are complied with:

1) Fixed assets; 2) Stock; 3) Debtors; 4) Cash and bank; 5) Share capital; 6) Reserves; 7) Long-term loan; 8) Current

liabilities.

The study reveals the following practices as to the compliance of disclosure requirements as per the Securities and Exchange Rules, 1987.

Table No.9.3

Shows the extent of compliance with the disclosure requirements of the SER,1987

Particulars	Disclosed				Not Disclosed	Not Applicable	% of Compliance
	Multinational	Public Sector	Private Sector	Total			
No.of Reports Under Study	4	8	38	50			100
1. **FIXED ASSETS** (Rule 2 of Part 1 of 2nd Schedule)							
a. Nature of assets	3 (75%)	2 (25%)	08 (21%)	13	37	-	26%
b. Basis of valuation	4 (100%)	6 (75%)	27 (71%)	37	13	-	74%
c. Method of depreciation	4 (100%)	7 (88%)	32 (84%)	43	7	-	86%
d. Rate of depreciation	4 (100%)	8 (100%)	35 (92%)	47	3	-	94%
e. Depreciation allocated	4 (100%)	5 (63%)	32 (84%)	41	9	-	82%
f. Accumulated depreciation	4 (100%)	8 (100%)	30 (79%)	42	8	-	84%
g. List of purchaser and mode of sale	2 (50%)	-	-	2	16	32	11%
2. **STOCK** (Rule 5 A of Part I of the 2nd Schedule)							
a. Types of stock	4 (100%)	7 (88%)	30 (79%)	41	8	1	83%
b. Method of valuation	4 (100%)	6 (75%)	28 (74%)	38	11	1	78%
c. Cost formula used	4 (100%)	7 (88%)	12 (32%)	23	26	1	47%
3. **DEBTORS** (5 A (iii) C(a) C(c) of Part I of 2nd Schedule)							
a. Types of debtors	3 (75%)	1 (13%)	11 (29%)	15	30	5	33%
b. Realisability	3 (75%)	4 (50%)	10 (26%)	17	28	5	38%
c. Further classification	3 (75%)	3 (38%)	4 (11%)	9	36	5	20%
d. Special disclosure by way of a note	1 (25%)	-	5 (13%)	6	28	5	18%
4. **CASH & BANK** (5A (x) of Part I of 2nd Schedule)							
a. Types of cash & bank	4 (100%)	6 (55%)	36 (95%)	46	3	1	94%
b. Nature of deposit	2 (50%)	7 (88%)	18 (47%)	27	23	-	54%
c. Cash or bank balance kept for security	-	2 (25%)	-	2	48	-	4%
5. **SHARE CAPITAL** (8 A & B of Part I of 2nd Sched.)							
a. Classification of Cap.	4 (100%)	7 (88%)	37 (97%)	48	1	1	98%
b. No.of shares and face-value thereof	4 (100%)	7 (88%)	38 (100%)	49	1	-	98%
c. Shares allotted for cash or in consideration other than cash	4 (100%)	4 (50%)	13 (34%)	21	15	-	60%
d. Particulars of any option on unissued shares	-	-	-	-	-	-	-
6. **RESERVES** (8 A and B of Part I of 2nd Schedule)							
a. Types of reserves	2 (50%)	1 (13%)	12 (32%)	15	24	11	38%
b. Composition of reserves	3 (75%)	1 (13%)	9 (24%)	13	26	11	33%
7. **LONG TERM LOANS** [9(A-G) of Part I of 2nd Sched.]							
a. Types according to security	1 (25%)	2 (25%)	16 (42%)	19	17	14	53%
b. Further classification	-	2 (25%)	8 (21%)	10	30	10	25%
c. Rate of interest	1 (25%)	4 (50%)	8 (18%)	12	26	12	32%
d. Terms of redemption	2 (50%)	6 (75%)	9 (24%)	17	22	11	44%
e. Terms of conversion	2 (25%)	2 (25%)	2 (05%)	5	29	16	15%
8. **CURRENT LIABILITIES** (Rule 10 of part I of 2nd Schedule)							
a. Types according to security	4 (100%)	-	5 (13%)	9	41	-	18%
b. The name of the assets against the liability [10 (c)]	-	-	5 (10%)	5	45	-	10%

The study reveals [Table No.9.3] that disclosure requirements as per the SER,1987 are not strictly complied with. It is observed that disclosure requirements of the SER,1987 are met in respect of fixed assets, stock, cash and bank, and share capital. But the companies under the study fail to meet the disclosure requirements of the SER,1987 with respect to sundry debtors, advances, long-term loans and current liabilities. The study reveals that only 4% of the companies' reports disclose the amount of "Cash kept for security"; 10% of the reports disclose the name of the assets pledged against the current liabilities; only 18% of the reports state current liabilities according to the security. About 15% of the reports disclose the terms of redemption in case of long -term loan. It is further observed that no reports disclose the particulars of any option on unissued shares. It is also found that in spite of lapses in disclosing vital information and facts as per the SER,1987, financial statements are certified by professional accountants without appropriate qualifications.

9.4.3 Compliance with the disclosure-requirements of accounting standards:

The ICAB has taken the policy of adopting accounting standards to bring uniformity in accounting practices and also to have a wide range of disclosure for ensuring a fair presentation of accounting information. The ICAB has so far adopted fifteen accounting standards.[3] The accounting standards issued by the ICAB exclusively related to disclosures are:

1. AS-1: Disclosure of Accounting Policies(IAS-1)
2. AS-2: Information to be Disclosed in Financial Statement (IAS-2)
3. AS-5: Valuation and Presentation of Inventories in the Context of Historical Cost (IAS-2)
4. AS-6: Statement of Changes in Financial Position (IAS-7)
5. AS-7: Presentation of Current Assets & Liabilities (IAS-15)

AS-1 issued by the ICAB requires all significant accounting policies which have been followed or have deviated from previous

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[3]. The Bangladesh Accountant, (Oct-Dec,1990)p.3

practices should be disclosed as an integral part of financial statements. AS-2 requires that a series of specific disclosures should be made in the financial statements in addition to those as required by laws. Accounting standards issued by the ICAB are recommendatory as it has no power of its own to enforce compliance with the standards. The institute, however, instructs its members to disclose in the audit report any deviation from the accounting standards.

The study attempts to identify the extent of compliance with the accounting standards no. 1, 2 for the analysis. The study reveals the following practices concerning the extent of compliance with the accounting standards issued by the ICAB.

Table No.9.4

Shows the extent of compliance with the accounting standards.

Disclosure-requirements Under Accounting Standards	Disclosed				Not Disclosed	Not Applicable	% of Compliance
	Multinational	Public Sector	Private Sector	Total			
1. Nature of activities of the enterprise (Para 8 of AS-2)	2 (50%)	1 (15%)	7 (18%)	10	40	-	20%
2. Legal form of the enterprise (Para 8 of AS-2)	2 (50%)	1 (13%)	4 (11%)	7	43	-	14%
3. Restrictions on the title to assets (Para 11 of AS-2)	3 (75%)	1 (13%)	-	4	40	6	9%
4. Methods of providing for pension and retirement plan (Para 11 of AS-2)	2 (50%)	2 (25%)	-	4	8	38	50%
5. Separate disclosure for leasehold and instalment purchase (Para 12)	(00%)	2 (25%)	1 (03%)	3	11	36	27%
6. The market value of marketable securities (Para 14 of AS-2)	(00%)	1 (13%)	1 (03%)	2	30	18	6%
7. Arrangement of current liabilities (Para of AS-2)	4 (100%)	4 (50%)	18 (47%)	26	24	-	52%
8. <u>Long-term liabilities</u>							
a. Interest rate	2 (50%)	3 (38%)	4 (11%)	9	28	13	24%
b. Repayment terms	2 (50%)	3 (38%)	8 (21%)	13	25	12	34%
c. Covenants	(00%)	3 (38%)	2 (97%)	5	32	12	14%
d. Conversion features	(00%)	1 (13%)	2 (97%)	3	32	15	12%
e. Unamortised Premium (Para 15 of AS-2)	(00%)	(00%)	4 (11%)	4	47	1	12%
9. Basis of revenue recognition (AS-1)	2 (50%)	(00%)	6 (16%)	8	42	-	16%

It is observed [Table No.9.4] that companies do not comply with the accounting standards issued by the ICAB. Accounting Standards-2 adopted by the ICAB requires every enterprise, among other things, to state a brief description of the nature of activities, legal form of the enterprises, restrictions on the title to the assets.

AS-2 also requires separate disclosure for leaseholds and instalment purchase. But these are not stated (disclosed) in the financial statements. Only 20% and 14% of the companies under study disclose the nature of activities and the legal form of the enterprise respectively. About 9% of the companies disclose the restrictions on the title to the assets. It is further observed that only 6% of the companies' reports disclose the market value of marketable securities. Only one company's report discloses that it has not changed its accounting policies; 50% of the companies do not mention the methods of providing for pension and retirement plan; 52% of the companies do not disclose current liabilities properly. 84% of the companies' reports do not mention the basis of revenue recognition. In general, it is observed that disclosure requirements as per accounting standards are not complied with. However, the position of multinational companies in this respect are a bit better than local public and private- sector companies. As regards the implementation of standards, the ICAB instructs its members to put their best effort to secure compliance of the standards and directed them to disclose in the audit report any deviation from the accounting standards and the reasons of non-compliance thereof. But the non-compliance of accounting standards are not at all pointed out by professional accountants in their audit reports.

9.5 <u>Timeliness of reports</u>:

The Companies Act,1913 does not specify the time limit for the preparation of reports and accounts but only requires that reports are to be presented at the Annual General Meeting (AGM) within twelve months from the balance sheet date in case of a company carrying on business having interests outside Bangladesh; and nine months in other cases [Sec. 131(1)].

The Securities and Exchange Rules, 1987 and the accounting standards do not contain any provisions specifying the time limit for the preparation of reports and accounts. The time limit for presentation of the reports at the Annual General Meeting in India and Pakistan is six months. The time-lag allowed by the Companies Act,1913 thus seems to be wide in comparison to India and Pakistan. However, the study reveals the following practices concerning timeliness of reports.

Table No.9.5

Shows the practices concerning the timeliness of reports

Particulars	Multinat**		Public-sector		Private-sector		Total	% of Com*
	No.	%	No.	%	No.	%		
No.of Companies surveyed	4		8		38		50	100%
1. Up to 90 days	-	-	-	-	-	-	-	-
2.91 days - 180 days	3	75%	2	25%	10	26%	15	30%
3.181 days - 270 days	-	-	4	50%	13	34%	17	34%
4.271 days - 360 days	1	25%	2	25%	8	21%	11	22%
5.361 days - Above	-	-	-	-	7	18%	7	14%

** Multinat = Multinational; * Com = Compliance.

The study reveals [Table No.9.5] that 36% (22+14) of the companies fail to comply with the statutory requirements in presenting reports at the Annual General Meeting within the specified time. This indicates that a significant number of companies do not meet this statutory requirements. It means that financial statements were issued to the users very late. The report must be timely to be relevant otherwise it will loose its ability to influence the users. However, the situation is a bit improved compared to the study conducted by Parry and Khan in 1984.

9.6 Comparative figures in the reports:

The Securities and Exchange Rules,1987 and the accounting standards issued by the ICAB require that financial statements must show corresponding figures for the preceding year. But the Companies Act,1913 remains silent about the comparative figures in the reports. The study through Table No. 9.6 indicates the following practices concerning comparative figures in the reports;

Table No.9.6

Shows the practices of disclosing comparative figures in the reports

Particulars	Multi**		Public-sector		Private-sector		Total	% of Com*
	No.	%	No.	%	No.	%		
No.of Companies surveyed	4		8		38		50	100%
1.Without comparative figures	-	-	-	-	5	13%	5	10%
2.With comparative figures	4	100%	8	100%	33	87%	45	90%

** Multi = Multinational; * Com = Compliance.

The study reveals that 90% of the companies disclose comparative figures either fully or partially. It indicates that 10% of the companies do not comply with the SER, 1987 as well as the accounting standards i.e. they do not show comparative figures in the annual reports.

9.7 Presentation of financial statements:

The Companies Act,1913 and the SER,1987 prescribe that balance sheet must be in horizontal, T-form. The accounting standards issued by the ICAB remain silent about it.
The study through Table No.9.7 reveals the practices concerning the form of the financial statements.

Table No.9.7
Shows the practice of presenting balance sheet

Particulars	Multi**		Public-sector		Private-sector		Total	% of Com*
	No.	%	No.	%	No.	%		
No.of Companies surveyed	4		8		38		50	100%
1.Horizontal	-	-	4	50%	16	42%	20	40%
2.Vertical	4	100%	4	50%	22	58%	30	60%

** Multi = Multinational; * Com = Compliance.

It is observed [Table No. 9.7] that 60% of the companies do not comply with the statutory requirements as to the form of the balance sheet.

NON-MANDATORY REPORTING PRACTICE

The financial reporting in Bangladesh has been influenced by non mandatory reporting practices. These are not prescribed or required by any statutory laws or by any standards. The following non-mandatory reporting practices have been observed in the study.

9.8 Language of reports:

Statutory laws and the accounting standards remain silent as to the language of the reports.
The study through Table no.9.8 indicates the reporting practices relating to the language of the reports.

Table No.9.8

Shows the uses of languages in the reports

Language	Multinat**		Public-sector		Private-sector		Total	% of com*
	No. Com*	%	No. report	%	No. report	%		
No.of Companies surveyed	4		8		38		50	100%
1.Bengali	-	-	5	62.5%	5	13%	10	20%
2.English	1	25%	1	12.5%	22	58%	24	48%
3.Bengali & English	3	75%	2	25%	11	29%	16	32%

** Multinat = Multinational; * Com = Compliance.

The study reveals that nearly half of the annual reports are published in English.32% of the companies solve the language problem by publishing reports both in English and Bengali. It is further observed that 62.5% of the public-sector companies publish their reports in Bengali.

9.9 Notes and Schedules:

Notes and schedules are the integral part of the financial statements as per accounting standards and statutory laws.
The study through following tables attempts to identify the reporting practices relating to notes and schedules.

Table No.9.9
Shows the number of notes contained in annual reports

Particulars	Multinat**		Public-sector		Private-sector		Total	% of Com*
	No.	%	No.	%	No.	%		
No.of Companies surveyed	4		8		38		50	100%
1.No notes	-	-	-		5	13%	5	10%
2.1-15 notes	-	-	1	12.5%	17	44%	18	36%
3.16-30 notes	3	100%	5	62.5%	16	42%	25	50%
4.31-Above	-	-	2	25%	-	-	2	4%

** Multinat = Multinational; * Com = Compliance.

Table No.9.10
Shows the number of schedules contained in reports

Particulars	Multinat		Public-sector		Private-sector		Total	% of Com
	No.	%	No.	%	No.	%		
No.of Companies surveyed	4		8		38		50	100%
1.No schedule	-		-	-	1	3%	1	2%
2.One schedule	3	75%	4	50%	28	74%	35	70%
3.Two-Five schedules	1	25%	4	50%	4	10%	9	18%
4.Six-Above	-	-	-	-	5	13%	5	10%

The study reveals that most of the annual reports contain 16 to 30 notes and one schedule, 98% of the reports prepare a schedule for fixed assets. It is surprising to note that 10% of the companies do not prepare any notes and one company does not prepare any schedule.

9.10 Use of graph, charts, diagrams, pictures, ratios etc:

The inclusion of graphs, charts, diagrams, pictures and ratios in the annual reports is not required by any laws and standards. The study through Table No.9.11 discloses the practices concerning the use of graphs, charts, diagrams, pictures and ratios.

Table No.9.11
Shows the nature of graphs, ratios, diagrams, etc. in reports

	Multinat**		Public-sector		Private-sector		Total	% of Com*
	No.	%	No.	%	No.	%		
No.of Companies surveyed	4		8		38		50	100%
1.Graph (Pie chart)	2	50%	-	-	3	8%	5	10%
2.Ratios	2	50%	1	25.5%	2	5%	5	10%
3.Diagram	2	50%	4	50%	3	9%	9	18%
4.Pictures	1	25%	1	12.5%	-	-	2	4%

** Multinat = Multinational; * Com = Compliance.

The study discloses that the use of graph, ratios, diagrams, pictures etc. in the reports is very limited. 10% of the companies use graph and ratios. Only 18% of the companies use diagrams. Table No.9.12 shows the following practices concerning the types of items presented in the pie chart, diagrams and ratios.

Table No.9.12

Shows the types of items presented in the chart, diagrams and ratios.

Types of items	Multinational	Public sector	Private sector	Total
Pie chart: 1. Material	3	-	1	4
2. Taxation	3	-	1	4
3. Depreciation	3	-	1	4
4. Staff contribn.	3	-	1	4
5. Dividend & Net profit	2	-	1	3
Bar diagram: 1. Production	1	3	4	8
2. Sales	2	2	4	8
3. Profit	1	-	1	2
4. EPS & DPS	1	-	1	2
Ratios : 1. Liquidity	-	1	1	2
2. Solvency	-	1	1	2
3. Profitability	1	1	1	3
4. Activity	1	1	1	3

9.11 Publication of reports:

Neither any laws nor any standards prescribe as to how reports are to be published. But laws only state that reports are to be prepared, circulated and presented in the annual general meeting. Moreover, the Companies Act, 1913 also provides that members have the right to receive copies of financial statements.
The study through Table No.9.13 reveals the following practices concerning publishing of reports.

Table No.9.13
Shows the mode of publication of reports

Particulars	Multinat		Public-sector		Private-sector		Total	% of Com
	No.	%	No.	%	No.	%		
No.of Companies surveyed	4		8		38		50	100%
1.Printed	4	100%	8	100%	30	79%	42	84%
2.Not printed	-		-		8	21%	8	16%

It is observed from the study that 16% of the companies do not print their financial statements.

9.12 AUDIT REPORTING PRACTICES IN BANGLADESH

The corporate audit reporting practices in Bangladesh have been regulated primarily by the Companies Act, 1913 and for listed companies also by the Securities and Exchange Rules, 1987. The Companies Act, 1913 does not prescribe the form of the audit report; but it specifies the exact wordings of the report in section 145[2] & 2[A]. The Securities and Exchange Rules, 1987, on the other hand, prescribe both the form and contents of the auditors' report. The audit reporting is also regulated by the IFAC- Guidelines. Twelve of these guidelines have so far been adopted in Bangladesh by the ICAB.[4] The IFAC has issued specific auditing guidelines on auditors' report.

The study attempts to identify the state of audit reporting practices in Bangladesh considering the following points:

1. Preparation and attachment of audit report and the nature of qualification thereof.
2. The extent of compliance with the IFAC- guidelines as to the form and contents of audit report.
3. Identification of irregularities and violation of statutory laws.

9.12.1 Attachment of audit report and types of qualifications:

The Companies Act,1913 requires that audit report should either be attached to the accounts or a reference be made to it at the footnote thereto. The study attempts to identify whether audit reports are attached thereto and also to identify the types of qualifications of the reports. The following table incorporates the results of the scrutiny of the auditor's report of the sample companies.

[4]. Ibid.p.3

Table No.9.14

Shows the audit reporting practices concerning the attachment of reports to the annual accounts and the qualifications of reports

Particulars	Types of Companies			Total	% of Comp*
	Multi*	Public-sector	Private-sector		
No.of Companies surveyed	4	8	38	50	100%
1.Attachment of reports	4	8	38	50	100%
2.Types of qualification					
- Subject to	-	-	3	3	6%
- Except for	-	-	-	-	-
- Adverse	-	-	-	-	-
- Unqualified	4	8	35	47	94%

* Multi = Multinational; * Comp = Compliance.

It is observed that 100% companies attach their audit reports to the annual accounts. It is further observed that 6% of the reports are qualified reports. The nature of qualification of these reports are:

> "The accounts are not prepared in accordance with the Securities and Exchange Rules, 1987".

9.12.2 Audit reporting practices as per the IFAC- guidelines:

International Auditing Guideline (1AG-3) No.3 "Basic Principles Governing an Audit" issued by the IFAC sets out clearly the requirements as to the audit and audit report. In addition, 1AG-13 "The Auditor's Report on Financial Statements" prescribes the basic elements of audit report which suggests that the report should normally contain the following basic elements:

> 1) Title; 2) Addressee; 3) Identification of financial statements; 4) Scope paragraph; 5) Opinion paragraph; 6) Signature; 7) Auditor's address; 8) Date of report.

This guideline has been adopted in Bangladesh by the ICAB. This study here attempts to identify whether audit reports are prepared in accordance with the IAG-13. Table No. 9.15 incorporates the findings concerning audit reports :

Table No.9.15

Shows the extent of compliance with the IFAC-Guideline No.13

Particulars	Types of Companies			Total	% of Compl*
	Multi*	Public-sector	Private-sector		
No.of Companies surveyed	4	8	38	50	100%
1.Title	4	8	38	50	100%
2.Addressee's identified	3	2	19	24	48%
3.Financial statements identified	4	8	38	50	100%
4.Date of accounts	4	8	38	50	100%
5.Scope & opinion identified	4	8	38	50	100%
6.Signature	4	8	38	50	100%
7.Auditor's address	-	3	19	22	44%
8.Date of report	4	7	35	46	92%

* Multi = Multinational; * Compl = Compliance.

The study reveals that audit reporting requirements as per IFAC-Guideline are not complied with in many respects. It is observed that 52% of reports do not identify addresses; 56% of the reports do not contain auditor's address. It is further observed that 8% of the auditors do not even mention date of the audit reports.

9.12.3 Compliance with the statutory requirements as to the form and contents of auditor's report:

The auditor's report of listed companies are regulated by the Companies Act,1913 and also by the Securities and Exchange Rules (SER),1987. The Companies Act, specifies the exact wordings of the auditor's report in Section 145(2) and 2(A). The SER, 1987 specifies both the form and contents of auditor's report in the Rule 12(3), the specimen of which is given below:

Auditor's Report (Rule 12B)
(Form-B)

We have examined the annual Profit and Loss account for the period from-------------- to ----------- and also the annual Balance Sheet of ----------Ltd. as at----------- and we state that we have obtained all the information and explanation which we required and after due verification thereof, we report that--

a) in our opinion, proper books of account have been kept by the company as required by the Companies Act,1913;

b) in our opinion, the Balance Sheet and the Profit and Loss Account have been drawn up--

- i) in conformity with the Companies Act, 1913; and
- ii) in accordance with the requirements of the Schedule to the Securities and Exchange Rules, 1987;

c) in our opinion and to the best of our information and according to the explanation given to us---

- i) the Balance Sheet and Profit and Loss account which are in agreement with the books of account exhibit a true and correct view of the state of the company's affairs; and
- ii) the expenditure incurred was for the purpose of the company's business.

Thus laws require that audit report of listed companies must be prepared in accordance with the Form-B (Rule 12(B)) of the SER, 1987 and Section 145 (2)(2A) of the Companies Act,1913.

The study attempts to identify whether audit reports are prepared in accordance with the provisions of the laws or not. The study identifies the following violation of rules as to the preparation of audit reports.

Table No.9.16

Shows the violation of regulations in auditor's reports.

Particulars	Types of Companies			Total	% of Viola*
	Multi*	Public-sector	Private-sector		
No.of Companies surveyed	4	8	38	50	100%
1.Reference of Generally Accepted Auditing Standards (GAAS)	-	-	4	4	8%
2.No reference of any laws	-	-	8	8	16%
3.No reference of SER,87	-	-	6	6	12%
4."After Due Verification ignored	-	2	9	11	22%
5."The expenses incurred for the purpose of the business" ignored	-	-	6	6	12%
6."Audit" in place of "Examination"	-	1	9	10	20%
7."True and Fair"view in place of "True & Correct" view	-	-	10	10	20%
8.Wrongly addressed	-	-	2	2	4%
9.Reference of earlier securities laws	-	-	5	5	10%
10.Notes included in the audit report	-	-	2	2	4%
				64	

* Multi = Multinational; * Viola = Violation.

The study identifies various irregularities and violation of laws in the auditors' report. A total of 64 cases of irregularities and violation of regulations are detected. These are:

1. Neither the Companies Act, 1913 nor the Securities and Exchange Rules, 1987 allow to use the term "true and fair" view or "audit" or the reference of "Generally Accepted Auditing Standards (GAAS)". But the study identifies 24 cases of violation of regulations of these nature.

2. It is further observed that companies do not make any reference of any laws in audit report in 8 cases; do not make reference of Securities and Exchange Rules,1987 in 6 cases; 5 audit reports refer earlier securities laws.

3. It is detected that 17 audit reports do not contain the term "After Due Verification" or "the expenses incurred was for the purpose of the business".

4. The study also reveals that two reports are addressed to the directors instead of shareholders; and two reports includes various lengthy accounting notes on the body of the reports.

IAG-3 clearly states that the audit report should contain a clear written expression of opinion on the financial information. It should, therefore, not be of casual type, rather it should be highly formalised and specific. But it is observed that there exists wide variations in audit reporting practices in Bangladesh. It is found that ,very often auditors' reports do not make any reference of laws; do not use terms that are required by laws to state; use terms that are not allowed by the laws; make references of earlier laws; addressee of reports are not stated, and many more other irregularities. Moreover, instead of making a clear-cut definite opinion, audit report contains long notes and comments which have no relevance to laws.

It has already been stated in the introduction section that an analysis of 50 randomly selected annual reports would be carried out to identify the real impact of control(professional), both public and private. **This analysis gives us a very interesting findings. In one hand, management is not following the legal prescriptions and on the other hand professional accountants are not keen enough to assure the observance of legal prescriptions. Even the professional accountants do not follow their professional guidelines. This shows the weakness of controls, both public and private in Bangladesh.**

CHAPTER-X

SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

CHAPTER-X

SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

The professional accounting practices and the accounting profession around the world have been governed and controlled by both public and private (self) regulations. The professional accounting practices in Bangladesh have also been regulated both by public and private (self) regulations, although the accounting profession in Bangladesh has been largely governed by the ICAB through self-regulation. But it has been alleged that professional accounting practices as well as the accounting profession in Bangladesh are not properly managed and adequately controlled. As such this research study has been undertaken to identify the state of public and private control on professional accounting in Bangladesh. It evaluates the activities of both concerned public authorities and the professional institutes. The study also stresses to identify the areas of professional accounting where public regulations are appropriate and where private regulations (self) are appropriate. The study further attempts to identify the extent of independence enjoyed by the professional accountants in Bangladesh. Finally, in order to measure the effect of control on professional accounting, the study attempts to examine the state of financial reporting practices in Bangladesh and to suggest measures for the improvement of the practice so that financial reports will be more useful to the users.

In conducting this research study, the following three distinct research designs have been followed:

1. The first is concerned with the review of existing literature relating to control, professional accounting in Bangladesh, regulation on financial reporting and disclosure, professional accounting education and professional accountants' independence.

2. The second relates to the survey of opinion of four groups of respondents viz.

i) the preparers and the authenticators;
ii) the users;
iii) the regulators and
iv) the academics (teachers of accounting departments of three universities).

3. The third one relates to contents analysis of published accounts for measuring the effect of control on professional accounting in Bangladesh.

The study covers six countries for the review of the existing literature. The opinion survey includes a total of 133 respondents from the four groups of which 71 are from preparer group, 39 from the users group; 11 from the regulators and 12 from the academic group. A 5-point scale has been used for the opinion survey. On the other hand, 50 annual reports of companies listed in DSE have been used for the content analysis.

The findings of the study are stated in the following sections:

10.1 : SUMMARY OF FINDINGS
10.1.1 : State of public control in Bangladesh
.2 : State of private (self) control in Bangladesh
.3 : Preference for control on areas of professional accounting.
.4 : Position of auditors' independence.
.5 : Financial reporting practices in Bangladesh
10.2.0 : RECOMMENDATIONS.
10.3.0 : SCOPE FOR FUTURE RESEARCHES.

10.1 SUMMARY OF FINDINGS:

The findings that emerge from the review of literature, experts' opinion and from the content analysis are briefly stated below:

10.1.1 State of public control: 1. The state of public control on professional accounting in Bangladesh is not satisfactory as expected. Nevertheless, public regulations are more complied with than that of private (self) regulations. The content analysis of 50 annual reports of companies listed in the Dhaka Stock Exchange

(DSE) reveals that statutory requirements under the Companies Act, 1913 as to the contents of annual reports and of financial statements, disclosure of items and policies, timeliness and presentation of reports etc. are almost complied with. This view is also supported by the opinion survey. All the four groups of respondents viz. the preparers, the users, the regulators and the academics believe that the prescriptions of the Companies Act are almost complied with while preparing accounts and financial statements.

2. The study shows that the statutory requirements under the Securities and Exchange Rules, 1987 as to the contents of annual reports and as to the disclosure of comparative figures are almost complied with. But the over all disclosure-requirements are not complied with. It is observed that companies do not state fixed assets according to the nature of assets, do not mention cost formula used for the valuation of stock, do not state the types of debtors, do not classify advances according to security and the like.

The opinion survey also supports this view. All the four groups of respondents believe that the prescriptions of the SER, 1987 are not complied with.

3. It is further observed from the study that some legal and standards requirements as to the disclosure of vital information and facts (e.g. method of valuation of fixed assets, investment, stock etc; types, classification and realisability of debtors; cost formula used for the valuation of stock etc.) are not complied with. In spite of these severe lapses in disclosing significant information and facts, auditors have certified financial statements without appropriate qualifications. This implies that many of the auditors are negligent of their work. Hence they do not exercise powers and fulfil their duties properly. This is also supported by the opinion survey. All the four groups of respondents even the professional accountants assert that auditors do not exercise their powers and fulfil their duties according to the provisions of the Companies Act, 1913.

4. The study reveals that the existing legal provisions relating to accounting and financial reporting in Bangladesh are inadequate and ambiguous. Majority of the countries under review have enacted and amended their laws to make reporting more useful and meet the changing needs of the society and of the time. Pakistan, Srilanka and Britain enacted new laws in 1984, 1982 and 1989 respectively. India amended its company's laws several times. But only exception is Bangladesh where accounting and reporting is still regulated by the Companies Act,1913. This view is also supported by the opinion survey conducted in this study. All the four groups of respondents strongly asserted that the existing legal provisions relating to accounting and financial reporting are inadequate and unclear.

5. The review of the literature discloses that professional accountants have been given more statutory powers to protect the interest of the investors in the UK. The "Financial Service Act, 1986" provides auditors with the power to report any relevant matters directly to the regulatory authorities which they obtain during their course of work.

All the four groups of respondents strongly support that professional accountants of Bangladesh should be provided with such statutory power whereby they can report any relevant matters directly to the regulatory authorities and thereby protect investors against fraud and unexpected insolvencies.

6. The study shows that the Registrar of Joint Stock Companies has been ineffective in administering corporate financial reporting practices in Bangladesh. Respondents of all categories strongly support this view.

7. It is revealed from the review of the literature that there is a statutory rule in the Indian Companies Act,1956 limiting the number of audits a professional can undertake. This rule provides that an individual cannot be an auditor of more than twenty companies at a time and out of these twenty companies not more than ten should be companies having a paid up share capital of 25 lacs or more. The number will not include audit of proprietary firms, branch audits and audits of foreign

companies [Sec 224(13), 1956]. The opinion survey reveals that the preparers, regulators and the academics do not support this view and are of the opinion that such restriction will not improve the quality of auditor's work. On the other hand, the users of financial statements believe that there must exist such a rule which will improve the quality of auditor's work.

8. Professional bodies of different countries under review have public representation in their administration. But the ICAB has no member in its administration from outside the profession. This raises a question whether the ICAB will be able to protect public interest in absence of the public participation in the administration of the ICAB. For this reason, at least some members from the Stock Exchange, Chamber of Commerce, concerned Ministries, the SEC, Academics should be taken as members of the council.

9. Accounting standards have been given legal coverage in some countries like Canada, Australia, Pakistan and so on. Moreover, some accounting standards have been made mandatory in India and Srilanka. On the other hand, International Accounting Standards adopted by the ICAB are neither mandatory nor have any legal backing. The study reveals that all the four groups of respondents strongly support that accounting standards should be given legal coverage for their effective implementation.

10.1.2 <u>State of private(self) control</u>: The state of private (self) control on professional accounting in Bangladesh are stated below:

1. It is observed from the content analysis of 50 annual reports that accounting standards issued by the ICAB are almost not complied with. This has also been supported by the opinion survey. All the four groups of respondents are of the opinion that accounting standards are not complied with while preparing accounts and financial statements. Respondents further believe that auditing guidelines are not followed by the professionals while authenticating books of accounts and financial statements.

2. The study shows that there exists gross irregularities and violation of rules as to the disclosure of vital information and fact. In spite of these lapses, accounts are certified by the professionals without appropriate qualifications. Moreover, the study detects various irregularities and violation of laws in audit reporting practices. Nevertheless, the ICAB has not been taking any action against its members. It is further revealed from the review of literature that severe punishment like permanent expulsion or suspension for a period of more than 5 years is very common in many countries [Details in Chapter 4]. Such punishments(expulsion) are not given by the ICAB. As such, the users and the academics assert that the ICAB has been ineffective in disciplining its members although the preparers and the regulators do not believe this.
3. It is further revealed from the review of the literature that the accounting profession in many countries like U.S.A, U.K, Canada, Australia, Japan has taken certain measures in its own initiative to improve the quality of the audit work. They have introduced quality control devices like "Peer Review Programme", "Quality Control Review / Standard Committee", "Public Oversight Board" "Public Participation in the administration" "Public reporting" (detailed in Chapter No.4). But the ICAB has not yet taken such measures to improve quality of auditor's work. It is observed from the study that the users, regulators and even the chartered accountants in service are in favour of introducing "Peer Review" programme. On the other hand, the preparers and the academics do not support this.
4. The review of the literature also identifies some deficiencies relating to the education and training of C.A. student as provided by the ICAB. Some important subjects viz. Business Mathematics, Information technology, Operation research are not included in the syllabi. Moreover, papers on behavioral science, professional ethics, multi-disciplinary case study are also not included in the curricula. Oral test and submission of thesis is not also required. Moreover, Continuing Professional Education has not yet been made mandatory. Although four out of six countries under review have made CPE mandatory. It is observed from the study that all the four groups of respondents recognise that CPE should be made mandatory. They also assert that the articled students

are not properly trained up by the accounting firms. In spite of these deficiencies, respondents irrespective of groups are of the opinion that the education and training provided by the ICAB is adequate in Bangladesh.

10.1.3 **Preference for control on the areas of professional accounting in Bangladesh**: Respondents' perception as to the choice of control on the areas of professional accounting in Bangladesh is stated below:

1. All the four groups of respondents are of the view that the education and training of the students should be handled and administered by the professional institution through self-regulation.
2. As regards the discipline of members of the ICAB, respondents are divided into two groups. The preparers and the regulators are of the opinion that the discipline of the members of the profession should be governed by the profession itself through self-regulation. On the other hand, the users and the academics are of the opinion that the discipline of the members should be governed through public regulations. As such, some kind of overseeing body like "Public Oversight Board" in the USA or public agency or public participation in the administration in the disciplinary committee can be established.
3. It is observed from the study that the preparers, regulators and the academics are of the opinion that setting up of accounting standards should be handled through private (self) regulations. On the other hand, only users of the financial statements support that setting up of accounting standards should be handled through public regulations.
4. The review of the literature discloses that the corporate financial reporting all over the world has been largely regulated by the statutes. It is observed from the study that respondents irrespective of groups strongly favour that financial reporting and the compliance of the standards should be regulated through public regulations.

10.1.4 Professional accountant's independence in Bangladesh:

The findings of the study with regard to the position of the professional accountants' independence in Bangladesh are stated below:

1. The study shows that professional accountants are not independent of their clients in Bangladesh. In order to ensure independence, the Companies Act of 1913 contains rules relating to auditors' appointment and remuneration. But these are, in true sense, not complied with. All the four groups of respondents viz. the preparers, users, regulators and the academics strongly believe that directors of companies effectively control Annual General Meeting (AGM) and accordingly appoint the company's auditors and fix their remuneration. Respondents from all groups further believe that auditors in Bangladesh usually give clean report even though they have enough reasons to give qualified reports.
2. The study discloses that change of auditors is almost absent in Bangladesh.It is observed from the survey that only 2 out of 38 private sector companies change their auditor for the last 7 years; no multinational companies change their auditor for the last 7 years; 3 public-sector companies do not change their auditors although there is a standing rule for mandatory rotation of auditors after every 3 years.
3. Some research studies including U.S. Sub-Committee Report (1976,p.21) pointed out that auditor's long association with a particular client tend to affect auditor's independence. But neither the Companies Act, 1913 nor any standards contain any provision specifying the maximum tenure of an audit firm with a given client in Bangladesh. It is observed from the study that preparers and users strongly assert that absence of such a rule definitely impairs auditor's independence in appearance.
4. The study reveals that over all 60.15% of the respondents (58% from the preparers,75% from the users, 36% from the regulators and 50% from the academics) support that existence of audit committee will ensure auditor's independence. As such, the preparers, users and regulators believe that absence of audit committees impairs the auditor's independence in Bangladesh.
5. The study shows that all groups of respondents except the academics are of the opinion that the image of the profession

does not have significant impact on auditor's independence in Bangladesh.

6. The study further reveals that only preparers of financial statements support that there should be a rule whereby auditors shall be appointed for a fixed term of three to four years. The users, regulators and the academics do not support this and believe that this will not improve auditors' independence in Bangladesh.

10.1.5 **Financial reporting practices**: The findings of financial reporting practices are stated below in two sections.

Findings of content analysis of financial reports:

This section shows the findings of the content analysis of 50 annual reports listed in the Dhaka Stock Exchange.

1. The study reveals that statutory requirements as to the contents of annual reports (financial and non-financial) are strictly complied with. But non-statutory requirements as to the contents of annual reports are not complied with.
2. The study further reveals that 100% of the companies meet statutory requirements as to the contents of financial statements(Balance sheet, Profit & loss account etc). But the non-statutory requirements (private/self) as to the contents of financial statements are not complied with. 54% of the companies do not prepare "Statement of Changes in Financial Position", whereas only one company prepare "Value Added Statement.
3. The study shows that the disclosure requirements as per the Companies Act, 1913 are almost complied with. But the disclosure requirements as per accounting standards are in most cases not complied with. The disclosure requirements as per the Securities and Exchange Rules,1987 are also not complied with.
4. The study discloses that in most of the cases financial statements are issued to the users very late. It is observed that 36% of the reports are not presented in the Annual General Meeting (AGM) within the specified time.

5. It is further observed from the study that 10% of the companies do not disclose the comparative figures in the financial statements. It is also revealed that "3 years-comparative figures" are not at all shown in the financial statements.
6. The study reveals that vast majority of the reports do not present Analysis of Financial Position, Highlights, Comparative Statistics, Management Review, Value Added Statement, in financial statements. It is also found that only 6%, 10% and 18% of the companies use graph, ratios and diagrams respectively in the annual report.
7. The study shows that only 20% of the reports are published in Bengali and 48% are in English. Only 32% of the reports solve the language problem by publishing report both in English and Bengali.
8. The study further discloses that 60% of the financial statements are presented in vertical form although the Companies Act requires to use horizontal form (T-Form).
9. It is observed from the study that 100% of the annual reports are attached with audit reports, 6% of the audit reports are qualified. The nature of qualifications of these reports are "subject to". It is further observed that basic elements of audit report as per IAG-13 are not complied with. In 52% of the cases, addressee are not identified; in 56% of the cases auditors' addresses are not given; in 8% of the cases date of audit reports are not mentioned.
10. The study detects various irregularities and violation of the Companies Act, 1913 and the SER,1987 as to the form and contents of auditor's report. 22% of the reports do not mention the term "After Due Verification"; 12% of the reports do not mention the term "The expenses incurred was for the purpose of the business"; 12% of the reports do not make any reference of the SER, 1987; 20% of the reports mention "true and fair view" in place of "true and correct view"; 8% of the reports make reference of generally accepted auditing standards(GAAS).
11. Although there exists severe lapses in disclosing vital information and facts in the financial statements yet these are certified by the auditors without appropriate qualifications. Auditors do not mention non-compliance thereof in their reports.

12. It is revealed from the study that the reporting practices of multinational companies operating in Bangladesh are better than that of public and private-sector companies.

Opinions of various interested parties about financial reporting practices in Bangladesh:

The findings of the opinion survey about financial reporting practices (Details in Chapter-VIII) are stated below:

1. The study reveals that currently prepared annual reports, in the opinion of the respondents, are useful to a moderate extent.
2. The study also reveals that all the four groups of respondents strongly believe that delayed publication of reports definitely impairs the usefulness of annual reports in Bangladesh.
3. The study discloses that currently prepared annual reports are not reliable in the opinion of the users and academics. On the other hand, preparers and the regulators are of the opinion that annual reports are, to some extent, unreliable.
4. It is revealed from the study that 100% of the respondents support that annual reports must contain comparative figures. 52.63% of the respondents suggest that financial statements should contain 3-years comparative figures.
5. 76.69% of the respondents support that financial statements should be prepared in vertical form.
6. In order to make annual reports more useful and attractive, annual report should contain the following items:
   i) Ratio analysis;
   ii) Graph, diagram, chart, pictures etc;
   iii) 3-years comparative figures;
   iv) Inclusion of both English & Bengali version.
7. It is further observed from the study that all the four groups of respondents strongly feel that the audit report should include the reference of auditing standards; the use of term "true and fair" view instead of "true and correct" view. Respondents further assert that audit report should be detailed. But the respondent do not strongly support the prescribed form for audit report.

8. The study also discloses that respondents irrespective of groups do not strongly support the preparation of common-size statement and statement in narrative form.

It is observed from both the perception study and the content analysis that public regulations have a profound influence over accounting and financial reporting in Bangladesh.

10.2 RECOMMENDATIONS

In order to improve the quality of the financial reporting, the quality of auditor's service and to ensure auditors' independence the following measures are recommended.

1. The existing laws should be amended suitably so as to ensure strict public control on accounting and financial reporting and thereby improve the quality of financial reporting and of auditors service.
2. In order to make accounting standards more acceptable to the public, an independent standard-setting body like the FASB in the USA, ASB in the UK and in India should be established. The body should be represented by all interested parties like the members of the accounting profession, Dhaka Stock Exchange, Securities and Exchange Commission, Chamber of Commerce, Academics and concerned Ministries.
3. The accounting standards should be given legal coverage without which the effective implementation of standards cannot be expected.
4. The ICAB although has started adopting auditing guidelines, yet it has not established any auditing standards. Therefore, a clear-cut auditing standards should be framed by the ICAB.
5. In order to protect the interest of the investors, professional accountants should be provided with such statutory power whereby they can report any relevant matters directly to the regulatory authorities without informing client (such a rule exists in the UK in their Financial Service Act,1986).
6. Necessary steps should be taken to make the Registrar of Joint Stock Companies (RJSC) more effective. The RJSC should be provided with adequate enforcement power, physical facilities

must be improved; and qualified personnel should be employed who can analyse, interpret and scrutinise financial statements.

7. An authoritative government agency with adequate power should be established to regulate corporate financial reporting practices in Bangladesh.
8. The ICAB should include certain non-professionals (like the members of the Stock Exchange, the SEC, Chamber of Commerce, concerned Ministries, Academics), in its administration to protect the interest of the public.
9. Efforts should be made to create an environment which will permit auditors to work independently. Existing laws should, therefore, be amended. In order to improve the independence, the following matters should be considered:

   i) the law should be amended in such a way that the appointment and remuneration of auditors cannot be controlled and influenced by the directors;
   ii) rule should be framed fixing the maximum tenure of an audit firm with a given client;
   iii) a rule should be framed prohibiting persons holding shares in equity capital or selling and buying of shares of companies from being appointed as auditors;
   iv) a rule should be framed restricting professional accountants from engaging certain type of consulting services which would create a loss of independence;

10. Continuing Professional Education should be made compulsory to keep professional accountants in touch with the latest development in accounting.
11. The present system of disciplining delinquent members of the profession is not satisfactory. Therefore, Government should take necessary steps to improve the system of disciplining. A rule can be framed whereby two or three members of the "Disciplinary Board" should be from outside the profession. The president of this board may be a judge (This practice exists in countries like France, Netherlands, Germany).
12. The present ethics and code of conduct under the Chartered Accountants Order,1973 have become inadequate. The ICAB should

modify the code of conduct and professional ethics to require the observance of accounting standards and auditing guidelines. Disciplinary action should, therefore, be taken against the members who fail to observe standards and guidelines when producing and authenticating accounts and financial statements.

13. The present Disciplinary Committee of the ICAB should be strengthened and activated. The ICAB in its own initiative without relying on the complaints from the public should call explanations to its members whose conduct may not live up to high standards of professional behaviour and thereby take necessary actions.

14. Adequate quality control measures must be taken by the ICAB to provide reasonable assurance that professional accountants adhere to the highest standards in performing audit work. A constant monitoring system should thus be introduced by the ICAB to oversees the extent of compliance of disclosures by the professional accountants and thereby take corrective measures for improvements. Moreover,the ICAB should set up "Quality Control Review Committee".

15. The Companies Act, 1913 specifies the time limit for presenting accounts and reports at the annual general meeting within the 9 months from the last balance sheet date. Many experts, academics, authors are of the opinion that the time limit is too widen in this computer-age. Therefore, the existing rule of presenting accounts and reports in the annual general meeting should be amended in the line with the practice prevalent in other SAFA countries like India and Pakistan.

16. Corporate financial reports may be more useful if the following matters are considered. Therefore, the existing law may be amended to include the following items in the annual reports:

    i) Graph, chart, diagrams etc.
    ii) Ratios.
    iii) 3 years comparative figures.
    iv) Presentation of figures in vertical form.

v) Use the term "true and fair view".

vi) Preparation of statement of changes in financial position.

vii) Preparation of Value Added Statement.

10.3 SCOPE FOR FUTURE RESEARCHES

This study could not cover all the issues in the area of control on professional accounting in Bangladesh.Thus, researches can be undertaken in future in the following areas.

1. A question has been raised about the adequacy of education and training of the students of the accounting profession. A study might be undertaken to examine the adequacy or otherwise the present education system of Bangladesh.
2. There exists a feeling of discontent in the mind's of professional accountants about the audit fees given to them. A study may be made to ascertain whether the fees is actually low compared to fees available for other groups of professionals.
3. The control of accounting profession being related to the independence enjoyed by the auditors, a study may be made to examine the situation highlighting the practices of appointment, reappointment, remuneration, interpersonal relationship between the manager and the auditors.
4. A study may be undertaken to find out if any gap exists between the expectation of C.A. students and the reality thereof.

APPENDIX—I

A STUDY ON
"THE IMPACT OF PUBLIC CONTROL ON
PROFESSIONAL ACCOUNTING IN BANGLADESH"

QUESTIONNAIRE
(CONFIDENTIAL)

Part-A
(Characteristics of respondents)

Please put a tick in the appropriate box

1. Name of respondent ....
(Optional)
2. Organisation ....

3. To which category of respondents do you belong ?

1) Preparers or authenticators of financial statement
2) Users of financial statement
3) Regulators
4) Academics

4. To which type of respondent do you belong ?

Preparers or authenticators	Users	Regulators	Academics
1) Practicing chartered accountant	5) Bangladesh Shilpa Bank	12) Registrar of Joint Stock Companies	18) Teachers of university
2) Employed chartered accountant	6) Bangladesh Shilpa Rin Sangstha (B.S.R.S)	13) Executives of Dhaka Stock Exchange	19) Economic editor
3) Employed cost accountant	7) Commercial banks	14) Controller of capital issues	
4) Non-professional accountant	8) Investment companies	15) Ministry of finance or commerce or industry	
	9) Investment Corporation of Bangladesh	16) Executive member of ICAB or ICMAB	
	10) Tax authority	17) Council member of ICAB/ICMAB	
	11) General investors		

APPENDICES

APPENDIX—I

A STUDY ON
"THE IMPACT OF PUBLIC CONTROL ON
PROFESSIONAL ACCOUNTING IN BANGLADESH"

QUESTIONNAIRE
(CONFIDENTIAL)

Part-A
(Characteristics of respondents)

Please put a tick in the appropriate box ☐

1. Name of respondent ....
   (Optional)
2. Organisation ....

3. To which category of respondents do you belong ?

1)Preparers or authenticators of financial statement ☐ 2)Users of financial statement ☐ 3)Regulators ☐ 4)Academics ☐

4. To which type of respondent do you belong ?

Preparers or authenticators	Users	Regulators	Academics
1)Practicing chartered accountant ☐	5)Bangladesh Shilpa Bank ☐	12)Registrar of Joint Stock Companies ☐	18)Teachers of university ☐
2)Employed chartered accountant ☐	6)Bangladesh Shilpa Rin Sangstha (B.S.R.S) ☐	13)Executives of Dhaka Stock Exchange ☐	19)Economic editor ☐
3)Employed cost accountant ☐	7)Commercial banks ☐	14)Controller of capital issues ☐	
4)Non-professional accountant ☐	8)Investment companies ☐	15)Ministry of finance or commerce or industry ☐	
	9)Investment Corporation of Bangladesh ☐	16)Executive member of ICAB or ICMAB ☐	
	10)Tax authority ☐	17)Council member of ICAB/ICMAB ☐	
	11)General investors ☐		

5)Experiance:

1.	Up to 5 years	☐
2.	Up to 10 years	☐
3.	Up to 15 years	☐
4.	Up to 20 years	☐
5.	Above 20 years	☐

6)Years of schooling except professional training:

1.	Non graduate	☐
2.	Graduate	☐
3.	Masters degree and above.	☐

7)Specialised training:

1.	Not applicable	☐
2.	Up to 6 months	☐
3.	Up to 1 year	☐
4.	More than 1 year	☐

Guidelines:

1. Please put a tick (✓) in one of the box of each questions
2. A 5-point scale has been used ranging from 1-5. 1 indicates "not at all agreed" whereas 5 indicates "very great extent-agreed"

Part-B

PUBLIC CONTROL:

1. Professional accounting vis-a-vis the corporate reporting practices in Bangladesh has been regulated primarily through the Companies Act, 1913 and the Securities and Exchange Rules, 1987. These laws prescribe certain rules and require companies to follow certain rules and require companies to follow certain accounting procedures and rules to fulfil the desired public control purposes.

i) To what extent do the companies in Bangladesh comply with the prescriptions of the laws while preparing financial statements?

1		2		3		4		5	
Not at all	☐	Some Extent	☐	Moderate Extent	☐	Great Extent	☐	Very Great Extent	☐

ii) To what extent do the companies in Bangladesh comply with the prescriptions of the Securities and Exchange Rules, 1987 while preparing financial statements?

1		2		3		4		5	
Not at all	☐	Some Extent	☐	Moderate Extent	☐	Great Extent	☐	Very Great Extent	☐

2. In order to have an effective control on public accounting the Companies Act, 1913 has prescribed the rights, powers and duties of auditors of limited companies.

i) To what extent do auditors exercise their powers according to the laws?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

ii) To what extent do auditors fulfil their duties according to the provisions of the Companies Act?,1913

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

3. It has been alleged that existing legal provisions in Bangladesh relating to accounting and reporting are not clear and adequate. Absence of adequate regulations allows companies to follow widely different accounting and reporting practices. Thus many experts opine that clear and adequate legal provisions should be framed in order to control accounting and reporting practices in Bangladesh.

To what extent do you agree with this view ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

4. In order to have a greater public control on professional accounting and to protect investors' against fraud and unexpected insolvency in the UK the Financial Service Act has been enacted in 1986. Under this Act more power has been delegated to professional accountants. According to the provisions of this Act auditors can report any relevant matters directly to regulatory authorities which they obtain during their course of work .

In order to have greater public control, to what extent do you advocate the introduction of such a rule in the Companies Act?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

5. The Registrar of Joint Stock Companies has been empowered under the Companies Act, 1913 to regulate financial reporting practices in Bangladesh.

To what extent has the Registrar of Joint Stock Companies been effective in controlling public accounting practices in Bangladesh?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

6. In order to have a quality audit and have a strict control on public accounting , many experts are of the view that there must be a limit to the numbers of the companies a chartered accountant can undertake.

In your opinion, to what extent is it necessary to make a statutory rule limiting the number of companies a chartered accountant can undertake ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

7. The demand for more public participation in the administration of the profession has been mounted all over the world. Thus many professional accounting bodies around the world take public representation in their administration . The Institute of Chartered Accountants of Bangladesh (ICAB) however does not include a single councillor from outside the profession for its administration which in the opinion of many experts may hamper public interests.

In the absence of public participation (non professional) in the administration of the ICAB, to what extent will the ICAB be successful in protecting the interest of the public?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

8. The accounting standards and auditing guidelines issued by the ICAB are not mandatory. Moreover, it has no legal backing to enforce standards. In absence of legal backing, no one can expect that standards and guidelines would be complied with.

To what extent do you think it necessary to establish and enforce accounting standards and auditing guidelines through public regulation?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

<u>SELF-CONTROL</u>

9. The Institute of Chartered Accountants of Bangladesh has issued several accounting standards [Disclosure of accounting policies;

Information to be disclosed in financial statement etc.] and requires enterprises to follow these standards while preparing accounts and financial statements.

To what extent do the enterprises comply with the accounting standards issued by the ICAB while preparing financial statements?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

10. As a part of self-control, the ICAB has issued several auditing guidelines and requires auditors to follow these guidelines while authenticating financial statements in order to maintain quality thereof .

To what extent do auditors follow these guidelines while conducting audit ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

11. In order to minimise substandard work and to improve the quality of audit, professional bodies in some countries have introduced a "Peer Review " programme whereby audit work of one is reviewed by another.No such programme has yet been introduced by the ICAB which is an indication of inadequate self-regulatory measures taken by the profession. Absence of such programme,no doubt, degrades the quality of the audit.

To what extent do you think it necessary to introduce such review programme in Bangladesh ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

12. Expulsion, suspension or other punitive measures against professional accountants for the violation of code of conduct are very common in many countries.These actions are almost absent in Bangladesh, although some research studies revealed that there existed gross irregularities and inadequacies in financial reporting. Thus many people are of the view that the professional institute as a self-regulatory body has been ineffective in disciplining its members.

To what extent is this true ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

13. Proper and effective training and education would improve the quality of audit and minimise substandard work. It has been, however, alleged that the education and training provided by the professional institutes is outdated and inadequate.

To what extent do you agree with this ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

14. In order to keep professional accountants in touch with the latest development in education , professional bodies in many countries including Srilanka and Pakistan have made Continuing Professional Education (CPE) as mandatory.

To what extent is the introduction of mandatory Continuing Professional Education important?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

15. Accounting firms have an important role to play in producing competent accounting personnel.

To what extent are the accounting firms in Bangladesh properly training up articled students attached to them?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

16. In order to harmonise the diverse accounting practices many countries have established separate independent standard setting body. As such the ICAI has set up " Accounting Standards Board " consisting of 16 members from the profession, industry, 'Company Law Board' and others to formulate accounting standards. There is, however, no such separate body in Bangladesh,the absence of which may reduce acceptability of standards and thereby effectiveness of implementation thereof.

To what extent, the presence of such body will improve the acceptibility and effectiveness thereof?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

PREFERENCE OF AREAS SUITABLE FOR PUBLIC CONTROL

17. In which areas and to what extent, is the control through public regulation, in your opinion, justified ?

Extent of Satisfaction / Areas of control	Not at all 1	Some Extent 2	Modarate Extent 3	Great Extent 4	Very Great Extent 5
a. Education & training of professional accountants.					
b. Ethics & Discipline of professional accountants.					
c. Setting accounting & auditing standards					
d. Financial reporting					
e. Compliance with standards and procedures.					

INDEPENDENCE

18. Section 144(3) of the Companies Act, 1913 provides that auditors of a company shall be appointed by its shareholders by an ordinary resolution at the Annual General Meeting. It has however been observed that the Directors effectively control Annual General Meeting of companies and accordingly appoint the auditors and fix their remuneration and thereby impairs independence.

To what extent is this true ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

19. Although Section 145(2) of the Companies Act,1913 requires auditors to report to the members of the companies on the accounts examined by them, yet they usually give clean report to the members as they run the risk of being replaced if they give a qualified report or otherwise disagree with directors. This in turn impairs independence .

To what extent is this true ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

20. In some countries like the USA, UK, Australia there exist audit committees which deal with the appointment of auditors and no auditor can

be changed without reference to the committee. There are no such provisions in the Companies Act,1913.

(i) Do you think that the existence of such committee will ensure independence ?

1. Yes ☐ 2. No. ☐

(ii) If your answer is "yes" then in the absence of such provision, to what extent, does it impair independence?

1	2	3	4	5
Not at all ☐	Some Extent ☐	Moderate Extent ☐	Great Extent ☐	Very Great Extent ☐

21. High image of the profession brings credibility, which in turn, ensure the independence in appearance.Many experts including professional accountants are of the view that accounting profession in Bangladesh has lost its image to a great extent which in turn affects independence in appearance.

In your opinion,to what extent,does it impair the independence in Bangladesh ?

1	2	3	4	5
Not at all ☐	Some Extent ☐	Moderate Extent ☐	Great Extent ☐	Very Great Extent ☐

22. U.S. Senate Sub-Committee (1976, p.21) in its report cited that auditor's long association with a particular company tends to affect their independence due to an increasing familiarity with the company management and staff. In an attempt to overcome this and to ensure independence, some countries regulate the maximum tenure. Neither the Companies Act , 1913 nor any standards issued by the ICAB contains any such provision specifying the maximum tenure of an audit firm with a given client.

To what extent, absence of such a provision does impair the independence of an auditor in Bangladesh ?

1	2	3	4	5
Not at all ☐	Some Extent ☐	Moderate Extent ☐	Great Extent ☐	Very Great Extent ☐

23. Professional accountants in Bangladesh usually give clean report as they run the risk of being replaced if they give a qualified report. In order to overcome this and to ensure independence, some experts are of the opinion that auditors should be appointed to companies for a fixed term after which they will not seek reappointment.

To what extent do you support it ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

Part-C

FINANCIAL REPORTING

1. How far is it true that currently prepared annual reports and accounts are uninteresting and unuseful?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

2. How far is it true that the annual reports and accounts are not useful due to delayed publication ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

3. How far is it true that the annual reports and accounts are not reliable due to distortion thereof ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

4. In order to make the financial reports more understandable, the report should be published both in English and Bengali .

To what extent, do you support this ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

5. The use of graphs , diagrams , charts and pictures facilitate the understanding of the nature and trends of financial activities of an enterprise . This increases communication effectiveness of the reports by removing dullness and unattractiveness in the accounting figures.

How good is it to use graph,chart,diagram and picture ?

1 Not at all ☐ 2 Some Extent ☐ 3 Moderate Extent ☐ 4 Great Extent ☐ 5 Very Great Extent ☐

6. Ratio analysis is a device which determines the relationship of items and group of items of financial statements . This helps the users of financial statements in assessing the true state of affairs of the company.

In your opinion, to what extent, is the inclusion of ratio analysis in annual reports important ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

7. At present no common size statements are prepared in Bangladesh . In common size statement , the figures are shown in percentage form. This facilitates to depict the relationships existing at a particular date.

To what extent, is the inclusion of such statements in the annual report rational ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

8. Comparative figures facilitate interperiod comparison and help the readers to assess trends of the business activities.
Do you agree ?
1. Yes ☐ 2. No ☐

If you reply with affirmative , how many years- figures should be reported in financial statements ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

9. Financial statements can be prepared either in Horizontal(T) form or in Vertical (I) form although the Companies Act, 1913 requires to follow " T" form .

Please state which form will be more useful to the users of financial statements ?

1.Vertical ☐ 2. Horizontal ☐

10. How good it would be if auditors reports are prescribed?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

11.How good it would be to follow a specific set of auditing standards during the course of examination ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

12. In your opinion ,to what extent ,do you agree that the basic objectives of external audit is to express an opinion on the accounts to the effect whether these give a true and fair view ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

13. In order to make reports more effective and useful , many people are of the view that the auditors report should be detailed. Under detailed report , auditors are required to give an opinion even on the adequacy of internal accounting controls, accounting records and procedures , compliance with loan agreements and on certain specified operating data.

In your opinion to what extent is it rational to include such items in the auditor's report ?

1 Not at all ☐	2 Some Extent ☐	3 Moderate Extent ☐	4 Great Extent ☐	5 Very Great Extent ☐

APPENDIX-II

LIST OF COMPANIES

The following 50 companies have been selected using "Random Number Table" for studying financial reporting practices in Bangladesh :

01. GMG Industrial Corporation.
02. Bata Shoe.
03. Usmania Glass Factory.
04. Jute Spinners.
05. Islam Jute.
06. The Ibna Sina.
07. Yousuf flour.
08. Chand Textail.
09. Bengal Carbide.
10. Karim Pipe.
11. Ambee Pharma.
12. Pharmaco.
13. Amam Sea Food.
14. G.Q. Ball pen.
15. Glaxo.
16. Apex Food.
17. Quasem Silk.
18. Desh Garments.
19. Apex Tannery.
20. B.C.I.L.
21. Alhaj Textiles.
22. Eagle Box.
23. Panther Stell.
24. Tamij Uddin Textile.
25. Paper Processing.
26. BD Auto cars.
27. Kohinoor Chemicals.
28. Stylecrafts.
29. Metalax Corporation.
30. N.T.C.
31. Quasem Dry cells.
32. Bangas.
33. Chittagong Vegetables.
34. Alpha Tobacco.
35. Dulamia Cotton.
36. Rupan Oil.
37. Rahman Chemicals.
38. Eagle Star Textile.
39. Hill Plantation.
40. Bengal Steel.
41. Aziz Pipe.
42. Eastern Lubricant.
43. BD Lamps.
44. Reckitt and colman.
45. Zeal Bangla Sugar.
46. Bengal Food.
47. Sonali Paper.
48. Therapeutics.
49. Atlas BD.
50. Qusem Textile.

APPENDIX-III

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