ABSTRACT

Bangladesh is a developing country with immense potential to improve its economic condition. The country has adopted International Financial Reporting Standards (IFRS) formerly known as International Accounting Standard (IAS) as its national accounting standards in July, 2006. IFRS is enforced by the Securities and Exchange Commission (SEC) of Bangladesh which requires all listed operating companies to prepare financial statements in accordance with IFRS. Literature that deals with the use of IAS/IFRS in Bangladesh is extremely rare. Using archival data and past academic literatures, this study tries to find out the process followed in adopting and implementing IFRS in Bangladesh and its impact. This study found that due to immense pressure from investors (both local and foreign) and international donor agencies like World Bank, International Monetary Fund (IMF), and others, the government of Bangladesh has adopted IFRS. Bangladesh has adopted IFRS without any modification because of both financial and time constraints. After adopting IFRS, the capital market of Bangladesh has been strengthened and the Foreign Direct Investment (FDI) inflow has increased significantly. But the local business bodies and other concern stakeholders did not like the way IAS/IFRS was adopted. Some challenges also exist with differences in accounting needs, legal and regulatory framework, and training of professional accountants in successful adoption of IAS/IFRS.

Key Words: International Accounting standards, International Financial Reporting Standards, Adoption, Implementation

1. Introduction

International Accounting Standard (IFRS) has been an issue on which various studies have been conducted in recent times. Due to growing international business among countries, there is strong support in favour of IFRS. IFRS is a well-structured set of accounting standards which will increase transparency, understandability and promote world-wide acceptance on financial reporting (Edwards, 2009). Bangladesh has adopted IFRS in July 2006. Due to increase in trade with other countries, extreme pressure from the international donor agencies and demand from the local and foreign investors, Bangladesh has decided to adopt IFRS.
2. Legal framework for financial disclosure

In order to implement IFRS, it is very important to understand the existing accounting regulations in Bangladesh. Mainly the disclosure of accounting information is governed by a number of statutes. Three regulatory bodies provide the framework for the disclosure of accounting information. The listed companies are guided by the Companies Act 1994, Securities and Exchange Commission (SEC) rule 1997 and the IFRS adopted by the Institute of Chartered Accountant Bangladesh (ICAB). However there is no single set of specific generally accepted standard based on these three sources. On the other hand, industries like bank, insurance, railways, electricity have their own regulatory system in disclosing financial details. Nationalised Order (1972), Bank Companies Act (1991) and Income Tax Act (1984) also have significant influence on the financial reporting system of Bangladesh.

3. Companies Act 1994

Companies Act is considered as the most influential legal instrument and main source of accounting regulation in Bangladesh. After independence in 1971, Bangladesh used to regulate the companies by introducing the Companies Act 1913 (from British rule). From then, the Companies Act 1913 became the principal act for the listed companies. Companies Act has been amended in the early 1990s, which made major changes in the accounting rules and regulations. The latest version is the Companies Act 1994.

The present Companies Act (1994) of Bangladesh is largely influenced by the British Indian Companies Act 1913 (Aktaruddin, 2005). Prior to the Companies Act 1994, Bangladesh used to follow the Companies Act of 1913 to regulate its listed companies. The Companies Act 1913 required limited companies to present annual financial statements which include profit and loss
account and balance sheet. But there were no specific format to prepare financial statements. Profit and loss account was prepared without detail information of income and expenditures. Balance sheet used to contain summary of capital, liabilities and assets. The main fundamental problem of Companies Act (1913) was that, the law does not provide any guidelines in showing the values of the items in financial statements. The Companies Act 1994 made major alternations in the entire financial reporting standards. Under the new law proper valuation of items has to be shown in order to provide more transparency in financial statements.

The Companies Act 1994, which replaced the Companies Act 1913, provides detailed requirements for preparation and publication of financial statements, disclosures, and auditing. Companies Act 1994 clearly stated that the fixed assets have to be shown at cost or valuation. The law stated that the financial statements prepared for the shareholders should be prepared in accordance to true and fair value. The provision for depreciation is needed to be disclosed separately. The need for more disclosures of financial information in far more detail is underlined under the Companies Act 1994. Information regarding reserves and changes during the year, director's remuneration, commission, tax provision and the flow of foreign currency is needed to be disclosed clearly under the new Companies Act 1994. Section 185 and section 186 of Companies Act 1994 clearly stated the information which is compulsory to disclose in financial reports. Section 185 specified mandatory items to be presented in the balance sheet and income statement and section 186 stated a list of information which is needed to be disclosed in the director's report. Prior to the law of Companies Act 1994, the regulatory requirement has failed to set standard for corporate disclosure (Akhtaruddin, 2005). There was no particular format and necessary contents for financial reporting in the Companies Act 1913. In contrast the Companies Act 1994 prescribes many provisions which are mandatory and similar to IFRSs.
The main problem of Companies Act is it lacks clarity regarding statutory requirements on disclosures in the financial statements of the listed companies. On the other hand many researchers (Mir and Rahaman, 2005) mentioned that the Companies Act contradicts with IFRS. For example, the Companies Act requires capitalisation of gains and losses arising from changes in foreign exchange rates, which is contrary to IFRS. The Companies Act 1994 is also inconsistent with IFRS and Generally Accepted Accounting Principle (GAAP) regarding consolidated financial statements. The Act requires a set of financial statements for each subsidiary of the holding company, whereas IFRS advocates for the preparation of consolidated financial statements. In order to adopt International Financial Reporting Standards successfully it is very important for the government to eliminate all the inconsistencies between IFRS and the Companies Act.

4. Securities and Exchange Commission (SEC)

The Securities and Exchange Commission (SEC) of Bangladesh provides guideline for the listed companies. Securities and Exchange Commission (SEC) regulates financial reporting disclosures as a part of listing requirements. There is two stock exchanges in Bangladesh, Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Both DSE and CSE are regulated under Securities and Exchange Commission Law 1987 and the Companies Act 1994. The listed companies need to disclose information in compliance with SEC regulation. It is mandatory (as per Securities and Exchange rules 1987) for the listed companies to disclose the following information: company history, structure of the business, profile of top employees and directors, ownership structure, information on capital, audited financial statements, consolidated statements, post balance events, holdings in associate and subsidiary companies with relative percentage and payment of dividends. In order to protect the investors’
interest, SEC issues various rules including accounting and auditing requirements that apply to listed companies. In October 1997, SEC published a rule where it is clearly mentioned that the listed companies require to follow accounting standards and standards on auditing as adopted by ICAB. The rule to follow IFRS was not mandatory until July 2006, SEC prescribed a format of audit reports specifying that the auditors will verify financial statement prepared in accordance with IFRS. If the listed companies do not follow the rules as prescribed by SEC, the commission has the legal right to take action. This action can be in the form of: suspending companies or removing listing privileges, barring the auditors who performed non-complying auditing for a period of five years, fining the auditors and the companies.

Accounting Standard Setting-body

The Institute of Chartered Accountant of Bangladesh (ICAB) and the Institute of Cost and Management Accountants of Bangladesh (ICMAB) are two professional bodies which guide the accounting profession in Bangladesh. ICAB’s members perform financial audit whereas ICMAB's members do cost audit. These two professional accounting bodies are under the control of Ministry of Commerce Bangladesh. ICAB has the sole responsibility in developing and issuing accounting and financial reporting standards in Bangladesh. In 1997, the Securities and Exchange Commission of Bangladesh published an ordinance where it is made mandatory for all listed companies to abide the accounting standards as adopted by ICAB.

5. The Income Tax Act

The Income Tax Act 1984 is another important law which influences the presentation and disclosure of financial information. The National Board of Revenue (NBR) is the main authority for tax administration in Bangladesh. NBR is responsible for formulation of tax-policies and tax-laws in Bangladesh. The Income Tax Act 1984 is considered as a major barrier for successful implementation of
IFRS. The taxation authorities in Bangladesh do not accept some IFRS-compatible accounting treatments for determining taxable profit, for example prior period adjustments, recognizing finance leases and expensing of pre-operation costs. So the listed companies in Bangladesh need to prepare two separate financial statements; one for tax reporting purposes and another for general users.

6. IFRS Adoption

There are number of studies that have examined the various aspects of IFRS adoption and implementation in developing countries. These studies applied qualitative analysis and used structured and semi-structured interviews (example Mir and Rahaman, 2005).

IFRS is the accounting standards of UK and USA (Briston, 1990). According to Briston (1990) and Wallace (1990), countries which were part of British Empire have professional accounting body and company legislation based on British model. Bangladesh was a part of British colony for more than 200 years. Bangladesh’s Company Act as well as the accounting standards follows the British framework. There are other reasons which force developing countries to follow the accounting standards and practices of developed countries such as the British model. The British professional accounting bodies offer professional qualifications overseas. This plays a very important role to improve the quality of accountancy in developing countries (Briston, 1990). Institute of Chartered Accountant in England and Wales (ICAEW) is working closely with Institute of Chartered Accountant Bangladesh (ICAB) to develop the skills of Bangladesh’s accountants and auditors (ICAEW, 2008). Countries which do not have an organised body of accounting principles emulate the systems of other countries (Wilkinson, 1965). This stands true for developing countries like Bangladesh which do not have any structured accounting body. Developing countries adopt the best practices in accounting standards from countries like UK and USA.

In the recent time there has been significant increase in the global
commercial activities. The participants of the global trade are both developed and developing countries. This increase in world trade has urged the need of uniform accounting standards. IFRS is such accounting standards which have led to eliminate the global accounting differences (International Accounting Standard Committee, 1988). Increase in international trade and investment forces the developing nations to reduce the differences in accounting reports with developed countries (Chamisa, 2000). Different accounting standards create differences in financial accounting measurement and reporting practices (Evans and Taylor, 1982). Moreover, they also create misunderstanding and uncertainties to the participants of global economy (Evans and Taylor, 1982). Unlike most of the developed and developing countries, Bangladesh has also adopted IFRS in 2006 (Mir and Rahaman, 2005).

Due to cheap labour force and geographical location, Bangladesh is considered as an ideal country for investment in recent times. In order to meet the requirements of foreign investors’ accounting standards, Bangladesh has adopted IFRS (Akhtaruddin, 2005). Moreover, the textile industry in Bangladesh is booming. The country exports most of its garments product to European and US markets. So in order to participate in international trade it is very important for the local businesses to follow accounting standards same as their trading counterparts (mainly European countries and US). It is argued by Wallace (1990) that substantial investment or trading activity may not be the only reason to change the accounting system of a country. Sweden has significant investment in Brazil, but the financial reporting standard of Brazil is not as same as Sweden. So trading and investment are not only the issues which enforce country to undertake globally accepted accounting standards. There are other issues which force countries (particularly developing countries) to adopt IFRS. In the later part of this chapter, those issues will be discussed.

As Haraou (1995) mentioned, adoption and implementation process of IFRS can
cause great deal of confusion and tension between the principal setting body and other interested groups. Since the adoption of IFRS in Bangladesh, the conflict raised between ICAB and other concerned groups (Mir and Rahaman, 2005). ICMAB and the business society of Bangladesh did not accept the way IFRS was adopted. The main users of accounting standards found the process of adopting IFRS as undemocratic (Mir and Rahaman, 2005). Even many users of accounting standards were unaware of IFRS. So this adoption of IFRS created a lot of confusion and many critics believe that without the participation of all users of accounting standards it is not possible to implement IFRS in a smooth way. Despite the changes in accounting standards in Bangladesh, still many areas of business continue to follow the traditional accounting procedure rather than following the new standards (Financial Express, 2nd November 2007).

7. Education and training of professional accountants

Accounting standards can be transferred to developing countries through ‘transfer agents’ (Lowe, 1967). These transfer agents are accounting professors, accounting firms and the national accounting bodies who can train the accountants and graduates to spread the standards. So education and training is particularly very important to spread the accounting standards. Lowe (1967) mentioned that spreading of accounting education helps to train the manpower and provides necessary advice needed to maintain the strength and status of accounting profession. World Bank provided both financial and technical support to ICAB for the adoption of IFRS (Mir and Rahaman, 2005). As cited from Wallace (1990), Enthoven (1981) opined that foreign assistance is needed for the developing countries to upgrade the accounting education. It is of paramount importance to train the accountants with new standards or else the adoption of new standards will create confusion among the accounting professionals.

Institute of Chartered Accountant in England and Wales (ICAEW) is also
working with Institute of Chartered Accountant Bangladesh (ICAB) by providing technical assistance to develop the accounting standards of Bangladesh (ICAEW, 2008). According to Parry and Groves (1990), technical assistance works to design and/or implement new accounting standards and train accountants to cope with accounting standards. A lot of attention has been given to raise the accounting standards of developing countries, but the problem in developing countries like Bangladesh is the shortage of trained accountants. If there are not adequate trained accountant then the measures of raising accounting standards may not bring any benefit. It is the accountant who needs to carry out the accounting standards, so before implementing any standards the concerned authorities need to give more attention to increase the number of trained accountants.

According to ICAB (2012), the number of qualified accountants in Bangladesh is around 1250. This figure is not sufficient enough to handle the country’s rising business and financial development. The number of professional accountants both in public and private sector is inadequate to provide qualified accountants for the large-scale production units in Bangladesh (Parry and Groves, 1990). This shortage of the number of accountants exists mostly in all developing countries. So the government and other donor agencies particularly need to depend on the professional accounting bodies as the source of accountants. Due to this shortage of professional accountants it is seen that the government and the donor agencies help the professional bodies both financially and technically to raise the accounting standards as well to increase the number of accountants.

The questions may arise do more accountants leads to better standards of accounting. Parry and Grove (1990) have performed an empirical study based on Bangladesh’s context to know whether more professional accountants actually help to raise the accounting standards or not. In the study Parry and Grove (1990) have not found any evidence of accountants improving the quality of accounting. For example, professional
accounting body in Tanzania questioned on the efficiency of its own qualified accountants. The body raised the issue that the professional accountants are not capable to handle major accounting issues in state owned enterprises in Tanzania. Similar condition exists in other developing countries including Bangladesh. Training inadequacies are considered as one of the main factors for which accountants cannot improve accounting standards. As Parry and Grove (1990) mentioned, trainee accountants in Bangladesh get less exposure to accounting system which can be copied in other organisations. The entrepreneurs or corporate house of Bangladesh do not use proper accounting standards to give opportunity to the trainee accountants to adopt standardised accounting system. There are number of multinational organisations which are practicing standardised accounting system but the problem is the accountants who are working in those multinational organisations are reluctant to move to local companies (Parry and Grove, 1990). In Bangladesh, the multinational organisations pay very high remuneration as compared to local companies. This discourages accountants to move in the local companies.

When a country adopts IFRS, it is very necessary to teach the new rules to university students (Pekmez and McGee, 2004). In Bangladesh, existing curriculum does not adequately prepare students for the world of new accounting standards. It is very important for the universities to train the professors so that the professors can share the knowledge of new accounting standards with the university students. But such step has not been taken in Bangladesh.

ICAB requested many local and multinational organisations to provide assistance to improve the quality and quantity of training of students (ICAB, 2010). ICAB is also working with ICAEW to improve the accounting standard and to improve the quality of professional accountants. But many critics for example Mir and Rahaman (2005) argue that the steps taken by ICAB are not enough to improve the quality of accountants in Bangladesh. From this we can infer that adopting IFRS will not help Bangladesh to
standardise its accounting system if the country do not focus to develop the skills of professional accountants.

8. Accounting Standards and their relation to economic development

Over the years, the view has been expressed that accounting system has an important role to play with the development process of an economy (Chaderton and Taylor, 1993). Little attention has been given by the researchers on the linkage between accounting system and economic development (Wallace, 1990; Chaderton and Taylor, 1993). Development of accounting standards contribute to economic development whereas lack of accounting standards work as a barrier to economic progress of developing countries (Chaderton and Taylor, 1993). Belkaoui (1994) mentioned about the need of accounting standards for the development process of an economy. The researcher opined that the accounting information system of a country influences the economic growth. Accounting information disclosure minimises the capital market uncertainty and encourages investors to buy and sell more securities in the capital market (Belkaoui, 1994). A strong capital market helps in the development of savings which effect economic growth through investment. The capital market transfers the accumulated savings to the most efficient investment opportunity (Belkaoui, 1994). This function of the capital market stimulates economic growth. Lee (1987) also mentioned that, well developed accounting infrastructure ensures well-organised capital market and leads to economic development. This is because standardised and globally accepted accounting system is a good indicator of macro-economic variables and makes the economic decision making process easy. An effective accounting system helps a country to compare its economic variables with other country. Moreover standardise accounting system attracts more multinational companies to invest in a country. Seiler (1966) stated that, strength of a country’s accounting system determines the rate at which development will progress. As cited
from Chaderton and Taylor (1993), Enthoven (1977) mentioned standard accounting practice have dual role to play in economic development of a country. IFRS is a world-wide accepted accounting standard which can create an environment of confidence and will attract more investment particularly in developing countries like Bangladesh. Belkaoui (1998) mentioned that, economic growth rate and the development of a country’s economy are closely tied to the adequacy of accounting system and the accounting development process of that country. Due to inadequate accounting standards, the financial reports of developing countries do not reflect the commercial results (Samuels, 1990).

Larson (1993) claimed that, developing countries which have adopted and modified IFRS achieved higher economic growth. Developing countries which have followed IFRS and modified IFRS according to local environment factors achieved high economic growth rate compare to countries which do not adopt IFRS (Larson, 1993). But the study was heavily criticised by Samuels (1990), who claimed that the study was based on faster growing countries of Africa which cannot provide enough evidence whether IFRS adoption really leads to economic growth. Instead Samuels (1993) mentioned only faster growing countries that are wealthier can afford to undertake IFRS. Adoption of IFRS should be based on realities. IFRS will not bring any benefit to the developing countries like Bangladesh without considering the local economic condition. This is supported by Chaderton and Taylor (1993), they mentioned that accounting system should not be adopted by the decision makers without a clear understanding of the development role of accounting on the linkages which may exist between the accounting system and the generation of economic growth. Jaruga (1993) advocated for the adoption IFRS but also mention that the process of remodelling accountancy standards have to be gradual and the accounting standards should be based on a nation’s economic realities. The adoption process of adopting international accounting standards has raised a lot question. The critics argue that Bangladesh has adopted the global accounting standards with any
modification and the new standards do not match the reality of country’s economic

9. Pros and Cons of adopting IFRS in developing countries

IFRS advocates for international accounting harmonisation. Many studies supported that international accounting harmonisation would help to promote economic growth (Chamisa, 2000; Taylor et al., 1986). Many accounting difficulties arise while conducting international trade. The problems include difficulties in understanding financial statements and consolidation perplexity which arises due to different accounting, auditing and tax system (Larson, 1993). Hence it is impossible for the creditors, investors and other stakeholders in international trade to perform business without uniform accounting standards. It is believed that adoption of IFRS will help to mitigate the problem of differences in financial reporting and will create better environment for international trade.

International accounting harmonisation will have a beneficial effect on the global capital market (Collins, 1989). Due to differences in accounting standards it is difficult to raise capital internationally. These incompatible accounting standards force corporations to prepare multiple sets of financial statements due to the requirements of various stock exchanges (Larson 1993). Introduction of IFRS would rescue corporations from preparing multiple sets of financial statements and enhance global capital markets. For example, London stock exchange (the international capital market with the largest number of foreign listings) requires foreign listed firms to comply with IFRS.

Chamisa (2000) argued that, developing countries adopt IFRS not to attain IFRS as national standards, but to meet the need for appropriate accounting and reporting standards. International accounting harmonisation may not be the main objective for developing countries. Because most developing countries’ international trade is very insignificant compare to developed nations. The
international accounting harmonisation is crucial to developing countries due to its heavy dependency on the inflows of foreign capital to finance economic and industrial developments (Chamisa, 2000). IFRS plays a key role for developing countries to obtain fund from international institutions like World Bank and IMF. Adoption of IFRS also attracts multinational companies to invest in developing countries. In order to obtain inflow of foreign capital, developing countries tend to harmonise its accounting standards with international standards by adopting IFRS.

As cited from Larson (1993, pp. 30-31), Belkaoui (1988) mentioned that wholesale adoption of IFRS will help the developing country in several ways. The benefits of wholesale adoption IFRS as mentioned by Belkaoui (1988) are: a) reduce the set-up and production cost of accounting standards, b) facilitate accounting profession to follow well-established professional standards of behaviour and conduct and c) legitimize the country’s accounting standard-setting body as a full-fledged member of the international community. Time-constraint is another issue which forces the developing countries for wholesale adoption of IFRS. For example, one of the reasons Bangladesh fully imitated IFRS is due to the time limitation imposed by World Bank, International Monetary Fund (IMF) and other donor agencies.

Many researchers have opposed the wholesale adoption of IFRS. Briston (1978) mentioned that developing countries should create their own accounting system rather adopting the UK and the USA standards. Perrera (1989) stated that, accounting system based on developed country’s standard is not relevant and useful for the developing countries. For example, the major problem of wholesale adoption of IFRS is the lack of accounting standards for major sectors of Bangladesh’s economy. Bangladesh’s economy is highly dependent on agriculture products, like jute, tea and in recent times the country has seen development in its textile industry. But there are no IFRSs in these sectors. IFRSs are based on the economy of developed nations so there is huge doubt whether the
wholesale adoption of IFRS will really be useful for Bangladesh or not.

10. Influence of the World Bank and IMF in adopting IFRS

Developing countries like Bangladesh are forced to adopt IFRS due to extreme pressure from international donor agencies like World Bank and IMF. Points and Cunningham (1998) stated that foreign donor agencies are continuously trying to impose IFRS in developing countries instead of assisting on real accounting reforms in these countries. Wallace and Briston (1993, pp. 216-217) observe that, the biggest problem developing countries have is that of too many foreign ‘experts’ marketing half-baked solutions to problems that neither they nor the recipient nations understand. The foreign donor organisations advocates on adoption of IFRS by saying that implementation of IFRS would ensure accountability and transparency in financial reporting of developing countries like Bangladesh. Bangladesh is among those developing nations which are heavily dependent on foreign aid. Unlike other developing countries, Bangladesh tends to follow policies as prescribe by World Bank and IMF. Bangladesh’s accounting standards need to be in compliance with IFRS in order to get loan or financial assistance from World Bank, IMF and other donor agencies. Points and Cunningham (1998) heavily criticised the role of western world and donor agencies for forcing developing nations to adopt IFRS. Wallace and Briston (1993) stated that the accounting and the accountability problems of each developing country is different and the donor agencies should work with the developing countries to improve the national accounting standards rather than enforcing to adopt IFRS.

11. Conclusion
Prior research related to the adoption and implementation of IFRS has been reviewed in this study. The review suggests that IFRS adoption and implementation has both positive and negative sides. Many researchers (for example Larson, 1993 and Taylor et al., 1986) found that implementation of IFRS has positive impacts on developing countries economic growth. IFRS is considered as the accounting standards of Anglo-Saxon countries and developed nations. Some researchers (Hove 1990, Points and Cunningham, 1998) opined that, developing countries should develop their own accounting standards rather than depending on the accounting standards of Anglo-Saxon countries.

The review of literature suggests that developing countries tend to adopt IFRS without any modifications. In practice, unlike most developing countries Bangladesh has adopted IFRS without any modifications. There is shortage in the existing literature of studies on IFRS adoption and impact of IFRS on Bangladesh economy and accountancy practice, so there is need for more research on this area.

References


