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BANGLADESH

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

ACCOUNTING AND AUDITING

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Bangladesh: Report on the Observance of Standards and Codes (ROSC) - Accounting and Auditing

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ABBREVIATIONS AND ACRONYMS

A&A	Accounting and Auditing
ACCA	Association of Chartered Certified Accountants
BSEC	Bangladesh Securities and Exchange Commission
BSQC-1	Bangladesh Standard on Quality Control 1
CAPA	Confederation of Asian and Pacific Accountants
CIMA	Chartered Institute of Management Accountants (UK)
CPD	Continuing Professional Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoB	Government of The People's Republic of Bangladesh
GGODR	Global Governance Office of Director
GRI	Global Reporting Initiaves
ICAB	Institute of Chartered Accountants of Bangladesh
ICAEW	Institute of Chartered Accountants in England and Wales
ICMAB	Institute of Cost and Management Accountants of Bangladesh
IDRA	Insurance Development & Regulatory Authority
IDC	Investigation & Disciplinary Committee
IAESB	International Accounting Education Standards Board
IES	International Education Standards
IESBA	International Ethics Standards Board for Accountants

IFIAR	International Forum of Independent Audit Regulators
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IIRC	International Integrated Reporting Council
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
OCAG	Office of the Comptroller and Auditor General
PIE	Public Interest Entity
QAB	ICAB's Quality Assurance Board
QAD	ICAB's Quality Assurance Department
RJSC	Registrar of Joint Stock Companies and Firms
ROSC	Report on the Observance of Standards and Codes
SAARC	South Asian Association for Regional Cooperation
SAFA	South Asian Federation of Accountants
SME	Small and Medium-sized Enterprise
SMO	Statement of Membership Obligation (IFAC)
SMP	Small and Medium-sized Practice

PREFACE

The international financial community considers that the implementation of internationally recognized standards and codes provides a framework to strengthen domestic institutions, identify potential vulnerabilities and improve transparency. The Report on the Observance of Standards and Codes - Accounting and Auditing (ROSC A&A) program is part of a 12-module joint World Bank-IMF initiative to assist member countries to strengthen their financial systems by improving their capacity to comply with internationally recognized standards and codes.[1]

The ROSC A&A[2] program evaluates (a) the adequacy of the reporting requirements, (b) the capacity to implement applicable laws, standards and codes, and (c) the effectiveness of enforcement mechanisms for ensuring compliance with applicable standards and codes.

This second Bangladesh ROSC A&A, a follow up to the 2003 report, was conducted by the World Bank at the request of the Government of Bangladesh. It aims to assess the implementation progress of the policy recommendations of the 2003 ROSC A&A and to assist efforts of the Government of Bangladesh to determine the reforms that should be undertaken to further strengthen accounting and auditing practices and enhance financial transparency in the corporate sector, so as to support the Government's objective of improving the business environment and investor confidence and consolidate sustainable growth and shared prosperity.

The review was conducted by a World Bank team led by Suraiya Zannath (Senior Financial Management Specialist, GGODR) and including Mohammad Reaz Uddin Chowdhury (Financial Management Specialist, GGODR); Mozammal Hoque (Senior Financial Management Specialist, GGODR); Tasfia Awal Miti (Program Assistant, SACBD); Gopal Chandra Ghosh (Local Consultant); Sonny Mabheju (International Consultant) and Jon G Hooper (International Consultant). The review was carried out through a participatory process involving various stakeholders from the Government, Professional Accountancy Organizations, Regulatory Bodies, Audit Firms, Bank and Insurance Companies, Corporate and Public sector entities, business communities

[1] The 12 ROSC modules are: monetary and financial policy transparency; fiscal policy transparency; data dissemination; banking supervision; securities regulation; insurance supervision; crisis resolution and deposit insurance; insolvency; corporate governance; accounting and auditing; payment, clearing and settlement; and market integrity.

[2] An overview of the ROSC (A&A) program, including detailed methodology, is available at http://www.worldbank.org/ifa/roscaa.html.

and academia. The report also benefited from the incisive suggestions received from the peer review team: Patrick Kabuya (Senior Financial Management Specialist, GGODR); Shamsuddin Ahmed (Senior Financial Sector Specialist, Finance and Markets); Mohan Nagarajan (Senior Public Sector Specialist, GGODR); Szymon Radziszewicz (Senior Technical Manager, Quality and Membership, IFAC) and Brian Blood (Executive Director, CAPA). The team gratefully acknowledges the guidance provided by Johannes Zutt, Country Director for Bangladesh and Fily Sissoko, Practice Manager for Public Resource Mobilization and Management (PRMM).

March 05, 2015

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EXECUTIVE SUMMARY

1. The Report on the Observance of Standards and Codes - Accounting and Auditing (ROSC A&A) program is part of a 12-module joint World Bank-IMF initiative to assist member countries to strengthen their financial systems by improving their capacity to comply with internationally recognized standards and codes[3]. The ROSC A&A[4] program focuses on the institutional framework underpinning national accounting and auditing practices, and degree of conformity with international standards and good practices. **This 2014 update to the Report on the Observance of Standards and Codes – Accounting and Auditing (ROSC A&A)** assesses the degree to which the policy recommendations of the 2003 ROSC A&A review have been implemented, identifies issues that have emerged since the last review, and proposes a number of policy recommendations aimed at further improving the quality of corporate financial reporting and auditing which contributes to improving country's business climate, investors' confidence and economic growth potential of Bangladesh.

Country Context

2. **Bangladesh is located in Southern Asia, bordering the Bay of Bengal between Myanmar and India.** With an area of about 147,570sq km (of which 10,090 is under water), it is one of the smaller countries in the world, but it has a population of 157 million.[5] From 1996 to 2011, average annual economic growth was about 5.8 percent, despite political instability, inadequate infrastructure, slow implementation of economic reforms, and other challenges.

3. **This ROSC A&A addresses two strategic objectives of the World Bank's Country Assistance Strategy (CAS) 2015 for Bangladesh.** In Bangladesh, the Bank's efforts to promote inclusive economic growth and to enhance accountability and transparency in its poverty reduction programs require analytical work

[3] The 12 ROSC modules are: monetary and financial policy transparency; fiscal policy transparency; data dissemination; banking supervision; securities regulation; insurance supervision; crisis resolution and deposit insurance; insolvency; corporate governance; accounting and auditing; payment, clearing and settlement; and market integrity.

[4] An overview of the ROSC (A&A) program, including detailed methodology, is available at http://www.worldbank.org/ifa/roscaa.html.

[5] 2014 United Nations estimate.

and non-lending advisory services. The ROSC A&A study falls into this context to strengthen the role of the private sector oversight bodies in Bangladesh and foster the application of international accounting and reporting standards that are essential for sound economic management and a better investment environment. The study not only supports the role of the supervising and monitoring authorities of the financial sector but also help to strengthen the institutional framework for the accountancy profession.

4. **The Institute of Chartered Accountants of Bangladesh (ICAB), a member of the International Federation of Accountants (IFAC), dominates the profession in terms of number of members (1,570) and role.** ICAB was established under the Bangladesh Chartered Accountants Order 1973 (Presidential Order No. 2 of 1973) for the purpose of "regulating the profession of accountants and for matters connected therewith". It has the sole authority to serve as both the standards-setter and as the regulator of the profession. The second-largest professional organisation is the Institute of Cost and Management Accountants of Bangladesh (ICMAB), also an IFAC member, with 1,080 members. The UK-based Association of Certified Chartered Accountants (ACCA), with 103 members, is active in Bangladesh, having no legal entity in the country.

5. **There are six regulators** with a role in monitoring and enforcing financial reporting requirements **– Registrar of Joint Stock Companies (RJSC), Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Bank (BB), Insurance Development & Regulatory Authority (IDRA), ICAB and the Monitoring Cell of the Ministry of Finance (MoF)**. Each regulator operates under a distinct Act or law. The National Board of Revenue (NBR) does not have a direct regulating function but is a major user of the audited financial statements of tax payers and refers non-compliant reports to ICAB for disciplinary action.

Much progress has been made since the 2003 ROSC A&A Report

6. **Bangladesh has successfully implemented a number of key policy recommendations from the 2003 ROSC A&A report.** Most of the policy recommendations for strengthening the accountancy profession have been implemented with the assistance of international organizations and professional bodies such as the World Bank and the Institute of Chartered Accountants of England and Wales (ICEAW). The implementation status of the recommendations, together with details of the successful reform projects implemented since 2003 and other projects currently underway are detailed in the main body and Appendix 3 of the report.

7. **There has been some progress in strengthening the pillars of the financial reporting supply chain since the last review.** Improvements have been made in the framework for financial reporting for regulated entities such as listed companies and financial and insurance sector entities. The International Financial Reporting Standards (IFRS), IFRS for Small and Medium-Size Enterprises (SMEs), and the International Standards on Auditing (ISA) have been adopted by ICAB and are at different stages of implementation. As of January 2013, a version of all IFRSs and IASs issued by the International

Accounting Standards Board (IASB) was adopted as BFRS and BAS respectively by ICAB.

8. **ICAB's twinning arrangement with ICAEW has resulted in significant and sustained improvements in ICAB's training and education in recent years.** ICAB has been accredited as a Training Partner of ICAEW in 2014. Under a World Bank technical assistance project, ICAB adopted ICAEW's syllabus and examination system and updated the study materials. This has contributed significantly to the improvement of the quality and number of chartered accountants recently qualifying. ICAB has taken a number of initiatives to attract female students. There are 47 female students qualified in the last 3 years, representing 60% of the current total of 80 female chartered accountants.

9. **Other key developments include: (i) the establishment of the Quality Assurance Department (QAD) within ICAB,** for the purpose of promoting, enhancing and monitoring audit quality; **(ii) the strengthening of ICAB's Investigation and Disciplinary Committee (IDC)** through the appointment of a retired partner of a Big-4 member firm as its head, for regulating the auditing practices; and **(iii) the introduction of various public interest subjects in its Continuing Professional Development (CPD) program** and the establishment of an award program for the best presented annual report.

10. **The activities of the BSEC in regulating publicly traded companies improved after the catastrophic fall of the stock market in 2010.** After the debacle, the investigation committee formed by the Government of Bangladesh recommended restructuring the BSEC. Recent major initiatives by the BSEC include restructuring its organization and its market surveillance activities. Other important initiatives are the introduction of special audits on a sample basis to be performed by Chartered Accountancy firms as per terms of reference defined by BSEC and the introduction of corporate governance guidelines for listed companies requiring mandatory declaration of compliance in their annual reports. The BSEC, through its regulations, requires that all listed companies comply with BFRS and be audited in accordance with BSA. There has been a resultant improvement in financial reporting by listed companies; however much further improvement is necessary.

11. **Taking cognizance of the 2003 ROSC A&A recommendation, a legislative proposal for establishing an oversight body has undergone various phases over the last few years and a draft Financial Reporting Act was approved by the Cabinet in 2013.** There are concerns regarding specific provisions in the draft Act for not being consistent with international practices, particularly with regard to International Accounting Education Standards Board (IAESB) and International Forum of Independent Audit Regulators (IFIAR) principles. ICAB has identified several other clauses in the Act not supportive for growth of the profession and has undertaken discussion for resolution with the concerned authorities.

However a number of recommendations of the 2003 ROSC A&A have not been fully implemented. These still remain valid and need to be addressed.

12. **The recommendation for a comprehensive statutory financial reporting framework requiring the use of international standards differentiating requirements for different sizes and types of entities has not been implemented.** The statutory mechanism is yet to be defined to introduce a simplified financial reporting and auditing framework for Small and Medium Enterprises (SMEs) and micro-entities. In addition, the statutory framework relating to financial reporting by public entities and non-profit entities is yet to be developed. These are quite large organizations which contribute significantly to the socio-economic development of Bangladesh. The financial reporting requirements for State-Owned Enterprises (SOEs) need to be aligned to the nature of their operations e.g. government business entities would use IFRS, while regulators and non-profit entities would use IPSAS once implemented in Bangladesh.

13. **Except for initiatives taken by ICAB and BSEC, no steps have been taken to strengthen the capacity of other regulatory bodies.** Measures are needed to strengthen the capacity of Bangladesh Bank, Registrar of Joint Stock Companies (RJSC), Insurance Development & Regulatory Authority (IDRA) and Monitoring Cell in the Ministry of Finance to enable them to effectively monitor the accounting and financial reporting practices of their regulated entities.

14. **The recommendation calling for a coordinated initiative to improve the quality of teaching and examinations in accounting programs of universities and colleges has not been implemented.** Although the curricula of some universities have been updated to include IFRS and ISA, education and examination methodologies do not support acquiring knowledge in basic accounting, IFRS and ISA. There are no public sector subjects, e.g. on International Public Sector Auditing Standards (IPSAS), in the accounting education and training curricula - an aspect considered critical in order to develop the required skills to serve the public sector. Education media are mostly in Bengali and there is no effort to raise the level of proficiency in English and communication skills.

15. **The policy recommendations for the capacity building of ICMAB and its subsequent development of a strategic plan to modernize its education and training programs have not been implemented.** The study materials were not updated to cover the contents of the syllabus. ICMAB's project in collaboration with UK based Chartered Institute of Management Accountants (CIMA) had a limited impact as the project was stopped after the initial stage and the recommended action plan has not been implemented (Appendix 4).

16. **In spite of recent improvements in ICAB's CPD activities, both ICAB and ICMAB continue to face significant challenges in setting appropriate CPD programs relating to high public interest and emerging business and economic issues.** Most CPD programs are routinely conducted and draw little attention of practitioners, accountants and corporate managers.

The ROSC 2014 identified several other challenges:

17. **The banking sector in Bangladesh is the main source of private sector investment finance. Financial statement reporting requirements for banks are set out in the Bank Companies Act 1991.** However, weak governance in some state-owned commercial banks is undermining their compliance with BAS 30 - Disclosure Requirements in Banking and Financial Institutions (similar to IAS 30, now part of IFRS 7, IAS 32 and IAS 39) and their efficiency. The Central Bank of Bangladesh (BB), the banking regulator (subject to some involvement of the Banking Division of the Ministry of Finance for state owned banks), does not currently effectively enforce financial reporting and governance requirements on banks.

18. **The BSEC is struggling to deliver timely results due to lack of capacity and lengthy legal procedures.** As the regulator of the security markets, BSEC plays an important role in enforcing the observance of applicable standards and governance codes. Since the stock market debacle in 2010, improvement actions are being taken by BSEC; however, it is struggling to resolve matters in a timely manner due to its lack of capacity to inspect compliance and to deal with complaints.

19. **The RJSC's capacity and its ability to perform its mandate remains very weak.** RJSC is unable to monitor compliance with laws by its registered entities due to a lack of qualified technical manpower. RJSC has no reliable and readily available data as to the number of registered companies currently in operation. It is also not capable of checking the existence of long-past non-compliant registered entities due to its limited manpower and other operational deficiencies.

20. **The establishment of a new independent oversight authority for accountants and auditors in Bangladesh may be too advanced a step considering the relative size of the corporate sector and profession in more developed countries.** There is strong view among the stakeholders that establishment of a separate regulatory body such as a Financial Reporting Council (FRC) may not necessarily bring the desired result should the performance of other regulatory bodies remain in their current state.

21. **The professional accountancy bodies face an ongoing challenge to attract high quality graduates.** The overall entry into the profession remained almost at the same level (10% of current members) over the last 5 years despite improvements in the curriculum, training and examination methodology of ICAB as a result of twinning arrangements with ICAEW. The low entry is attributed to students' easy access to other competing opportunities and the lack of strategy to attract potential candidates to the accountancy profession. In the case of ICMAB, enrolments show an average 7% declining trend over the last 5 years.

22. **There is no identifiable demand-supply gap for accountants in the market at present.** The absence of a proper financial reporting framework and lack of corporate governance in family owned entities are the main reasons for low demand for professional accountants in Bangladesh. The weak enforcement environment encourages business entities to employ commerce/accounting graduates and partly-qualified professional accountants who are available in large numbers in the market.

23. **SOEs and other public sector entities (PSE) which represent a large investment of public money do not have a structured financial reporting framework.** There are no statutory requirements for SOEs with respect to compliance with IFRS or International Public Sector Auditing Standards (IPSAS) and thus there is a wide variation in financial reporting practices among SOEs. The regulatory authorities are mainly concerned with reviewing the entities' budget and receipt of periodic reports of a non-financial nature to assess performance. The need for quality financial reporting, to ensure accountability in the use of public resources, achieve organizations' intended results and instil confidence among citizens and stakeholders, has long been acknowledged but to little effect.

24. **Auditors are failing in some cases to detect failures in basic disclosure requirements.** This was the finding from a review of a sample set of accounting and auditing practices and from research undertaken by the World Bank in conjunction with the University Grants Commission of Bangladesh. The results of reviews conducted by the QAD of ICAB also revealed that assurance of quality in conducting audit services by audit practitioners remains a challenge for the profession.

25. **Small and medium-size audit practitioners, who play a vital role in supporting SMEs face several challenges.** Among these are compliance with the Bangladesh Standard on Quality Control 1 (BSQC 1), stringent requirements of the hiring authority and competition from large audit firms who audit all types and sizes of entities.

Key Policy Recommendations of the 2014 ROSC A&A

26. **The Government of Bangladesh is recommended to amend the Companies Act to clarify the financial reporting and auditing framework, supported by a strong and effective enforcement mechanism.** More specifically, the Companies Act should be amended as follows: (i) Financial reporting requirements and applicable standards for all companies should be clearly defined in the Companies Act. Requirements should be differentiated for PIEs, SMEs, and micro-sized entities, which should be clearly defined in the Act or through regulations; (ii) the amendment should introduce the concept of need-based audit so that small and micro companies with little or no public interest are not burdened with full audit requirements that may not be necessary. Appendix 2 depicts the recommended specimen reporting framework for private and public sectors entities differentiated by size and public interest impact.

27. **Develop a comprehensive statutory financial reporting framework for SOE/PIEs, SMEs, and Micro sized entities:** A statutorily-backed reporting framework and enforcement mechanism appropriate to Bangladesh's circumstances should be designed and implemented, including the proactive monitoring and review of the quality of financial statements of SOEs/PIEs. The key regulators, MoF and Ministry of Commerce (MoC) should take the lead in developing the financial reporting framework with a particular focus that the requirement adopted by each SOE is aligned to the nature of its operations e.g. government profit making entities would use IFRS, while regulators and non-profit making government entities would use IPSAS.

28. **A well-defined strategy and regulatory framework should be developed for the accountancy and audit profession.** The GoB, in consultation with the country's professional accountancy organizations (PAOs) should decide how the profession should be regulated taking into account the country perspective and the state of existing regulatory bodies. If BSEC, ICAB, RJSC, Bangladesh Bank, IDRA, and the Monitoring Cell in the Ministry of Finance perform their own regulatory and surveillance jobs effectively and in an improved and coordinated way, compliance with IFRS/BAS, BSA and sound governance principles can be ensured. In the short to medium term, it may be a better option to prioritize the improvement of the capacities of these six monitoring/regulatory agencies/authorities.

However, the two recommended options for strengthening the regulatory framework of accounting and audit profession are:

(a) **Establish an oversight body that** adopts the principles set by the International Forum of Independent Audit Regulators (IFIAR) and aims to be its member in order to benefit from international collaboration on issues regarding audit regulation. This is elaborated further in the policy recommendation in Section VII.

(b) **Reframe the governance structure of ICAB**, to provide it with a more independent and corporate function in performing its responsibilities to students, members and the wider community in the country. Section VII includes details on this approach.

29. **The key regulators should strengthen their capacity to review the financial statements of the companies they regulate to ensure compliance with applicable laws and financial reporting standards**. To address their common challenges facing the regulators in Bangladesh, they should strengthen internal capacity to check audited financial statements for compliance with applicable financial reporting standards, laws and regulations, and engage professionals or people with skills in financial reporting and audit. More detailed policy recommendations relating to each regulator are provided in Section VII.

30. **The number of qualified accountants should be increased and the capability of the professional accountants should be improved to meet the evolving enforcement and governance demands of both the public and private sectors.** A number of recommendations are made to help meeting this demand:

(a) **ICAB should introduce a second tier certification such as Certified Accounting Technicians (CAT) or a Diploma in Professional Accounting (DPA).** Such an interim certification would be particularly relevant for many partly qualified and trained students. Professionalizing non-chartered vocational accountants and preparers would help attract high quality graduates. It could also create additional revenue streams for the professional bodies and formally expose these accountants to training programs on IFRS, IPSAS, IT and corporate governance through CPD programs.

(b) **Professional Accountancy Organizations (PAOs) should include public sector modules in their education and training curricula**. This would reduce the knowledge gaps that currently exist between public and private sector accountants and would equip the professional accountants to better serve the public sector. Public sector subjects should include IPSAS, public sector financial management and the regulatory framework.

(c) **The profile and attractiveness of the accountancy profession needs to be broadened and improved to ensure more and better quality entrants.** ICAB and ICMAB need to market the profession effectively by visiting universities and schools. These outreach campaigns can be used to attract students the world of accountancy and the various options it offers.

(d) **Curriculum and teaching in accounting/auditing programs of universities and colleges should be improved.** Collaboration by the profession with universities and other tertiary institutions needs to be undertaken.

Details of the policy recommendations are included in Section VII, and recommendations to further strengthen existing ongoing improvement activities largely undertaken by ICAB and ICMAB are included in Appendix 1.

Conclusion

31. **The policy recommendations should form the basis for a prioritised, stakeholder-driven Country Action Plan (CAP), aimed to assist in further enhancing financial reporting processes in accordance with international standards and good practices, taking into account Bangladesh's country-specific circumstances.** The World Bank is ready to assist the Government and other stakeholders in addressing the recommendations and in developing the CAP, which should be led by the Government and principal stakeholders.

I INTRODUCTION

32. **The 2014 update to the Report on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A)[6] assesses the degree to which the findings and policy recommendations of the 2003 review have been implemented**, assesses issues that have emerged since 2003, and aims to support the Government of Bangladesh to prepare a Country Action Plan based on the recommendations of the report. The report proposes a number of policy recommendations aimed at further improving the quality of corporate financial reporting and auditing which underpins and contributes to improving country's business climate, investors' confidence and economic growth potential of Bangladesh.

33. **The review was requested by the Ministry of Commerce (MoC) and was conducted from 1 March to 30 June 2014.** Using the World Bank's multi-layered review methodology, the review was carried out through a participatory process involving various stakeholders from the Government, Professional Accountancy Organizations, Regulatory Bodies, Audit Firms, Bank and Insurance Companies, Corporate and Public sector entities, small and medium-size enterprises, business communities and academia. The data and information used for the review was gathered from a diagnostic questionnaire completed by stakeholders, by reviewing accountancy profession related documents, and through interviews, assessing the institutional framework underpinning accounting and auditing practices in the private sector and public sector of the country in comparison with international standards and good practice.

The report uses IFRS,[7] IPSAS, ISA, International Education Standards (IES),[8] and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics[9] as benchmarks, and draws on international experience and good practices in accounting and auditing, while in all cases reflecting the circumstances specific to Bangladesh.

34. **Bangladesh is located in Southern Asia, bordering the Bay of Bengal between Myanmar and India.** With an area of about 147,570sq km (of which 10,090 is under water), it is one of the smaller countries in the world, but it has a population of 157 million.[10] The population is highly homogenous, with the Bengali ethno-linguistic group composing about 98 percent of the population.

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[6] An overview of the ROSC (A&A) program, including detailed methodology, is available athttp://www.worldbank.org/ifa/roscaa.html.

[7] IFRS are issued by the International Accounting Standards Board (IASB), an independent accounting standards-setter based in London, UK.

[8] Issued by the International Accounting Education Standards Board supported by IFAC.

[9] Issued by the International Ethics Standards Board for Accountants supported by IFAC.

[10] 2014 United Nations estimate.

35. **The 2014 ROSC A&A addresses two strategic objectives in the World Bank's Country Assistance Strategy (CAS) 2015.** In Bangladesh, the Bank's efforts to promote inclusive economic growth and to enhance accountability and transparency in its poverty reduction programs require analytical work and non-lending advisory services. The ROSC A&A study falls into this context to strengthen the role of the private sector oversight bodies in Bangladesh and apply international accounting and reporting standards that are essential for economic growth and a better investment environment. The prominence of such a study will not only act to underpin the role of the supervising and monitoring authorities of the financial sector but also help to strengthen the institutional framework for the accountancy profession and help in improving the country's goals for a better investment climate.

36. **Economic performance of the Country.** From 1996 to 2011, average annual economic growth was about 5.8 percent, despite political instability, inadequate infrastructure, slow implementation of economic reforms, and other challenges. GDP for the year 2012-13 was BDT 10,380 bn (US$ 128.8 bn). The country's major exports (US$ 27 bn during FY 2012-13) include garments, agricultural produce, shrimps, jute, leather products and tea, while major imports (US$ 33.8 bn during FY 2012-13) include machinery and equipment, chemicals, iron and steel, foodstuff, petroleum products, and cement. 2012-13 GDP growth was 6.0 percent, down slightly from 2011-12 (6.2 percent). 2012-13 agricultural growth was 1.18 percent, down significantly from 2011-12 (2.46 percent), on the back of high input costs, low output prices, and unfavourable weather. Services growth in 2012-13 was 5.7%, down slightly from 2011-12 (6.0 percent) due to stagnant imports and frequent hartals (political demonstrations), which disrupted supply chains in the retail and wholesale sectors. Manufacturing industry grew by 9.34% in 2012-13 from 9.37% in 2011-12, reflecting strong inputs from large and medium enterprises.

37. **Outlook.** The 2014/2015 GDP and inflation forecasts (see Table 1) reflect several acknowledged assumptions, including improved consumer and investor confidence, that inflation is kept in check, increased credit flows to the private sector for investment, improved foreign direct investment, appropriate pricing of electricity and fuel, grain and oil price stability, and normal weather.

Table 1: Selected Economic Indicators (%)

	2013-14	2014-15
GDP Growth	5.6	6.2
Inflation	7.5	6.5

Foreign direct inflows were US$1,413 million for 2014, which is a marginal increase of 8.7 percent from the recorded US$1,300 million in 2013. As foreign and private sector investment is necessary to reach the targeted GDP growth rate, it is imperative that investors have financial information that is accurate, reliable and comparable across countries in compliance with globally acceptable accounting and auditing standards and codes for informed decision-making. Figure 1 provides a snapshot of the country's growth and FDI inflows.

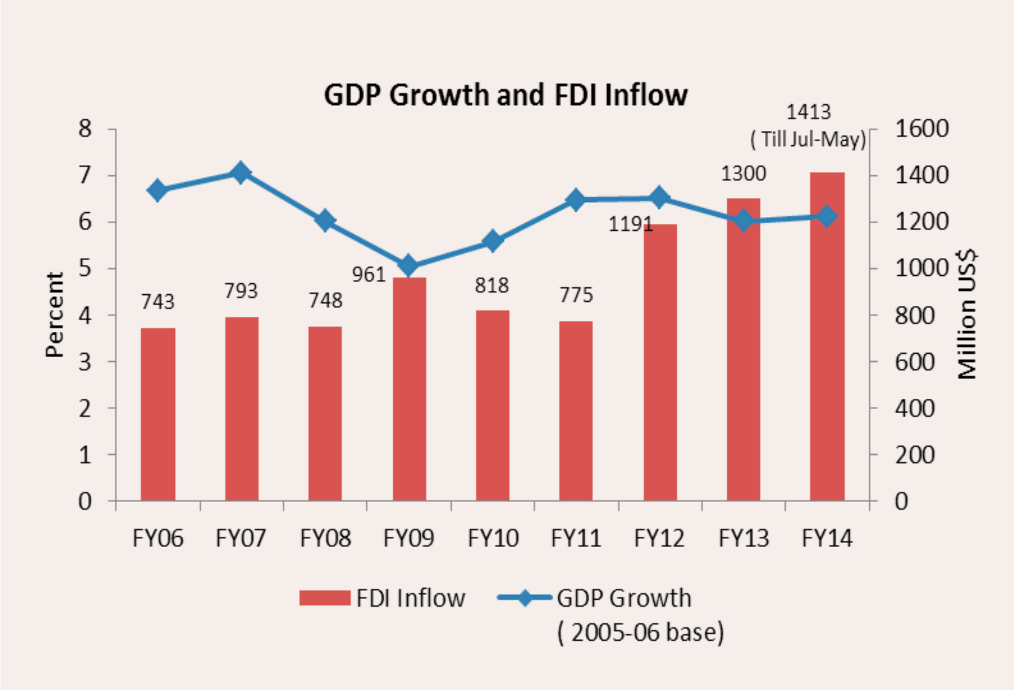

Figure 1

38. **Performance challenges.** There is a need to boost investment, which has remained stagnant at 25-26 percent of GDP over the past few years. Estimates suggest that it needs to be raised to 32-33 percent of GDP. Improved infrastructure and skills development so as to raise the productive capacity of the economy are prerequisites to attract and sustain the required level of investment, as are sound financial reporting frameworks for all financial reporting entities, public interest entities (PIEs), SMEs, and micro-sized entities, including public sector entities to support the needed public financial management (PFM) reforms in that sector. These contribute to improving the business climate and reducing the cost of doing business in Bangladesh. The establishment of accountability and transparency in spending public money is one of the key challenges in capitalising the growth opportunities.

39. **Bangladesh has implemented a number of accountancy profession reforms** and strengthened the quality of financial reporting in the private sector, particularly with regard to listed entities, since the 2003 ROSC A&A report. The International Financial Reporting Standards (IFRS), IFRS for Small and Medium-Size Enterprises (SMEs), and the International Standards on Auditing (ISA) have been adopted and are at different stages of implementation. The assistance of international organizations and professional bodies such as the World Bank, ADB and Institute of Chartered Accountants of England and Wales (ICAEW) have helped in laying down a platform for the assessment of accounting and reporting practice through the 2003 ROSC study and the support, in terms of technical and financial assistance, provided for the implementation of high priority recommended actions. Chapter II discusses the implementation status of the recommendations in detail. ICAB is currently implementing a project to work on the financial reporting framework for State-Owned Enterprises, with a special emphasis to promote the application of IPSAS.

II STATUS OF IMPLEMENTATION OF 2003 POLICY RECOMMENDATIONS

Bangladesh has successfully implemented a number of key policy recommendations from the 2003 ROSC A&A. All ten of the policy recommendations made in 2003 have been addressed to varying degrees, depending on resources and priorities. These achievements, as with the request for this second review, demonstrate the commitment of the Government to improve the standard of financial reporting in the country and to converge with international standards and best practices. The status of implementation of the 2003 ROSC A&A policy recommendations is summarised in Table 2.

Table 2. Status of Implementation of the Recommendations of 2003 ROSC A&A

Recommendation in 2003 ROSC	Status of Implementation as of 30th June 2014
Improve the statutory framework of accounting and auditing • Steps should be taken to ensure that the legal and regulatory requirements on accounting, auditing and financial reporting fully protect the public interest. • Fully adopt IFRS and ISA without modification and ensure mandatory observance of the standards • Develop a simplified financial reporting framework for SMEs	**Partially implemented.** The statutory framework for public interest entities has not been developed to adopt IFRS or ISAs. However, some sectoral regulators (BSEC, Insurance regulator, Central Bank) do require the use of some or all IFRS and ISAs, as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) as BFRS and BSA respectively, in their regulated entities. As a result, listed companies must apply BFRS, and banks and other financial institutions are required to apply part of BFRS (BAS 30, based on IAS 30). Only BSEC performs some enforcement of these requirements. However, such enforcement is limited by capacity constraints. Compliance with ISAs is required for audits as a result of their adoption by ICAB; all auditors are members of ICAB currently. ICAB adopts IFRS/IAS, ISA and related codes and disseminates them through its publications and seminars/workshops. To date, all IAASB Pronouncements, IESs, the IESBA Code of Ethics for Professional Accountants, and all IFRS (except for IFRS 9 "*Financial Instruments*" which is effective from 1st January 2018) have been adopted. IAS 29 ("*Financial Reporting in Hyperinflationary Economies*") has been adopted but will be enforced from 1st January 2015. IFRS and ISAs are subjected to a due process of technical review for adoptability and acceptability in the country context by ICAB's Technical and Research Committee. The statutory regulations have not been framed to introduce a simplified financial reporting framework for SMEs. IFRS for SMEs have been adopted by ICAB as BFRS for SMEs, applicable for periods on or after 1st January 2013. Currently no companies are legally required to use BFRS for SMEs in the absence of a specific statutory financial reporting framework for SMEs.

Recommendation in 2003 ROSC	Status of Implementation as of 30th June 2014
Establish an independent oversight body to monitor and enforce accounting and auditing standards and codes	**Partially implemented.** Proposals for establishing such an oversight body (to be known as the 'Financial Reporting Council') have been drafted as the Financial Reporting Act 2013. Concerns have been expressed by stakeholders regarding specific provisions in the draft Act for not being consistent with international practice and IAESB and IFIAR principles. This is in the process of finalisation. policy Recommendation on this is also included in paragraph 109 under Section VII of the Report.
Strengthen the capacity of regulatory bodies	**Partially implemented.** This is an ongoing process, particularly for BSEC and banking and insurance industry regulators. BSEC has taken a number of initiatives such as demutualisation of stock exchanges, enacting new service rules to increase, attract and retain qualified people and the introduction of special audits. Recently it has implemented an off-line surveillance (software) system called "Instant Watch" under the "Improvement of Capital Market Governance Project". Improving the regulators' (BSEC, Bangladesh Bank, IDRA) capacity and effectiveness in relation to reviewing financial reporting prepared by their regulated entities, including its enforcement, still remains a challenge. The Register of Joint Stock Companies (RJSC) has an important role as the recipient of all companies' and firms' financial reports. The capacity and effectiveness of RJSC remains a significant challenge. No visible initiative is observed to strengthen the capacity of RJSC.
Improve the degree of compliance with accounting requirements by publicly traded companies	**Implemented.** BSEC, through the listing regulations, requires all listed companies to comply with IFRS and be audited in accordance with ISA, as adopted by ICAB. To date there is no standards gap. BSEC has recently initiated special audits on a sample basis, hiring Chartered Accountancy firms as per defined terms of reference. However, effective monitoring and enforcement of consistent compliance remain as challenges.
Upgrade the procedure of licensing accountants and auditors in public practice	**Implemented.** ICAB licenses all statutory auditors in public practice, requiring auditors to obtain practical training, an audit qualification and sufficient prior experience and minimum CPD which meet international standards i.e. IAESB's International Education Standard 8 (IES8: Competence requirements for audit professionals). ICMAB members intending to go into practice to perform cost audits are required to obtain a practicing certificate from the Institute. However, current licensing requirements to conduct cost audits fall short of international practising requirements.

Recommendation in 2003 ROSC	Status of Implementation as of 30th June 2014
Improve the professional education and training arrangements of ICAB	**Implemented.** ICAB entered into a very successful twinning arrangement with the UK's ICAEW. High-quality ICAEW training materials were made available and coaching facilities improved and, as a result, professional education has significantly improved to international standards through the twinning arrangement with ICAEW. The improvement includes: (i) modification of syllabus; (ii) examination policy changed from passing a group of subjects at a time to single paper passes; (iii) new study materials and training modules; and (iv) training of trainers, question setters and moderators. A quality assurance process for professional education is in place through periodic reviews of syllabus, training and examinations by ICAEW. ICAB has been accredited as Training Partner of ICAEW in 2014 and as part of a mutual recognition arrangement; currently a member of ICAB can be a member of ICAEW after passing only three further subjects and a case study.
Ensure effective continuing professional development (CPD) and education of accountants and auditors in public practice	**Partially implemented.** ICAB's CPD program has improved and is benefiting both members in business and those in practice. There are calls by members in practice to include more topics on soft skills. Some initiatives are under way. ICAB undertook regular CPD programs on IFRS, BSA, Tax law, audit quality assurance, audit working papers, audit evidence, Transfer Pricing, Technology in Accounting and Auditing, Finance Acts, Banking Company Audits, Company Act, Capital Market, IPO Issue Management, National Budget, Corporate Governance, Professional Ethics and Conflicts, SMEs, Forensic Accounting, Role of CAs in Business, and Sustainable Development. In addition to regular programs, with the support of World Bank's Technical Assistance (TA) "Promoting Public Private Partnership", ICAB organised a series of well-structured CPD programs on public sector topics, procurement rules and treasury rules in order to close the knowledge gap for its members on public sector financial management. However, ICAB and ICMAB continue to fall short of IAESB's requirements of minimum CPD points. In spite of some recent initiatives to conduct CPD sessions on Cost Audit, Budget, HRM, Capital Market, IFRS 7, 12, 16, 38 & 39, Corp Governance, Leadership, SME Financing, Capital Market, Black Economy, Cost Accounting Standards, and the Export Potential of Bangladesh, ICMAB continues to face significant challenges in further improving its CPD programs to meet the IAESB requirement fully.

Recommendation in 2003 ROSC	Status of Implementation as of 30th June 2014
Strengthen ICAB's capacity by establishing twinning arrangements with a developed professional accountancy body	**Implemented.** With the Technical Assistance (TA) of the World Bank, this was successfully implemented through a Memorandum of Understanding (MoU) between ICAB and ICAEW. This arrangement has laid down a strong foundation for mutual collaboration between the two professional bodies which is being continued even after the close of the TA.
Strengthen ICMAB capacity to deliver high-quality training programs on practical implementation of IAS/IFRS	**Partially implemented.** ICMAB has revised their syllabus which includes IAS. However, their study materials were not updated to cover the contents of the syllabus. ICMAB training is yet to be improved and its study materials are yet to be updated to cover relevant IFRS and ISA which remains a challenge.
Improve curriculum and teaching in accounting programs of universities and colleges	**Not implemented.** The curricula of some universities, especially National Universities, have been updated to include IAS /IFRS and ISA but teaching and examinations quality remains a significant challenge, especially for the educational institutes under the National University. Lectures and exams are mostly in Bengali and there is no practicable effort to raise the level of English communication skills and critical-thinking ability, which was also a recommendation in 2003 ROSC.

III INSTITUTIONAL FRAMEWORK

40. This Chapter sets out weaknesses and emerging issues in the institutional framework for financial reporting and auditing, focusing on statutory requirements, the capacity to comply, and enforcement with requirements. The sustained growth needs of the Government of Bangladesh require robust financial reporting, underpinned by a strong institutional framework.

A. Statutory Framework

"Adequate requirements are a set of clear, consistent, proportionate, comprehensive, fair, and up-to-date laws and supporting regulations; these, as well as rigorous standards for A&A, are necessary for a robust financial reporting system."[11]

41. Since the 2003 ROSC A&A, no changes to the general statutory framework for financial reporting and auditing by companies have been made. A new Companies Act 2012 has been drafted which has not yet been passed into law. As a result, the Companies Act 1994 is still in force. Its provisions for financial reporting and auditing are outdated and do not align statutory financial reporting requirements for companies in Bangladesh with international standards and codes and international good practice. The Companies Act 1994 does not define the financial reporting standards to be followed in the preparation of financial statements, with the result that divergent standards and practices exist in the absence of statutory requirements and monitoring, reducing reliability, consistency and comparability of financial reporting.

42. There are no differentiated reporting requirements for companies with differing public interest characteristics (e.g. size, nature of business), which increases the compliance burden in particular for smaller entities. International best practice would suggest that large, public interest entities (PIEs) should be required to use IFRS, small and medium entities (SMEs) use IFRS for SMEs and micro entities either to report only for their own and tax purposes, or be required to use *"A Guide for Micro-sized Entities Applying the IFRS for SMEs"*[12]. These reduced, proportionate financial reporting standards have been developed since the 2003 ROSC A&A. The IFRS for SMEs and its Guide for Micro Entities allow for differential reporting, reducing the financial reporting burden by allowing entities to report in terms of frameworks appropriate to their circumstances. The Companies Act does not currently clearly define public interest entities (PIEs) and SMEs.

[11] *"Accounting for Growth in Latin America and the Caribbean: Improving Corporate Financial Reporting to Support Regional Economic Development"* a World Bank publication by Henri Fortin, Ana Barros, and Kit Cutler.

[12] This Guide was issued in 2013 and is meant for micro entities that are too small to use the IFRS for SMEs. It is not a separate Standard for micro-entities. It is intended to help micro-entities that are within the scope of the IFRS for SMEs to prepare general purpose financial statements in accordance with IFRS for SMEs. Compliance with the Guide will result in compliance with the IFRS for SMEs.

43. **The banking sector in Bangladesh is the main source of private sector investment finance. However, weak governance in some state-owned commercial banks (SOCB) is undermining their strength and public trust.** The recent scams in SOCBs constituted serious governance failures and have damaged public confidence. There are 57 banks (5 state-owned) and 32 non-banking financial institutions in the country. Financial statement reporting requirements for banks are set in the Bank Companies Act 1991.This mandates financial reporting formats and disclosures based on BAS 30 (similar to IAS 30). The Act is silent on whether the rest of BFRS is required to be applied and, as a result, compliance with BFRS by banks varies.

44. **The Financial sector is fragmented (depending on the level of regulation) into three broad sub-sectors** (see Table 3).

Table 3: Financial Sector Regulation Framework

	Element	Regulation Details
1	Formal sub-sector	Regulated by statutory regulators. Includes banks, non- banking financial institutions, insurance companies, capital market intermediaries such as brokerage houses, merchant banks, and micro-finance institutions, etc.
2	Semi-formal sub-sector	Includes institutions regulated otherwise but not included in the jurisdictions of the Central Bank, Insurance Authority, Securities and Exchange Commission, or any other enacted regulator. The sub-sector is represented by specialised financial institutions (such as the House Building Finance Corporation, Palli Karma Sahayak Foundation, Samabay Bank, Grameen Bank, and so forth), non-governmental organisations, and discrete government programs.
3	Informal sub-sector	Completely unregulated; includes private intermediaries.

45. **All companies, both private and public, are required to file audited financial statements with the Registrar of Joint Stock Companies (RJSC);** however, compliance with this requirement is low with only approximately 10% of companies complying. In only a few cases, notices are issued to the entities who fail to submit the returns. Even if the returns are submitted, the RJSC does not have sufficient skilled manpower to check compliance. RJSC has no reliable and readily available data as to how many companies are in operation, as it has no process of verification and reconciliation. RJSC is not even able to check the existence of long past non-compliant registered entities due to its limited facilities, such as a lack of staff and transport.

46. **The RJSC is the only umbrella regulator to which most businesses/economic entities of the economy are accountable.** As of 30th June 2013, there were 181,642 entities administered by the RJSC, out of which 128,263 are companies. Around 8,000-10,000 new companies are being registered each year. The relevant laws cover most governance issues required for companies and the RJSC is empowered to ensure compliance with the regulations. It is authorized to receive/collect financial statements and other information

and can inspect/investigate where necessary to ensure compliance with the provisions of the law. The effectiveness of the RJSC's monitoring systems is one of the major challenges in ensuring the broader level application of IFRS that is essential to ensuring improved accountability and transparency so as to create a better investment climate. Currently, quality control inspection of financial statements is not performed. There is lack of expertise in the RJSC team and a lack of facilities to examine the quality of financial statements and related compliance.

47. **The Companies Act 1994 currently requires all registered companies to be audited by an auditor who is a Chartered Accountant within the meaning of the Bangladesh Chartered Accountants Order of 1973 (i.e. a member of ICAB).** No auditing standards are prescribed or referred to in the Companies Act 1994. However, ICAB requires its members to follow ISAs (adopted as BSA), effectively requiring compliance with ISAs for all audits in Bangladesh. The audit requirement is irrespective of size and public interest status of the company and there is no audit exemption for smaller companies. International best practice suggests a threshold below which companies be allowed to opt not to have a statutory audit, reducing the compliance burden on smaller companies where there is less public interest in an audit.

48. **The Dhaka Stock Exchange regulates listed companies.** It is registered as a public limited company and is regulated by the Companies Act 1994, its Articles of Association, its bye-laws, the Securities and Exchange Ordinance 1969, and the Securities and Exchange Commission Act 1993. It currently has 250 members/dealers and as of December 31, 2013, 535 securities were listed (262 companies, 224 bonds, 41 mutual funds, and 8 debentures). As of February 2014, market capitalisation was US$ 37.6 billion (24.6 percent of GDP). DSE has a department to review company reports and provide feedback to BSEC and concerned member companies but this has limited impact. Co-ordination with ICAB in this regard is not visible.

49. **The Securities and Exchange Commission was established in 1993 as the regulator of the capital markets.** In December 2012 it was renamed as the Bangladesh Securities and Exchange Commission (BSEC). Its main objectives are to protect investors, develop capital markets, and ensure discipline in the issuance of securities. Capital market reforms aimed at enhancing market stability are currently underway. These need to be deepened to establish public confidence which will ultimately widen the sources of private sector financing.

50. **The BSEC requires that companies it regulates prepare financial reports in compliance with IFRS** as adopted by ICAB (known as Bangladesh Financial Reporting Standards or BFRS) and requires that regulated companies are audited in compliance with ISAs as adopted by ICAB (known as Bangladesh Standards on Auditing or BSA). BSEC performs some monitoring of financial reporting by listed companies with limited effectiveness and is severely constrained by limited resources with the necessary skills and experience. A lack of co-ordination between BSEC and ICAB was noted.

51. **BSEC is struggling to deliver timely results due to a lack of capacity and lengthy legal procedures.** During 2012-13, the Supervision and Regulation of Markets and Issuer Companies (SRMIC) Department received 56 complaints, of which 38 have been settled and 12 are in process. 17% of the complaints received in 2009-10 are still unresolved and this rate is 23% for the year 2011-12. The Supervision and Regulation of Intermediaries (SRI) Department deals with the complaints made against Stock Brokers and Stock Dealers. 76% of the complaints received against Stock Brokers in 2012-13 have not yet been resolved. This rate is 67% for the complaints received in 2011-12. 28% of the complaints received in the turbulent year of 2009-10 have not yet been resolved. The BSEC Legal Department is involved in helping the lawyers employed to act in favour of BSEC, provide opinions and suggestions to other Departments of the Commission and run certificate suits to recover the penalties. During year 2012-13, BSEC sued 2 and were sued in 21 cases. The lawsuits against BSEC are mainly Writ Petitions challenging the actions of BSEC on different grounds. As at the end of year 2012-13, there were such 429 lawsuits pending in different courts of law.

52. **The insurance sector is relatively large, comprising about 45 non-life and 30 life insurance companies in the private sector, and 2 (1 life and 1 non-life) public sector insurance companies.** Most of the insurance companies are public limited companies that fall under the provisions of the Companies Act 1994. The Insurance Development and Regulatory Authority (IDRA) was established by the Insurance Act 2010[13] as the regulator of the insurance sector. It was established with the view that the industry is required to be managed properly and be further strengthened by reducing business risk, with local and international insurance standards harmonized, and protecting the interests of policy holders and other beneficiaries.

53. **Financial reporting requirements for insurance companies are mandated through the Insurance Act 2010.** The insurance regulator, IDRA, aims to ensure reliability, comparability and consistency in the financial statements of insurance companies by requiring insurance companies to comply with BFRS. However, the IDRA has been slow in issuing regulations requiring this, resulting, in some cases, in companies continuing to prepare their financial statements in terms of the Insurance Act 1938, which does not mandate the application of BFRS. The IDRA does not currently effectively enforce compliance with financial reporting standards on insurance companies.

54. **The Finance Act 2014 requires every private and public company to furnish, along with the income tax return, a copy of the trading account, profit and loss account and the balance sheet in respect of that income year certified by a chartered accountant to the effect that the accounts are maintained according to the BAS/BFRS.** This requirement will add a great value to the compliance with accounting standards provided that this is monitored properly. Regular monitoring of compliance will remain a challenge due to the lack of sufficient expertise in the income tax department.

[13] This replaced the Insurance Act 1938.

55. **The monitoring of compliance with financial reporting standards by non-listed large companies is not currently in place.** The monitoring of compliance by regulated entities (listed, banks, insurance) has some degree of effectiveness. As the Companies Act and regulators do not clearly define which financial reporting standards should be applied, compliance by companies varies. There is currently no mechanism to monitor and ensure large unlisted companies comply with IFRS based standards adopted by ICAB as BFRS.

56. **The state-owned enterprise (SOE) sector is economically significant, and holds a large portion of public funds invested by the Government.** There are 45 non-financial state owned entities, 35 Corporations, 112 Autonomous bodies and 66 Institutions, Academy or Subordinate offices. They represent a large investment of public money. The entities are either self-financing or receive grants from the Government. The SOE wing of the Finance Division of the Ministry of Finance oversees the non-financial entities while the financial institutions are overseen by the Banking and Financial Institutions Division. The quality of financial reporting is not monitored by these departments/wings in terms of compliance with financial reporting standards, due to the absence of a defined financial reporting framework requiring compliance with IFRS or IPSAS and the department's lack of skills and manpower. An initiative is necessary for the adoption of IPSAS/IFRS as appropriate by State-Owned Enterprises (SOEs).

57. **The financial reporting framework for non-profit organizations is totally absent.** There are around 13,232 non-profit organizations (as of 30th June 2013) registered under the Societies Registration Act, 1860 and under the administrative purview of RJSC. There include quite large organizations that are very important for the socio-economic development of Bangladesh. Financial reporting of some of the entities is monitored by the NGO Affairs Bureau and others are left unmonitored due to the inactivity of RJSC.

58. **SMEs contribute significantly to the economy of Bangladesh.** They are a source of low capital investment and employment generation. They account for 96 percent of private sector industrial establishments, provide employment opportunity to about 78 percent of the non-agriculture labour force, and contribute about 30 percent of national GDP.[14] Because of the importance of this sector, the SME Foundation was established to promote the activities of SMEs in the country. It assists in implementation of SME policy, identifies and resolves legal and administrative challenges facing SMEs, assists SME entrepreneurs by facilitating collateral-free loans at low interest rates for technology-based, manufacturing, and agro- projects. It assists SMEs by providing basic accounting and development of accounting software for small entities. Many of the SMEs are involved in exports, suggesting that they are competitive. A lack of access to finance is still an impediment to SME development.

[14] All figures are from the SME Foundation,

59. **The statutory framework currently relies on the self-regulated accounting profession.** Stakeholder consensus within Bangladesh calls for the establishment of an independent oversight body, and the profession is not opposing such oversight in principle. Proposals for establishing such an oversight body (to be known as the 'Financial Reporting Council') have been drafted as the Financial Reporting Act 2013. These proposals are currently under discussion by the Government. The audit profession, represented by ICAB, have raised concerns about some specific provisions proposed in the draft Financial Reporting Act 2013. Issues to be resolved, amongst others, include the licensing authority (i.e. whether FRC should perform audit licensing itself or rather oversee ICAB in performing licensing as is currently done) and the need to ensure all auditors to hold an appropriate audit qualification to be in accordance with international education standards (IAESB IES8: Competence Requirements for Audit Professionals). Currently only ICAB comply with IES8; ICMAB's qualification is not an audit qualification.

60. **One important element of emerging trends is that corporate giants, mostly multinational private companies have gradually been adopting Integrated Reporting in line with global developments.** Integrated reporting was incorporated by a few private companies on the basis of its corporate requirement and on a consideration of aligning with good practice for financial reporting. There is no mechanism to track the companies who adopted the integrated reporting guidelines issued by the **Global Reporting Initiative** in Bangladesh except those who were recognized for high quality reporting at the South Asia Federation of Accountants Annual Report Awards competition. Additionally, competition for the ICAB sponsored Annual Report Awards, now in its 15th year, inspires many companies to reach higher standards each year. These awards programs, combined with ICAB led strategy for sustainable and integrated reporting could promote awareness, create demand and develop business/ training opportunities.

61. **The establishment of a new independent oversight authority for accountants and auditors in Bangladesh may be too advanced a step with reference to the relative size of the corporate sector in more developed countries and given the relative size of their professions. The** Bangladesh economy is too small, with a GDP of 129 billion USD, to support a robust accountancy and auditing profession. Its economy is mostly unstructured having only 38,857 partnerships, and 128,263 limited companies, lot of which are dormant. There are only 168 audit firms in the country where 358 members of ICAB are engaged in public practice. In the UK, which has GDP of 2,522 billion USD, there were 434,000 partnerships, and 1.4 million limited companies at the start of 2013. Out of 142,334 members of the UK ICAEW, 43,246 are in practice with 3,592 audit firms as of the end of 2013. Australia's GDP is 1,560 billion USD and there were 310,296 partnerships and 722,198 limited companies at end of June 2013. If BSEC, ICAB, RJSC, Bangladesh Bank, IDRA, and the Monitoring Cell in the Ministry of Finance perform their own regulatory and surveillance jobs effectively and in a coordinated way, compliance with IFRS/BAS, BSA and governance can be improved. There is strong view among the stakeholders that establishment of a separate regulatory body such as the

Financial Reporting Council (FRC) may not necessarily bring the desired result should the performance of other regulatory bodies remain in their current state. In the short to medium term, it may be a better option to prioritise the improvement of the capacities of these six monitoring/regulatory agencies/ authorities e.g. BSEC, Bangladesh Bank, RJSC, IDRA, ICAB, and Monitoring Cell in the Ministry of Finance.

B. The Profession

A strong national accountancy profession, internationally recognised and independently regulated, enhances financial reporting practices by improving compliance, increases investor confidence, and ultimately contributes to sustained economic growth.

62. **There are two professional bodies of accountants active in Bangladesh.** The Institute of Chartered Accountants of Bangladesh (ICAB) is the largest in terms of the number of members, with 1,570 members at the end of 2013 and increasing trends in numbers entering the profession. The Institute of Cost and Management Accountants of Bangladesh (ICMAB) has 1,080 members. Another UK-based Association of Chartered Certified Accountants (ACCA) has 103 members in Bangladesh. ACCA membership is growing fast, with 56 of its present 103 members having passed in 2013. However, ACCA is not a nationally recognized institute having no legal forms in Bangladesh and its members have to convert to be ICAB members to be licensed as auditors or accountants for public practice in Bangladesh.

63. **It is estimated that around 1,100 members of ICAB and 800 members of ICMAB work on financial statement preparation for entities,** with mostly senior level managerial roles that contribute to internal control and financial reporting. In addition, there are more than 18,000 ICAB trained (course-completed) professional accountants, out of whom around 5,300 are part-qualified accountants. Most of the part-qualified accountants could not complete all of the ICAB exams to qualify as Chartered Accountants due to an earlier policy requiring all subjects of each level/stage to be passed at one sitting. Trained and part qualified ICAB students possess a certain level of skill and knowledge of an accountant and are contributing a great extent to the accounting and reporting arena of the country. ICMAB also have around 2,261 part-qualified students but without training. Considering their numbers and depth of knowledge and skills in accounting and auditing, ICAB and ICMAB may consider the introduction of a second level interim certification such as "Certified Accounting Technician (CAT)" or "Diploma in Professional Accounting (DPA)" which may enhance the attractiveness of the profession. These are all key resources contributing to the preparation of financial statements in compliance with IFRS**.**

64. **There is no identifiable demand-supply gap for accountants in the market at present.** The absence of a proper financial reporting and governance framework and the lack of enforcement are the main reasons for a low demand for professional accountants in Bangladesh. The weak enforcement environment encourages business entities to employ commerce/accounting graduates and partly-trained professional accountants who are available in large numbers in the market.

In addition, there is less demand for qualified accountants (QA) as the economic units are either not managed professionally or are family owned entities. There is hardly any demand for professional accountants' service in SMEs which account for 96% of the private sector industrial establishments providing employment of roughly 78% of the non-agricultural work force. Of the 128,263 registered companies, which include large private entities and entities not yet brought into the financial reporting framework and monitoring systems, only 10% (approx.) submit returns with RJSC. This indicates the insignificant engagement of professional accountants in the preparation and submission of returns in accordance with BFRS/ISA. Only the 260 companies listed in stock exchanges, which include most banks, non-banking financial institutions, large manufacturing and service industries, are the main employers of QAs and professional auditors. This is largely due to strict compliance requirements of BSEC's regulations. There are a very limited number of accountants in NGOs and public sector entities (SOEs), with almost no employment in agencies regulating the economic entities, and no employment in GoB departments dealing with financial management and monitoring matters. However, the number of registered business entities is growing at around 6% per year. If this pace continues and a strong financial reporting framework and enforcement environment is put in place, the demand for professional accountants will significantly increase. Table 4 shows current status of qualified and partly qualified accountants

Table 4: Members and students of the profession (as of June 2014)

Categories	ICAB	ICMAB	ACCA	Total
Qualified members				
(a) Practice/Consulting	368	122	-	490
(b) Private service/ corporations	977	825	133	1,935
(c) Govt. service	2	17	-	19
(d) Abroad	152	124	-	276
Sub-total	**1,499**	**1,088**	**133**	**2,720**
Articleship completed and part qualified in service	5,300	-	-	5,300
Articleship completed in service	12,700	-	-	12,700
Part qualified students in service	-	2,261	200	2,461
Current students	24,000	21,058		45,058
Total	**43,499**	**24,407**	**333**	**68,239**

In addition to the above mentioned fully or partly qualified accountants, there are a large number of accounting graduates passed from universities.

65. **In addition to the "Big Four" and some mid-tier global network firms, there are many local small and medium-sized practices (SMPs) in the country**. A characteristic of the Bangladesh market for accounting and audit is that practices are either relatively large (e.g. international network firms) or very small – there

are a limited number of mid-sized local firms. The small practices have one or a few partners and weak client bases. Such small firms face the significant challenge of maintaining the resources necessary to comply with applicable standards. This limits their access to large and complex assignments. Attracting and retaining qualified staff is a major problem for them as the audit fees paid by their clients (mostly small and medium entities) are very low. Some of these small practices may benefit from mergers to increase their capacity and reach a certain minimum critical mass to be eligible for larger assignments and further growth. Trying to achieve organic growth and becoming able to compete with large global networks may not be achievable even in the long term. Standards and regulatory requirements are rapidly increasing and evolving frequently, making it increasingly difficult to run a practice as a sole practitioner. A weak resource base may lead to compromises of professional ethics, weak firm quality control processes and procedures, and the application of inappropriate financial reporting practices.

66. **The audit firms noted concerns about the level of audit fees.** They noted that the provision of high-quality assurance services requires quality people, appropriate training and regular monitoring. All these are expensive and need to be supported by a realistic fee regime. They argued that the current fee culture does not support the attraction and retention of appropriate skills and establishment of effective organisational structures in firms. Low level fees are not only a barrier for audit quality assurance but also de-motivate the potential highly skilled incumbents. ICAB may undertake an awareness program to persuade its members to charge such fees that are adequate to deliver quality audit services and build awareness among the audit service recipients regarding the value of quality audits. ICAB's continuous monitoring of the audit quality should require that audit practitioners charge sufficient fees required for the deployment of adequate time and level of resources necessary to conduct the audit. The matter should be addressed by ICAB's Quality Assurance Board (QAB) as a part its quality review activities.

67. **The auditing profession, solely comprising ICAB members, has benefited from a significant development since the 2003 ROSC A&A through the establishment of ICAB's Quality Assurance Department (QAD).** The department is responsible for conducting audit practice reviews on ICAB members in public practice and providing training to auditors. The department is supported and guided by the ICAB Quality Assurance Board. On 17th June 2009, ICAB made compliance with the Bangladesh Standard on Quality Control 1 (BSQC-1), in compliance with 'SMO 1: Quality Assurance', mandatory for practising members and such compliance was set as a precondition for the renewal of a practising license. As per ICAB's policy (Audit Visit Manual), each audit firm has to be visited once in every 3 years, which requires visits to 120 firms each year. It has been observed that only 67 and 51 firms were visited in 2012 and 2013 respectively; the follow-up visits are not done regularly as per policy and some practising licenses were renewed in spite of non-compliances and even non-response to letters from ICAB asking for clarifications. Due to its very recent establishment, ICAB faces the ongoing challenge of further developing the effectiveness of the QAD.

68. **ICAB's Investigation and Disciplinary Committee (IDC) is perceived by some stakeholders outside of the profession as not being sufficiently independent of the accountancy profession.** The stakeholders perceive that making the IDC independent and avoiding conflict of interest would better serve the public interest. The Investigation and Disciplinary Committee (IDC) is currently headed by a retired partner of a Big-4 firm to enable IDC to function independently of the ICAB Council, which is a positive initiative. Public perception can be improved by restructuring the IDC and empowering it. The IDC should not include any practicing auditors and any member of the Council and instead, should include ex-officio members from GoB and renowned universities. The ICAB Council should not reserve any power to revise the recommendations of the IDC without reasonable grounds and if revised, the grounds behind such revisions should be explained.

69. **The volume and pace of change in international standards and changes in laws and regulations relating to financial reporting requirements are a challenge** to ICAB and its members, and to practitioners' resources. Keeping up-to-date with developments and new standards also represents a significant challenge especially for those members who qualified a number of years ago under previous syllabi to update their knowledge through appropriate CPD.

70. **As IFAC members, ICAB and ICMAB have a responsibility to meet IFAC's Statement of Membership Obligations (SMOs).** Self-assessment of compliance by both bodies is made using the SMOs as benchmarks – these assessments for both bodies are included as an Appendix to this report. ICAB and ICMAB face the ongoing challenge of meeting and/or continuing to meet the IFAC SMOs – the Appendix also includes recommendations for the bodies to address in meeting the SMOs.

71. **ICMAB faces challenges** relating to updating its Code of Ethics for recent amendments to the IESBA Code of Ethics (parts A and C) and in relation to establishing the requirement that all prospective members obtain sufficient, appropriate, monitored practical experience before admission to membership. Their education standards were last updated in 2007 and are no longer aligned with the latest IAESB IESs. The accountancy profession is not attracting the best students from high school which impacts on subsequent pass rates and to some extent, the quality of the accountant after qualification.

C. Education and Training

A sound education and training system (from pre-qualification to post-qualification) producing and maintaining well-trained accountants and auditors assists in compliance with standards and codes, leading to high-quality financial reporting practices.

72. **Broadly, the profession is challenged to attract sufficient high-quality graduates,** many of whom opt for a career in medicine, engineering, or another science discipline. One of the reasons for the reducing trend of high quality commerce graduate entering into professional accounting education is that

relevant Government sector services such as customs, taxes, and regulatory departments do not require finance and accounting education. This has consequences on overall interests of quality students in business/commerce/accounting education for attractive career building and thereby, on quality of entry-level accountants and ultimately on pass rate. Low passing rates prevailing for a long period also made the profession unattractive in the society. The high potential candidates become more interested to enter jobs after the completion of graduation to support families rather than pursuing further long term articleship training in practicing firms where the student's allowance paid by the firms is too low and attending exams where the pass rate is very low.. In spite of recent improvements, the pass rates of both the institutes remain below 20%. The challenge is made even more difficult as the increasing complexity of technologically driven economic activities requires increasingly complex reporting, monitoring, and regulatory activities, making accountancy possibly less attractive to potential entrants.

73. **ICAB has the sole authority for training, examining, and certifying chartered accountants and regulating the audit profession in Bangladesh.** With the technical assistance of the World Bank, it has implemented a twinning arrangement with the ICAEW. The twinning arrangement, which was one of the recommendations in the 2003 ROSC A&A, has resulted in significant and sustained improvements in ICAB's training and education in recent years. Such improvements have included an upgrade of the ICAB syllabus to ICAEW standards, **e**nhanced quality of trainers, improved entry requirements, the availability of high-quality study material and an improvement of the examinations systems. ICAEW reviews the ICAB examination quality regularly. ICAB has been accredited as a Training Partner of ICAEW in 2014 and currently a member of ICAB can be a member of ICAEW after passing just three further subjects and a case study as they allow exemptions for 12 papers out of 15. This has contributed significantly to the improvement of the quality of chartered accountants produced. ICAB has taken steps to attract female students to the profession. 47 female students passed in the last 3 years which is 60% of the existing total 80 female chartered accountants. Although 434 students passed (28% of total members) within the last 3 years, against 156 in the previous 3 years, ICAB still faces the ongoing challenge of increasing its membership numbers, to help enhance the capacity of the accounting and audit profession in Bangladesh. ICAB's organization structure and staffing policy are not aligned and does not provide support to run its activities effectively.

74. **ICMAB specialises in training cost and management accountants in Bangladesh.** ICMAB faces a number of ongoing challenges. Its twinning arrangement with the CIMA has had only limited impact, where recommended and planned actions identified in collaboration with CIMA remained unaddressed (Appendix 4). ICMAB's recent rate of admission to membership has remained low, with only 157 students passing the qualification in the last four years. Tuition is mainly provided by part-time lecturers who have a significant challenge in providing good quality coaching. ICMAB also faces challenges in keeping tuition material up-to-date.

75. **A UK-based global accountancy body, the Association of Chartered Certified Accountants, ACCA, having no legal institutional form in the country, has a small but growing number of members and students in Bangladesh.** Its qualification is available in a large number of countries and is compliant with IAESB's education standards, the IESs. Its activities have been visible in Bangladesh only very recently and out of 103 current qualified members, 56 passed in 2013 alone. The syllabi for accounting, auditing and taxations have UK and Non-UK streams. ACCA students in Bangladesh do not need to study local laws and regulations, such as Corporate Laws, Commercial Laws, and Tax Laws.

76. **Public sector subjects are not currently included in the professional accountancy education and training curricula of either of the professional bodies –** this is an aspect considered critical in order to develop the required skills to serve the public sector. Public sector subjects should include IPSAS, public sector financial management and regulatory frameworks.

77. **There are currently no interim qualifications for professional accountants at a level below the membership qualifications.** In many other countries, including peers like Sri Lanka, qualifications for accounting technicians have been established. These qualifications help to serve the market demand for accountants below the prestigious level of Chartered Accountant, while bringing such accountants within a professional environment where they can access Continuing Professional Education (CPE), adhere to a Code of Ethics and other similar characteristics of a professional. The profession may consider the introduction of a second level, interim certification such as "Certified Accounting Technician (CAT)" or "Diploma in Professional Accounting (DPA)".

78. **ICAB and ICMAB are struggling to comply with IFAC's SMO 2, the IES for Professional Accountants and Other Pronouncements Issued by the IAESB, including IES 7, Continuing Professional Development.** As per the existing policy of both the institutes, members are required to comply with a certain minimum CPD threshold to upgrade their memberships from Associate to Fellow status. But, thereafter, members are not required to comply with the CPD requirement to continue membership. ICAB practicing members require certain CPD points to obtain or renew a practicing license but that is insufficient to meet the IES 7 requirements. ICMAB members do not have any CPD requirements to secure or renew a practicing license for cost audits. Both of the institutes must ensure that IES 7 requirements are met for IFAC membership maintenance and upgrade; and practitioners must comply with the requirements while applying for a new practicing license or its renewal and for upgrading their membership from Associate to Fellow status.

79. **The teaching in accounting programs of universities and colleges has not been improved.** As such, the quality of the intake continues to remain a serious concern for the accounting profession. It became more crucial issue after ICAB adopted the UK's ICAEW syllabus and examination systems under

the twinning arrangements. Most students are struggling to cope with the chartered accountancy syllabus. There are 35 public and 77 private universities in Bangladesh, but most students entering into the accounting profession are commerce graduates produced by the National University, which caters for general education at graduate and post-graduate levels. More than a million students are studying in around 1,727 colleges/ institutions affiliated to this university.

- The profession remains dependent on entrants from the Department of Accounting and Information Systems, Faculty of Business Studies, University of Dhaka for increasing its members. The majority of students who recently passed in ICAB exams are business graduates from the University of Dhaka and the proportion is as high as 90%. This university, considered the best in general education provider in the country, does not however rank within the top 200 in Asia and 2,000 in the world. An inadequate number of good quality commerce graduates is a major bottleneck behind increasing the memberships.
- Most curricula of universities have been updated to include IAS/IFRS and ISA but teaching and examination quality remain significant challenges, especially for the educational institutes under the National University. Entrants from public universities (includes the National University) are weak in English as the medium of class lectures is Bengali and exams are mostly in Bengali. There is no effort to raise level of English communication skills. Overall the entrants fall short in the critical-thinking and analytical ability required for being a professional accountant.
- Collaboration by the profession with universities and other tertiary institutions needs to be improved. To secure high quality entrants to the profession, a large scale train-the-trainers program is required to enhance the capacity of higher educational institutions for improving English proficiency, teaching accounting and auditing courses and conducting examinations thereon. Improving the quality supply of input from backward linkage is essential for ensuring the sustainable capacity of accounting and auditing practices in Bangladesh.

D. Setting Accounting and Auditing Standards

Rigorous standards and codes in accounting and auditing (internationally accepted) underpin high-quality financial reporting practices.

80. **Some regulators (BSEC, Insurance regulator) require some or all of the international standards as adopted by ICAB to be used by entities that they regulate.** However, there are only 260 listed companies who are within the BSEC regulations and the standards are not required for companies outside such regulation.

81. **ICAB adopts international standards for use in Bangladesh as follows:**

- The Technical and Research Committee (TRC) of ICAB is responsible for conducting a technical review of international standards and pronouncements in accounting, auditing, and related matters for their adoptability and acceptability in the Bangladesh context and recommending them to the ICAB Council for adoption.

- As of June 2014, a version of all IFRSs and IASs issued by IASB was adopted as BFRSs and BASs respectively by ICAB. These are all currently effective with the following exceptions:

  - IAS 29-*Financial Reporting in Hyperinflationary Economies* (adopted but will be effective from 1st January 2015); and
  - IFRS 9-*Financial Instruments* which will replace IAS 39 - *Financial Instruments: Recognition and Measurement.* IFRS-9 has been made effective from 1st January 2018 by IASB and is currently in the process of adoption by ICAB. As such, IAS 39 is still in practise.

- Adopted BASs/BFRSs are legally enforceable for listed companies under the BSEC rules. However, they still need a legal mandate under ICAB bye-laws to give them legal effect and to make compliance binding upon its members.
- Some auditors' reports refer to financial statements as being "prepared in conformity with international accounting standards applicable in Bangladesh" for all sizes of enterprises. This is not very informative to users of the financial statements. Bangladesh Financial Reporting Standards for SMEs were adopted for application by ICAB for annual periods beginning on or after January 1, 2013. However, there is no statutory requirement for their use at present. Implementation guidelines are needed to assist the preparers.
- All ISAs and other IAASB Pronouncements of International Quality Control, Auditing, Review, Other Assurance, and Related Services have been adopted by ICAB; as ICAB is the licensing body for auditors, this means that they are in effect required for all audits. However, it would be preferable for the statutory framework to specify that audits should be performed in accordance with ISAs adopted as BSAs by ICAB.

E. Ensuring Compliance with Accounting and Auditing Standards

82. **All public and private companies are required by the Companies Act 1994 to file audited financial statements with the Registrar of Joint Stock Companies and Firms (RJSC).** The functions of the RJSC are many and include checking compliance with the requirement to maintain proper books of accounts and registers, collecting financial statements and inspecting them, and monitoring of auditors appointments/reappointments process. The RJSC office is under-staffed and struggles to perform its functions effectively. Currently only around 10% of companies submit financial statements regularly. There is a lack of clarity as to the proper formats and standards to be followed in preparing the financial statements, as detailed above. The Companies Act 1994 has

prescribed a form of financial statements that is not in line with IAS/IFRSs as adopted by ICAB (BAS/BFRSs). There is limited collaboration between ICAB as the standards-setter and regulator of the audit profession and the RJSC to ensure consistency in compliance requirements and its monitoring. RJSC would benefit from a project to review its practices to bring them up to international expectations and best practices; it could be usefully assisted in this by ICAB and in collaboration with other national company registries such as the UK Companies House.

83. **Compliance with standards by unlisted companies outside the regulated sectors varies due to a lack of effective regulation.** For these companies, the quality of financial reporting depends on such factors as audit firm culture, effectiveness of audit oversight, and the presence of adequate statutory and standards reporting requirements. Currently, there is no effective mechanism to ensure that large unlisted companies maintain proper books and prepare financial statements complying with any adopted standards. Financial reporting requirements for these companies require major improvement. The Companies Act needs to be changed to define their reporting requirements and RJSC has to be strengthened to effectively monitor their compliance.

84. **Private sector regulators place significant but varying reliance on the work of external auditors in ensuring that the audited financial statements of entities they regulate are prepared and audited in terms of applicable standards.** This places substantial public interest responsibility on ICAB to ensure that its members, who are auditors, maintain a high level technical competence and integrity, are adequately regulated and monitored, and where necessary, are appropriately sanctioned. To ensure that they meet specific sector user needs, BAS/BFRS compliance checks should be complemented by sector-specific regulatory requirements. These further checks are best done by the sector regulators, who should have adequate BAS/BFRS knowledge and training. This requires further technical capacity building of the regulators.

85. **The Bangladesh Securities and Exchange Commission has full authority to monitor and enforce financial reporting, auditing, and other requirements for general purpose financial statements of listed companies.**[15] BSEC can impose monetary penalties or suspend companies from trading as sanctions for non-compliance. However, it has to increase the technical capacity of some of its current staff in order to be more effective while checking financial statements for compliance with BFRS and ensuring they are audited in compliance with ISA. BSEC service rules have been passed with the objective of attracting and retaining competent staff. Currently, BSEC monitoring is limited to administrative compliance, ensuring that listed companies file within the prescribed time and that financial statements are complete. BSEC has recently initiated special audits on a sample basis using Chartered Accountancy firms checking items per prescribed terms of reference. These special audits need to be handled by professionally capable staff to make the effort effective.

[15] The BSEC has taken a number of measures and legislative amendments aimed at improving reporting by quoted companies. It has issued corporate governance guidelines that cover the number and qualifications of directors, audit committee requirements and its role, and areas where the statutory auditors may not provide services to audit clients.

86. **The Investigation Report on the Share Market Debacle of 2010 revealed corruption and major regulatory failure.** The catastrophic fall of the market index from 8,918 in December 2010 to 5,579 in February 2011 (average P/E Ratio fell down to 13.68 from 29.16) caused a gross loss of public confidence. The government formed a 4-member "Stock Market Investigation Committee 2011" with Mr. Ibrahim Khaled being the Chair. The team came up with good "health check" and "policy recommendations." The enquiry team found serious faults with regard to price discovery in the book building process, initial capital raising through private placement, valuation of stock, reduction of the face value, omnibus accounts, margin loans, extraordinary exposure of banks to the capital market, etc. The banks injected money into the security market by violating legal restrictions, which inflated the market suddenly. There were inconsistent activities, legalizing the illegal acts and neglecting surveillance responsibilities by BSEC which were described in 6th Chapter of the report. The Committee opined that, had the due diligence been applied, had the scrutiny been done professionally and had the instances of non-compliance not been legalized by BSEC there would not have been any crash in the capital market. The Committee mentioned that one BSEC member was in the centre of the process of legalizing the illegitimate activities with the support of the Chairman and two Executive Directors. The Committee recommended restructuring BSEC and taking disciplinary actions against its responsible officers.

87. **The Insurance Development and Regulatory Authority (IDRA) regulates 75 (30 life and 45 non-life) private sector and 2 public sector insurance companies in Bangladesh.** IDRA monitors compliance with financial reporting and auditing standards by insurance companies. However, this monitoring is of limited effectiveness due to capacity constraints. The regulator should ensure that its rules for financial reporting ensure that regulated companies use the latest financial reporting requirements. The authority needs to enhance its capacity to effectively monitor companies for compliance with financial reporting standards.

88. **A core part of Bangladesh's financial sector is its commercial banking sector comprising 4 state-owned, 28 domestic private banks, 8 Islamic Sharia-based banks, 3 NRB banks and 9 foreign private commercial banks. In addition to the commercial banks, there are 5 specialized development banks and 33 non-banking financial institutions.** The supervision and monitoring of Banks are divided between BB and the Banking and Financial Institutions Division of the MoF. The Central Bank of Bangladesh (BB), the banking regulator, is responsible for the monitoring of private banks and non-banking financial institution. There are 4 departments within Bangladesh Bank, collectively called The Department of Banking Inspection (DBI), for on-site inspection of banks and non-banking financial institutions. DBI-1 is responsible for inspecting the performance of domestic and foreign private commercial banks; DBI-2 is responsible for State-owned Commercial Banks and Non-Bank Financial Institutions (NBFIs); DBI-3 is responsible for specialized development banks and DBI-4 inspects the performance of Islamic Sharia-based banks, NRB banks

and foreign private commercial banks. These departments conduct regular comprehensive inspections on a quarterly basis and conduct risk-based special inspections. They emphasize examining asset classification & provisioning, capital adequacy, liquidity positions, project financing, frauds and compliance with various guidelines/instructions/circulars issued by Bangladesh Bank, National Board of Revenue, Registrar of Joint Stock Companies and Securities and Exchange Commission. In addition to the routine inspection, DBI-1 is also responsible for the selection and preparation of a panel of qualified Chartered Accountant firms for auditing financial statements of the commercial banks and financial institutions.

89. In the absence of a financial reporting framework and a lack of specificity of the Bank Companies Act in this regard, there are no regulatory requirements to comply with BAS or BFRS for these banks and financial institutions except for those which are listed in stock exchanges, where BSEC requires compliance with BAS or BFRS. The activities of inspection departments are limited to enlistment of auditors, receiving audit reports and reviewing auditors' reports. The inspection departments of Bangladesh Bank lack professional expertise to review the compliance with BAS or BFRS by banks and financial institutions.

90. **The effectiveness of external audits of banks remains a big challenge.** Widespread non-compliance has been observed from the review of 6 banks' financial statements (see Section IV below). BB has recently enlisted audit firms through applying point-based criteria; however the audit of bank branches remains an issue as the auditors are not appointed for branches or conduct a limited audit of a small number of branches based on portfolio risks. The reviews of branches' records with such limited scope do not suffice for forming a reliable audit opinion on the financial statements of the banks. Many branches remain unaudited by external auditors for a long time where the banks rely on internal audits. The bank's audit fees are very low as compared to the audit fees of similar entities of some other south Asian countries. The low fee is viewed as major contributing factor for poor quality audit in banks.

91. **NBR-sponsored trainings on tax audit conducted by ICAB for NBR officials is a welcome step.** Stakeholders often face difficulties in working with some tax officials without accounting knowledge where complex accounting issues arise and perceive that the compliance with accounting standards could have improved and revenue collection could have been maximised had the tax officials been skilled in accounting. NBR should continue to sponsor such training programs and may make such training compulsory for incumbent staff.

Stakeholders perceive that there are three different versions of financial statements for a single entity for the same year; one for the bank, another one for the tax department, and a further version for the shareholders/owners, some of which are perceived not being certified by any practising chartered accountant. NBR should collect the annual reports for listed companies, and review and reconcile these with the tax returns. In the case of non-listed companies, NBR should regularly refer any suspicious and non-compliant reports to ICAB to check the authenticity of the report.

92. **Financial statements of SOEs are monitored by the SOE Wing, Monitoring Cell, Finance Division of the Ministry of Finance.** This unit monitors functions of 45 non-financial state owned entities. Currently the Wing is mainly involved in budgetary controls and quarterly reporting thereon, the collection of audit reports and holding discussion meetings with management. However, effective scrutiny and follow-up processes are not in place. In addition to these 45 non-financial state owned entities, there are around 35 Corporations, 112 Autonomous bodies and 66 Institutions, Academy or Subordinate offices. These organizations are very important for the socio-economic development of Bangladesh. They represent a large investment of public money. There is no structured financial reporting framework for such companies to follow; there are no requirements for IFRS or IPSAS compliance through any statute. Most of the above-mentioned entities are audited by firms of Chartered Accountants but the audit reports are not used for monitoring purposes. The authorities are only concerned regarding budgetary review. There is only a minimal level of monitoring of internal controls, fairness of financial reporting, audit quality and governance matters. The Wing requires strengthening to enable it to effectively perform its functions. Currently there is a wide variation in practice of financial reporting among SOEs, as highlighted in the World Bank's recent Policy Note "Promoting Public-Private Partnership for Improved Public Sector Auditing in Bangladesh". ICAB is currently undertaking a project in conjunction with the MoF to establish a reporting framework for SOEs, funded by the World Bank. Detail of the project is given in Appendix 4 to this report.

93. **In 2004, ICAB established the Quality Assurance Board** to ensure adherence to the requirements of IFAC SMO-1: Quality Assurance. A quality assurance review system was established to monitor auditors and their firms with capacity-building support under a twinning arrangement with the ICAEW. In April 2010, the ICAB Audit Visit Manual was prepared by the QAB, which guides the Quality Assurance Department (QAD) in its quality-assurance activities. Since then, the QAD has been visiting firms and reviewing the quality of audit work in the light of the standards set in the Bangladesh Standard on Quality Control 1 (BSQC-1) and the Audit Practice Manual (APM). Return visits are conducted after 6 months where the results of the first visit are not found to be satisfactory. The observations are notified to respective practitioners in writing. Repeated unsatisfactory observations and material non-compliances are forwarded to the Investigation & Disciplinary Committee (IDC) for actions. On 17th June 2009, ICAB made BSQC-1 mandatory for practising members and compliance was set as a precondition for renewal of practising license. As per the Audit Visit Manual, each firm has to be visited once in every 3 years, which requires visits to 120 firms each year. It has been observed that only 67 and 51 firms were visited in 2012 and 2013 respectively; in addition, follow-up visits are not performed regularly and the Investigation & Disciplinary Committee (IDC) is not addressing referrals in timely manner. Practising licenses are renewed in spite of non-compliance and even in cases of non-response to letters from ICAB asking for clarifications behind non-compliance. The QAD department needs to be strengthened in terms of manpower, process and skills.

94. **ICAB has an Investigation & Disciplinary Committee (IDC)** comprising a Chairman, currently a retired practitioner of a Big-4 firm, and 32 other members, out of whom 6 are members of the ICAB Council. IDC reports to the ICAB Council. The Council has the power to review any IDC decisions/ recommendations arising from the performance of its function and therefore IDC is not independent of the accountancy profession. Its activities cannot be viewed as fully protecting the public interest, which is one of the main objectives of regulating the accountancy profession. A number of complaints made in the past to IDC have not been addressed at all, or not addressed in timely manner. The Institute needs to make significant improvements in this area to prove that it can effectively monitor and regulate its members' practices.

95. **Executives representing large entities perceive the current regulation of the accountancy profession as self-regulation and therefore not protecting the public interest.** They are worried that the ICAB Council may not take action in relation to its members that may otherwise face disciplinary action. They prefer an independent body to oversee the regulatory activities of the profession and to have ICAB concentrate more on students, education, members, and CPD matters. ICAB needs to act to build the confidence of such stakeholders.

F. Sustainability Reporting and Integrated Reporting

Bangladesh has made progresses in both Sustainability Reporting[16] and Integrated Reporting[17]in line with global developments although it is not mandated in Bangladesh. These initiatives were undertaken purely on voluntary basis.

96 . **Self driven initiatives of Sustainability Reporting and Integrated Reporting got extra pace since the introduction of awards for "Best Presented Annual Reports" in 2000 by ICAB.** Much of these reports are of high quality and routinely wins awards at the South Asia Federation of Accountants (SAFA) Annual Report Awards competition. The criteria applied to evaluate the annual reports covers some aspects of Sustainability Reporting and Integrated Reporting. Since 2000, Bangladesh has continuously shown visible improvements and had won highest number of SAFA awards in recent years. ICAB took initiatives to build awareness, provided guidelines and organized workshops on benchmark presentations for the preparers which, together with ICAB's evaluators, have created a pool of significant resources available to support high standards of financial reporting.

97. **The Central Bank of Bangladesh took a proactive step in 2011 promoting the management of environmental and social issues by the country's financial sector,** by issuing a set of Environmental Risk Management Guidelines for Banks and Financial Institutions and a further set of policy guidelines for Green Banking in Bangladesh. These made it obligatory for banks to address

[16] Sustainability reporting is disclosure of governance approach and of the environmental, social and economic performance and impacts of organizations.

[17] An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

environmental and social issues in their lending processes, develop internal frameworks, and introduce sector-specific policies, train staff and start reporting on environmental and social issues. This has made a significant impact in the financial sectors' reporting results of which are expected to be realized soon, provided effective monitoring is put in place.

98. **Number of entities doing Sustainability Reporting and Integrated Reporting in compliance with internationally referred guidelines are still very few as compared to population.** There is no inclusive data as to how many entities of Bangladesh started reporting following Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI)[18]. Viyellatex Group started reporting in 2011, Bank Asia in 2012 and Prime Bank in 2013 with differing qualities. Same is the case for Integrated Reporting where Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)[19] is not followed.

99. **Global Reporting Initiative (GRI) and South Asia Federation of Accountants (SAFA) signed the MoU outlining their future cooperation, which is to include a series of workshops,** at the international conference 'Best Practices and Reporting for Sustainable Development', held in Dhaka in November 2011 which was organized by the Institute of Chartered Accountants of Bangladesh (ICAB). ICAB can best use of the MoU and it can play an important role in promoting Sustainability Reporting and Integrated Reporting in Bangladesh by undertaking awareness program and building pool of resources by holding workshops under SAFA or through signing separate MoU with GRI and IIRC.

[18] The Global Reporting Initiative (GRI) is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

[19] The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

IV ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

100. **The observed design of accounting standards in Bangladesh is inconsistent because, as noted previously, no one set of standards are applicable for financial reporting by companies**. This leads to references to "standards applicable to Bangladesh" in financial statements and audit reports. This can be confusing to users, reducing the usefulness of financial statements in the absence of more and specific information.

101. **To assess the practice of accounting standards, 32 sets of audited financial statements were reviewed to test compliance with applicable accounting standards.** The breakdown of the reviewed financial statements is as follows: banks (six), NGOs (three), insurance companies (three), SOEs (five), manufacturing (eight) including 2 small industries, agriculture (two) and others (five). Presentation and disclosures were reviewed using a standard checklist/template to assess the level of compliance with IAS/IFRS. Assessment of *substance* issues (i.e., recognition and measurement) would require access to the auditor's working papers and the records of the audited company, which was not done. The non-compliance is common across each category of financial statements mentioned above. The most common findings of the reviews included:

- Explicit and unreserved disclosures of IFRS conformity were made without compliance and without clarifying the reasons of such non-compliance; however, auditors had certified/reported compliance without qualification;
- current – non-current distinction of assets and liabilities was not properly made (Re BAS 1);
- previous year's figures had been corrected without disclosure as per IAS-8;
- Post balance sheet events are not adequately disclosed and where, applicable, effects not provided in the financial statements (Re IAS 10);
- classifications of items among operating, financing and investing activities were not done properly while preparing the statement of cash flows (Re BAS 7);
- inventories were mostly disclosed at cost without testing the lower of NRV or cost rule (Re BAS 2);
- transactions with related parties were not disclosed adequately (Re BAS 24);
- grants related to fixed assets were not accounted for properly (Re BAS 16);
- failure to disclose the levels of fair value measurement for asset revaluation (Re BAS 16);
- provisions not made for losses in financial instruments portfolios and inadequate disclosure thereon (Re BAS 39);
- lack of disclosures relating to impairment of assets (Re BAS 36);
- expenses were reported as deferred revenue expenditure in assets, contravening BAS 38;

- depreciation was not charged on revaluation part and overstated profit; inadequate disclosure was made relating to revaluation (Re BAS 16);
- EPS related disclosures were not made adequately and properly; restatement was not made for a bonus issue (Re BAS 33);
- inadequate disclosure of credit risk, liquidity risk, and market risk information in the notes for financial instruments (Re BAS 39);
- non-disclosure of the basis of revenue recognition in the accounting policies (Re BAS 18);
- inadequate accounting policy notes to support a material deferred tax liability figure; non-recognition of deferred taxes; improper accounting for deferred taxes (Re BAS 12);
- provisions relating to the revaluations and gratuity funds were not accounted for and disclosed adequately (Re BAS 12);
- adjustments were made improperly in the statement of changes in equities without any disclosure (Re BAS 1); and
- inappropriate accounting (no actuarial valuation) and inadequate disclosure of information relating to employee benefits (defined benefit plan) in the notes to the financial statements; sometimes accounted for as on a cash basis (Re BAS 19).

In some financial statements, explicit disclosure of IFRS/BAS compliance had been made without actual compliance being evident. The reviews also noted a number of good financial statements based on presentation and disclosure, while not being able to comment on recognition and measurement.

102. Research by the World Bank and the University Grants Commission of Bangladesh revealed inappropriate disclosures by some listed companies. The research was conducted on 94 listed companies by taking 190 disclosable items in accordance with the Companies Act, the BSEC regulations, and International Financial Reporting Standards. Hidden disclosable information included unsecured short term borrowings, deferred tax policy, deferred tax liabilities, break-down of intangible assets, value of land and buildings, opening and closing accumulated impairment losses, doubtful debts, capital commitments, and the nature and purpose of reserves.

103. There is currently a wide variation in practice of financial reporting among SOEs, as highlighted in the World Bank's recent Policy Note "Promoting Public-Private Partnership for Improved Public Sector Auditing in Bangladesh". The Note states that "The degree of variability in accounting and reporting in the public sector that still remains and the legacy of many irrational accounting and administrative practices underlines the need for actualizing standard-based financial reporting that is less complex and more uniform across domains and entities. Complete, comprehensive and reliable accounts are the bedrock of that position". ICAB is currently undertaking a project in conjunction with the MoF to establish a reporting framework for SOEs, funded by the World Bank. Detail of the project is given in Appendix 4 to this report.

V AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

104. **There is no standards gap in auditing.** All audits are required to be carried out in accordance with International Standards on Auditing. ICAB has adopted all the IAASB pronouncements into Bangladesh pronouncements and requires their use by ICAB members; all auditors must be ICAB members.

105. **Auditors are failing in some cases to detect failures in basic disclosure requirements.** This was the finding from the review of accounting and auditing standards as practiced described above and from the research done by the World Bank in conjunction with the University Grants Commission of Bangladesh.

106. **Quality in conducting audit services by audit practitioners remains a challenge for the profession.** In spite of the introduction of Audit Practice Manual (APM) and training thereon by ICAB, the results of reviews conducted by the QAD of ICAB using a Bangladesh Standard on Quality Control (BSQC) checklist revealed that a good number of medium and small audit firms are not following proper audit methodologies and documentation standards. In addition there is a concern that some auditors are charging fees for audits that are too low to allow for effective audits to be performed in compliance with applicable standards. The ICAB issues guidelines on the appropriate scale of audit fees. This should be a particular area of focus for the ICAB's QAD when inspecting particularly smaller audit firms.

107. **Auditors are certifying the financial statements as being compliant with BFRS in spite of the fact that the financial statements did not comply in material cases.** In some cases even the audit report formats and language revealed that either the concerned auditors do not have sufficient competency to do the audit or that they grossly neglect their duty to the public interest.

108. **Concern was raised that one entity may produce three different versions of financial statements for the same year;** one for the bank, another one for the tax department, and a further version for the shareholders/owners, some of which are perceived not being issued by any practising chartered accountant. Strong coordinated efforts needs to be undertaken by BSEC, ICAB, Bangladesh Bank and NBR to share their information and expertise and to perform reconciliation of the available information.

VI STAKEHOLDER PERCEPTIONS ON THE QUALITY OF FINANCIAL REPORTING AND THE PROFESSION

109. **There is a perception that financial reporting by unlisted large companies needs to be better regulated and monitored.** These entities' financial reporting requirements are determined by the Companies Act 1994 and there is no assurance that they comply with the latest standards adopted by ICAB. The same perception holds for the financial reporting by state-owned enterprises.

110. **Wider stakeholders view the quality of financial reporting in the unregulated large companies sector, and the SME and micro-entities sectors, as requiring significant improvement.** There is a perception that the Quality Assurance Department of ICAB is concentrating its activities on the audits of public limited companies. ICAB has no explicit authority to call for the audit report issued by any members or from the audited entities for verification until or unless the regulatory authorities require the entity to submit.

111. **The quality of annual report presentations by listed companies has significantly improved over the last few years**. High-quality financial reporting is viewed as requiring significant commitment. All those in the financial statements supply chain, from preparers to users and including auditors and those in charge with government oversight should be committed to quality.

ICAB annually reviews the quality of annual reports each year and gives awards to the top 3 from each industry category. Those are subsequently referred for a SAARC-level competition. ICAB-nominated financial statements have been evaluated by SAARC as the overall best in the South Asian Federation of Accountants (SAFA) Best Published Annual Reports competition. There was good progress in this area for the last few years. However, this does not mean that the financial statements were prepared complying with all BFRS and the audit was conducted in conformity with BSA, as the criteria concentrate on the degree of comprehensive presentations and disclosures and the quality of report printing and binding.

VII POLICY RECOMMENDATIONS

112. This Chapter identifies policy recommendations that, if implemented, would contribute to further improvement of the financial reporting supply chain processes in accordance with international standards and good practice, taking into account local laws and circumstances for Bangladesh. This identification is only the first step; the major challenge will be to transform the recommendations into real and effective reforms that will help enhance the quality of corporate financial reporting in Bangladesh, and ensure transparency and accountability, leading to sustained economic growth for the benefit of its citizens. To assist in achieving this, a stakeholder-driven Country Action Plan that takes into account country priorities and resource availability is required.

113. Recommendations related to further improvements to the existing and successful regulatory initiatives undertaken largely by ICAB in recent years are included in Appendix 1.

Following are the key overarching recommendations which should be the primary focus of reform efforts by leading stakeholders.

A. Strengthen the Statutory Framework

1. **The Companies Act should be amended**

   (a) **Financial reporting requirements and applicable standards should be clearly defined in the Companies Act for all companies and the requirements should be differentiated for PIEs, SMEs, and micro-sized entities.** The amendment should clearly specify the financial reporting requirements and align them with the level of public interest responsibilities of the specific entities. All PIEs should comply with IFRS, while smaller entities apply IFRS for SMEs, and micro-sized entities apply the "Guide for Micro-sized Entities Applying IFRS for SMEs". The definition of a PIE should cover both qualitative and quantitative parameters,[20] and be broad enough to avoid frequent changes.

   (b) **The Companies Act should be amended to introduce the concept of audit exemption or need based audit requirements** so that small and micro companies with little or no public interest are not burdened with full audit requirements**.**

2. **Develop a comprehensive statutory financial reporting framework for PIEs, SMEs and micro-sized entities.** A statutorily-backed reporting framework and enforcement mechanism appropriate to Bangladesh's circumstances should be designed and implemented, including the proactive monitoring and review of the quality of financial statements of SOEs/PIEs. The statutory financial reporting framework should require adoption of the International

[20] Qualitative: Should include all entities regulated by other regulators and entities where the Government has control. Quantitative: These should be set after wide stakeholder (including Government) consultation and may include thresholds on turnover, assets, borrowings, and/or number of employees.

Standards without major amendment but tailored to Bangladesh's particular environment. The financial reporting framework required to be adopted by each SOE should be aligned to the nature of its operations e.g. government profit making entities would use IFRS, while regulators and non-profit making government entities would use IPSAS. A specimen framework is shown in the Appendix 2. If adopted, this would result in a differential financial reporting regime that requires entities to report according to a framework commensurate with the entity's size, public interest responsibilities, and other circumstances.

ICAB should use its influence to ensure that the necessary legal amendments are in place to achieve this outcome. In doing so it should collaborate with the Ministry of Commerce, Ministry of Finance and other relevant bodies. The Confederation of Asian Pacific Accountants (CAPA), a regional organization of accountancy bodies, has taken many initiatives to support adoption and implementation of IPSAS. GoB, particularly MoF, and ICAB may work closely with them for potential support.

3. **A well-defined strategy and regulatory framework is recommended for the Accountancy and Audit profession.** The GoB, in consultation with PAOs and other stakeholders should consider how the accountancy and audit profession should be regulated in Bangladesh considering the country perspective and the state of existing regulatory bodies. ICAB, which is also the government-sponsored autonomous regulatory body under the Ministry of Commerce, has improved significantly over the last few years in the areas of education & training, regulatory activities and organizational capacity building. There is anxiety that creating a government organization to oversee the regulation of the audit profession, which presently is being performed by ICAB, may create a bureaucratic environment where the pace of improvement, which is currently visible, may be jeopardised.

Two recommended options for strengthening the regulatory framework of accounting and audit profession are:

(a) **Establish an Oversight Body:** If GoB proceeds with the cabinet-approved Financial Reporting Act and establish a Financial Reporting Council, it is recommended that the body adopts the principles set by the International Forum of Independent Audit Regulators (IFIAR) and aims to be its member in order to benefit from international collaboration on issues regarding audit regulation. Other recommendations for an effective FRC are:

(i) Audit licences should be restricted to those with an appropriate audit qualification i.e. one in accordance with IES8: Competence Requirements for Audit Professionals issued by IAESB, which is currently satisfied by ICAB members only

(ii) The practic licensing might best be performed by ICAB, as ICAB controls the audit qualifications, quality assurance and CPD requirements. The FRC might have oversight authority over the licensing process.

(iii) The composition of the FRC should be carefully determined and independent competent professionals should be nominated to ensure proper judgment while dealing with complicated professional matters.

(iv) As ICAB already has the proven capacity to adopt IAS/IFRS and ISA and its program includes awareness building and implementation activities, it should continue to do so. FRC should consider the standards adopted by ICAB and preserve the approval authority for circulation.

(v) The proposed FRC should concentrate on its oversight function (overseeing inspection and enforcement) rather than taking over the professional regulatory activities which ICAB is currently performing.

(b) The governance structure of ICAB should be reframed if ICAB continues to be the sole regulator of the accountancy and audit profession without an independent oversight body. Several policy changes and legal amendments would be necessary to give ICAB an independent and corporate shape in performing its responsibilities to students, members and wider community in the country.

(i) The executive function needs to be separated from the governing body, which is the ICAB Council- the supreme governing authority of the institute. Governance policy set out in Bangladesh Chartered Accountants Order 1973 should be reviewed and amended and the organizational structure should be strategically aligned in such a way that the executives can run its activities independently and effectively.

(ii) The ICAB Council should include some (say 20%) ex-officio members from different stakeholders.

(iii) The QAB and the IDC should be restructured and made independent of the profession by inclusion of ex-officio members from outside and exclusion of practising members of ICAB from the Board/Committee. This will make the QAB and IDC not only truly independent but also be seen to be independent by various stakeholders.

(iv) Amendments should be made to related laws empowering ICAB to request collect audit reports and related financial statements for its quality inspections. ICAB has currently no explicit authority to call for the audit reports and audited financial statements (audited by its members) from the auditors or the audited entities for inspection.

If this option is adopted, the stakeholders should have a timeframe after which a review would be completed, benchmarking actual performance against pre-set objectives in terms of restructuring and protection of public interest activities.

B. Strengthen the Capacity of Regulatory Bodies: Monitoring, Supervision and Oversight for improved compliance with Financial Reporting Requirements

Once a clear financial reporting and auditing framework for all sizes of companies is established and the standards to be used are clearly defined, the immediate next action is the establishment of an effective monitoring and enforcement mechanism. All six key regulators **-** RJSC, BSEC, Central Bank, IDRA, ICAB and the Monitoring Cell of the Ministry of Finance - with a role in enforcing financial reporting requirements should be further strengthened to improve their capacity to identify and enforce corrective actions for non-compliance with financial reporting requirements. To address the common challenges facing the regulators in Bangladesh, they should strengthen internal capacity to check audited financial statements for compliance with applicable financial reporting standards and laws and regulations, in addition to their specific sector requirements, and engage professionals or people with skills in financial reporting and audit. Effective enforcement requires close cooperation and communication between the regulatory bodies which would include the RJSC, BSEC, Central Bank, IDRA, ICAB and the National Board of Revenue (NBR).

4. **All the prime regulators should enter into a Memorandum of Understanding to cooperate for effective monitoring and enforcement of financial reporting requirements.** Ministry of Finance (MoF) and Ministry of Commerce (MoC) may form a joint coordination committee to ensure coordinated efforts. Where appropriate, the regulators should consider undertaking a project to review their resources and practices to enhance their capability to serve their respective needs and to bring them up to international best practices.

   (a) **Bangladesh Bank (BB), the Central Bank of Bangladesh should be the sole regulator for financial institutions both in private and public sector and authorised to prescribe a reporting framework for banks and non-banking financial institutions and strengthen its capacity to monitor the compliance with BFRS and reporting under Bank Companies Act 1991.** Considering the widespread non-compliance of Banks's financial statement with BFRS and the weak monitoring capacity of the department of banking inspection of BB, it is recommended that BB and the Banking and Financial Institutions Division of MoF work together to bring a harmonized approach towards strengthening the monitoring of reporting of financial institutions in Bangladesh. To ensure effective enforcement, monitoring of the compliance with financial reporting and auditing standards, country specific statutory requirements and other international benchmarks (e.g. Basel) for financial institutions, it is recommended to formulate a cooperation and communication framework between ICAB, BB, and MoF and BSEC.

   (b) **The RJSC's capacity needs to be substantially enhanced if it is to perform its mandate and become an effective regulator for 128,263 companies and 53,379 other economic entities. MoC is recommended**

to undertake a project to review its practices and address the current weaknesses facing RJSC. It could be usefully assisted in this by the ICAB and in collaboration with other national company registries such as the UK Companies House. As a short term measure, MoC may also consider ICAB to assist RJSC in its technical review and enforcement of financial reporting requirements or outsource some of the functions by hiring professional firms.

(c) **The capacity of the BSEC should be further improved, in particular for the Supervision and Regulation of Markets and Issuer Companies (SRMIC) Department, the Supervision and Regulation of Intermediaries (SRI) Department and the Legal Department.** Capacity in monitoring of financial reporting by listed companies should be improved by hiring professional people with the necessary skills and experience in financial reporting and audit. BSEC and ICAB should work together and take necessary steps to ensure effective coordination and co-operation which is important to ensure quality financial reporting by listed companies.

(d) **To support the implementation of a strong statutory financial reporting framework as recommended above, ICAB should continue to lead the current initiatives aimed at improving awareness for new standards, disseminating changes to existing standards and promoting their implementation.** In addition, ICAB, as the regulator of the audit profession, is recommended to improve the capacity and structure of QAD and IDC activities to ensure independence and effectiveness. Details have been provided in Appendix 1.

(e) **The Monitoring Cell for SOEs in the MoF should be strengthened to enable it to effectively perform its functions.** People involved in the monitoring process should be trained in financial reporting and, if needed, the cell should hire professionals to enforce the implementation of IFRS/IPSAS and lead their compliance monitoring functions.

(f) **The Insurance Development and Regulatory Authority (IDRA) should effectively monitor insurance companies for compliance with financial reporting requirements.** It should prescribe rules for financial reporting on a timely basis to ensure that insurance companies comply with the latest financial reporting requirements.

(g) **NBR is recommended to collaborate with ICAB and BB through a memorandum of understanding (MoU)** for sharing expertise and information and to perform its monitoring functions effectively. This collaboration framework would support the standardization of informal practice requiring NBR to refer suspicious and non-compliant reports to ICAB and ask for an authenticity check. This would help ICAB in taking disciplinary actions against non-compliant auditors and to work together to train officials to improve their knowledge in basic accounting and BAS/ BFRS, enabling them to review the financial statements and detect non-compliances and to reconcile with the income tax returns.

MoF should consider recognizing the fact that the services in tax, customs and financial monitoring departments are specialised services, like medicine and engineering are specialized, and require commerce/accounting education as a prerequisite for entering into the services of those departments.

C. Strengthen the Profession, Education and Training

5. **ICAB should introduce a second tier qualification such as Certified Accounting Technicians (CAT) or a Diploma in Professional Accounting (DPA).** This could help increase the number of certified professional accountants in Bangladesh and meet the demand for qualified accountants below the Chartered level, which is expected to increase should the country proceed towards effective enforcement of the financial reporting regime. Such interim certification would be particularly relevant for many partly qualified accountants and trained students. Professionalizing non-chartered vocational accountants and preparers would also help addressing the challenges facing the profession i.e. attracting high quality graduates. It would attract younger graduates who view completing the chartered qualification as a daunting and unachievable prospect. It could also create additional revenue streams for the professional body and formally expose the accountants to training programs on IFRS, IPSAS, IT and corporate governance through continuing professional education programs.

6. **Introduce public sector subjects in the professional accountancy education and training curriculum. This is an aspect considered critical in order to develop the required skills to serve the public sector.** Public sector subjects should include IPSAS and public sector financial management topics. ICAB and ICMAB are recommended to include public sector subjects in its education curriculum.

7. **The profile and attractiveness of the profession needs to be broadened and improved to ensure greater numbers and better quality entrants in accounting education. The recommendations include:**

   (i) **ICAB and ICMAB should market the profession effectively by visiting universities and schools. These outreach campaigns should introduce to students the world of accountancy and the various options it offers.** This can be done jointly with practicing firms. The quality of supervision and of student's facilities provided by practising firms also should be improved.

   (ii) **Curriculum and teaching in accounting and auditing programs of universities and colleges should be improved.** Collaboration by the profession with universities and other tertiary institutions should be improved. To secure high quality entrants to the profession, a large scale train-the-trainers program is required to enhance the capacity of higher educational institutions for improving English proficiency, teaching accounting and auditing courses and conducting examinations thereon. The Ministry of Education (MoE), in consultation with UGC and ICAB, should undertake a project to conduct an assessment and implement an action plan to improve the quality of commerce and accounting education in universities and colleges.

D. Sustainability Reporting and Integrated Reporting:

8. ICAB should take inititiaves to hold training programs on Sustainability Reporting and Integrated Reportingfor its members and other preparers to promote and facilitate such reporting in the country. It may sign MoU with Global Reporting Initiative (GRI) and International Integrated Reporting Council (IIRC) and seek their help to achieve the objectives in better way. The criteria applied by ICAB to evaluate the Best Presented Annual Reports should incorporate enhanced disclosure requirements from those set in the guidelines issued by GRI and IRC.

E. Conclusion

A major challenge to be overcome is to transform these recommendations into real and effective reforms that will help to enhance the quality of financial reporting, and deliver a financial reporting framework conducive to underpinning sustainable economic growth, thus improving the quality of life for citizens of Bangladesh. This could be achieved through institutional initiatives and/or collaborative efforts which will lead to (a) the development of a country-owned Country Action Plan; (b) an ICAB-driven initiative with support from the regulators; (c) a Ministry of Finance and Ministry of Commerce-driven initiative; and (d) collaboration with development partners as part of a broader initiative for good corporate governance and reporting development in the private sector and/or public interest accountability reform for the public sector. To ensure success in implementing the recommendations, progress should be monitored on an ongoing basis and root causes of any failure to meet implementation targets should be identified on a timely basis and acted upon.

Appendix 1

RECOMMENDATIONS FOR FURTHER IMPROVEMENT OF ONGOING INITIATIVES: ICAB, ICMAB

The following recommendations relate to further improvements which can be made to the existing and generally successful regulatory initiatives undertaken largely by ICAB and ICMAB in recent years; significant and commendable progress has been made in each area, but further improvements can be sought to attain best international standards and practices.

1. **To support the implementation of a revised statutory financial reporting framework as recommended above, ICAB should continue to lead the current initiatives aimed at improving awareness of new standards and changes to existing standards and their implementation.** Workshops on compliance with IFRS of SMEs should be increased and outreach widened to cover the whole country, including remote areas with SME business activities. This will particularly assist standards compliance of SMPs, SMEs, micro-sized entities, and accountants in business, leading to improved financial reporting. ICAB and the SME Foundation should work together on initiatives aimed at improving the quality of financial reporting by SMEs. This could include introducing awards for good financial reporting in the sector.

2. **ICAB's Quality Assurance Department (QAD) should be further strengthened.** The QAD should ensure compliance with the Bangladesh Standard on Quality Control 1 (BSQC-1) in conformity with SMO 1: Quality Assurance; BSQC-1 is mandatory for practising members and was set as a precondition for the issuance and renewal of a practising license. ICAB should consider alternative offerings to facilitate small and medium-sized practitioners' compliance and growth, addressing the challenge facing them to comply with Bangladesh Standards on Quality Control (BSQC-1). The QAD should be sufficiently resourced and have a strategic plan to perform its responsibilities. ICAB should define a clear time-based business process defining targets and the roles and responsibilities of individuals to ensure that the activities of QAD are run effectively to fulfil the objectives. The QAD should consider, as part of their inspections, the level of audit fees charged and whether an effective audit in compliance with standards can be performed. It should take disciplinary actions where audit fees are unrealistically low, leading to poor quality audit work.

3. **ICAB's Investigation and Disciplinary Committee (IDC) is expected by stakeholders to be sufficiently independent of the accountancy profession.** The stakeholders perceive that making the IDC independent and avoiding conflicts of interest would serve the public interest better. IDC should not include any practicing auditors, and instead, should include ex-officio members from the GoB and renowned universities. There should be a formal complaint register to record the referred complaints and objectives set to ensure that each and every item is investigated and resolved in timely manner; both the Council and the IDC of ICAB should have a time limit within which the matters have to be resolved. The results and outcome of disciplinary proceedings should be disclosed on ICAB's website and widely circulated.

4. **There is no mechanism to track the companies who adopted the integrated reporting guidelines issued by the Global Reporting Initiative in Bangladesh except those who were recognized for high quality reporting at the South Asia Federation of Accountants Annual Report Awards competition and ICAB sponsored Annual Report Awards.** It is recommended that in addition to awards program, ICAB develop a strategy, promote awareness, create demand and develop business/ training opportunities including networking with global bodies for sustainable and integrated reporting in Bangladesh.

5. **The technical capacity of ICAB should be further strengthened to enable them to meet their responsibilities to students, members and the wider community in the country.** It should strengthen its organizational and professional capacity to effectively fulfil the IFAC's SMOs and to fulfil its responsibility to the wider community as a repository of resource and a reference point for technical advice. Also a periodic publication of practice notes on the interpretation and application of standards could serve as authoritative source of reference to practitioners, trainers and trainees.

6. **ICMAB should implement the actions planned in their collaboration with CIMA.** This is particularly needed in the area of further improving study materials, syllabus content, and the quality of tuition and tutors in order to improve the practical relevance of the qualification and the pass rate. ICMAB should include relevant aspects of IFRS in its syllabus and update study materials consistently; align its Code of Ethics with the latest IESBA Code of Ethics for Professional Accountants, and include ethics teaching in its curriculum. ICMAB should set up an ongoing process to monitor the IESBA work plan and revisions to the Code to make sure that any changes to the international standards are incorporated into curriculum on a timely basis.

7. **ICAB and ICMAB should endeavour to ensure their members maintain a high level of professional competence, integrity, ethical behaviour, and regard for quality in all they do.** In relation to audit, ICAB should ensure that its quality assurance reviews and CPD activities achieve the intended objectives of enhancing quality and the technical competence of its practising members, because of the level of reliance which the public and regulators place on the work of external auditors.

8. **Both ICAB and ICMAB should seek to continuously improve the quality and relevance of their CPD programs.** Sessions should be made more relevant to practitioners and accountants in business and should cover emerging issues. Complex topics such as ethics, corporate governance, risk management and information technology as relevant to the economy of Bangladesh should also be included in CPD seminars. Presenters should be drawn from sector specialists/experts with local country experience to minimize theoretical presentations. Given the rapidly changing accounting environment and the move to international standards, ICAB should assist its members who were trained before such changes to address the ongoing challenge of updating their knowledge base. ICAB and ICMAB should strictly comply with SMO 2, all IESs for Professional Accountants and other pronouncements issued by the IAESB, and in particular with IES 7, Continuing Professional Development. CPD guidelines should be developed to ensure that IES 7 requirements are complied with by the members as a precondition for continuation and any upgrade of membership, and for obtaining and renewal of practicing license.

Appendix 2

RECOMMENDED REPORTING FRAMEWORK FOR PRIVATE AND PUBLIC SECTORS ENTITIES DIFFERENTIATED BY SIZE AND PUBLIC INTEREST IMPACT

Private Sector		Public Sector	
Entity	**Accounting/ Auditing Framework**	**Entity**	**Accounting/ Auditing Framework**
PIEs, including large private companies that meet the definition of a PIE	Report in compliance with IFRS Mandatory audit in compliance with ISAs	(Government Business Entities, GBEs)*	Report in compliance with IFRS Mandatory audit in compliance with ISAs
		Regulators/non-profit making entities	Report in Compliance with IPSAS Mandatory audit in compliance with ISAs
Small and medium-sized entities	Report using IFRS for SMEs Mandatory audit in compliance with ISAs (use IFAC Guide to Use of ISA in the Audit of SMEs)	State-owned enterprises and Central and Local Government	Report in Compliance with IPSAS Mandatory audit in compliance with ISAs or Supreme Audit Institution (SAI) standards
Micro–entities	Report using "A Guide for Micro-sized Entities Applying IFRS for SMEs (2009)"		

* The following guidance is used to identify GBEs: an entity with the power to contract in its own name; that has been assigned the financial and operational authority to carry on a business; that sells goods and services in the normal course of its business to other entities at a profit or full cost recovery; that is not reliant on continuing government funding to be a going concern (other than purchase of outputs at arm's length); and that is controlled by a public sector entity. This guidance will be useful when classifying SOEs during IPSAS implementation.

Appendix 3

ASSESSMENT OF COMPLIANCE WITH IFAC STATEMENTS OF MEMBERSHIP OBLIGATIONS (SMO) FOR ICAB AND ICMAB

The degree of compliance with these obligations provides a snapshot of the bodies 'professional capacity to serve their members, stakeholders, and the wider community in Bangladesh on issues relating to high-quality financial reporting. In assessing compliance with SMOs, due consideration was given to the applicability[21] framework and the best endeavours concept,[22] as well as to relevant factors specific to Bangladesh (for example priorities, processes, and challenges).

A. ICAB

ICAB has two shared and five direct responsibilities for SMO areas. Significant financial resources are required to attract and retain staff in the quality audit and, technical and education departments of the Institute, and also in developing education material and administering examinations (including marketing and moderation).

ICAB updated its Action Plan[23] (a self-assessment document submitted to IFAC) in March 2014.

ICAB: Assessment of Current Status of Compliance with IFAC SMOs (Revised)

SMO	Degree of Responsibility	Current Status and Challenges
SMO 1 Quality Assurance	***Direct.*** Although the Institute collaborates with other sector regulators, it still has direct responsibility for audit quality.	Subsequent to the 2003 ROSC A&A, a QAB and a QAD was formed within ICAB. An audit practice manual has been developed with the technical assistance of ICAEW, and the manual has been disseminated. QAD has been active in visiting assurance firms for reviews and to train audit staff with a view to improve the quality of audit and assurance services.
SMO 2 International Education Standards for Professional Accountants and other IAESB Guidance	***Shared.*** This is shared with tertiary training institutions, including universities and training employers.	ICAB complies with the IESs except some of the CPD aspects, where it needs improvements. The curriculum of ICAB was revised in 2009 on the basis of the curriculum of ICAEW plus local law and taxation papers and an information technology module. ICAB needs to continue influencing curricula and syllabi at tertiary institutions to ensure they comply with IAESBIESs. Ethics have been included in the curricula.

[21] The "Applicability" hierarchy is "direct responsibility," "shared responsibility," and "no responsibility."

[22] The "best endeavours concept" applies to situations in which an IFAC member body has no responsibility over an SMO. The member body should use its best endeavours to encourage those with the responsibility for the requirement to follow the SMO or assist in the implementation where appropriate.

[23] This is a strategic document illustrating ICAB's continued compliance with SMO requirements.

SMO 3 International Standards, Related Practice Statements, and Other Pronouncements Issued by IAASB	***Direct.***	ISA and other IAASB Pronouncements have been adopted by ICAB on recommendation of its Technical and Research Committee. However, the adopted standards still need to be given legal backing in all relevant legislation.
SMO 4 IESBA Code of Ethics for Professional Accountants	***Direct.***	The IESBA Code of Ethics for Professional Accountants has been adopted by ICAB without modification. However, the adoption still needs to be given legal backing by an Act or regulations. Ethics are now covered in the new curriculum of the Institute. ICAB is undertaking implementation activities—reaching out to all stakeholders, including trainers/academics, professional accountants in business, auditors, and regulators.
SMO 5 International Public Sector Accounting Standards and Other IPSASB Guidance	***Shared.*** To the extent that ICAB is the standards-setter and an IFAC member, it has a shared responsibility with the Government to adopt and support successful implementation of IPSAS.	The Institute has already formed a separate committee to take charge of IPSAS initiatives. Collaboration with Government on adoption and implementation of IPSAS needs to be enhanced. In addition to playing a major role in advising the Ministry of Finance in adopting and implementing IPSAS in Government ministries and departments, ICAB will also have to give appropriate advice as to which SOEs are Business Entities and therefore qualify to use IFRS and which are not and have to use IPSAS.
SMO 6 Investigation and Discipline	***Direct.***	ICAB has an Investigation & Disciplinary Committee headed by a retired partner of a Big-4 audit firm. Any non-compliance with standards is treated as misconduct and attracts penalties. In addition to activities being undertaken to enhance investigation and discipline, ICAB should increase public awareness of the investigation and disciplinary processes that can be brought upon its members.
SMO 7 International Financial Reporting Standards	***Direct.***	IFRS and IFRS for SMEs are being adopted by ICAB as BFRSs and BFRSs for SMEs. However, the standards still need to be given legal backing in most legislation prescribing financial reporting requirements.

Implementation of the following policy recommendations will assist ICAB in meeting fully all the SMOs:

Policy Recommendations for ICAB on IFAC SMOs (Revised)

SMO	Degree of Responsibility	Policy Recommendation
SMO 1 Quality Assurance	***Direct.***	ICAB should: ➢ Through the activities of QAD supported by QAB, continue supporting its members in public practice to comply with ISQC 1 and assurance engagements standards. ➢ Ensure QAB and IDC meets the independence criteria for independent accountancy profession oversight. ➢ Continue facilitating workshops for all its practicing members to enlighten them with respect to quality assurance and SMO 1 requirements and also discuss common findings from past reviews. ➢ Disseminate the *"Guide to Quality Control for Small and Medium – Sized Practices"** to benefit SMPs that have no global networks.
SMO 2 International Education Standards for Professional Accountants and other IAESB Guidance	***Shared*** with various education and practical training providers. ICAB retains overall responsibility for ensuring that the quality of education at all levels is in line with IAESB International Accountancy Education Standards. As standards setter, ICAB has direct responsibility for adoption of the standards and supporting their successful implementation.	ICAB should: ➢ Continue using best endeavours to further improve the quality of education through continued influence on syllabi, curricula, and quality of accountancy education at universities and its own education andtraining, including CPD. ➢ Ensure that the articled students are properly trained hands-on to achieve adequate and diverse competencies.

SMO	Degree of Responsibility	Policy Recommendation
SMO 3 International Standards, Related Practice Statements, and Other Pronouncements issued by IAASB	***Direct.***	ICAB should: ➢ Continue supporting, and monitoring successful implementation of Clarified ISA and other IAASB Pronouncements on an ongoing basis, particularly for SMPs. Members in practise should be assisted in accessing IAASB publications. ➢ Continue holding workshops to assist members to correctly interpret and implement IAASB Pronouncements. ➢ Disseminate the *"Guide to Using International Standards on Auditing in the Audit of Small and Medium-Sized Entities"*** and other IFAC publications, such as the *"Companion Guide"* and *"Tips for Cost- Effective ISA Application"* and other publications of the IFAC SMPs Committee.
SMO 4 IESBA Code of Ethics for Professional Accountants	***Direct.***	ICAB should enforce implementation of this Code through the activities of QAD supported by QAB. The adoption should have legal backing, perhaps through ICAB Bye-laws.
SMO 5 International Public Sector Accounting Standards and Other IPSASB Guidance	***Shared*** with the Ministry of Finance for implementation activities.	ICAB should: ➢ Use its best endeavours to support the adoption and successful implementation of IPSAS. The implementation activities should include all stakeholders. ➢ Ensure that the recently formed Committee on Public Finance and Public Sector Accounting supports IPSAS adoption and implementation initiatives in collaboration with the Ministry of Finance and other relevant government departments. ➢ Inclusion of public sector subjects as options in its professional qualification curriculum would be a major positive step in that direction and would assist in increasing compliance with the standards by strengthening capacity.

SMO	Degree of Responsibility	Policy Recommendation
SMO 6 Investigation and Discipline	***Direct.***	ICAB should raise public awareness of its disciplinary powers and mechanisms, and encourage cases requiring disciplinary action to be raised with the Institute. IDC should deliver the conclusions on disciplinary matters on a timely basis and should build the required capacity to ensure this.
SMO 7 International Financial Reporting Standards	***Direct.***	ICAB should further increase its initiatives to effectively support successful implementation of the three levels of financial reporting standards frameworks. ➢ Particular emphasis should be given to building awareness of IFRS for SMEs and the Guide to Micro-size Enterprises Applying IFRS for SMEs.

* Prepared by the Small and Medium Practices Committee of IFAC. Although it is non- authoritative guidance on ISQC1, it supports implementation of the standard by explaining and illustrating the stepsand procedures necessary to comply with ISQC 1.

** Prepared by the Small and Medium Practices Committee of IFAC.

B. ICMAB

ICMAB is also a full IFAC member; however, it has no direct responsibility over a number of membership obligations. It therefore uses its best endeavours to support implementation by those responsible.

ICMAB: Assessment of Current Status of Compliance with IFAC SMOs (Revised)

SMO	Degree of Responsibility	Current Status and Challenges
SMO 1 Quality Assurance	***None.***	Members are not eligible to perform statutory audits in terms of ISA. They are authorised to perform cost audits, for which they must be certified. The cost audits are monitored by a Cost Audit Committee of the Institute.
SMO 2 International Education Standards for Professional Accountants and other IAESB Guidance	***Direct.***	Curriculum is revised every six years to align it with IESs. The last revision was in 2007. Some aspects of the qualification requirements are not yet aligned to IESs (e.g., making practical experience part of the mandatory qualification process).
SMO 3 International Standards, Related Practice Statements, and Other Pronouncements Issued by IAASB	***No responsibility.***	ICAB adopts standards for its members and as required by some regulators. ICMAB is in the process of developing cost audit standards. The Institute has organized cost audit workshops in some sectors, including pharmaceutical, textiles, and fertilizer.
SMO 4 IESBA Code of Ethics for Professional Accountants	***Direct.***	The Institute has its own code of Ethics which is aligned to the 2008 IESBA Code of Ethics.
SMO 5 International Public Sector Accounting Standards and Other IPSASB Guidance	***None.***	ICAB is the standards-setter for these. The Institute uses its best endeavours to update its members on IPSAS and promote the standards to the Government.
SMO 6 Investigation and Discipline	***Direct.***	The Institute has an Investigation and Disciplinary Committee but have no activities so far as there is limited number of practitoners with very small scale services.
SMO 7 International Financial Reporting Standards	***None.***	ICAB adopts standards for its members and as required by some regulators. ICMAB uses its best endeavours to support implementation of the standards through CPD sessions.

Implementation of the following policy recommendations will assist ICMAB in meeting fully all the SMOs:

ICMAB: Policy Recommendations for ICMAB on IFAC SMOs (Revised)

SMO	Degree of Responsibility	Current Status and Challenges
SMO 1 Quality Assurance	***Direct.***	ICMAB should establish a mechanism to ensure the quality cost audit services by its members in terms of licensing and cost audit.
SMO 2 International Education Standards for Professional Accountants and other IAESB Guidance	***Direct.***	An action plan has been developed by ICMAB with technical assistance of CIMA to conform with the IES requirements. This should be implemented. Make mentored practical experience mandatory for qualification.
SMO 3 International Standards, Related Practice Statements, and Other Pronouncements Issued by IAASB	***No responsibility.***	Syllabus and study materials need to be updated to include latest professional issues and relevant IFRS. ICMAB is in the process of developing cost audit standards which should be finalised at the earliest opportunity and published. The Institute should organize more cost audit workshops targeting some specialised sectors ,like pharmaceutical, textiles, and agriculture.
SMO 4 IESBA Code of Ethics for Professional Accountants	***Direct.***	The Institute should adopt the latest IESBA Code of Ethics and include it in its curricula. Efforts should be taken to disseminate it and to build awareness.
SMO 5 International Public Sector Accounting Standards and Other IPSASB Guidance	***None.***	A high number of members are doing consulting and permanent jobs in public sector agencies. The Institute should conduct training and workshops as part of CPD to update its members on IPSAS and if possible, include them in its syllabus.
SMO 6 Investigation and Discipline	***Direct.***	Build awareness of the IDC and its processes.
SMO 7 International Financial Reporting Standards	***None.***	The Institute should organize more and regular training and workshops on IFRS as part of CPD. The study materials should be updated to ensure that the students are being qualified after acquiring a good knowledge of relevant IFRS.

Appendix 4

WORLD BANK TECHNICAL ASSISTANCE PROJECTS

ICAB implemented a number of Technical Assistance Projects with the financial assistance of the World Bank to improve its institutional capacity, academic curricula, study materials, training quality, audit quality assurance activities, etc. ICMAB also implemented a similar project with the financial assistance of the World Bank and in conjunction with CIMA. The following Tables give detail of the projects.

A. **ICAB implemented project titled "Development of Accounting and Auditing Standards in Bangladesh" during 2000-02.** It was a Technical Assistance Project of USD 220,000 implemented with the financial assistance of the World Bank (IDF Grant # 27304.

Project Component & Objectives	Outcome of the Project
Development of Disclosure Requirements, Accounting and Auditing Standards: a. Review and development of disclosure standards under various laws, rules, regulations in the light of IAS as adopted in Bangladesh; b. To ascertain the development needs, review policies, laws, rules, regulations and resource requirements for the development of accounting and auditing standards in Bangladesh and of the accountancy profession as a whole, and c. To identify the weaknesses in the available published Annual Accountants including those of Public Sector Corporation in Bangladesh.	• Standard disclosures checklist on Companies Act 1994, Securities Exchange Commission Rules 1987, Securities and Exchange Ordinance 1987, Dhaka Stock Exchange & Chittagong Stock Exchange Regulations finalized and published; • Strategic plan published for the development and implementation of Bangladesh Accounting Standards and Bangladesh Standards on Auditing and of the Accountancy Profession as a whole, and • Published reports on Corporate Governance, Education and Training; and Survey Report on non-financial and financial companies for 1999.
Institutional Capacity Development and Training: a. Dissemination of international accounting standards and international standards on auditing through workshops, training courses, seminars, etc.; b. Impart training in computerized accounting and auditing systems to students pursuing Chartered Accountancy as their career; c. Develop awareness program for the Members of ICAB, and d. Improve English learning facility of the students pursuing Chartered Accountancy.	• Developed study materials on 22 IASs out of total 34 and 27 ISA out of total 45; • Trained 650 participants through workshops and Seminars; • Standard disclosures and compliance checklist for publicly listed companies were disseminated to all Members through 66 workshops; • Computer Centre modernized. Computer training offered to 12 batches of 30 students each batch, and • Training on Business English Courses offered to 07 batches of 30 students per batch.

B. **ICAB implemented project titled "*Strengthening Accounting and Auditing Standards and Practices in the Corporate Sectors*"** during 2007-09. It was a Technical Assistance Project of USD 2,470,000 implemented with the financial assistance of the World Bank.

Project Component & Objectives	Outcome of the Project
Preparation of a strategic plan for development of ICAB and provide guidance on its implementation: a. Design & implement improved governance and functional arrangements; b. Reform ICAB's professional education, training and examination systems; c. Development & delivery of continuing professional development program; d. Audit firm capacity building for improving the quality of audit, and e. Compliance with the IFAC's Statement of Membership Obligations (SMOs).	• Strategic plan for 2008-17 has been developed and approved by the Council-ICAB; • Revised governance structure has been included in the strategic plan for the ICAB; • A new tailored curriculum based on ICAEW ACA 2007 qualification has been developed, and implemented by ICAB, and • ICAB submitted its return to IFAC in December 2008. The return included an action plan and timeline for ongoing SMO compliance. The action plan is available in IFAC website.
ICAEW to carry out a gap analysis of the Technical Directorate and advise on building a Technical Directorate commensurate with the size and resources of ICAB: a. ICAEW to provide advice on procurement of books, periodicals, computers and software for developing a modern library; b. ICAEW to develop study manuals for the candidates of ICAB's professional examinations and advise on an arrangement for publication and regular updating of these study manuals; c. ICAEW to develop an Audit Practice Manual, based on ISA, for the practicing auditors, and advising on its updating from time to time; d. Review the arrangements for improving the quality of in-house training program offered for the candidates of ICAB's professional examinations, and e. Arrangement for the delivery of adequate number of training programs for ICAB's trainers and students.	• Audit Practice Manual (APM) Developed and disseminated among the Practicing Members. 07 Workshops were conducted on APM to introduce it the Practicing members. The APM implemented in 6 pilots CA firms; • Prepared Bangladesh Standard on Quality Control 1 (BSQC-1) and made mandatory observance by the practitioners. ICAB technical staff was trained on quality assurance activities; • Quality Assurance Visits started to ensure observance of BSQC-1. CA Firms are now more conversant about the quality issues; • Tailoring study manuals and question banks for different levels were completed except Tax and Law, and • Some CAs attended training on IFRS in London and thereafter disseminated to other members of ICAB.

C. **ICAB has implemented a Technical Assistance Project titled "Promoting Public Private Partnership (PPP) for Improved Audit Quality Assurance** (Contract No.7163617)" at a cost of USD 165,000 funded by the World Bank. The Project duration was up to 30 June 2013 and accordingly was extended by six months to 31 December 2013. Subsequently, the Project was extended up to 30 June 2014.

Project Component & Objectives	Outcome of the Project
Arrangement of Training on Public Sector Regulations (Treasury Rules, Internal Controls, GFRs, ISSAI and Procurement Rules for 200 ICAB Members	• A Training Program on Public Sector Finance for 41 honorable members and 41 tomorrow's Chartered Accountants was arranged by ICAB under this Project. • Total 82 ICAB Professionals have been trained on Public Financial Management at advanced level. • 80 Participants comprising ICAB Members and tomorrow's CAs completed this training on Public Procurement Rules (PPR) with special emphasis on public procurement auditing. • A day long course on International Standards on Supreme Audit Institutions (ISSAIs) was organized for 84ICAB members. • 174 members of ICAB were trained on Public Procurement Rules (PPR) and Public Financial Management.
Arrange knowledge sharing Forum on Public Private Partnership Arrangement with ICAB, OCAG, CA Sri Lanka	• ICAB held communications with OCAG and CA Sri Lanka on the latter's collaboration with Auditor General, Sri Lanka • Held a knowledge sharing session with the participation of CAG Bangladesh and senior officials of OCAG, two senior members of Public Sector Wing of CA Sri Lanka and President and members of ICAB. • A paper has been developed on the Framework of PPP of Sri Lanka. While the Way Forward for ICAB and OCAG was suggested, the different enabling environment prevailing in the two countries were also identified.

Orientation Program on ISAs, IFRSs and IPSAS for the Officials of OCAG and Public Sector Auditors	• ICAB had held a number of meetings with the senior officials of OCAG and agreement was reached on the topics for a two days Knowledge Sharing Session. • ICAB developed the course material and selected the Resource Persons, and finalized the Training Schedule in consultation with OCAG. List of participants selected by OCAG was also sent to ICAB. • However, the training could not be delivered as per agreed schedule, due to other work priorities of OCAG, the selected officials were not available for training.ICAB has been in touch with OCAG on this.
Dissemination of the Policy Note to OCAG, ICAB, Government Officials, Donors, corporate sectors etc.	• The policy note dissemination program was arranged on 29 April, 2014 at Bangabandhu International Conference Center, Agargoan, Sher- e-Bangla Nagar, Dhaka. Mr. Masud Ahmed, Comptroller and Auditor General of Bangladesh was the chief guest and Mr. Showkat Hossain, FCA, President, ICAB was the special guest of the ceremony.
	• World Bank Dignitaries, ICAB Members, OCAG Officials, representatives of different Professional Institutes, SEC, DSE, CSE, RJSC, Public Sector Entities, Bangladesh Bank Officials and University Teachers (Dhaka University) were invited to this Policy Note Dissemination Program. The Policy Note was disseminated before a good number of Representatives from the above Stakeholders who actively participated in the Program.
Upload documents, learning materials, events on PPP into ICAB Website including Conference Paper, CPD Seminar Paper, Workshop Paper and other materials relevant to the Profession	• A platform has been created to upload the targeted materials in ICAB website. • PPP documents and other targeted resource materials have been uploaded in the website under user friendly sub-menu and arrangements are in place to readily upload the related documents/ resource materials as and when required.

D. **ICAB is currently implementing a project titled *"Strengthening Financial Reporting Framework and Audit Practice"*** with financial assistance of the World Bank on 28 April 2014 under IDF Grant No. TF016566. The Project was signed on 28 April 2014 and will be implemented within three years at a cost of USD 400,000.

Project Component & Objectives	Expected outcome of the Project
Updating and Implementing a Reporting Framework (RF) for the Public Sector Entities	• Gap analysis of the existing reporting framework (legal reporting line and accountability); • Development of formal partnership between Ministry of Finance and ICAB to mutually collaborate to enhance Financial Reporting Framework; • Preparation of a guidebook, Manual, Training Modules and Tools for monitoring of RF; • Dissemination workshops for stakeholders and relevant entities on the reporting framework; and • Piloting selected PSE for preparation and publication ofimproved statements based on revised RF.
Strengthen Professional Education Standards	• Training of Trainers, Examiners, Assessors, Question Setters and Secretarial Staffs; • Preparation of guidelines and training modules for ICAB; • Modernize e-learning facilities in ICAB; • Improved professional development program for members by bringing in regional and international experience.
Enhance Audit Quality Assurance and Monitoring System	• Building monitoring capacity of Quality Assurance Dept. of ICAB by training at least 20 staffs of ICAB; • Capacity building of CA Firms through training on audit quality.

E. **ICMAB undertook a project titled *"Capacity Building Project"*** with financial assistance of the World Bank in September 2007. Summary and progress of the project are below:

Components of the project	Progress status
1. The initial findings and recommendations from initial review	Done in November 2007
2. Development proposed vision, mission and key success factors	Done in December 2007
3. Development plan and a proposed for a revised organizational structure	Done in April 2008
4. Implementation of plan	Not implemented

The project was started in September 2007 and stopped in June 2008 after primary milestone achieved which is production of a development plan. None of the items of the plan has been implemented. The management is contemplating to revive the project within 2014.

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