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The role of the state in implementing IFRSs in a developing country: the case of Bangladesh

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**Submitted in fulfilment of the requirements for the
degree of PhD in Accounting**

The University of Edinburgh Business School

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Declaration

I declare that this thesis has been composed by me and is entirely my own work, has not been submitted for any other degree or professional qualification and relevant ethics procedures and guidelines have been followed.



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Dedication

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Abstract

The purpose of this study is to examine what factors have been affecting the implementation of IFRSs in Bangladesh from 1998 to 2010. The study seeks to answer these specific research questions: (1) What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh?; 2(a): How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs?; 2(b): What other country specific factors are affecting implementation of IFRSs?; (3) How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh? This study adopts a mixed methodology in which interviews over two years (2010-2011) are conducted and documentary analyses of IFRSs-related enforcement documents (1998-2010) are evaluated to identify the possible obstacles for implementing IFRSs in Bangladesh.

In relation to RQ-1, the study finds that politico-institutional factors are stronger and more dominant factors than accounting regulatory frameworks for impeding IFRSs implementation in Bangladesh. A lack of co-operation among the institutional bodies has existed in both democratic and military-backed government eras (the military-backed government ruled for 19 years out of 40 years of independence in Bangladesh). However, the military-backed government was effective compared to the democratic government in terms of taking action against companies identified as being corrupt. There is evidence of 'blaming culture' with the state institutions and the professional bodies blaming each other regarding the IFRSs implementation process.

With respect to RQ-2(a), deficiencies in the training opportunities in accounting profession and high levels of corruption are inhibiting IFRSs implementation. Interviewees comment that professional curricula contain limited content on IFRSs and there are limited training opportunities for accountants in the majority of companies. Looser enforcement of the laws is found during the periods of democratic government. However, the levels of corruption were lower during the military-backed government. Regarding RQ-2(b), some country specific factors are also identified in this study: a lack of qualified accountants; a lack of interest in IFRSs by managers of some companies; a culture of secrecy; and higher costs of IFRSs compliance with lower benefits for small companies.

In terms of RQ-3, this study contributes to IFRSs implementation as an example of accounting change in a developing country by applying a Weberian view of the theory of the role of the state. Additionally, this study considers the state-society relationship employing institutional dynamics (Dillard *et al.*, 2004). In particular, outcomes of accounting change in Bangladesh are observed from state and individual organisation levels. However, the influence of the organisation field level is unknown in this research because industry lobbying groups were not interviewed. Since the role of the state is

vague in prior accounting research, this study discusses roles of the state (i.e. the state approves experts to write rules; it consults with various stakeholders; it enforces outcomes; it is accountable to its citizens; and it engages with donor agencies) in a developing country's experience during the process of accounting change. Extending Weber's (1958)[1904], (1968)[1922] argument on state-society, the study finds that for a state in an era of democratic government, politico-institutional factors and corruption (as an indication of societal values) may be more important and concentrated factors than for a state under a military-backed government in terms of impeding IFRSs implementation. The study reveals that all roles of the state have negative influences on accounting change. However, interviewees' initial concerns about the roles of donor agencies are transformed into concerns about the democratic government's failure to implement IFRSs.

The implications of the study are relevant to policy makers, practitioners and users of financial information. Although the study is based on Bangladesh, the results of the study are expected to be relevant to other developing countries experiencing similar phases of IFRSs implementation.

Table of Contents

Declaration	ii
Acknowledgements.....	iii
Dedication.....	iv
Abstract	v
Table of Contents.....	vii
List of Tables.....	xiii
List of Figures.....	xvi
Abbreviations.....	xvii
Chapter-1	Introduction..... 1
1.1	Introduction..... 1
1.2	Motivations of the Study..... 4
1.3	Research Questions..... 10
1.4	Research Methods: An Overview..... 12
1.5	Research Contributions..... 14
1.6	Organisation of the Thesis..... 17
Chapter-2	Review of Literature..... 19
2.1	Introduction..... 19
2.2	Theories of the Role of the State in relation to accounting..... 21
2.2.1	Overview of the State..... 23
2.2.2	Definition of the state for this study..... 26
2.2.3	Role of the State and Accounting Change..... 26
2.2.4	Summary of section 2.2..... 28
2.3	Accounting Regulatory Frameworks..... 28
2.3.1	Accounting Regulatory Process..... 29
2.3.2	Standard Setting Process and its Implementation..... 32
2.3.3	Enforcement Mechanism of Regulation..... 35
2.3.4	Summary of section 2.3 and Proposition I..... 38
2.4	Politico-Institutional Factors..... 39
2.4.1	Government Intervention..... 39
2.4.2	Political Lobbying..... 43
2.4.3	Summary of section 2.4 and Proposition II..... 46
2.5	Cultural Factors..... 47
2.5.1	Accounting Profession..... 51
2.5.2	Corruption..... 53
2.5.3	Summary of section 2.5 and Proposition III..... 55
2.6	Other influences; Country Specific Factors..... 56
2.6.1	Colonial Power..... 56
2.6.2	Multinationals, Transfers of Technology and Foreign Aids..... 58
2.6.3	Public Sector Dominance..... 60
2.6.4	Summary of section 2.6..... 62
2.7	Summary and Conclusion..... 62
Chapter-3	Theoretical Framework..... 65
3.1	Introduction..... 65

3.2	Key papers on theories of the role of the state in relation to accounting.....	66
3.2.1	The role of the state (External forces).....	66
3.2.1.1	<i>State approves experts to write rules</i>	67
3.2.1.2	<i>State consults with various stakeholders</i>	69
3.2.1.3	<i>State enforces outcomes</i>	70
3.2.1.4	<i>State is accountable to its citizens</i>	71
3.2.1.5	<i>Role of donor agencies</i>	71
3.2.1.6	<i>The proposed initial theoretical model</i>	72
3.2.1.7	<i>Weberian view of the state-society</i>	73
3.2.2	Institutional Dynamics (A link between the role of the state and individual organisations) [External vs. Internal forces].....	74
3.2.2.1	<i>The proposed new theoretical model</i>	77
3.3	Summary and Conclusion.....	80
Chapter-4	Financial Reporting Environment in Bangladesh.....	81
4.1	Introduction.....	81
4.2	Political Regimes in Bangladesh	81
4.2.1	Chronological political regimes [1971-present].....	81
4.2.2	How do political regimes and the country's political history interact with business?.....	85
4.3	Accounting Regulatory Frameworks.....	88
4.3.1	Accounting Regulatory Frameworks for Non-financial companies..	88
4.3.2	Accounting Regulatory Frameworks for Banks.....	91
4.3.3	Major Institutions involved in accounting regulatory frameworks...93	
4.4	Accounting Standards Setting Process.....	98
4.4.1	Status of Adopted Accounting Standards in Bangladesh.....	100
4.4.2	South Asian Regional Efforts to Implement IFRSs.....	102
4.5	Cultural Factors.....	103
4.5.1	Hofstede's model, Gray's Model, the World Bank's Governance Indicators data and La Porta <i>et al.</i> 's data.....	103
4.5.2	Corruption.....	108
4.6	Summary and Conclusion.....	110
Chapter-5	Research Methodology and Method.....	112
5.1	Introduction.....	112
5.2	Research Design.....	112
5.3	Mixed Methods.....	113
5.4	Interviews.....	115
5.4.1	Semi-structured interviews [1 st Round].....	115
5.4.2	The 2 nd Round Interviews.....	121
5.4.3	Ethical Issues.....	122
5.4.4	Coding and analysing.....	123
5.4.5	Limitations of interviews.....	126
5.4.6	Reliability and validity.....	126
5.5	Documentary Analyses.....	127
5.6	Summary and Conclusion.....	129
Chapter-6	The relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs... 131	
6.1	Introduction.....	131
6.2	Accounting Regulatory Frameworks (Proposition I).....	132

6.2.1	Quality of investor protection laws.....	133
6.2.1.1	<i>The 1st round interviews</i>	133
6.2.1.2	<i>The 2nd round interviews</i>	136
6.2.2	Stakeholders' participation/non-participation in the standard setting process.....	136
6.2.2.1	<i>The 1st round interviews</i>	136
6.2.2.2	<i>The 2nd round interviews</i>	139
6.2.3	Stringent/looser enforcement of the laws.....	140
6.2.3.1	<i>The 1st round interviews</i>	140
6.2.3.2	<i>The 2nd round interviews</i>	143
6.2.3.3	<i>Documentary analyses</i>	144
6.2.4	Reflecting on section 6.2.....	145
6.3	Politico-Institutional Factors (Proposition II).....	147
6.3.1	Political influences.....	148
6.3.1.1	<i>A higher/lower level of government intervention</i>	149
6.3.1.1.1	<i>The 1st round interviews</i>	149
6.3.1.1.2	<i>The 2nd round interviews</i>	151
6.3.1.2	<i>A higher/lower level of donor agencies' pressure</i>	152
6.3.1.2.1	<i>The 1st round interviews</i>	152
6.3.1.2.2	<i>The 2nd round interviews</i>	154
6.3.1.3	<i>A higher/lower level of political lobbying</i>	154
6.3.1.3.1	<i>The 1st round interviews</i>	154
6.3.1.3.2	<i>The 2nd round interviews</i>	156
6.3.2	Co-operation/lack of co-operation among institutional bodies.....	157
6.3.2.1	<i>The 1st round interviews</i>	157
6.3.2.2	<i>The 2nd round interviews</i>	160
6.3.2.3	<i>Documentary analyses</i>	161
6.3.3	Reflecting on section 6.3.....	164
6.4	Relative Impact of Accounting Regulatory Frameworks and Politico-Institutional Factors.....	165
6.5	Summary and Conclusions.....	171
Chapter-7	The impact of [a(i)] training opportunities in the accounting profession & [a(ii)] corruption and [b]other country specific factors on the implementation of IFRSs.....	175
7.1	Introduction.....	175
7.2	(i) Training opportunities in the accounting profession and (ii) corruption (Proposition III).....	177
7.2.1	An effective/ineffective development of the training opportunities in the accounting profession.....	177
7.2.1.1	<i>The 1st round interviews</i>	177
7.2.1.1.1	Professional and University Curricula.....	177
7.2.1.1.2	Training and Development.....	179
7.2.1.2	<i>The 2nd round interviews</i>	181
7.2.1.3	<i>Documentary analyses</i>	182
7.2.2	Low/high levels of corruption.....	184
7.2.2.1	<i>The 1st round interviews</i>	184
7.2.2.2	<i>The 2nd round interviews</i>	186
7.2.2.3	<i>Documentary analyses</i>	187
7.2.2.3.1	Violations across various industries.....	187
7.2.2.3.2	Court cases of enforcement actions.....	190

7.2.3	Comparison of interviewees' perceptions and reflecting attitudes....	193
7.2.4	Reflecting on section 7.2.....	197
7.3	Influences of other Country Specific Factors.....	199
7.3.1	The 1 st round interviews.....	199
7.3.1.1	<i>Lack of qualified accountants.....</i>	200
7.3.1.2	<i>Lack of interest in IFRSs by managers of some companies.....</i>	201
7.3.1.3	<i>Culture of secrecy.....</i>	202
7.3.1.4	<i>Lack of research.....</i>	203
7.3.1.5	<i>Public sector dominance and family based private sector.....</i>	203
7.3.2	The 2 nd round interviews.....	204
7.3.3	Reflecting on section 7.3.....	206
7.4	Summary and Conclusion.....	207
Chapter-8	Theory of the role of the state in the implementation of IFRSs as an example of accounting change in a developing country.....	210
8.1	Introduction.....	210
8.2	Institutional Dynamics (A link between the role of the state and individual organisation).....	211
8.3	State level [the role of the state].....	211
8.3.1	State approves experts to write rules.....	213
8.3.2	State consults with various stakeholders.....	213
8.3.3	State enforces outcomes.....	214
8.3.4	State is accountable to its citizens.....	215
8.3.5	Role of donor agencies.....	216
8.3.6	Discussion of the state level [the role of the state].....	216
8.4	Organisational field level.....	217
8.5	Individual organisation level.....	217
8.5.1	Cases on Depreciation related violations.....	218
8.5.2	Cases on Qualified Audit Opinion.....	219
8.5.3	Cases on Disclosures as prescribed by the ICAB.....	219
8.5.4	Cases on Half yearly Audited Report.....	220
8.5.5	How to avoid a penalty imposed by the SEC.....	220
8.5.6	Discussion of the individual organisation level.....	221
8.6	Summary and Conclusion.....	225
Chapter-9	Conclusions and Contributions.....	228
9.1	Introduction.....	228
9.2	Findings and original contributions.....	228
9.2.1	Contribution to relative impact of accounting regulatory frameworks and politico-institutional factors (RQ-1).....	229
9.2.2	Contribution to training opportunities in the accounting profession, corruption and other country specific factors (RQ-2).....	231
9.2.3	Contribution to the theory of the role of the state and accounting change (RQ-3).....	234
9.3	Limitations of the study.....	236
9.4	Avenues for future research.....	238
References.....		240
Appendix 2-1:	Sampled journals from the Academic Journal Quality Guide (Version 4, 17 November 2010).....	271

Appendix 2-2:	Articles in relation to role of the state and accounting change from Google Scholar.....	272
Appendix 2-3:	Combined articles in relation to role of the state and accounting change from ABS and Google Scholar.....	272
Appendix 2-4(a):	Papers related to the role of the state in relation to regulatory frameworks, politico-institutional factors and cultural issues and accounting change.....	273
Appendix 2-4(b):	Theory & Non-theory based papers in relation to Developing vs. Developed countries.....	278
Appendix 4-1:	Copyright permission from the World Bank.....	280
Appendix 4-2:	Copyright permission from Geert Hofstede B.V.....	281
Appendix 4-3:	Copyright permission from the University of Chicago Press.....	282
Appendix 5-1:	An e-mail communication for conducting interviews.....	283
Appendix 5-2:	A letter of introduction for conducting interviews.....	284
Appendix 5-3:	Semi-structured interview schedule.....	285
Appendix 5-4:	Detailed summary of the interviewees.....	288
Appendix 5-5:	Interview guide of the study.....	290
Appendix 5-6:	The 2 nd Round Interview Questions.....	290
Appendix 5-7:	Research ethics guidelines of the University of Edinburgh Business School.....	291
Appendix 5-8:	An example of the colour coding of semi-structured interview (Translated & transcribed).....	292
Appendix 6-1:	IFRSs/BFRSs Related Enforcement from 1998-2010.....	295
Appendix 6-2:	The Companies Act 1994 - penalties in Bangladesh.....	300
Appendix 6-3:	The SEC Act 1993 regarding penalties in Bangladesh.....	301
Appendix 6-4:	Comparison of perceptions of interviewees based on Q1 to Q4 [1 st Round Interviews, n=27].....	302
Appendix 6-5:	Comparison of perceptions of interviewees based on Q1 to Q4 [2 nd Round Interviews, n=12].....	304

Appendix 7-1:	Enforcement Actions Comparison, by Year (1998-2010).....	305
Appendix 7-2:	Court Structure in Bangladesh.....	307
Appendix 7-3:	Functions of the various court(s) in Bangladesh.....	308
Appendix 7-4:	Comparison of the perceptions of interviewees based on Q5 to Q9 [The 1 st round interviews, n=27].....	309
Appendix 7-5:	Comparison of the perceptions of interviewees based on Q5 to Q7 [The 2 nd round interviews, n=12].....	312
Appendix 8-1:	Violations of the SEC rules (Bengali version).....	313
Appendix 8-2:	Depreciation related violations by companies (n=7).....	318
Appendix 8-3:	Qualified Audit Opinion related violations by companies (n=2).....	321
Appendix 8-4:	Non-disclosure of the ICAB's requirement by companies (n=2).....	322
Appendix 8-5:	Half-yearly Audited report related violations by companies (n=2).....	322

Lists of Tables

Table 1-1:	Summary of the findings of mandatory studies on IFRSs compliance in developing countries.....	4
Table 1-2:	Comparison of Stock Markets' performances in South Asia.....	6
Table 2-1:	Articles, working papers, book chapters and research reports on the role of the state in relation to accounting, gathered using Google scholar.....	22
Table 2-2:	Key papers in relation to the theory of the role of the state and accounting change.....	23
Table 4-1:	World Bank's Governance Indicators of Bangladesh [1996-2010]..	88
Table 4-2:	Relevant Regulations for Banking Industry in Bangladesh.....	93
Table 4-3:	Status of Bangladesh Accounting Standards 2009-2010.....	101
Table 4-4:	Cultural values based on Hofstede's Model (1980) and Gray's Model (1988) in Bangladesh, India & Pakistan.....	104
Table 4-5:	Cultural Scores based on Hofstede <i>et al.</i> (2010) Model.....	104
Table 4-6:	Secrecy Culture in India, Pakistan & Bangladesh.....	106
Table 4-7:	Enforcement in India, Pakistan & Bangladesh.....	107
Table 5-1:	Research Questions and how to investigate RQs (Mixed Methods).	114
Table 5-2:	Summary of the interviewees.....	117
Table 5-3:	The 12 Interviews from the existing pool of 27 interviewees [The 2 nd round].....	122
Table 6-1:	Perceptions of the current regulation scenario in Bangladesh [The 1 st round interviews].....	133
Table 6-2:	Perceptions of the quality of investor protection laws in Bangladesh [The 2 nd round interviews].....	136
Table 6-3:	Perceptions of the real regulators of accounting issues in Bangladesh.....	138
Table 6-4:	Perceptions of the stakeholders' participation/non-participation in the standard setting process in Bangladesh [The 2 nd round interviews].....	139

Table 6-5:	Perceptions of stringent/looser enforcement of the laws [The 2 nd round interviews].....	144
Table 6-6:	Views on political influences to implement or not implement IFRSs [The 1 st round interviews].....	149
Table 6-7:	Perceptions of higher/lower levels of government intervention [The 2 nd round interviews].....	151
Table 6-8:	Perceptions on higher/lower level of political lobbying [2 nd round interviews].....	157
Table 6-9:	Perceptions of co-operation/lack of co-operation among institutional bodies [The 1 st round interviews].....	158
Table 6-10:	Perceptions on politico-institutional factors in relation to IFRSs implementation [2 nd round interviews].....	160
Table 6-11:	Enforcement Actions by Political Regimes.....	162
Table 6-12:	List of the Securities and Exchange Commission's (SEC) Chairmen under different political regimes.....	162
Table 6-13:	Companies with Repeated Violations from 1998-2010 regarding IFRSs Compliance.....	163
Table 6-14:	Quantification of perceptions of interviewees [1 st Round Interviews, n=27].....	169
Table 6-15:	Quantification of perceptions of interviewees [2 nd Round Interviews, n=12].....	170
Table 7-1:	Views on Accounting Education's (Professional and University Curricula) suitability towards IFRSs implementation [The 1 st round interviews].....	178
Table 7-2:	Views on Training and development from four groups of interviewees [The 1 st round interviews].....	180
Table 7-3:	Perceptions of effective/ineffective accounting profession in relation to IFRSs implementation [The 2 nd round interviews].....	181
Table 7-4:	CA Firms' Violations (1998-2010).....	182
Table 7-5:	Negative perceptions of corruption from four groups of interviewees [The 1 st round interviews].....	184
Table 7-6:	Negative perceptions of corruption in relation to IFRSs implementation [The 2 nd round interviews].....	186
Table 7-7:	Industry wise Total Number of Occurrences by Year (1998-2010)..	188

Table 7-8:	Total Number of Occurrences by Industry (1998-2010).....	189
Table 7-9:	Number of Occurrences in relation to IFRSs, by Industry (1998-2010).....	190
Table 7-10:	The SEC Court Cases of enforcement actions (1999-2010).....	192
Table 7-11:	Quantification of perceptions of interviewees [The 1 st round interviews, n=27].....	196
Table 7-12:	Quantification of perceptions of interviewees [The 2 nd round interviews, n=12].....	197
Table 7-13:	Perceptions of other factors impacting on implementing IFRSs in Bangladesh [The 1 st round interviews].....	200
Table 7-14:	Perceptions of other factors causing problems in the implementation of IFRSs in Bangladesh [The 2 nd round interviews].....	205
Table 8-1:	Total Enforcement Actions including IFRSs (1998-2010).....	218
Table 8-2:	Non-Disclosure Violations in relation to IFRSs (n=13).....	223
Table 8-3:	EPS of 12 Companies [2006-2011].....	224

Lists of Figures

Figure 1-1:	Performance of DSE-GEN Index, 1998–2011.....	7
Figure 2-1:	Structure of Review of Literature.....	20
Figure 3-1:	Proposed Initial Theoretical Framework (The role of the state and accounting change).....	73
Figure 3-2:	Proposed New Theoretical Framework (linking the State & individual organisations through institutional dynamics)..	79
Figure 4-1:	Time frame for Bangladesh Government [1971-Present].....	83
Figure 4-2:	Accounting Standard Setting Process in Bangladesh.....	99
Figure 4-3:	IASs/IFRSs Time Frame in Bangladesh 1998-2010.....	100
Figure 5-1:	Sequential pyramid model to prepare the interview questions in the study.....	119
Figure 5-2:	Theoretical Framework [Based on Figure 3-2] and Interview Questions.....	120
Figure 5-3:	Data Analyses procedures in the study.....	124
Figure 5-4:	Data analyses relationship (Drivers of accounting change and interview questions from the theory and sub themes from the interviews data).....	125
Figure 6-1:	Comparing Total Enforcement Actions vs. IFRSs Related Enforcement Actions (Yearly) 1998-2010.....	145
Figure 6-2:	Enforcement Actions by Political Regimes (1998-2010).....	162
Figure 7-1:	Court Cases of enforcement actions (1999-2010).....	193
Figure 8-1:	Theoretical Framework in relation to Bangladesh (Based on Figure 3-2).....	212
Figure 8-2:	The procedure to avoid a penalty by a company.....	221

Abbreviations

AAA	The American Accounting Association
ABS	Association of Business Schools
ACCA	The Association of Chartered Certified Accountants
ADB	The Asian Development Bank
AGM	Annual General Meeting
AICPA	The American Institute of Certified Public Accountants
AL	The Awami League
ASB	The Accounting Standards Board
ASCPA	Australian Society of Certified Practising Accountants
ASEAN	The Association of Southeast Asian Nations
BAB	Bangladesh Association of Banks
BADC	The Business Accounting Deliberation Council
BAFA	The British Accounting and Finance Association
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht
BAKSAL	The Bangladesh Krishak Sramik Awami League
BAPLC	Bangladesh Association of Publicly Listed Companies
BAS	Bangladesh Accounting Standards
BB	Bangladesh Bank
BDR	Bangladesh Rifles
BFRS	Bangladesh Financial Reporting Standards
BGB	Border Guard Bangladesh
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BIGUF	Bangladesh Independent Garment Workers Union Federation
BNP	The Bangladesh Nationalist Party
BOI	Board of Investment
BRC	Banking Reform Committee
BRPD	Banking Regulation & Policy Department of Bangladesh Bank
BSE	Bombay Stock Exchange
BTCL	The Bangladesh Telecommunications Company Limited
BTMA	Bangladesh Textile Mills Association
BTTB	The Bangladesh Telephone and Telegraph Board
CA	Chartered Accountant
CAPA	Confederation of Asian and Pacific Accountants

CDBL	Central Depository Bangladesh Limited
CEO	Chief Executive Officer
CESR	The Committee of European Securities Regulators
CG	Corporate Governance
CIA	The Central Intelligence Agency
CIPFA	The Chartered Institute of Public Finance and Accountancy
CPA	Certified Public Accountant
CPD	Continuing Professional Development
CPE	Continuing Professional Education
CRAB	Credit Rating Agency of Bangladesh
CSE	The Chittagong Stock Exchange
CSI	China Securities Index
DCCI	Dhaka Chamber of Commerce & Industry
DPR	Die Deutsche Prüfstelle für Rechnungslegung
DSE	The Dhaka Stock Exchange
EAA	The European Accounting Association
EC	European Commission
ECON	The Committee on Economic and Monetary Affairs
EMTAP	The Economic Management Technical Assistance Program
EU	The European Union
FASB	The Financial Accounting Standards Board
FBCCI	The Federation of Bangladesh Chambers of Commerce and Industry
FDI	Foreign Direct Investment
FRA	Financial Reporting Act
FRC	The Financial Reporting Council
FSA	The Financial Services Authority
FSRP	The Financial Sector Reforms Programme
GAAP	Generally Accepted Accounting Principles
GCC	The Gulf Cooperation Council
GDP	Gross Domestic Product
GOB	The Government of Bangladesh
GPS	Global Player Segment
IAS	International Accounting Standards
IASB	The International Accounting Standards Board

IBA	Institute of Business Administration
ICAA	The Institute of Chartered Accountants in Australia
ICAB	The Institute of Chartered Accountants of Bangladesh
ICAEW	The Institute of Chartered Accountants in England and Wales
ICAI	The Institute of Chartered Accountants of India
ICAP	The Institute of Chartered Accountants of Pakistan
ICAS	The Institute of Chartered Accountants of Scotland
ICASL	The Institute of Chartered Accountants of Sri Lanka
ICMAB	The Institute of Cost and Management Accountants of Bangladesh
IDL	Industrial Development Leasing Company of Bangladesh
IFAC	The International Federation of Accountants
IFAD	The International Fund for Agricultural Development
IFR	International Financing Review
IFRIC	The International Financial Reporting Interpretations Committee
IFRSs	International Financial Reporting Standards
IMF	The International Monetary Fund
IO	Individual Organisation Level
IOSCO	The International Organization of Securities Commissions
IPO	Initial Public Offering
IPSAS	International Public Sector Accounting Standards
IRD	The Internal Resources Division
JICPA	The Japanese Institute of Certified Public Accountants
JMB	Jama'atul Mujahideen, Bangladesh
KSE	The Karachi Stock Exchange
MLA	Martial Law Administration
MNC	Multinational Companies
MOC	Ministry of Commerce
MOF	Ministry of Finance
MoU	Memorandum of Understanding
MP	Member of Parliament
NBR	The National Board of Revenue
NGO	Non-Governmental Organization
NGWF	The National Garment Workers Federation
OECD	The Organisation for Economic Co-operation and Development

OF	Organisational Field Level
PO	President's Order
RJSC	The Registrar of Joint Stock Companies
ROSC	Reports on the Observance of Standards and Codes
RQ	Research Question
Rs.	Indian/Pakistani Rupee(s)
SAARC	The South Asian Association for Regional Cooperation
SAFA	South Asian Federation of Accountants
SEC	The Securities and Exchange Commission
SIC	The Standing Interpretations Committee
SME	Small and Medium Enterprises
SOE	State Owned Enterprises
SRO	Self Regulatory Organisations
TIB	Transparency International Bangladesh
Tk.	Bangladeshi Taka
TRC	Technical and Research Committee
UGC	The University Grants Commission of Bangladesh
US	The United States
UK	The United Kingdom
UN	The United Nations
UNCTAD	The United Nations Conference on Trade and Development
UNFPA	The United Nations Population Fund
USA	The United States of America
VAT	Value Added Tax
WTO	The World Trade Organization

Chapter One

Introduction

1.1 Introduction

“The major emerging and transition economies of the world-Brazil, China, India, and Russia-are adopting or considering the adoption of IFRSs, not US GAAP, in an effort to become integrated in the world’s capital markets and attract the investment necessary to finance their development...There is clear momentum towards accepting IFRSs as a common financial reporting language throughout the world.....Investors are able to make comparisons of companies operating in different jurisdictions more easily” (Sir David Tweedie¹, 2007, p. 2).

“...the most likely effect of local politics and local market realities on IFRS will be much less visibleI believe the primary effect of local political and market factors will lie under the surface, at the level of implementation, which is bound to be substantially inconsistent across nations” (Ball, 2006, p. 16).

These two comments represent contrasting attitudes towards IFRSs adoption and implementation. Although there are ample benefits in adopting IFRSs as a common financial reporting language (Tweedie, 2007), an underlying question remains over the implementation issues because of political and market factors (Ball, 2006).

Debates persist around the justification for IFRSs adoption. Two schools of thought exist, and the first is very supportive of the adoption of IFRSs, arguing that the adoption of IFRSs increases the transparency of financial information and the globalisation of capital markets, and attracts Foreign Direct Investment (FDI) (Taylor & Turley, 1986; Wolk *et al.*, 1989; Larson, 1993; Chamisa, 2000; Tyrrall *et al.*, 2007). The second school of thought, however, is negative to the adoption of IFRSs and argues that the Anglo-American nature of IFRSs will not be beneficial for the developing countries because of various related factors, e.g. economic, social and, cultural differences (Nair, 1982; Hove, 1989; Perera, 1989; Wallace, 1988, 1993; McGee, 1999; Saudagaran & Diga, 2000; Abd-Elsalam & Weetman, 2003). Some researchers provide mixed opinion on IFRSs adoption (Choi & Mueller, 1984; Chandler, 1992; Belkaoui, 2004; Ashraf &

¹ Sir David Tweedie, former Chairman of the IASB, addresses the Economic and Monetary Affairs Committee of the European Parliament, on 10 April 2007. This text is available at: <http://www.ifrs.org/news/iasb+chairman+addresses+european+parliament.htm>

Ghani, 2005). Furthermore, financial scandals in the USA and Asia have focused attention onto the regulatory bodies (Mitton, 2002; Baek *et al.*, 2002; Tweedie, 2007; Trott, 2009; Bushman & Landsman, 2010). As the IASB possesses no powers of its own to enforce the adoption of its standards, it has to rely on persuading national jurisdictions or national regulators (Banerjee, 2002; Ball, 2006; Ahmed, 2010; Siddiqui, 2010). The relevant EU regulation² (1606/2002 of July 19, 2002) requires that all listed EU companies from January 1 2005 onwards must prepare their consolidated accounts to conform to mandatory IFRSs, representing considerable progress towards the goal of global adoption of the IASB's common financial reporting language (i.e. IFRSs) (Hodgon *et al.*, 2009). This announcement has prompted developing countries to think about their position with regard to IFRSs compliance (Tyrrall *et al.*, 2007).

There is an increasing amount of literature on compliance with IFRSs, in particular with regard to developed countries (Dumontier & Raffournier, 1998 [Switzerland]; Murphy, 1999 [Switzerland]; Street *et al.*, 1999, 2000 [Developed & developing countries]; Street & Bryant, 2000 [Companies with and without the US listings]; Glaum & Street, 2003 [Germany]; Yeoh, 2005 [New Zealand]; Dunne *et al.*, 2008 [UK, Italy & Ireland]; Tsalavoutas, 2009 [Greece]; Haller *et al.*, 2009 [Germany]; Cascino & Gassen, 2010 [Germany & Italy]; Tsalavoutas, 2011 [Greece]; Lama *et al.*, 2011 [Spain & UK]). Most previous studies have been concerned with settings where the use of IFRSs is voluntary or not subject to national enforcement (Street *et al.*, 1999; Tower, 1993). Following the widespread adoption of IFRSs, attention has turned to the extent to which companies comply with IFRSs in a mandatory setting (Schipper, 2005; Brown & Tarca, 2005).

However, little attention has been paid to developing countries. Only eleven studies have been conducted on mandatory IFRSs compliance in developing countries (see Table 1-1). Table 1-1 shows that companies in these countries do not comply fully with IFRSs disclosure requirements and that low compliance levels are common. There are various reasons for IFRSs non-compliance: firstly, in terms of language familiarity, the levels of compliance with familiar aspects of the IFRSs disclosure requirements are significantly higher than the levels of compliance with relatively unfamiliar aspects of

² The IFRS Regulation (EC) 1606/2002 concerning the application of international accounting standards was adopted on 19 July 2002 by the European Parliament and the Council. The IFRS Regulation places an obligation on European companies whose securities are admitted to trading on a regulated market in the EU to prepare their consolidated accounts, as of 1 January 2005, in conformity with IFRS and SIC/IFRIC issued by the IASB and endorsed by the EU.
Available at: http://ec.europa.eu/internal_market/accounting/docs/ias/com-2008-0215_en.pdf

the IFRSs disclosure (Abd-Elsalam & Weetman, 2003 in Egypt); secondly, from the view of regulatory aspects, significant changes are exhibited in the regulated environment (Al-Shiab, 2003 in Jordan; Abdelsalam & Weetman, 2007 in Egypt; Al-Shammari *et al.*, 2008 in the GCC [The Gulf Cooperation Council] member states); for instance, corporate governance regulations are a very effective mechanism for the implementation of IFRSs (Al-Akra *et al.*, 2010 in Jordan); thirdly, IFRSs compliance may be difficult due to poor levels of enforcement - an example of this is that no action has been taken against managers, directors or auditors for violating accounting rules and regulations in Jordan (Al-Shammari *et al.*, 2008); Finally, in terms of cost-benefit analyses, big companies are inclined to comply with IFRSs, whilst small companies tend to decide that the costs exceed the benefits (Fekete *et al.*, 2008, in Hungary). Omar & Simon (2011, p. 184) suggest that “*Regulators should take into consideration the costs and the benefits associated with any plans to increase disclosure for firms which are small, not profitable, not listed in the first tier, in the services sector and not audited by the Big Four*”.

It is also found in prior research that Bangladesh has the lowest level of disclosure in terms of IFRSs mandatory disclosures (see Table 1-1). These mandatory studies did not reveal the reasons for non-compliance and have not yet reached any comprehensive conclusions, either in a comparative study or in a single country study. The findings provide solid grounds for concerns regarding the implementation of IFRSs in a developing country such as Bangladesh where the level of disclosure is so low. It is therefore important to study the factors which are affecting the implementation of IFRSs in Bangladesh, as an example of a developing country.

Section 1.2 describes the motivation of the study. Section 1.3 presents the research questions. Section 1.4 outlines the research methods to be used in the study. Section 1.5 contains the contributions of the study, and section 1.6 presents the structure of the thesis.

Table 1-1: Summary of the findings of mandatory studies on IFRSs compliance in developing countries

Author(s)	Country	No. of Comp.	Average Disclosure	Sources
Ahmed & Nicholls (1994)	Bangladesh	63	51.33%	Appendix 3, p. 75
Abd-Elsalam & Weetman (2003)	Egypt	89	83%	Tables 8-9, pp. 78-79
Al-Shiab (2003) ⁱ	Jordan	50 (300 firm-years)	1998: 51%; 1999: 54%; 2000: 56%	Table 6.23, p. 338
Ali <i>et al.</i> (2004)	Bangladesh India Pakistan	Bangladesh-118; India-219; Pakistan-229	Bangladesh [78%]; India [79%]; Pakistan [81%] <i>Range: 78% - 81%</i>	Tables 5-6, pp. 194-195
Akhtaruddin (2005)	Bangladesh	94	43.53% [Range:17% -71.5%]	Table 10, p. 413
Abdelsalam & Weetman (2007)	Egypt	1991-92: 20 & 1995-96: 72	1991-92: 76% 1995-96: 84%	Tables 4-5, pp. 93-94
Hasan <i>et al.</i> (2008)	Bangladesh	86	Not mentioned	Table 1, p. 200
Al-Shammari <i>et al.</i> (2008)	GCC member Countries	436	Bahrain [65%]; Kuwait [72%]; Oman [65%]; Saudi Arabia [75%]; Qatar [69%]; UAE [75%] <i>Range: 56% - 80%</i>	Table 8, p. 17
Fekete <i>et al.</i> (2008)	Hungary	18	62%	Table 4, p. 8
Al-Akra <i>et al.</i> (2010)	Jordan	80	1996: 54.7% 2004: 79%	Table 5, p. 182
Omar & Simon (2011) ⁱⁱ	Jordan	121	83.12% <i>Range: 63.87% - 93.75%</i>	Tables 12-16, pp. 180-183

ⁱ Between 1995-1997 IFRSs are voluntary; therefore, the disclosure levels from 1998-2000 are shown.

ⁱⁱ The mandatory disclosure items are based on IFRSs and the SEC Law.

1.2 Motivations of the study

Bangladesh has received considerable attention from international investors following its adoption of an ‘open door’ economic policy aiming to encourage investment. The country’s economy has been described as one of the fastest growing markets in emerging nations (International Financial Review, 2008; World Bank, 2010). Over the past decade (2000-2010), two reports (i.e. Report on the observance of standards and codes, ROSC) have been published by the World Bank regarding accounting and auditing practices in Bangladesh. In the first report, the World Bank (2003, p. 1) states

that: “...Accounting and auditing practices in Bangladesh suffer from institutional weaknesses in regulation, compliance, and enforcement of standards and rules”. The report also notes that Bangladesh lacks quality corporate financial reporting. After six years had passed, in the follow up report, the World Bank (2009, p. 25) provided the same sentiments regarding low compliance with accounting standards. The World Bank (2009, p. 10) observed that “Efforts to implement IFRS for listed companies and other public interest entities should be accelerated. This will require either more frequent updating of BAS or simply adopting IFRS explicitly. ..Full implementation will also require that current donor assistance to ICAB be maintained, to allow for much needed professional development and expansion in the number of trained auditors and accountants”. World Bank Newsletter (2009, p. 1) noted that “With a population of 150 million, Bangladesh has only 750 Chartered Accountants; far too few to meet the needs of the growing economy”.

Bangladesh is one of the world’s poorest countries, ranking third after India and China in the extent of its poverty levels (The International Fund for Agricultural Development -IFAD, 2006). With an estimated population of over 150 million and per capita income of US\$444, Bangladesh has the highest density of population in the world (948 per sq. km.). More than 63 million people live below the poverty line (The United Nations Population Fund, UNFPA, 2008). Bangladesh faces the challenge of achieving accelerated economic growth and alleviating the massive poverty that afflicts nearly two-fifths of its people (UNFPA, 2008). Accordingly, the motivations of this thesis, on implementing IFRSs in developing countries with special reference to Bangladesh, are given below:

(a) Globalisation and the mobilisation of capital markets: Bangladesh as a country possesses distinct features which are relevant in consideration of harmonisation and global convergence issues, including the effects of globalisation and the mobilisation of capital markets. The concept of globalisation may be considered to represent the emergence of an international community where interests and needs can be shared from the developed world (Grieco & Holmes, 1999). Despite the challenges and obstacles of achieving targeted economic growth, Bangladesh made liberal market reforms in the mid 1980s, during the military-backed government (Ahmed, 2010). The aim was to move towards an open economic regime and integrate with the global economy. During the 1990s, notable progress was made in

economic performance and, therefore, foreign aid dependency was significantly decreased. For instance, the annual economic growth rate (GDP %) increased during the democratic era; in the 1990s, it was 5.2%, compared to 1.6% during the military era in the mid 1980s (World Bank, 2011) (see also Chapter Four).

The stock market in Bangladesh has existed for more than 55 years and has experienced rapid growth³ (e.g. the price indices have increased 104.42% compared to other stock markets in South Asia; see Table 1-2). Significant growth in the numbers of listed companies and their volume of trading has been evident from 1998-2010 (see Figure 1-1). As of 30 June 2011, the Dhaka Stock Exchange (DSE) had 232 listed companies, with a market capitalisation of US\$28501.70 million, whereas the market capitalisation of 31 December 1998 was just US\$1034.00 million with around 150 listed companies (source: <http://www.dsebd.org/>). While global stock markets have taken a beating, the DSE has performed reasonably well; it was the sixth best performing exchange in the world on a currency adjusted basis and Asia's best-performing benchmark after China's CSI 300 Index in 2008 (Bloomberg, 2008; The Financial Express, 2008). Despite the fact that market capitalisation has been increasing significantly since 1998, the size of the country's capital markets remains low (World Bank, 2011).

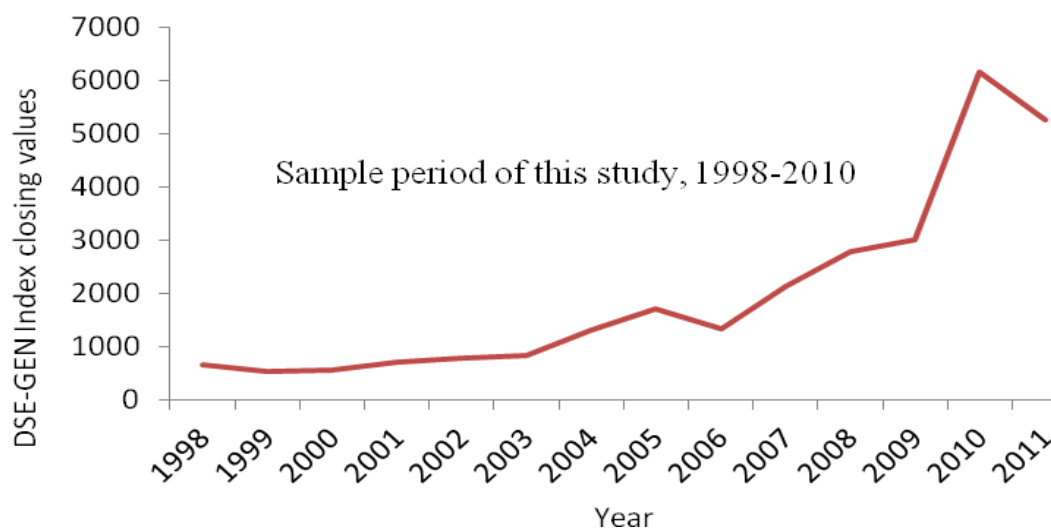
Table 1-2: Comparison of Stock Markets' performances in South Asia

Capital Markets	Indices	30 June 2008*	30 June 2009*	30 June 2010*	% Change 2009-10	Listed Companies 2011	Turnover (US\$ m) 2011	Market Cap (US\$ m) 2011	% of GDP 2011
Dhaka (Bangladesh)	DSE GEN	2795.34	3010.26	6153.68	104.42	232	19501.65	28501.70	30.76
Colombo (Sri Lanka)	CSE All Share	1631.34	2721.64	4612.46	69.47	277	4946.20	17627.41	29.91
Karachi (Pakistan)	KSE 100	5865.01	7177.64	9721.91	35.45	613	9221.73	37362.69	18.39
Bombay (India)	SENS EX	9647.31	14493.84	17700.90	22.13	5115	148488.30	1351977.2	91.88

Note: The closing values of indices from 2008-2010 in South Asian Stock Markets.

Source: World Federation of Exchanges and <http://econstats.com/>

³ After India, the stock market of Bangladesh is second in the South Asia in terms of turnover (US\$ m), market capitalisation (US\$ m) and parentage of GDP in 2011 (see Table 1-2).

Figure 1-1: Performance of DSE-GEN Index, 1998-2011

Note: This figure presents the monthly DSE GEN index's closing values over the period 1998 to 2011 (The closing values of each year are taken on 30 June).

Source: <http://www.dsebd.org/>

(b) The opportunity for FDI: Unlike in many other developing countries, FDI is not a major source of investment in Bangladesh. Indeed, FDI reduced by 16% from 2006 to 2007 (UNCTAD, 2008). The net FDI turned negative in 2009 (US\$110 million) (World Bank, 2011). This is possibly because of the adverse impact of various economic and political factors, including weak macroeconomic conditions, the predominance of public sector enterprises, a small domestic market, and political instability (The Financial Express, 2011). TIB (2005) noted that corruption is the main obstacle to attracting FDI into Bangladesh. Moreover, foreign investment has not increased since the 1970s (The Financial Express, 2011). Foreign investors hold only one percent shares of the DSE market (World Bank, 2011). In this regard, if companies in Bangladesh were to implement IFRSs effectively, then this practice may attract foreign investors who rely on financial information provided according to international standards (i.e. IFRSs).

(c) Development towards a strengthened regulatory framework: A World Bank report (2009, p. 4) has stated that “[The] ICAB has incorporated a number of international standards, but not all have been adopted, and some that have not been updated. The CA [Companies Act] and other legislation also contain provisions that are not consistent with IFRS. Legally, these provisions are superseded by securities

regulation, but in practice they still hinder IFRS implementation by companies. For example, many companies do not prepare consolidated accounts because of the general belief that it is not required under the CA". At least eight major developments towards strengthening regulatory frameworks (directly or indirectly relevant to the corporate financial reporting issues in Bangladesh) are worth noting:

(1) The Bangladesh Chartered Accountants Order, 1973 (P.O. No. 2 of 1973) came into force after independence, for the creation of better professional bodies in Bangladesh. The ICAB was established in 1972 under the Chartered Accountants Order, 1973.

(2) Almost 16 years after independence, Bangladesh formulated its own Securities and Exchange Rules, in 1987. The Securities and Exchange Rules became effective in September that year. These superseded the Securities and Exchange Ordinance, 1969 and the Securities and Exchange Rules, 1971 (S.R.O. 92 (I)/71): In exercise of the powers conferred by section 33 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), and the Ministry of Finance Notification No. S.R.O. 261(I)/79, dated the 26th October, 1970. The Securities and Exchange Rules of 1987 emphasised maintaining books of audited accounts and other documents both by the stock exchange and its members (Rules 5, 7 and 8) and a requirement to submit annual and half-yearly reports by the issuers (Rules 12 and 13).

(3) The Government of Bangladesh (GOB) enacted the Securities and Exchange Commission Act 1993 which took effect on 8 June 1993. The SEC is a statutory body and is attached to the Ministry of Finance, part of the government of Bangladesh. Its functions are intended to protect the interests of securities investors, and monitor securities markets.

(4) The Companies Act was enacted in 1994 (Act XVIII of 1994) and came into force on 1 October 1995, replacing the old Companies Act of 1913. The Companies Act constitutes the main component of the financial reporting regulatory framework in Bangladesh. The Companies Act 1994 preserves the provisions of the 1913 Act with regard to a 9-month time limit within which companies are required to furnish their financial statements before their AGM.

However, the new Act increases the penalty for non-compliance with relevant provision (Tk.⁴ 5,000) (Part IVA, Sec. 181, 192).

(5) The stock market crash in July and mid-November 1996 saw both the Dhaka and Chittagong Stock Exchanges experiencing an unprecedented boom and a subsequent collapse (The Daily Star, 1996). During this period, market capitalisation increased by 265% and the average daily turnover increased by over 1000%. There were about 192 securities listed in total in the two stock exchanges at the time. The share price index at the DSE increased by 281% and by 258% at the Chittagong Stock Exchange (CSE). Then share prices of both the stock exchanges dropped by 25% from the peak in mid-November (The Daily Star, 1996). One of the reasons for this unusual rise and fall in securities prices was the artificial manipulation of securities prices carried out by a number of securities dealers and issuers in the absence of timely provision of reliable financial information in the market (Ahmed & Nicholls, 1994). After this market crash, the SEC insisted that the listed companies hold regular AGMs and publish annual reports complying with IFRSs. Therefore, the SEC (No: SEC/Section-7/SER/03/132, dated 22 October 1997) amended the Securities and Exchange Rules of 1987 and required the listed companies to prepare financial statements in compliance with IFRSs, as adopted by the ICAB.

(6) The SEC requires that companies listed with any stock exchange in Bangladesh should be subject to certain further conditions, on a ‘comply or explain’ basis with regard to reasons for non-compliance, in order to improve corporate governance in the interest of investors and the capital market (Order No. SEC/CMRRCD/2006-158/Admin/02-06 dated 9 January 2006, Condition No. 5, section 2CC of the Securities and Exchange Ordinance, 1969 [XVII of 1969]). This was later amended by the SEC order No. SEC/CMRRCD/2006-158/Admin/02-08, dated 20 February 2006.

(7) To strengthen accounting and auditing practices in Bangladesh, the SEC (SEC order No: SEC/CMRRCD/2008-181/53/Admin/03/28), dated 4 June 2008, under section 2CC of the Securities and Exchange Ordinance, 1969 (XVII of

⁴ The values given are in Bangladeshi currency, i.e. the Taka (Tk.). The exchange rate on 31.03.2012 was [Tk. 1 = £0.0083 or £1 = Tk. 119.815]; source: <http://www.hmrc.gov.uk/exrate/bangladesh.htm>

1969) requires that issuer companies shall include the following statements/explanations in its yearly and periodical financial statements: (a) a clear and unambiguous statement of the reporting framework on which the accounting policies are based; (b) a clear statement of the company's accounting policies on all material accounting areas; (c) an explanation of where the accounting standards that underpin the policies can be found; (d) a statement confirming that the financial statements are in compliance with IFRSs issued by the International Accounting Standard Board (IASB), if this is the case; and (e) a statement explaining how the standards and reporting framework used differ from those of IFRS, as issued by the IASB, if this is the case.

(8) The World Bank made initiatives aimed at improving financial reporting practices in Bangladesh under the Economic Management Technical Assistance Program (EMTAP, called a 'Twinning Project') in 2006. Under this project, some professionals and academics from Bangladesh were sent to London for the ICAEW's IFRS certificate⁵ (ICAEW, 2008). Further, the ICAB and Ministry of Finance signed a Memorandum of Understanding (MoU) with the ICAEW to develop a new syllabus in line with the IFAC requirements in 2009 (source: <http://www.icaew.com/>).

(d) Political regimes in Bangladesh (1971-present): There have been two political patterns in Bangladesh, i.e. democratic and military eras. In 40 years of independence, the military-backed government ruled for 19 years and democratic government for the other 21.

To sum up, for the above significant reasons, Bangladesh is considered to be an ideal setting to study the implementation of IFRSs. It is anticipated that an effective implementation of IFRSs would allow the provision of transparent information and may therefore attract FDI.

1.3 Research questions

Taking into consideration the above motivations for research, as well as the brief background provided here of the context of IFRSs implementation in Bangladesh, this

⁵ See <http://www.icaew.com/en/about-icaew/newsroom/accountancy/features/bangladesh-capacity-building-and-fighting-poverty-162054>

this thesis addresses a ‘motivating research question’ to examine what factors have been affecting the implementation of IFRSs in Bangladesh from 1998 to 2010. The definition of ‘implementation’ in the context of the present research is: the actual observed outcomes of introducing and monitoring the standards. These outcomes will include the actions of the government, the SEC, ICAB, ICMAB, DSE, and Bangladesh Bank. ‘Effective implementation’ means the positive outcomes of introducing and monitoring the standards.

In line with the motivating research question and the background of IFRSs implementation in Bangladesh, this study will explore the following Research Questions (RQs):

RQ-1: What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh as an example of a developing country?

RQ-2(a): How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs?

RQ-2(b): What other country specific factors are affecting implementation of IFRSs?

RQ-3: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?

The term ‘accounting regulatory frameworks’ means relevant regulations with respect to accounting (the Companies Act 1994, the SEC Rules 1987 & 1997, the Banking Companies Act 1991, Dhaka Stock Exchange Listing Rules 1998, Listing Regulations of the Chittagong Stock Exchange and the Income Tax Ordinance 1984) for non-banking and banking sectors in Bangladesh. The term ‘politico-institutional factors’ in this study means politics and co-operation among state institutions and professional bodies impacting on the implementation of IFRSs in Bangladesh.

In this study, the term ‘state-society’ means the relationship between external (i.e. the role of the state) and internal forces (i.e. individual organisations). This term has been used to explain how external and internal forces have influenced IFRSs implementation, as an example of accounting change in Bangladesh.

1.4 Research methods: an overview

In terms of research design, a ‘deductive approach’ (Dubois & Gadde, 2002; Bryman, 2008) is employed in the present study, because the focus of the study is on testing the theory of the role of the state. The objective of this research is to explore the implementation of IFRSs in a developing country, emphasising the impact of accounting regulatory frameworks, politico-institutional factors, cultural factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption) and other country specific factors. Given this consideration, the choice of research methods used in the present study has been informed by the research objectives and research questions (see section 1.3).

Prior research argues that when theoretical expectations exist but the appropriate propositions need to be developed, mixed methods can be a useful tool for understanding and validating those theories (Colignon & Covaleski, 1991; Bennett & Braumoeller, 2006; Fuentes, 2008; Hesse-Biber, 2010). These mixed methods have been utilised for three reasons: firstly, a theoretical framework can be developed (Neuman, 2000); secondly, the complementary principle or the acceptability of mixed methods is better than a single method (Tarrow, 2004); thirdly, in terms of the generalisation of the conclusions, mixed methods are likely to contribute towards richer conclusions (Jick, 1979; Maxwell & Loomis, 2003); and finally, in relation to the philosophical views of the research, the present study uses ‘critical realism’ as a philosophical stance for choosing mixed methods. Critical realism supports mixed methods (Bhaskar, 1978; Archer, 2002; Sayer, 2004; Modell, 2010).

The two phases of the data collection process are used to achieve the objectives of the study.

(a) Semi-structured interviews were conducted over a twelve-week period, from June to August 2010, during a field trip. A total of 27 interviewees participated in the

research. Miles & Huberman (1994) and Patton (2001) argue that six to eight interviews are enough to justify the results of a study. The length of most of the interviews here ranged from 60 minutes to 90 minutes. The interviewees were selected using a non-random stratified sampling method (Gibbs, 2008). The idea is to select interviewees purposively, identifying those who can help the researcher to understand the specific problem and the research question, in this case IFRSs implementation issues in Bangladesh (Creswell, 2007, p. 178). This study therefore employed a broad spectrum of respondents, grouped into four defined groups for the interviews, as follows: (a) seven policy makers; (b) twelve accounts preparers and professionals; (c) six users; and (d) two academics/researchers.

The study also conducted a follow up to the first round of interviews in order to investigate IFRSs implementation issues in more depth. In particular, the aim was to discover the consistency of the interviewees' views, because the present democratic government was in its third year of power. Therefore, a gap of more than a year existed between conducting the two round of interviews (June 2010 – September 2011). Although the researcher contacted 27 interviewees (i.e. the 1st round interviewees), only 12 agreed to follow ups: (a) four policy makers; (b) four accounts preparers and professionals; (c) two users; and (d) two academics/researchers). The follow-up interviews were conducted in September 2011. In general, follow-up interviews help researchers to obtain detailed and in-depth data (Yin, 2003; Creswell, 2007). The interview questions for the second round of interviews in this study were prepared based on the findings of the first round of interviews.

- (b)** In the second stage of data collection, the study examines the enforcement notices (e.g. those that relate to violations of SEC rules and accounting regulations) issued by the SEC from the beginning of 1998 through the end of 2010. This period of study was selected because of the availability of data and because the SEC mandated IFRSs from the beginning of 1998. The enforcement notices contain a very limited number of IFRSs-related violations. After carefully reviewing the SEC announcements, I eliminate 57 observations that are repeated from an earlier press release; 24 are not accessible from the website; and so the final sample consists of 1,647 unique observations. However, only 42 of 1647 enforcement notices are IFRSs related. The data analysis in this study follows the procedure of prior research

on enforcement notices (Bremser *et al.*, 1991; Feroz *et al.*, 1991; Campbell & Parker, 1992; Rollins & Bremser, 1997; Chen *et al.*, 2005; Files, 2012).

1.5 Research contributions

Some studies have been conducted to examine the application of disclosure requirements in Bangladesh (e.g. Ahmed & Nicholls, 1994; Ali *et al.*, 2004; Akhtaruddin, 2005; Hasan *et al.*, 2008). There have not been studies on wider implementation issues in Bangladesh. Although this study is specific to Bangladesh, the research contained within it provides findings and conclusion which may be relevant to other developing countries. The results may be useful to other developing countries wishing to implement IFRSs and to donor agencies supporting developing countries in implementing IFRSs. Researchers can use the results from this study as a guideline for the implementation of IFRSs in a developing country. The contributions arising from the three research questions in this research are given below.

- (a) In terms of RQ-1 (see section 1.3), this research discusses the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in a developing country. The contributions are: firstly, the study finds that politico-institutional factors are stronger and more dominant factors than accounting regulatory frameworks in impeding IFRSs implementation in Bangladesh; secondly, a lack of co-operation among the institutional bodies has existed in both democratic and military-backed government eras. However, the military-backed government was effective than the democratic government in terms of taking action against companies identified as being corrupt. Thirdly, there is evidence of ‘blaming culture’ (Hood, 2007, 2009; O’Neill, 2002) with the state institutions and professional bodies blaming each other regarding the IFRSs implementation process. This is possibly because ‘the blame game’ may be aimed at attempting to remove power and responsibility from other institutions in order to facilitate the legitimacy and increase the scope of government bureaucracy. Finally, unlike prior research (e.g. La Porta *et al.*, 1998; Kothari, 2000; Ball *et al.*, 2000, 2003; Leuz *et al.*, 2003) who argue that common-law origin is more transparent in terms of setting accounting standards, in this research, the country’s common-law origin has little or no influence on implementing IFRSs in Bangladesh. This is possibly because Bangladesh contains an unique environment which may be

explained via [a(i)] training opportunities in the accounting profession, [a(ii)] corruption and [b] other country specific factors.

Some policymaking actions should be taken to facilitate an effective implementation process: the contradictions between the local laws and the requirements of the IFRSs should be eliminated by incorporating IFRSs in the Companies Act; the stakeholders should participate in the setting of standards and in publishing exposure drafts and consultation papers on standards at regular intervals; tightened enforcement mechanisms (e.g. penalty criteria) should be introduced; and political lobbying and government intervention in the SEC and the ICAB should be minimised by establishing an independent oversight board, e.g. a Financial Reporting Council.

- (b) With respect to RQ-2(a) and (b) (see section 1.3), the contributions of this study are as follows: firstly, this study finds that deficiencies in the training opportunities in the accounting profession itself are impeding IFRSs implementation. This finding differs from prior studies in developing countries (Parry & Groves, 1990; Abayo & Roberts, 1993; Ahmed & Nicholls, 1994; Haniffa & Cooke, 2002), who find that training opportunities in the accounting profession has no impact. According to the interviewees, the professional curricula contain limited content on IFRSs, while the universities' curricula is without IFRSs content at all. Further, the limited training facilities available to accountants are inhibiting IFRSs implementation. With the exception of 'big 4' and other large companies, the majority of companies are not providing training facilities for their company accountants. Secondly, high levels of corruption in Bangladesh have a negative influence in implementing IFRSs. Given the fact that Bangladesh was top of the list of the most corrupt countries in the world for five consecutive years (2001-2005), the present study's findings reveal that corruption is deeply rooted in Bangladesh's society. Similar to Hofstede *et al.* (2010)'s index of Bangladesh, the World Bank's Governance Indicators Data (2010) and La Porta *et al.* (1998)'s data [see also Leuz *et al.*, 2003; Han *et al.*, 2012], this study reveals lower rates of enforcement in Bangladesh compared with India and Pakistan. This is due to higher levels of corruption, a factor which weakens enforcement of laws and is marked by a secretive culture. In South Asia, Bangladesh and Pakistan have experienced political instability due to military

intervention and both of these countries have worse than average secrecy and enforcement scores. However, interestingly, corruption was measured as being lower in both countries during periods of military-backed government.

Some policy making issues can be noted: the professional and universities curricula should be updated in line with IFRSs; the salary structure of CAs in Bangladesh should be made much more competitive, similar to India, Pakistan or Sri Lanka; the current democratic government should introduce a culture of transparency in the public and private sector, through a de-politicised Anti-Corruption Bureau to stop wide spread corruption; the SEC and the ICAB should pressure company management to comply with IFRSs; the copying extracts from the notes to the financial statements (e.g. accounting policies) of big companies' financial statements should be subject to higher penalties as imposed by the ICAB; state owned enterprises should not be given the privilege of optional non-compliance with IFRSs, and the SEC should follow stringent enforcement of the laws. While most listed companies in Bangladesh are family led businesses and are politically connected, the SEC should make sure that politicians and their associates are not extending their powers in order to violate the SEC rules; the SEC and the ICAB should emphasise the cost-benefit issues for small companies, and, shareholders' activism and demand regarding the quality of annual reports available to them should be prioritised by the companies.

- (c) In relation to RQ-3 (see section 1.3), the contributions are as follows: firstly, this study contributes to IFRSs implementation as an example of accounting change in a developing country by applying the Weberian view of the theory of the role of the state; secondly, unlike prior research which did not consider the state-society relationship (i.e. external and internal forces) in accounting change in both developed and developing countries, in this study, the adoption of the concept of institutional dynamics (Dillard *et al.*, 2004) allowed me to provide broader understanding of the theory of the state and to overcome some of the limitations of previous studies by considering accounting change in two levels (e.g. external and internal forces). In particular, the outcomes of accounting change in Bangladesh are observed from the state and individual organisation levels. However, the influence of the organisational field level is unknown in this research. Extending Weber's (1958)[1904], (1968)[1922] argument on state-society, the study finds that for a

state in an era of democratic government, politico-institutional factors and corruption (as an indication of societal values) may be more important and concentrated factors than for a state under a military-backed government in terms of impeding IFRSs implementation. The study reveals that all roles of the state have negative influences on accounting change. However, interviewees' initial concerns about the roles of donor agencies are transformed into concerns about the democratic government's failure to implement IFRSs. Lastly, since the role(s) of the state are vague in prior accounting research, this study discusses roles of the state (i.e. the state approves experts to write rules; it consults with various stakeholders; it enforces outcomes; it is accountable to its citizens; and it engages with donor agencies) in a developing country's experience during the process of accounting change.

1.6 Organisation of the Thesis

This thesis is organised into nine chapters, informed by the research questions. The details of the following chapters of the thesis are given below.

Chapter Two presents some interesting areas in the existing literature, since there is no single theory explaining IFRSs implementation in developing countries and most of the studies on adoption and implementation issues are based on developed economies. In particular, theories of the role of the State (RQ-3) identify various key factors, for instance, accounting regulatory frameworks, politico-institutional factors, cultural factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption) and other country specific factors. These factors are discussed to develop some interesting questions around implementing IFRSs in developing countries.

Chapter Three discusses fifteen key papers on theories of the role of the state (in particular the Weberian view of the state) in relation to accounting change. The chapter helps to develop a theoretical framework (RQ-3) from which to examine RQ-1 and RQ-2(a). More specifically, the role of the state and institutional dynamics are discussed in order to understand the links between the state and individual organisations. Based on the drivers of accounting change (i.e. the most discussed issues in the literature - accounting regulatory frameworks, politico-institutional factors, and cultural factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption), three

propositions were developed in Chapter Two. The theory of the role of the state helps to plan the investigation of the three propositions.

Chapter Four provides some background information on Bangladesh. The chapter describes the political regime in Bangladesh, accounting regulatory frameworks for financial and non-financial companies, the accounting standard setting process, including the status of the adopted accounting standards in Bangladesh, and South Asian regional efforts to implement IFRSs. Cultural factors (e.g. accounting profession and corruption issues) in Bangladesh are also outlined and analysed.

Chapter Five describes the research methodology and method employed in this thesis. A discussion of research methods is also provided in this chapter (see section 1.4).

Chapter Six presents the results for RQ-1 (the relative impact of accounting regulatory frameworks and politico-institutional factors). Based on the interview findings and the documentary evidence, two propositions (as developed in Chapter Two) are discussed in this chapter. The first proposition relates to the effectiveness of accounting regulatory frameworks and the second proposition relates to politico-institutional factors in relation to IFRSs implementation in Bangladesh.

Chapter Seven presents the results for RQ-2(a) (i.e. [i] training opportunities in the accounting profession and [ii] corruption) and RQ-2(b) (i.e. other country specific factors). Drawing upon the interviews as well as on documentary analyses, the chapter answers proposition three and analyses issues around other country specific factors. The third proposition was developed in Chapter Two.

Chapter Eight presents the results of RQ-3 (i.e. the theory of the role of the state in accounting change). Based on the interviews and enforcement documents, the chapter discusses insights which provide a broader view of the theory of the role of the state and institutional dynamics in explaining the implementation issues for a developing country such as Bangladesh. In particular, the chapter provides theoretical implications in order to gain an understanding of the role of the state and individual organisations, or between external and internal forces (i.e. the state-society relationship).

Chapter Nine provides a summary of the key findings and the contributions of this thesis. The chapter also highlights limitations and suggestions for further research.

Chapter Two

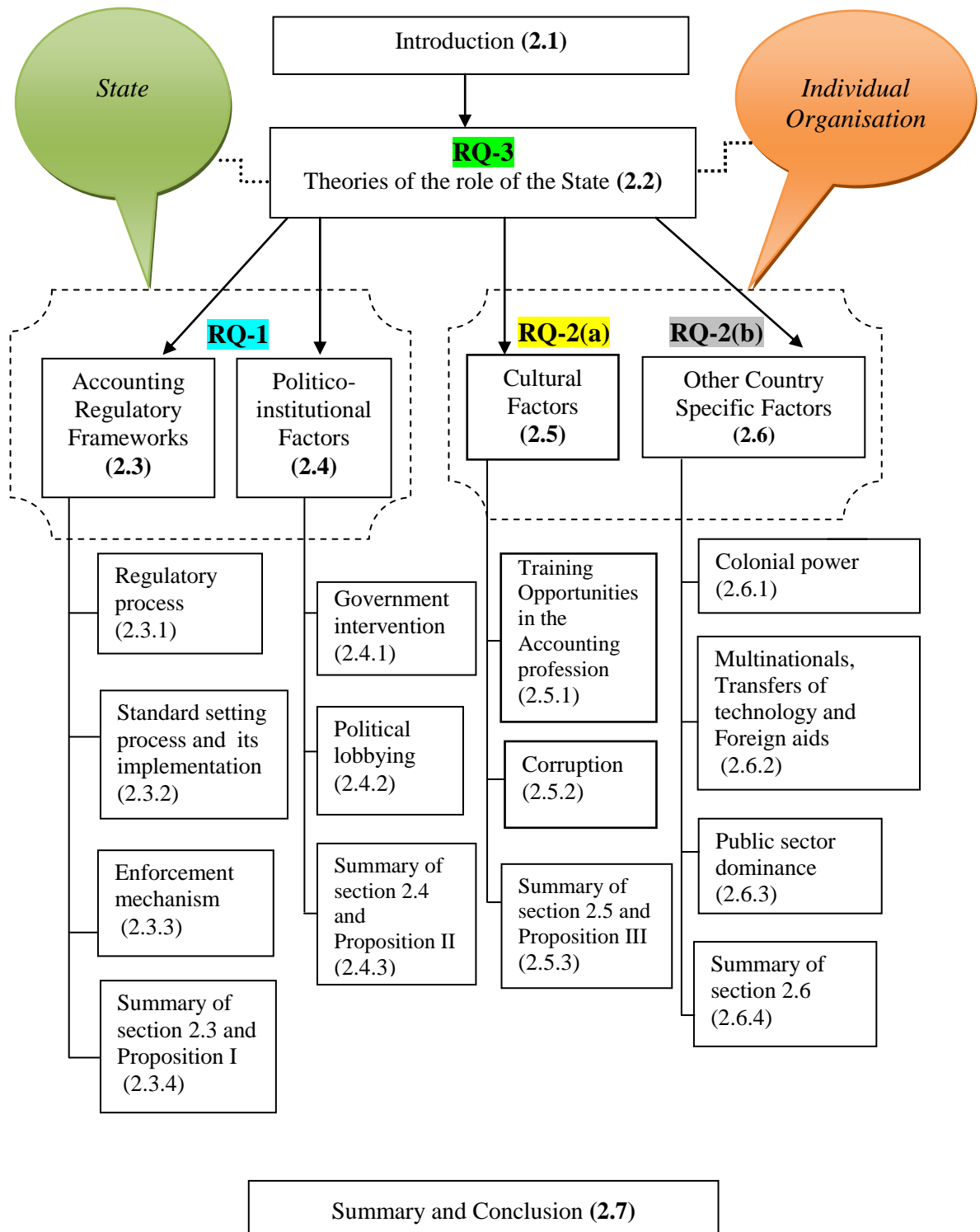
Review of Literature

2.1 Introduction

The central aim of this chapter is to discuss the research questions, i.e. *RQ-1: What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh as an example of a developing country?*; *RQ-2(a): How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs?*; *RQ-2(b): What other country specific factors are affecting implementation of IFRSs?*; and *RQ-3: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?* More specifically, the chapter seeks to achieve two goals. Firstly, the chapter will help to identify unexplored areas in the existing literature, since there is no single theory explaining IFRSs implementation in developing countries. Secondly, as most of the studies on adoption and implementation issues so far have been based on developed economies, the present study therefore considers some interesting questions around implementing IFRSs in developing countries. A detailed structure of the review of literature is shown in Figure 2-1. In terms of the sequence of the section, theories of the role of the State (RQ-3) precede RQ-1 and RQ-2 because RQ-3 helps to identify various key factors, for example, accounting regulatory frameworks as well as politico-institutional factors, cultural factors and other country specific factors. Further, RQ-3 will help to test a theoretical framework through RQ-1 and RQ-2.

The chapter is organised into seven sections. Section 2.2 evaluates the application of theories of the role of the state to a study of IFRSs in developing countries; sections 2.3 and 2.4 review the impact of accounting regulatory frameworks and politico-institutional factors on IFRSs implementation respectively; section 2.5 outlines the cultural factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption); section 2.6 reviews other country specific factors that may have an impact on IFRSs implementation; and section 2.7 summarises the discussions and concludes the chapter. Summaries are also provided at the conclusions of sections 2.2, 2.3, 2.4, 2.5 and 2.6. The propositions are developed in the summary sections of 2.3, 2.4 and 2.5.

Figure 2-2: Structure of Review of Literature



2.2 Theories of the Role of the State in relation to accounting

This section aims to explore the role of the state and to examine factors causing accounting change⁶. The section also seeks to understand the underlying problems of IFRSs implementation. Section 2.2.1 presents an overview of the state and Section 2.2.2 presents the definition of the state for this study. Section 2.2.3 then focuses on the relationship between the role of the state and accounting change. The literature on the role of the state and accounting change is enormous. In this study, I have undertaken a survey of the prior literature, mainly emphasising accounting journals using version 4 of the Association of Business School Academic Journal Quality Guide, UK (source: <http://www.the-abs.org.uk/files//Combined%20Journal%20Guide.pdf>, 17 November 2010). The 45 journals (see Appendix 2-1 for ABS ranking accounting journals) from the ABS ranking and 2 journals⁷ including *Research in Accounting Regulation* and *Research in Third World Accounting* (retitled *Research in Accounting in Emerging Economies* in 1995) have been used to locate the relevant articles on the role of the state in relation to accounting change. Then, the focus turns to the e-journals available in the university integrated database⁸ (see Appendices 2-2 and 2-3). Further, the present study employs Google Scholar (<http://scholar.google.co.uk/>) (accessed on 10 February 2012) using ‘role of the state in relation to accounting change’ as keyphrase; the initial electronic trawl through the literature reveals 1,540,000 published ‘works’ by early 2012, a count that includes editorials, some newspaper articles, conference papers works with no named authors, and duplicates. To simplify this complexity, I have used the following criteria to exclude papers from the analyses:

- a. Published working papers which lack author(s) name;
- b. Duplicate articles (e.g. articles that have already selected from ABS ranking accounting journals);
- c. Editorials and newspaper articles; and
- d. Articles whose main focus is other than accounting.

Therefore, this study concentrates on articles, book chapters and conference papers. From a survey of Google Scholar, I found 23 papers including 11 articles from other journals, 6 working papers, 5 book chapters and one research report (see Table 2-1).

⁶ Accounting change means the outcome of IFRSs implementation.

⁷ The two journals are not included in the ABS Ranking.

⁸ The University of Edinburgh Database (<http://small.lib.ed.ac.uk>).

From both of these surveys (56 papers are from the ABS and 23 are from Google Scholar), I find that a range of disciplines have contributed to the literature on role of the state and accounting change (see Appendices 2-4(a) and 2-4(b)). I found that 49 papers dealt with theoretical explanation, from a total of 79 papers. More specifically, only 15 out of 49 papers are in relation to the theory of the role of the state and accounting change (see Table 2-2). Three papers have solely focused upon developing countries. Finally, the investigation is confined to frequent discussed issues⁹ that are discussed in the literature rather than delving into other areas of enquiry.

Table 2-1: Articles, working papers, book chapters and research reports on the role of the state in relation to accounting, gathered using Google scholar

Author(s)	Cited by [times]
Watts (1977)	3,770
Hoogvelt & Tinker (1978)	35
Solomons (1978)	155
Streeck & Schmitter (1985)	1,274
Rose & Miller (1992)[2010] ¹⁰	1,855
<i>Walker (1992)</i>	2
<i>Napier & Noke (1992)</i>	33
<i>Stiglitz (1993)</i>	1,028
Zeff (1993)	65
Walker & Robinson (1993)	66
<i>Miller (1994)</i>	309
<i>Saudagaran & Diga (1998)</i>	24
<i>Klumpes (1998)</i>	2
<i>Faccio (2002)</i>	26
<i>Ordelheide (2004)</i>	19
Leuz & Oberholzer-Gee (2006)	148
<i>Zeff (2006)</i>	59
Perry & Nölke (2006)	64
<i>Leuz & Wysocki (2008)</i>	187
Nobes & Zeff (2008)	7
<i>Alexander & Servalli (2010)</i>	3
Königsgruber (2010)	10
<i>Zülch & Hoffmann (2010)</i>	0

Note: The author(s) & citations in italics indicate papers from book chapters, working papers and research reports.

⁹ I use the term *frequently discussed issues* as the drivers of accounting change.

¹⁰ The article also appeared in 2010: *The British Journal of Sociology*, 61(s1): 271–303 (*Special Issue: The BJS: Shaping sociology over 60 years*).

Table 2-2: Key papers in relation to the theory of the role of the state and accounting change

Author(s)	Cited by [times]	Source [ABS Journals (ABS)/ Google Scholar (Google)]	Country/ Not Applicable ¹¹ (N/A)
<i>Hoogvelt & Tinker (1978)</i>	35	Google	Sierra Leone
Tinker (1984)	105	ABS	N/A
Streeck & Schmitter (1985)	1,274	Google	N/A
Miller (1990)	176	ABS	France
Jonsson (1991)	30	ABS	Sweden
Rose & Miller (1992)[2010]	1,855	Google	UK
<i>Krzywda et al. (1995)</i>	28	ABS	Poland
Caramanis (2002)	54	ABS	Greece
<i>Constable & Kuasirikun (2007)</i>	6	ABS	Thailand
Moran (2010)	2	ABS	USA & UK
Alexander & Servalli (2010)	3	Google	EU & IASB
Kurunmaki <i>et al.</i> (2011)	2	ABS	N/A
Liguori & Steccolini (2012)	0	ABS	Italy
Norton (2012)	0	ABS	UK & USA
Oehr & Zimmermann (2012)	0	ABS	Germany, Canada & UK

Note: The italics indicate that these articles are based on developing countries.

2.2.1 Overview of the State

The concept of the state is very puzzling¹² and difficult to explain (Alexander & Servalli, 2010). Mann (1986, p. 112) argues that ‘state is undeniably a messy concept’. It is frequently observed that the concept of the state is confused with the government, with a nation-state or country, and with a given type of political regime. In particular, the state is often viewed as a synonym of government in the Anglo-Saxon tradition (Miliband, 1969). Government is regarded as the political elite that occupies the top positions of power in the state (Poulantzas, 1975, 1978). Cassese (1986)¹³ indicates that the state has at least 145 different meanings. The evolutionary concept of the ‘state’

¹¹Not Applicable [N/A] means that these articles are purely theory based.

¹²Graf (1995, p. 140) argues that “If the mainstream development literature of the 1960s and 1970s presupposed a ‘modernising’ or ‘developmental’ state and the Marxist approaches of the same period invoked the ‘strong’, ‘overdeveloped’ and (relatively) ‘autonomous’ postcolonial state; and if the eighties produced rather more ambiguous concepts such as the ‘rentier state’, the ‘peripheral state’ or the ‘bureaucratic-authoritarian state’; then in the nineties the imagery has turned relentlessly negative as expressed in such coinages as ‘vassal state’, ‘predator state’, ‘vampire state’, ‘receiver state’, ‘prostrate state’ and even ‘fictitious state’, ‘show of state’ or ‘collapsed state’”. Beyme (1986, p. 115) also observes that ‘American scholars have sometimes argued that the state is either a legal or a Marxist term’.

¹³ Cassese (1986, p.120) offers the view that “Since 1931, when 145 usages of it were found, the word ‘state’, like all terms with too many meanings, has ceased to distinguish any concept useful for purposes of study”.

emerged in the sixteenth century¹⁴ and developed through to the nineteenth century (Chabod, 1964).

The debate around the concept of the state has been quite lively (Miliband, 1969; Poulantzas, 1975; Taylor, 1975; Mann, 1986). Hegel, in his work *Philosophy of Right*¹⁵, provides the broader view, that “[State] is the culmination of the appearance of freedom and reason in the relationships which man always has with those who surround him”. Hegel distinguishes between three levels of social interactions: the family, the civil society, and the state (Avineri, 1972, p. 80). However, Lewin *et al.* (2010, p. 5) argue that the concept of the state is not sufficiently defined in Hegel’s writings. The critique of Hegel by Marx is that “the state becomes the private property of officials in their struggle for self advancement” (Jessop, 1977, p. 354) and this predates the development of a class theory of the state. According to Marx, the state is part of the superstructure and reflects of the economic base (Mann, 1986). Dusza (1989, p. 71) argues that “.... the term ‘state’ lived on in Marxism, but the class of objects that it denoted was not identified exactly; it was used only as a catchword for the designation of the ‘political superstructure...Recent works by the so-called neo-Marxists have not gotten farther than attributing to the state a greater degree of ‘autonomy’ than was proposed by Marx and Engels”. Marx completely rejected the cultural dimension of the state (Tilly, 1973). Tinker (1984, p. 61) also criticises Marx’s view and argues that the conceptual categories of the political economy of Marxism are specific to capitalism and thus neglect the social essence. Both groups start from what Poulantzas (1975) calls the ‘relative autonomy’ of the state and both naturally reject liberal theories of the state as a neutral political agent (Carnoy, 1984; Hoffman, 1995; Hay, 1996).

Max Weber’s (1968)[1922] concept of the state predominantly focuses upon institutions. For Weber, “the state can be defined in terms of what it looks like, institutionally and that the state is also inclusive of functional institutions within the market and civil society” (Mann, 1986, p. 112). A neo-Marxist like Jessop (1977) agrees that Weber acknowledges the positive effects of strengthening markets (e.g. institutions). Skocpol (1985) strongly argues that the state should be taken seriously as a macrostructure and should be differentiated from liberal and Marxist approaches (i.e.

¹⁴ Chabod (1967, p. 605; cited in Cassese, 1986) studies different meanings of state, such as dominion, institution and political lordship in the sixteenth century.

¹⁵ Cited in Avineri (1972, p. 80).

Marxism is fundamentally based on legitimate authority). Focusing on social norms and social conflict (in a ‘Tocquevillian’ sense after the French thinker), Skocpol (1985) argues that social norms change over time and culture is seen as a primary determinant of the state. More precisely, the spirit of the Weberian perspective is reflected by Williamson (1985)¹⁶ who argues that to mix state and society represents ‘new institutionalist’ assertions. From this point of view, the state is a combination of the macro-micro structure of a country.

Using a Weberian view (1968)[1922] on state-society, Mann (1986, p. 112) argues that the state contains four elements: “(a) *A differentiated set of institutions and personnel, embodying; (b) centrality, in the sense that political relations radiate outwards from a centre to cover a; (c) territorially demarcated area, over which it exercises; (d) a monopoly of authoritative binding rule-making, backed up by a monopoly of the means of physical violence*”. The state must have a monopoly on the use of force, must be considered to be legitimated by the civil society, and must have the capacity to run a country (Mann, 1986). Explaining the basic functions of a state, Tinker (1984, p. 67) argues that “*The function’ of the state is ‘contract enforcement’ in this view; politics is ‘the struggle over the law’ and over the state’s prerogative over legal compulsion (or ‘the monopoly of the legitimate use of physical force’ to use Weber’s famous phrase)*”. However, debates on power¹⁷ still remain within Weber’s concept of the state (Dusza, 1989). The socio-cultural or extra-societal allegiances¹⁸ can tighten the relationship between ‘state’ and ‘society’ within social relationships (Robertson, 1990, p. 19). The World Bank (1997) in a world development report, *The State in a Changing World*, provides practitioners’ views of the Weberian concept: “*State in its wider sense, refers to a set of institutions that possess the means of legitimate coercion, exercised over a defined territory and its population, referred to as society. The state monopolizes rule making within its territory through the medium of an organized government*” (p. 20).

¹⁶ Although the Williamsonian perspective has acknowledged macro & micro institution, his works are limited to analyses of the relations of micro institutions (Evans & Rauch, 1999, p. 749).

¹⁷ Weber (1968, p. 152, cited in Uphoff, 1989, p. 295) defines power as “*Herrschaft ist, wie gleich zu erortern, ein Sonderfall von Macht* (Authority is, as will be discussed, a special kind of power)”. Mann (1986) believes that four sources of power (ideological, economic, military and political) underpin the development of the state.

¹⁸ According to Mann (1986), this process, termed ‘diffused power’, e.g. social norms, is a subtler, more normalised power where individuals follow social norms either because they are natural, moral or arise from self interest.

In accounting literature, the meaning of the state is ambiguous (Jonsson, 1991; Rose & Miller, 1992[2010]; Moran, 2010; Kurunmaki *et al.*, 2011; Norton, 2012; Alexander & Servalli, 2010; Liguori & Steccolini, 2012), and most of the literature (Hoogvelt & Tinker, 1978; Krzywda *et al.*, 1995; Caramanis, 2002; Constable & Kuasirikun, 2007; Oehr & Zimmermann, 2012) ignores any exploration of the meaning of the state. A few studies, like Tinker (1984), Streeck & Schmitter (1985) and Miller (1990) argue that the meaning and application of the state depend on the context of the study.

2.2.2 Definition of the state for this study

The state in this study means a set of institutions and role (rules and actions over a territory or society) in the processes of accounting change (i.e. the actual observed outcomes of introducing and monitoring the standards). There are different meanings of institutions. Institutions are governance structures based on rules, norms, values and systems of cultural meaning (North, 1990). Institutions are defined by Ostrom (1990, p. 51) as *“the set of working rules that are used to determine who is eligible to make decisions in some arenas, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided, and what payoffs will be assigned to individuals dependent on their actions”*. Jepperson (1991), on the other hand, defines institutions to be any social pattern characterised by standard sequences of interactions. In economics, institutions serve to minimise market transaction costs (North, 1990). In sociology, institutions are social structures which come to be sanctioned by norms and values, facilitate political co-operation, and reduce uncertainties (Hopwood, 1990, 1999). In this study, I focus upon state institutions and professional bodies (i.e. the government, ministerial bodies, accountancy professional bodies, the stock exchange, the Securities and Exchange Commission and the central bank). Based on the concept of this section, the next section will discuss the role of the state in accounting change.

2.2.3 Role of the State and Accounting Change

I have used a particular definition of the state for this study (as mentioned in the previous section, 2.2.2) because this particular meaning signifies the role of the state and accounting change within a society. Since the accounting literature suggests different meanings of the state, and the meanings depend on the purpose of the study, I

follow the definition for three reasons: (a) the state is linked with the market and society (Weber, 1968[1922]); (b) it helps to understand the role of the state (World Bank, 1997); and (c) the concept can inform policymakers and practitioners as to why some states are more effective than others (World Bank, 1997). One implicit caution is that this study focuses on role of the state, but not to find out the meaning of the state.

In terms of accounting change, Napier (2006, p. 445) states that: “*Accounting has changed, is changing, and is likely to change in the future*”. This statement might almost be regarded as a truism (Constable & Kuasirikun, 2007). Accounting methods, techniques, ideas and practices differ in 2005 from those which were prevalent in 1975 or earlier (Napier, 2006). The state’s role regarding accounting change has been largely ignored by historians, accountants and social scientists (Constable & Kuasirikun, 2007, p. 574). In a recent study, Liguori & Steccolini (2012, p. 28) argue that accounting is recognised as playing a fundamental role in organisational change. They demonstrate different outcomes of accounting change in the presence of similar environmental pressures. Accounting researchers are devoting greater attention to the social, political, and economic forces influencing accounting change (Parkinson, 1984; Pushkin & Pariser, 1991; Napier, 2006; Liguori & Steccolini, 2012). Prior studies have established some links between the role of the state and accounting change (e.g., Tinker, 1984; Streeck & Schmitter, 1985; Miller, 1990; Moran, 2010; Alexander & Servalli, 2010). Roles of the state include:

- a. State approves experts (e.g. professional bodies) to write rules (Tinker, 1984; Jonsson, 1991; Alexander & Servalli, 2010; Moran, 2010; Norton, 2012);
- b. State consults with various stakeholders (e.g. investors, professionals and researchers) for the validation of rules (Streeck & Schmitter, 1985; Rose & Miller, 1992[2010]; Kurunmaki *et al.*, 2011; Oehr & Zimmermann, 2012);
- c. State enforces outcomes (Hoogvelt & Tinker, 1978; Krzywda *et al.*, 1995); and
- d. State initiates change because the state is accountable to its citizens (Miller, 1990; Constable & Kuasirikun, 2007);

In order to explore the role of the state and accounting change, I have used articles from several sources, in particular, the ABS and Google Scholar (as mentioned in section 2.2) and focused upon the most frequently discussed issues in the literature (the process of selecting articles is described in section 2.2). As indicated in section 2.2, only 15 key

papers are identified in relation to the theory of the role of the state and accounting change. The most frequently debated issues¹⁹ (drivers of accounting change) from 79 papers, namely accounting regulatory frameworks, politico-institutional factors, and cultural factors, are discussed in sections 2.3, 2.4 and 2.5.

2.2.4 Summary of section 2.2

This section has provided a generic discussion of the theories of the role of the state in relation to accounting change. As discussed in section 2.2.1, ‘the state’ has many meanings and these can depend on the purpose of a study. Further, theories of the role of the state have been employed in relatively limited areas of accounting research and therefore, the theoretical literature implies that there is a gap in the application of the theories in relation to IFRSs implementation. In the present study, I follow the Weberian concept of state (see section 2.2.2) (which will also be discussed in Chapter Three, relating to the theoretical framework).

Section 2.2.3 indicates that I have identified the three most frequently discussed issues in the literature in terms of the role of the state in relation to accounting change (i.e. accounting regulatory frameworks, politico-institutional factors, and cultural factors). These three issues will be discussed in sections 2.3, 2.4 and 2.5. More specifically, theories of the role of the state will be discussed in Chapter Three, in order to develop the theoretical framework for the present study.

2.3 Accounting Regulatory Frameworks

As mentioned in Chapter One, ‘accounting regulatory frameworks’ in this study means relevant regulations with respect to accounting (the Companies Act 1994, the SEC Rules 1987 & 1997, the Banking Companies Act 1991, Dhaka Stock Exchange Listing Rules 1998, Listing Regulations of the Chittagong Stock Exchange and the Income Tax Ordinance 1984) for non-banking and banking sectors in Bangladesh. The classification of accounting systems may differ because of various factors: legal, political, institutional and cultural (see Chapter One). This section provides the extant literature

¹⁹ The most-argued issues will be also be discussed in sections 2.3.4, 2.4.3 and 2.5.3 in order to develop three propositions.

on accounting regulation²⁰ with specific focus on the regulatory process, the standard setting process and its implementation and the ‘enforcement’ mechanism of regulation into practice. The literature on ‘accounting regulation’ is vast, and prior research focuses on different dimensions of regulation. However, the questions of particular interest to this section are: “how does the regulatory process and standard setting process emerge?” and, “with regard to its impact on IFRSs implementation, what actions may be taken to ensure compliance with the standards as ‘enforcement mechanisms’?”.

2.3.1 Accounting Regulatory Process

Studies of the regulatory process have highlighted the changing relationships and tensions between the state and the profession, and how these vary according to national contexts (see Appendix 2-4a). From a historical point of view²¹, researchers show that the state in Anglo-American countries (excluding the UK) has had a longstanding involvement with the development of accounting rules. The state agencies help to create a demand for general financial management services, particularly within regulated firms (Jones, 1981). But this political involvement raises questions around the existence of a transparent regulatory process (Zeff, 2007).

Various empirical studies have employed the legal framework of La Porta *et al.* (1998) to examine the impact of the legal environment on the properties and quality of financial reporting. Most studies confirm the usefulness of such legal frameworks. Some of them, particularly, employ a legal system dichotomy, code law versus common law, to examine the association of legal systems with financial disclosure (Solomons, 1978; Bloom *et al.*, 1998; Ball *et al.*, 2000; Jaggi & Low, 2000; Naciri & Hoarau, 2001). Kothari (2000) presents a ‘demand-supply argument’. Kothari (2000, p. 91) argues that “*a demand, and therefore supply, of quality financial information will be high in a common-law legal system*”. Alexander & Archer (2000, p. 550) put it: “*..common law tradition coupled with private sector standard setting leads to a more flexible and*

²⁰ *The definition of regulation is:* “The intentional restriction of a subject’s choice of activity, by an entity not directly party to or involved in the activity” (Mitnick, 1980, p. 5). *The definition of accounting regulation is:* “...the imposition of constraints upon the preparation, content and form of external financial reports by bodies other than the preparers of the reports, or the organisations and individuals for which the reports are prepared” (Taylor & Turley, 1986, p. 1). *The definition of accounting regulatory frameworks is:* “a mandatory call for information that the preparer may have not voluntarily provided” (Taylor & Turley, 1986, p. 7).

²¹ See Zeff (1972), Loft (1994), Miranti (1986) & Previts & Merino (1998).

responsive system for accounting regulation". Ball *et al.* (2003) provide an 'irregularities argument' with respect to four East Asian common law countries. In terms of 'irregularities argument' (i.e. common-law vs. code-law approach), Ball *et al.* (2003, p. 235) argue that the IASB's standards derive from common law sources (UK, US, and IFRS) which are widely viewed as being of a higher quality (e.g. 'common-law approach of IFRSs is transparent' - Ball *et al.*, 2000, p. 47) than code law standards. Ball *et al.* (2003) find that a common law legal system has a very detailed, prescriptive set of accounting standards that have little to do with the nature of the legal system.

By contrast, a codified law system made by the statute law to promulgate accounting rules leaves considerable scope for flexibility (Parker & Nobes, 1994). The common law tradition tends to protect investors more than code law (La Porta *et al.*, 1998, 1999). Inchausti (1997) argues that it may not be possible to leave disclosure to the market alone, and it may be necessary to regulate accounting in order to ensure that firms satisfy the information needs of different users in Spain.

The prior literature provides contradictory views regarding the impact of governments' involvement in the accounting regulatory process. Firstly, government involvement can be seen as positively influential towards the regulatory process (Carpenter, 1991). For example, Masel (1983) feels that government authority is usually the only acceptable form of coercion in a standard setting process. Saudagaran & Diga (1997) find that in all five ASEAN countries, both government agencies and professional accounting bodies are well represented and actively involved in the formulating and enforcing of accounting regulations. Taplin *et al.* (2002) examine the extent of IFRSs compliance in six Asia Pacific countries²² and find that companies in the four Asian countries (Australia, Hong Kong, Malaysia and Singapore) with British colonial links have higher levels of disclosure. They call for more direct government intervention in achieving *de facto* harmonisation (Taplin *et al.*, 2002, p. 172).

Secondly, research into the 'politics'²³ of the accounting regulatory process reflects not just social and economic developments, but also the view of national power (Moran, 2010). National accounting has been characterised as closely linked to the exercise of

²² Australia, Hong Kong, Malaysia, Philippines, Singapore & Thailand.

²³ Watts & Zimmerman (1978), Hussein & Ketz (1980), Newman (1981), Hope & Gray (1982), Lowe *et al.* (1983), McKee *et al.* (1991) and Walker & Robinson (1993).

national power (Miller, 1986). Consequently, the interrelations between accounting and the state have been viewed as central to the understanding of accounting change (Miller, 1990). In this context, Puxty *et al.* (1987) highlight the point that the institutions and processes of accounting regulation in different nation-states cannot be understood independently of the historical and politico-economic contexts of their emergence within these respective states. So, it is a strange irony that while accounting in the former socialist countries is developing in the context of moving from a command economy, accounting in the advanced capitalist countries is increasingly being influenced by state regulation (Puxty *et al.*, 1987). Cooke & Wallace (1990) conclude that the level of corporate financial disclosure regulation in many developed countries is more likely to be determined by internal factors, and that most developed countries are highly regulated, whereas regulation in many developing countries is more likely to be determined by external factors. Willmott *et al.* (1992) examine four capitalist countries²⁴ and find that accounting regulation in those countries is shaped by the disciplinary effects of hierarchical control (social order organised through bureaucratic agencies). Alexander & Micallef (2011, p. 19) argue that “*..the clarity of the applicable financial reporting regulatory framework, and the practical application of it, are of utmost importance. This is because a clear regulatory framework is needed to act as a central source of reference of the accounting principles requiring adherence to, and for a system of enforcement of, those principles. Consequently, greater specification and precision is required when amending an existing regulatory framework*”.

To overcome the structural weaknesses in developing countries, Banerjee (2002) proposes that the direct government intervention is necessary to reform the accounting regulation. In a Hungarian study, Boross *et al.* (1995) conclude that, while the impact of the move to the market economy is a visible factor, both in the drafting of the law and in the perceptions of the likely users of the financial statements, the influence of state regulation still remains. Zeff (1995) suggests collaboration between a private-sector standard setting body and a government regulatory body. Whilst the importance of accounting regulations in the internationalisation of policy regimes is now seen almost as a cliché (Jessop, 1990), many studies at the international level tend to focus upon one particular ‘international’ institution or standard: much less attention is given the

²⁴ Sweden, the UK, the USA and Germany.

polycentric, network or co-ordinated character of ‘regulation work’ and the complexity of relations between national agencies (Caramanis, 2002).

2.3.2 Standard setting process and its implementation

States have been taking an increased interest in accounting standards, seeing them as an important element of their financial policies (Cooper & Robson, 2006; Laughlin, 2007). Whittington (2005, p. 151) argues that *“Implementation of standards is of critical importance to the success of international standards if this is not achieved, international standards will not command respect, however good their intrinsic quality”*. The need to understand the process of accounting standard setting and its implementation in different countries is widely recognised (Choi & Mueller 1978). It is essential to consider the influence of the nation-specific environment on that process in each case (Previts, 1975; Nair & Frank, 1980). Miller & Redding (1988, p. xi) note that *“By its very nature, standards setting is very much a matter of politics”*. Alexander & Archer (2000, p. 555) argue that *“The future of accounting standard setting at the national level may be in question”*. The inevitably political nature of standard setting has been considered over many years by researchers across various jurisdictions.

The political nature of accounting standards setting has long been recognised (Moonitz, 1974; Fogarty, 1992) and there has been continued debate on the subject. Over the years, the accounting profession has sought to control the regulatory process as part of maintaining its authority within the traditional boundaries of its discipline, but at the same time, other interested parties and professions have seen opportunities therein to expand their spheres of influence (Perry & Nölke, 2006). In particular, governments have found wider benefits by granting, in the name of consensus, privileged access to the policy-making process to certain interest groups (Lehmbruck & Schmitter, 1982) which raises questions around the government’s role in standard setting. However, the issues underpin the government’s influence and position on the adopted standards in line with the terms of local national standards handling (Saudagaran & Diga, 2000). Walton (2009, p. 4) strongly criticises politicians’ involvement in the standard setting process and argues that *“accounting standard-setting achieves nothing when politicians take it over. You wouldn’t ask politicians to design a car for you, because they do not have the necessary knowledge and experience. Why would they be competent to write standards?”*.

It has been recognised that accounting information affects behaviour (Zeff, 1978). Watts (1977, 1980) argues that financial statements are products both of markets and of political processes (the interactions between individuals and interested groups). This implies that accounting standards are not ‘neutral’ with respect to political, economic and cultural factors (Leuz *et al.*, 2004). The politics of setting standards is a principal concern in a developing country such as Armenia (Bloom *et al.*, 1998). Stoddart (2000) finds evidence of lobbying actions by standard-setting bodies which are part of a much wider political process in Australia. He argues that the structure of setting accounting standards in Australia has substantially shifted in terms of power from the two professional accounting bodies (ICAA and ASCPA) to the government. Despite the existence of governmental influence on accounting standard setting in Australia, Miller (1996) claims that accounting standard setting in Australia is open, neutral and independent because all stakeholders have a chance to make submissions on accounting issues within the ‘due process’ so that an equilibrium outcome is achieved. Similar findings are reported by Naciri & Hoarau (2001) who argue that the French standard setting system is ‘political’.

In China, Ezzamel *et al.* (2007) have analysed the relationship between political-economic factors and accounting standards setting during the transition from a state controlled economy under Mao to a ‘socialistic market economy’ under Deng and they find that in both eras, accounting is construed as a malleable object shaped by the force of the dominant political discourse. Peng & Bewley (2009) also find evidence that Chinese standard setting is controlled, directly or indirectly, by powerful interests and the state, for example the Ministry of Finance. On the EU experience, Whittington (2005) documents that “*President Chirac of France wrote a much publicised letter to President Prodi of the EU expressing anxiety that the IASB standards were not sensitive enough to European interests and that, in particular, volatility resulting from application of the standards would be damaging to the European economy*” (p. 143). Zülch & Hoffmann (2010) illustrate evidence of linkages between parliamentarians and interest groups in the course of accounting standard setting in Germany.

In a similar vein, Königsgruber (2010) argues that if the relevant standard setters wish to achieve a harmonisation of accounting standards between the EU and the US, European companies have more lobbying leverage than their American counterparts

because there are more political lobbying groups in the EU. Similar findings are reported by Chiapello & Medjad (2009). Mixed evidence exists within the USA. Whilst Naciri & Hoarau (2001) argue that accounting standards are based on a structure of ‘coordinated concepts’ in the USA, Zeff (2002) finds that political influence occurs because three actors are involved in the accounting legislative process (i.e. the Senate, the House of Representatives, and the President). In a cross country study, Ball *et al.* (2000) conclude that in code-law countries, the comparatively strong political influence on accounting occurs at national and firm levels because the government establishes and enforces national accounting standards, typically with representation from major political groups. By contrast, the demand for accounting income under code law is influenced more by payout preferences, and less by a demand for public disclosure. However, the classification of Ball *et al.* (2000) contradicts an earlier study of Nobes (1998)²⁵.

Setting standards which are inconsistent with users’ expectations could undermine the viability of a new regulatory system in a developing country (Bloom *et al.*, 1998). To implement standards, accounting standards must fit the social, economic, and political climate of their countries (Naciri & Hoarau, 2001). Prior research offers a way to establish effective accounting standards setting body (Jonsson, 1991; Laughlin, 2007; Christensen *et al.*, 2010). For instance, Jonsson (1991) calls for an extended form of consultation before legal texts (e.g. accounting regulations) are formulated. This process of formulating regulation will then become public and the state may be said to have earned this legitimacy. Laughlin (2007) argues that “*accounting, and, by implication, accounting regulation, needs to serve the accounting information needs of all stakeholders and not just shareholders and other finance providers*”. He further emphasises that ‘freedom guaranteeing’ (i.e. amenable to substantive justification) mechanisms should always be viewed as the ideal model to aspire to in formulating regulations than ‘freedom reducing’ ones (i.e. those which are ‘legitimised only through procedure’). In recent study, Kvaal & Nobes (2012, p. 367) report that the persistence of national patterns of policy choices makes it likely that there is persistence of international difference on IFRSs topics. Zeff (2012, p. 833) argues that “*There is a great deal of variability in the effectiveness of regulator performance even within the EU...especially in emerging economies and developing countries*”.

²⁵ Nobes (1998) proposes a general model of the reasons for international differences, based on culturally self-sufficient (CS) and culturally dominated (CD) countries.

2.3.3 Enforcement Mechanism of Regulation

Hail *et al.* (2010, p. 575) argue that “*The implementation and enforcement aspects of global accounting convergence are largely missing from the IFRS debate, which we view as a serious shortcoming*”. Christensen *et al.* (2010) point out that the effects of accounting regulation depend, crucially, on implementation and enforcement. To understand the ‘enforcement mechanism’, Foucault (1977, p. 23) offers a theory of power (the ‘panopticon’²⁶) which is laid out in the introductory section of the book ‘*Discipline and punish*’. Foucault (1977, p. 47) draws down the principle of Bentham, that power should be visible and unverifiable²⁷. Zimmerman (1998) argues that the panopticon idea becomes more powerful because power becomes more efficient through the mechanisms of observation available in modern society. A possible criticism of the idea of panopticon is that “*it is at once too little, for what matters is that he knows himself to be observed; and too much, because he has no need in fact of being so*” (Butler, 1997, p. 35).

In terms of accounting regulation, the panopticon metaphor sheds light and aims at identifying and preventing irregularities. Consequently, law enforcement mechanisms control all sorts of irregularities (Anechiarico & Jacobs, 1995, p. 362). Without enforcement “*the production of accounting rules will be nothing more than symbolic behaviour*” (Walker, 1985, p. 12). Parker (1986) suggests that the enforcement stage should be given to the entity equipped with the power to enforce, i.e. the government. Zeff (1988, p. 20) supports this view that the government agency is in a much better position to enforce compliance with accounting standards. Walker (1990, p. 543) strongly argues that “*A serious weakness encountered by any private standard-setting agency may be the lack of true authority to enforce accounting standards*”. Watts & Zimmerman (1986) earlier pointed out that market failures can be reduced by government regulation. The government therefore needs to play a more direct role in the design and enforcement of accounting standards (Watts & Zimmerman, 1990; Tower, 1993).

²⁶ The ‘Panopticon’ is a type of prison building designed by the English philosopher and social theorist Jeremy Bentham in 1785. The concept of the design is to allow an observer to observe (*opticon*) all (*pan*) prisoners without the prisoners being able to tell whether they are being watched, thereby conveying what one architect has called the “sentiment of an invisible omniscience” (Matthieson, 1997).

²⁷ *Visible*: the inmate will constantly have before his eyes the tall outline of the central tower from which he is spied upon and *Unverifiable*: the inmate must never know whether he is being looked at any one moment; but he must be sure that he may always be so, and the presence or absence of the inspector should be unverifiable, so that the prisoners, in their cells, cannot even see a shadow (Foucault, 1977).

The prior studies have employed broad measures of legal enforcement, such as the efficiency of the judicial system (Hope, 2003; Leuz *et al.*, 2003; Norton, 2012; Zeff, 2012). Jaggi & Low (2011) suggest that strict securities regulations in weak investor-protection countries play an important role in audit pricing because of higher effort and risk being involved in audits. Zeff (2012, p. 833) points out that “*A commitment by a country that its listed companies are required to use IFRS lacks credibility if it is not backed up by a vigilant and proactive regulator, whether in the private or public sector*”. In a recent study, Houque *et al.* (2012) highlight the importance of investor protection for financial reporting quality.

However, Coffee (2007, p. 80) observes that “*The United States employs an inefficient regulatory model, by allocating disproportionately high resources to enforcement of the law and punishment of securities fraud after it has occurred and been detected*”. Later, Ball (2009, p. 316) confirms that there is a considerably lower frequency of reporting fraud in the UK, where the FSA regulates securities markets in a more consultative fashion and with less emphasis on enforcement after the fact, and there is a noticeable comparative success for the US system in detecting and correcting financial reporting fraud, but not in deterring it in the first instance. Nevertheless, reporting and disclosure would be very likely to be less adequate in developing countries because of the political nature of the enforcement (Belkaoui, 1983).

Researchers like Wagenhofer (2011), Leuz (2010) and Rahman (2000) argue that more regulation increases reporting quality. Wagenhofer (2011, p. 230) argues that regulators should delegate standards setting to the independent standards board. The standard setters then receive more weight of public trust than political trust. Ernstberger *et al.* (2010) report that regulatory reforms in enforcement have increased the degree of enforcement in Germany. Similarly, Hitz *et al.* (2012, p. 276) find that the two-tier enforcement systems (Die Deutsche Prüfstelle für Rechnungslegung [DPR] & Bundesanstalt für Finanzdienstleistungsaufsicht [BaFin]) are working closely towards strong enforcement in Germany since 2005. The quality of accounting information is a function of both the quality of accounting standards and the enforcement of those standards, and therefore high quality accounting standards with wide acceptance and effective enforcement mechanisms are necessary to create a transparent environment for investors (Rahman, 2000; World Bank, 2000; ADB, 2001).

Accounting standards on their own are ineffective mechanisms of regulation (Kothari, 2000). Kothari (2000, p. 90) argues that “*Demand, and therefore supply, of quality financial information will be high if corporations are best described as owned by widely dispersed, individually atomistic shareholders.....high-quality investor protection laws, good enforcement of these laws*”. This argument is important in terms of distinguishing between the quality of law and effective implementation of the laws. For example, infrastructural arrangements for implementing and enforcing standards are important in giving accounting standards the capability to make accounting information relevant for capital markets (Hail *et al.*, 2010). Saudagaran & Diga (2000) classify enforcement mechanisms into preventive and punitive enforcement mechanisms (preventive arrangements encourage and facilitate compliance, and punitive arrangements force compliance or lead to penalties for non-compliance). Thus, effective punitive enforcement will increase the confidence of investors in the credibility of financial reports, since any violation of standards would be punished (Rollins & Bremser, 1997). Saudagaran (2009) suggests that the government regulatory bodies and the accounting profession in developing countries suffer from structural weaknesses and often take a lenient attitude that results in inevitable non-compliance with standards, and calls for stronger enforcement mechanisms. For example, Karampinis & Hevas (2011) argue that in unfavourable economies like Greece with inadequate institutional infrastructures (e.g. a code-law tradition, bank orientation, concentrated corporate ownership, poor shareholders’ protection and low regulatory quality), the implementation of mandatory IFRSs are not effective. In contrast, in favourable economies like the USA, the findings of Files’ study (2012, p. 371) suggest that *‘firms are rewarded for co-operative behaviour, although the reward is manifested through lower penalties rather than a reduction in sanctions’*. The result implies that the SEC’s criteria for leniency following a law violation in the USA means that even the market reacts negatively to news of an SEC enforcement action or investigation (Feroz *et al.*, 1991).

In order to have a sound financial system, high quality, generally acceptable accounting standards and an effective enforcement mechanism have to be presented concurrently (Zeff, 1988; Ball, 2001). Since the goal of uniform enforcement raises particular challenges, including coordination of enforcement activities and sanctions in the EU (Brown & Tarca, 2005, p. 204), the study by Berger (2010, p. 18) recommends delegation of authoritative power to the Committee of European Securities Regulators

(CESR) in the EU to ensure that effective enforcement is being implemented. Otherwise, the motivation of global IFRSs will not be achievable. Holthausen (2009, p. 457) therefore argues that *“As such, the “standards” themselves will become less uniform over time ... which will lead to further differences in financial reporting over time, unless the underlying economic and institutional forces across countries become more similar”*. To mitigate uniformity problems in global enforcement, Leuz (2010, p. 252) recommends that *“[The] key message is that there are substantial enforcement differences around the world. ... Thus, I proposeto create a GPS, in which firms play by the same reporting rules (i.e. IFRS), face the same enforcement, and are likely to have similar incentives for transparent reporting. The GPS could be created and operated by IOSCO or other supranational institutions. .. it would provide comparable enforcement across participating firms”*.

By contrast, Ball (2006) argues that *“Despite increased globalization, most political and economic influences on financial reporting practice remain local...[a] toothless body of international enforcement agencies [is] currently in place”* (p. 15). Christensen *et al.* (2010) find that the same forces that have limited the effectiveness of securities regulation in the past are playing significant roles when new rules are introduced. This has important implications for the expected outcomes of regulatory reforms across countries in the EU.

2.3.4 Summary of section 2.3 and Proposition I

In summary, the prior research suggests contradictory results with respect to accounting regulatory frameworks. As discussed in section 2.3.1, the literature suggests that government involvement positively/negatively influences the regulatory process. However, power struggles and conflicts of interest exist in the regulatory process. Researchers such as Boross *et al.* (1995), Zeff (1995) and Banerjee (2002) call for a collaboration between a private-sector standard setting body and the government regulatory body in order to create effective regulation (section 2.3.1). Further, the standard setting process has been evidenced as being political in nature, in both developed and developing countries (section 2.3.2). Without proper enforcement of the standards, the quality of accounting standards alone will not increase transparency. In developing countries, government regulatory bodies often take a lenient attitude towards creating effective enforcement mechanisms (section 2.3.3). The following questions still remain: firstly, do the regulatory and standard setting processes positively/negatively

influence IFRSs implementation in a developing country?; secondly, what effective enforcement mechanism(s) have been used by developing countries to implement IFRSs, and are the enforcement mechanism(s) (un)even in their implementation of IFRSs?

The prior research provides the reasons for positive/negative influence being exerted on accounting change, including (a) the legal origins of the country (common-law/code-law) (see section 2.3.1), (b) high/low quality investor protection laws (see section 2.3.1), (c) stakeholders' participation/non-participation in the standard setting process (see section 2.3.2) and (d) stringent/looser enforcement of the laws (i.e. the efficiency of the judicial system and punitive penalties/fines, and vice versa) (see section 2.3.3). Section 2.3 [specifically, sections 2.3.1, 2.3.2 and 2.3.3] leads to the first research proposition (P₁) of this study:

P₁: Accounting regulatory frameworks will have a positive influence on implementation of IFRSs under the conditions of (a) common-law origin, (b) high quality investor protection laws, (c) stakeholders' participation in the standard setting process and (d) stringent enforcement²⁸ of the laws.

'or' Accounting regulatory frameworks will have a negative influence²⁹ on implementation of IFRSs under the conditions of (a) code-law origin, (b) low quality investor protection laws, (c) stakeholders' non-participation in the standard setting process and (d) looser enforcement of the laws.

2.4 Politico-Institutional factors

As indicated in Chapter One, 'politico-institutional factors' in this study means politics and co-operation among state institutions and professional bodies on the implementation of IFRSs. With respect to 'politico-institutional factors', in this section, I discuss how government intervention and political lobbying will likely play an important role on the implementation of IFRSs.

2.4.1 Government intervention³⁰

"...accounting is a big house that has accommodated many political regimes during the several hundred years of its existence without losing its identity...the

²⁸ In this study, stringent enforcement means the efficiency of the judicial system, and punitive penalty/fine .

²⁹ In this study, 'negative influence' is equivalent to an impediment to accounting change.

³⁰ The term 'government intervention' refers to the actions on the part of government that affect economic activity, resource allocation, and, especially, the voluntary decisions made through normal market exchanges. (Available at: www.encyclopedia2.thefreedictionary.com).

politics of accounting unquestionably played an important role” (Ordelheide, 2004, p. 270).

Government interventions are complex and varied (McKinnon, 1984). The socio-political and socio-economic dimensions of accounting policy determination have emanated largely from Anglo-American nations, in particular the USA. Bushman & Piotroski (2006, p. 115) ask “*Why would politicians care about accounting numbers? Accounting information is not the sole source of information of a company*”. Explaining the different ways in which government intervention in the economy may emerge, the literature has been classified into two sets: *public choice* (Mueller, 1967) and *theories of economic regulation* (Posner, 1974). Buchanan (1962) argues that welfare economics and the public choice tradition can be a powerful tool for explaining government intervention. Watts & Zimmerman (1978) explain that certain groups of voters have an incentive to lobby for regulatory process. This idea that politicians seek to intrude into the affairs of corporations and redistribute wealth away from them comes from the earlier work of Stigler (1971), Peltzman (1976) and Jensen & Meckling (1976). Further, politicians create crises and then come to the rescue with simple legislative solutions. For example, a crisis in which unions and monopolies are creating inflation requires price controls (Peltzman, 1976). These ‘solutions’ almost invariably increase the resources controlled by government and hence the resources controlled by the elected representatives who constitute the government (Meckling, 1976, p. 21). To counter such pressure from politicians, Watts & Zimmerman (1978, p. 115) suggest that “... *corporations employ a number of devices, such as social responsibility campaigns in the media, government lobbying and selection of accounting procedures to minimize reported earnings... management can reduce the likelihood of adverse political actions and, thereby, reduce its expected costs. The magnitude of the political costs is highly dependent on firm size*”. Cooper (1995, p. 179) argues that the state creates political and economic compromises and that these compromises are universal interests.

In terms of political influence and accounting changes, prior studies suggest that politics are negatively associated with the development of accounting systems and accounting change. In a study of Japan, Reischauer (1977, p. 139) argues that the cultural attribute of Japanese society derives from the precept, from Confucius, of the natural existence of ‘the ruler’ (bureaucracy) and ‘the ruled’ (the people). The role of the government in policy determination operates through a heavy reliance on bureaucracy (Fukui, 1981, p. 186). McKinnon (1984, p. 318) provides several factors that contribute to the

intensification of government involvement in accounting policy determination in Japan: first, administration of corporate financial disclosure under the SEC Law is the direct responsibility of the Ministry of Finance; second, accounting standards in Japan are formulated by the Business Accounting Deliberation Council (BADC) but standards are issued and enforced as Ministry of Finance ordinances; and third, the Ministry of Finance, through its administration of the CPA Law, controls registration and deregistration and oversees the activities of the Japanese Institute of Certified Public Accountants (JICPA). Consequently, ‘blame’ for perceived ‘crises’ of inadequate financial disclosure at both national and international levels in Japan is channelled directly to the Ministry of Finance. In most Anglo-American nations, by contrast, this ‘blame’ where necessary is typically spread more broadly across the accounting profession and independent or quasi-governmental regulatory authorities.

Xiao *et al.* (2004) is one of the very first studies providing evidence of political influence on IFRS implementation in China. They conclude that the government of China is, in part, self-motivated and in part under external pressure to develop IFRSs for accounting harmonisation purposes. They claim that ‘*Chinese people have political sensitivity regarding foreign accounting theory and practice*’ (Xiao *et al.*, 2004, p. 214). Political factors, in particular the direct involvement of the government in accounting regulation, have weakened the demand for, and supply of, accounting standards, making it difficult to adopt IFRSs. Chen *et al.* (2011) find that government intervention distorts firms’ investment behaviour and leads to investment inefficiency in China. This is because the majority of appointments of SOEs managers are political and their motive is political rather than for profit maximisation (Wu *et al.*, 2012). The study by Leuz & Oberholzer-Gee (2006) can be viewed as claiming a greater influence of politics in developing countries like Indonesia. Their findings are consistent with an earlier study in East Asia by Knowles & Garces (2000) who reported that high level government intervention resulted in government owned firms which were less efficient.

In terms of political institutions, Bushman & Piotroski (2006, p. 141) find that firms in common law based countries facing high state involvement in their economy tend to speed up recognition of good news. In contrast, in civil law based countries, high state involvement leads firms to speed up recognition of bad news. In a similar study, Ball *et al.* (2003) earlier document that only the institutional characteristic (i.e. common or civil law legal origin) is directly incorporated in accounting practices in four East Asian

economies. In a recent study, Oehr & Zimmermann (2012) find that the state's involvement in accounting is much deeper in Germany (which has a civil law origin) and the regulative process is not only an outcome of the political process but is also consistent with national societal motives and values. Despite the legal classification, Bushman & Landsman (2010) strongly argue that political forces affect the regulation of firm-level information and accounting standard setting, in particular when accounting information is perceived to potentially affect the stability of the financial markets.

Three studies find that government intervention has little or no influence in accounting disclosure. For instance, Giroux (1989) examine the disclosure quality relationships based on the political and economic incentives of the groups who are actively involved in governmental processes. The result suggests that each group in possession of political power has only a limited influence on the disclosure quality. Similarly, Nobes (1998, p. 176) notes that political factors do not have major explanatory power to discuss the accounting systems in the developed Western countries. Later, Laughlin (2007, p. 280) argues that government interventions are not an essential factor, as, for example, *“when there is no intervention it can be assumed that government is still watching but they are content that the current regulatory activities are working in their perception of the public interest”*.

By contrast, some studies strongly emphasise that government intervention is essential. For example, Jaggi (1975, p. 84) argues that *“Interference by governments may be essential to ensure higher reliability (which is vital for the expression of industries in these countries), for creating public confidence and trust in corporations, for creating an atmosphere where industrialization can progress, and for making economic and social decisions”*. Belkaoui (1983, p. 210) notes that the higher the level of government intervention, the more adequate reporting and disclosure are likely to be. He explains that government is assumed to be accountable to the people, and that therefore, intervention may be favorable to the development of an accounting profession and a disclosure tradition. He further offers that *“The role of governments in developing accounting principles and providing legal authority is assumed to result in a higher reliability of financial disclosures in the developing countries”* (Belkaoui, 1983, p. 211). Carpenter (1991) finds that political competitions (e.g. interest groups, electoral and parliamentary competition) are positively related to state governments' decisions to adopt generally accepted accounting principles in the USA. He observes that the

legislative branch is effective because their primary responsibilities towards monitoring the activities are transparent.

2.4.2 Political lobbying

Ordelheide (2004, p. 270) argues that *“The usual model of interaction between politics and accounting is that the political process changes accounting practices”*. Accounting has been seen as the outcome of complex interactions among parties interested in or affected by accounting standards (Kelly-Newton, 1980; Oehr & Zimmermann, 2012). Therefore, Watts & Zimmerman (1978, p. 115) note that *“politicians have the power to effect upon corporations wealth re-distributions by way of corporate taxes, regulations etc”*. There have been ample studies of political lobbying³¹ in accounting literature (see Appendix 2-4(a)). Political lobbying helps companies gain access to legislators and regulators to discuss their positions on proposed legislation, in an attempt to influence policy outcomes (Sunder, 1988; Ryan *et al.*, 1999). According to Smith (2000, p. 39), *“Political Access means that during deliberations leading to relevant legislative decisions,....Corporations giving political contributions.... gain a valuable opportunity to present their perspectives”*.

The prior studies examine the interactions between companies, business interest groups, and legislators as participants in a political market. It has been found that the participants in the lobbying process are viewed as actors motivated by self-interest where they intend to legislate on those issues which are beneficial to them (Cohen & Hamman, 2003). For example, Sutton (1984) demonstrates earlier evidence from the USA in which the CEO of Cisco, John Chambers, met with the SEC Chairman, Arthur Levitt, about the accounting for business combinations and *‘made it plain that if Levitt went ahead with his plans, he would have to contend with the substantial lobbying weight of Cisco and every other tech company’* (Beresford, 2001, p. 79). Beresford (2001) finds that Congressional (Parliamentary) hearings in the USA are only arranged when companies or industry associations have lobbied Congress, claiming that an

³¹ Using Downs’ (1957) model of voting, Sutton (1984) identifies the conditions under which rational lobbying will occur. Given a choice between two alternative proposals, lobbying is predicted in those circumstances where the differential wealth effect associated with the two proposals, discounted by the perceived probability of influencing the outcome, exceeds the cost of lobbying. Hence, the propensity for lobbying is hypothesised to increase in both (i) the magnitude of the perceived wealth effect and (ii) the expectation of influencing the final decision.

accounting standard will cause economic harm. Ramanna (2008) similarly finds that firms which have incentives to lobby against the elimination of pooling as an acceptable accounting method for business combinations can be linked via political contributions to Congress representatives who then become involved against the FASB proposal. Georgiou (2004) gives some justification for a company's overall lobbying posture and argues that "*more lobbying may go on 'behind the scenes' and [it] provides monetary contributions to politicians as a proxy for political lobbying*" (p. 233). In Germany, the industry lobby group representing preparers exerts the greatest influence on the decisions of the German legislature but the relative power of preparers is seen to be far lower (Leuz *et al.*, 2004). In a study of Japan, McKinnon & Harrison (1985) find that corporate lobbying in Japan takes the form of a unified voice in Keidanren (The Japan Business Federation) in which Keidanren provides a powerful link between the corporations and the government ministries. In Indonesia, the adoption of IFRSs has changed a little image to protect the foreign investors' right owing to the presence of high political ties (Rosser, 2003).

The convergence process has been characterised by a '*very skilful orchestration of the world-wide lobbying pressures*', particularly by multinational enterprises and international accounting firms (Hopwood, 1994, p. 245). Caramanis (2002) argues that multinational accounting firms, through their economic influence and brand power, have the authority to control accounting agendas, the primary aim of which is to enhance self-interest. In addition to multinational enterprises, the EU may influence accounting change. Whittington (2005) therefore argues that accounting has become an explicitly political issue. "*It is, of course, a matter for the EU to choose what standards it wishes to adopt, and... whether they are designed to meet the perceived interests of the EU economy or particular groups within it*" (p. 143). With potential for the diminution of state sovereignty under the conditions of globalisation, Risse (2004) questions the ability of states to make the best decisions for their citizens. Similarly, Chua & Taylor (2008, p. 462) argue that outsourcing the manufacture of accounting standards to a single private agency appears to be a lower cost option; however, such outsourcing must be perceived to be legitimate because it possesses potential impact on powerful interest groups/regulators and internationality.

The prior literature evidences that political lobbying is not only limited to the standard settings. Firms with political ties and lobbying power often receive cheap loans from state-owned banks so that they do not need to tap into foreign capital markets; they are likely to pay fewer taxes and have larger market shares (Faccio, 2002, 2010; Chaney *et al.*, 2011). For example, Leuz & Oberholzer-Gee (2006) find that Indonesia has low levels of mandatory disclosure, suggesting that the firms which are closed to the Suharto regime are reluctant to follow regulations. It has been found that Asian firms with foreign securities, maintain higher-quality disclosures and transparency during the Asian financial crisis (Doidge *et al.*, 2004). In a cross sectional study, Braun & Raddatz (2010, p. 234) show that the highest rank of political connectivity (e.g. Politician-banker connections) is in countries such as Myanmar, China, Bangladesh, India and Mexico. They note that this high level of political connectivity is strongly negatively related to economic development.

The prior research offers some policy prescriptions to reduce the complexity of political lobbying. Belkaoui (1983, p. 209) suggests that the political freedom (i.e. democreacy) of a country is important to the development of accounting: *“When people cannot choose the members of government or influence government policies, they are less likely to be able to create an accounting profession based on the principle of full and fair disclosure”*. The OECD (2001) recommends that the principal ways for governments to engage with their citizens on policymaking to reduce lobbying are *“an advanced two-way relation between government and citizens based on the principle of partnership”* (p. 18). So, participation rights are crucial to a healthy democracy (Frey & Stutzer, 2001). Western economies follow a discursive democracy³², whereas developing countries are in the opposite direction (Risse, 2004). Similarly, some studies point out that institutional co-operation³³ is essential to implement IFRSs effectively (Wallace & Briston, 1993; Mir & Rahaman, 2005; Zeghal & Mhedhbi, 2006). These studies argue that institutional co-operation will reduce the uncertainty of implementing IFRSs under the democratic government in which stakeholders’ rights are ensured. In a recent study, Hail *et al.* (2010, p. 575) argue that political independence is an important guiding

³² Discursive democracy *“is ultimately about involving the stake-holders, i.e., those concerned by a particular social rule, in a deliberative process of mutual persuasion about the normative validity of a particular rule”* (Risse, 2004, p. 310). The basic legitimacy of a discursive political community is founded on its members’ general rights to exercise equal liberties, along with membership rights and guaranteed legal remedies (Habermas, 1988).

³³ In this study, institutional co-operation means collaboration among various state institutions and professional bodies to implement IFRSs.

principle in institutionalizing a standard-setting body that is responsive to the needs of investors and capital markets. Equally important is the role of an effective securities regulator that monitors the development, implementation, and enforcement of the national accounting standards (Leuz & Wysocki, 2008). Zeff (2007, p. 300) raises questions regarding the seriousness of lobbying by asking “*Will the political lobbying which emanates from special interests within the EU be congruent, or clash, with the special interests of important companies and countries based elsewhere in the world?.. If a powerful company or group of companies do not like a draft standard, they will have an incentive to engage in politicking of the standard-setting body*”.

2.4.3 Summary of section 2.4 and Proposition II

In summary, the prior research suggests conflicting results with respect to politico-institutional factors. Section 2.4.1 shows that the literature provides contradictory views of government intervention; one group suggests that politics are negatively associated with the development of accounting systems and accounting change, while the other group suggests that politics have little or no influence. Some researchers even make strong calls for government intervention, seeing it as essential in developing countries (section 2.4.1). In terms of political lobbying, most researchers agree that the participants in the lobbying process and levels of political connectivity are viewed as grounded in self-interest and that, therefore, political independence or freedom (i.e. discursive democracy) is essential to reduce lobbying (section 2.4.2). There has been relatively little research on political influence in relation to IFRSs implementation in developing countries. Most notably, Xiao *et al.* (2004) and Chen *et al.* (2011) in China, and Ball *et al.* (2003) in Thailand report that the government is politically motivated in introducing accounting standards. The following questions still remain: firstly, does politics (e.g. government intervention, lobbying activities) positively/negatively influence the implementation of IFRSs in a developing country?; and secondly, to what extent is co-operation among institutions supportive or unhelpful in the implementation of IFRSs?

Prior studies suggest that politics may have a positive/negative influence on accounting change because of several different factors, e.g. (a) the legal origin of the country (common-law/code-law) (see section 2.4.1), (b) a lower/higher level of government intervention (see section 2.4.1) and (c) a lower/higher level of political lobbying (see

section 2.4.2). Researchers agree that institutional co-operation may help the effective implementation of IFRSs. The impact of institutional co-operation on IFRSs implementation depends largely on (a) the democratic government/undemocratic government (see section 2.4.2) and (b) the participatory/non-participatory rights of the stakeholders (see section 2.4.2). Section 2.4, in relation to politico-institutional factors leads to the second proposition (P_{II}):

P_{II}: *Politico-institutional factors will have a positive/negative influence on implementation of IFRSs.*

P_{IIA}: *Politics will have a positive influence on implementation of IFRSs under the conditions of (a) common-law origin, (b) a lower level of government intervention and (c) a lower level of political lobbying.*

‘or’ *Politics will have a negative influence on implementation of IFRSs under the conditions of a) code-law origin, (b) a higher level of government intervention and (c) a higher level of political lobbying.*

P_{IIIB}: *Co-operation among institutions will have a positive influence on implementation of IFRSs under the conditions of (a) democratic government and (b) ensuring the participatory rights of the stakeholders.*

‘or’ *Lack of co-operation among institutions will have a negative influence on implementation of IFRSs under the conditions of (a) undemocratic government and (b) an absence of participatory rights for the stakeholders.*

2.5 Cultural Factors

“..the technical and/or political dimensions of the debate, although essential, are not the only issues involved. Opposition to IFRS is not driven exclusively by contractual motives or a claimed technical superiority but also by diversity in cultural factors” (Ding et al., 2005, p. 343).

Research addressing the wider social and political influences on accounting has been scarce (Hopwood, 1976, p. 3). Hopwood (1999, p. 378) provides specific national and cultural contexts of accounting, namely political dominance, religious dominance, class structures, or education systems which drive national differences. This may then lead to identifying why and how accounting is undertaken in a nation. According to Hofstede (2001, p. 1), *“Culture is defined as collective programming of the mind; it manifests itself not only in values, but in more superficial ways: in symbols, heroes, and rituals”*. Societal or national culture is shared among the groups within a social system and across social systems within a given society (Hofstede, 2001, p. 15). Prior research

suggests that the accounting practices of a country are highly influenced by cultural forces (Burchell *et al.*, 1980; Lowe *et al.*, 1983). Accounting is a product of its environment and a particular environment is unique to its time and locality (Perera, 1989). It receives its inputs from the environment and produces outputs for the consumption of the environment (Radebaugh, 1975). The importance of culture in influencing the process of accounting policy formulation in any nation and in explaining the diversity of accounting policy across nations is well documented (Jaggi, 1975; Zeghal & Mhedhbi, 2006). For example, using a change framework³⁴ (Source, diffusion and reaction phases of each change), Harrison & McKinnon (1986) analyse the process of corporate reporting regulation change in Japan. They conclude that different phases of change indicate how culture influences the system of corporate reporting regulation in a specific nation. Later, Gray (1988, p.1) argues that “*There have been claims that national systems are determined by environmental factors. In this context, cultural factors have not been fully considered*”. Although he does not empirically test the hypotheses, he proposes a theory of cultural influence in accounting change. Based on Hofstede’s (1980) country-based indices (i.e. Power distance, Individualism, Masculinity, and Uncertainty avoidance), Gray (1988) hypothesises that financial disclosures will be negatively influenced by the cultural dimensions of uncertainty avoidance (UAI) and power distance (PDI) and positively by individualism (IDV) and masculinity (MAS). Gray (1988) suggests that “*...in interpreting the results of empirical research relating to culture, the influence of any change factors will also need to be taken into account*” (p. 14). However, Lee (1997, p. 20) argues that Gray (1988) ignores other factors, such as political systems and legal systems, which have significant power in shaping accounting systems. Wickramasinghe & Hopper (2005) argue that how and why cultural and political factors are relevant to accounting change in a developing country like Sri Lanka. They point out that ‘*accounting change cannot be explained by culture alone and outcomes were contingent*’ (p. 503). They further call for research on accounting and culture would benefit by adopting a cultural political economy to understand accounting practices.

³⁴ The framework allows examination of the system’s norms and values; the nature of its interdependencies both internally and with other social systems; the factors to which the system is especially sensitive; and the way in which culture influences the form and functioning of the system’s elements (Harrison & McKinnon, 1986, p. 233).

Some studies³⁵ have also been carried out to examine IFRSs' practices and cultural influences. For example, Sudarwan & Fogarty (1996) find that an empirical relation exists between the change in cultural factors and the change in accounting values in Indonesia. They suggest that the conflicting influences of extensive government involvement in the economy and market competition are a possible explanation of the results. Dahawy *et al.* (2002) argue that socio-economic factors affect the implementation of IFRSs in Egypt and that the inclination for secrecy that is embedded in Egyptian culture overrides the IFRSs requirements. Therefore, the disclosures reports by the sample companies are considerably decreasing. Choi (2002) concludes that corporate financial disclosures are deeply imbedded in cultural norms in Korea and, for that reason, change in accounting practices may take a long time to fully implement. Abdelsalam & Weetman (2007) similarly note that the economic changes of 1991–1992 can be contrasted with the previous era of central planning in Egypt where accounting was characterised by conservatism, secrecy, a relatively weak profession, and subsequently, the move to IFRSs therefore requires a change of culture as well as a change of law. Ding *et al.* (2005, p. 325) suggest that “*IAS is not exclusively driven by contractual motive ... but also by diversity in cultural factors*”. Dima & Cristea (2009) propose that culture is relevant to the national characteristics of IFRSs implementation. In recent, Samuel & Manassian (2011, p. 622) argue that ‘*culture could be an impediment to development of accounting*’. In the case of developing countries, accounting information is seen as both passive and active; passive in the sense that financial reporting practices may be explained by a country's particular cultural history or stage of development (Mueller, 1967; Bloom *et al.*, 1998; Naciri & Hoarau, 2001; Wu *et al.*, 2012), and active in that a nation's choice of financial reporting practices shapes its economic development (Enthoven, 1965). In recent, using the Hofstede-Gray framework, Perera *et al.* (2012) have found that there is a link between cultural values and accounting professionalism in Samoa and New Zealand. They conclude that their study may have implications for the application of IFRSs and the analysis of differences in the judgements of professional accountants on measurement, disclosure, and ethical issues.

Researchers suggest that increasing ‘democratic or sectarian cultural biases’ in western-type societies since the 1960s have created more pressure to blame those who are at the

³⁵ Sudarwan & Fogarty, 1996; Choi, 2002; Dahawy *et al.*, 2002; Ding *et al.*, 2005; Abdelsalam & Weetman, 2007; Dima & Cristea, 2009.

top of powerful institutions and organisations for the harm they are perceived to do to the powerless (Douglas, 1982). Watts (1977, p. 66) points out the blaming culture by politicians in the USA and argues that “ *Many crises which led to corporate regulation and, in particular, to regulation of corporate financial statements were blamed by political entrepreneurs on the lack of adequate corporate disclosure or misleading corporate disclosure.... [the] US politicians claimed that inadequate corporate disclosure was partially to blame for the stock market crash of 1929*”. Hood *et al.* (1999) similarly argue that an ‘audit society’ is developing, in which declining popular trust in formerly respected professionals and institutions produces increasing support for formal audit, inspection and oversight systems to replace an older pattern of self-regulation by mutuality (Power, 1997; O’Neill, 2002). Later, Hood (2004) documents that public management reform takes place in a social and political context due to falling levels of trust in government and institutions, highlighting an increased negativity bias³⁶. The negativity bias is the commonly-observed tendency to pay more attention to negative than to positive information (Hood, 2007). The causes of negativity bias are debated in politics and government and in most cases outcomes are higher levels of dissatisfaction. Hood (2007) therefore claims that the pervasive prescription of transparency as a key to good governance meets the widely observed behavioural tendency of blame avoidance in politics and public administration. He concludes that “ *the tension between the pursuit of transparency and the avoidance of blame is at the heart of some commonly observed problems. .. something other than the ‘bureaucratic’ strain of transparency may be called for when those problems are serious*” (Hood, 2007, p. 191).

Studies such as Larson (1993), Larson & Kenny (1995) and Perera (1989) strongly point out that the complete implementation of IFRSs in developing countries is near impossible because the IASB mainly focuses on developed nations’ cultures (especially the USA and the UK) when they promulgate standards. Nobes (1984, 1998) identifies that no cultural influences exist. Jaggi & Low (2000) argue that cultural values have an insignificant impact on financial disclosures by firms in common law countries. Although researchers such as Hofstede (1980, 1987) and Gray (1988) provide a good foundation for incorporating culture as one of the explanatory variables in determining

³⁶ Negativity bias denotes a commonly-observed cognitive tendency for more attention to be paid to negative than to positive information and for losses to be valued more highly than gains which are of an equivalent amount (Hood, 2009).

accounting system differences and the recognition of its importance (Ding *et al.*, 2005), the key problem is that the research in this area fails to explore cultural factors (Haniffa & Cooke, 2002). Haniffa & Cooke (2002, p. 317) conclude that *“There have been calls for research to look at the peculiar cultural characteristics inherent in a country”*.

Prior research provides various proxies for choosing the relevant cultural factors in accounting research. In this study, training opportunities in the accounting profession (Perera, 1989; Ahmed & Nicholls, 1994; Haniffa & Cooke, 2002; Zeghal & Mhedhbi, 2006; Perera *et al.*, 2012) and corruption (Rock & Bonnett, 2004; Wu, 2005 and 2009; Wu *et al.*, 2012) have been used as proxies for cultural factors. In the next section, I have outlined the prior research on the accounting profession and corruption.

2.5.1 Training Opportunities in the Accounting Profession

Accounting education is the pillar for modern, complex accounting systems (Zeghal & Mhedhbi, 2006, p. 377) because *“an increase in the level of education in a country may increase political awareness and demand for corporate accountability”* (Cooke & Wallace, 1990, p. 84). The prior research finds that education can be an important cultural determinant of disclosure practice (Zarzeski, 1996; Bloom *et al.*, 1998; Haniffa & Cooke, 2002). Belkaoui (1983, p. 208) strongly argues that *“A well-developed accounting profession and system for accounting education in a given country lead to a tradition and/or effort of providing adequate reporting and disclosure”*. Similarly, Perera (1989, pp. 151-152) says that *“the deficiencies in accounting education and training in developing countries are fairly well known”*; it cannot therefore be expected that accountants will always exercise appropriate judgments if the level of accounting education is low. He further emphasises that a country with a shortage of skilled accounting personnel should adopt a mandatory IFRSs system and this uniformity system will help them to improve the overall usefulness of accounting information. Gray (1988) earlier identifies education as one of the institutional consequences affecting accounting values and practices.

It has been argued that not only education but also the professional status of accountants is important in explaining accounting systems. Perera (1989, p. 152) argues that *“If, in a society, accounting is not regarded as a profession of high public esteem, and accountants are not trusted for their honesty and integrity, then accounting uniformity*

may seem to be a better alternative for the protection of that society". This proposition has been supported by some researchers, for instance, Radebaugh (1975), who finds that accounting is not recognised as a profession and even has a low status in Peru; Var (1976) reports that the profession in Turkey is faced with a credibility problem; and Choi (1979) finds that the accounting profession in Thailand with respect to the proliferation of accounting standards is very weak. Therefore, Cooper & Robson (2006, p. 431) argue that the proliferation of both Non-Governmental Organisations (such as the IASB, IFAC, ASB, FASB, IOSCO, UN, EU and WTO) and Government networks has had profound effects upon the co-ordination of accounting policies, in particular accounting education developments in developing countries. Neu *et al.* (2006) demonstrate that accounting education has been central in recent years and that is why the World Bank has made attempts to reform educational practices and systems all over the world.

There is mixed evidence of the relationship between accounting education and corporate disclosure practices. One group finds that a positive relationship exists. For example, Gernon *et al.* (1987) find that there is a positive relationship between the education level and the competence of professional accountants. Grace *et al.* (1995) propose that if the board of directors of a firm have an academic background in accounting, then they may choose to disclose more information (Hambrick & Mason, 1984). It may be argued that a western influence in education in developing countries will lead to a 'homogeneous effect' and result in higher corporate disclosure (Merchant *et al.*, 1995). Adoption and implementation depend on the high level of education, competence, and expertise required to be able to understand and interpret accounting information (Doupnik & Salter, 1995). Dahawy *et al.* (2002) support Hofstede & Gray's hypotheses and find inadequate disclosure practices in Egypt because of Egypt's secretive culture. Later, Zeghal & Mhedhbi (2006) find that the countries with the highest education levels proceed with the adoption of IFRSs. Lower levels of education lead to lower expertise and real barriers to the adoption of IFRSs (Bloom *et al.*, 1998) and therefore, Abdelsalam & Weetman (2007, p. 96) suggest that "*Achieving education and training success is likely to be more problematic in developing countries where there are limitations on financial and technical resources*". In recent, Chand *et al.* (2012, p. 153) show that national culture has a significant effect on the judgments of accounting students when interpreting and applying selected IFRS containing uncertainty expressions. They conclude that Chinese students exhibit greater

conservatism and secrecy compared to Australian students. They suggest that global accounting education systems may influence in implementing IFRSs.

Another group finds that accounting education is less useful (Nobes, 1998) and even that a negative association exists between accounting education and corporate disclosure. Nobes (1998, p. 168) opines that *“In particular...level of education and stage of economic development are not necessary”*. He notes that *“[This factor] may be a result of accounting differences rather than their cause”* (p 168). Moreover, the findings of Ahmed & Nicholls (1994) and Parry & Groves (1990) suggest that there is no impact on the quality of financial reporting through having qualified accountants. Similarly, Abayo & Roberts (1993) find that accounting education and qualifications alone are not the solution to problems faced by developing countries, at least with respect to Tanzania and inadequate accounting disclosure practices there. Similar findings come from Haniffa & Cooke (2002) who show that disclosure behaviour in Malaysia is not affected by culture. Their findings are contrary to the Hofstede & Gray hypotheses because Hofstede & Gray propose that societal values (meaning that they best described the accounting value of being highly secretive in terms of the accounting practice known as disclosure) of the bumiputra/Malay are in congruence with the level of secrecy in disclosure.

2.5.2 Corruption

Defining corruption as cultural norm, Sandholtz & Koetzle (2000, pp. 33-34) argue that *“[The] definition of corruption that is portable across cultures.corrupt acts are, in every definition, improper or illegitimate”*. The region specific and country case literatures suggest that politics and corruption affect accounting (Whitehead, 1989, 2000; Rock & Bonnett, 2004). The reasons for high-level political corruption arise from substantial government intervention in the economy (Weyland, 1998). Some studies have argued that high level corruption can be explained through analysis of double transitions: (a) from authoritarianism to democracy and (b) from interventionist to market-oriented economic policies, which have commonly been accompanied by even higher levels of political corruption (Geddes & Ribeiro-Neto, 1999). Cooke & Wallace (1990, p. 84) argue that *“In societies where a strong oral tradition exists or where corruption is endemic, the development of accounting may be impeded”*. In an African study, Sandbrook (1993) argues that Africa’s post-colonial governments have often

emerged under extremely inauspicious circumstances. He criticises that “*Given the deep mistrust among Africans of markets, trade, and foreign investment, it is not surprising that both market-oriented and socialist-oriented governments adopted highly interventionist (policies)... these strategies ultimately failed*” (Sandbrook, 1993, p. 22). However, there is little evidence that such high-level corruption increases either investment or growth (Lopez, 1998; Schneider, 2002). In Latin America, the role of hyper presidentialism is very costly high-level political corruption. Whitehead (1989, p. 783) observes that “*the whole apparatus of the state (is geared) to the task of their personal enrichment*”. High-level political corruption has been seen in Mexico and Brazil (Geddes & Ribeiro-Neto, 1999; Manzetti, 2000). In Eastern European study, Bloom *et al.* (1998) argue that corruption is widespread and secrecy has long been a tradition in Armenia. Accounting is cash-based and oriented to the stewardship needs of the government and the non-compliance of standards reflects its culture.

In Asian study, Rock & Bonnett (2004) demonstrate the comparative politics of corruption on accounting in the East Asian Paradox, and find that corruption slows growth and/or reduces investment in most developing countries. Wu (2005) confirms the corporate sector as the main source of corruption problems in Asia, and argues that “*High quality accounting standard(s) alone will not automatically bring down the level of bribery in Asian firms*” (p. 57). Wu (2009) further reports that Bangladesh is one of the most corrupt countries in Asia, where “*96% of firms report that they regularly bribe public officials*” (p. 82). In a study of China, Wu *et al.* (2012) conclude that politically connected managers of firms can help their firms to obtain tax benefits. In a comparative study (covering both developed and developing countries), Sandholtz & Koetzle (2000) argue that corruption poses fundamental challenges both to democratic governance and to market economies, and find that there is a significant relationship³⁷ between corruption and accounting quality.

Besides government intervention, Lessmann & Markwardt (2010) argue that corruption crucially depends on the effectiveness of the monitoring bureaucrats’ behaviour. They argue that the benefits of decentralisation only occur if there is a supervisory body; this

³⁷ They hypothesise that levels of corruption are higher: (1) the lower the average income level, (2) the greater the extent of state control of the economy, (3) the weaker the democratic norms and institutions, (4) the lower the degree of integration in the world economy, and (5) the lower the share of the population with a Protestant religious affiliation.

is often lacking in a substantial number of developing countries. Similarly, Arian (2004) concludes that the levels of corruption are lower in decentralised countries. These results are supported in studies by Enikolopov & Zhuravskaya (2007), and Lederman *et al.* (2005). In contrast, in line with Shleifer & Vishny (1993), Fan *et al.* (2009) find a negative impact of decentralisation (in terms of vertical government tiers) on corruption. They conclude that a lack of co-ordination of government institutes increases with the complexity of government structures.

2.5.3 Summary of section 2.5 and Proposition III

In summarising the literature on cultural factors' influences on accounting change (specifically IFRSs implementation), the empirical evidence suggests that cultural characteristics change over time, and that the cultural factors rely on a particular country's environment (see sections 2.5.1 and 2.5.2). Most of the studies support a statistical association between culture and corporate reporting requirements, yet they also acknowledge an inability to explain the nature of that association. It is observed from the literature that very few studies have measured cultural factors in implementing IFRSs, yet negativity bias and blame cultures are ignored by the researchers in interpreting the relationship between culture and IFRSs implementation. Because conflicting evidence exists both in country specific and cross-sectional studies, the question arises as to whether [i] training opportunities in the accounting profession and [ii] corruption have positive or negative associations with IFRSs implementation.

The prior research provides some suggestions for inconclusive (i.e. positive/negative influence on accounting change) evidence; for example, (a) an effective/ineffective development of training opportunities in the accounting profession (see section 2.5.1) and (b) low/high levels of corruption (see section 2.5.2). Researchers suggest that effective/ineffective development of training opportunities in the accounting profession depend on higher/lower standards of education, effective/ineffective accounting education policy and high/low professional status in society, whilst low/high levels of corruption depend on a culture of transparency/secretcy. Section 2.5 [in particular, sections 2.5.1 and 2.5.2] leads to the final proposition:

P_{III A}: *Effective development of the training opportunities in the accounting profession will have a positive influence on implementation of IFRSs.*

‘or’ Ineffective development of the training opportunities in the accounting profession will have a negative influence on implementation of IFRSs.

P_{IIIb}: Low levels of corruption will have a positive influence on implementation of IFRSs.

‘or’ High levels of corruption will have a negative influence on implementation of IFRSs.

2.6 Other influences; Country Specific Factors³⁸

Despite a large literature on accounting regulatory frameworks, politico institutional factors and cultural factors, the prior research suggest that some other country specific factors exert influences on financial reporting practices (see Appendix 2-4a). In this section, I outline various factors highlighted by the prior research, namely colonial power, multinationals, transfers of technology and foreign aids, and public sector dominance, all of which may influence financial reporting practices.

2.6.1 Colonial Power

Most developing countries have a common feature of past colonial rule and their level of political institutions and culture are largely influenced by the socio-political traditions and culture of the previous colonial power (Verma & Gray, 2009; Al-Akra *et al.*, 2009). When the colonial powers acquired their colonies, there were no formal accounting systems in most of these countries, and thus, the prevailing accounting vacuum was typically filled by accounting systems introduced by the colonial masters (Briston, 1990; Saudagaran & Diga, 1998). Examples of such introduction may be found in the promulgation of the Indian Companies Act 1913, drafted in accordance with the English Companies Act 1908³⁹, the modelling of Moroccan and Algerian financial reporting systems on the French standardised accounting system, (Hagigi & Williams, 1993) and the predominant influence of the Dutch accounting system in

³⁸ ‘Other country specific factors’ is a term I use in this study to explain any other factors outside accounting regulatory frameworks, politico-institutional and cultural factors (i.e. [i] training opportunities in the accounting profession and [ii] corruption), which may have an influence on IFRSs implementation.

³⁹ The early history of company law in India was laid down in the British Companies Act 1844 on the basis of which the Joint Stock Companies Act 1850, the first company law for the sub-continent, was formulated. This act was based on ‘unlimited liability’. Through a major amendment in the Joint Stock Companies Act 1850 in 1857, the provision of unlimited liability was replaced by ‘limited liability’ and the act was renamed as the Companies Act 1857. With the expansion of trade and commerce, the Companies Act 1857 was amended in 1860, 1866, 1882, 1887, 1891, 1895, 1900 and 1908. The Indian Companies Act of 1913 was actually the amended and reformed version of The English Companies Act of 1908 (Available at: <http://www.legalserviceindia.com/articles/eocindia.htm>).

Indonesia (Briston & Hadori, 1993). During the British colonial period, for example, British accounting traditions spread to many countries, so that British rule could be employed in managing British business interests (Perera, 1975). In a study on the colonial experience in Fiji, Davie (2007) claims that Fijian experience of accounting practices is very much historical in nature because they are still following the British rule. Al-Akra *et al.* (2009) argue that the reasons for Jordan's attitude towards full adoption of IFRSs are grounded in their strong colonial experiences.

Saudagaran & Diga (1998, p.1) suggest that the early evidence of accounting practices in the ASEAN (Indonesia, Malaysia, Singapore, and Thailand) countries is heavily influenced by colonial experiences, but the post-independence history of the dominance of banks and financial institutions is conducive to adopting a macro-user oriented accounting system dominated by the needs of government users⁴⁰. Similarly, Wijewardena & Yapa (1998) conclude that after fifty years of independence, Sri Lanka is still following the colonial system to produce its accounts whereas Singapore moved away from the colonial system within four years of independence. In south Asia, Banerjee & Iyer (2005) point out that Bangladesh, India and Pakistan were under British colonial rule for around 200 years. The British rule in India⁴¹ (i.e. in the central part of the former British colony), extended from 1757 to 1947. After independence, India, Pakistan and Bangladesh establish different accounting systems mixing the UK GAAP, US GAAP, and IASs/IFRSs. For example, India adopted mandatory IASs/IFRSs in 2012 (source: <http://www.iasplus.com/en/jurisdictions/asia/country9>), Bangladesh did so in 1998 (source: The Securities and Exchange Commission Rules 1987) and Pakistan in 1997 (source: Section 234 of the Companies Ordinance 1984, <http://www.secp.gov.pk/corporatelaws/pdf/CompaniesOrdinance984-17-03-2011.pdf>). Banerjee & Iyer (2005) raise the question of the colonial impact on accounting systems.

Studies like Bloom *et al.* (1998) and Naciri & Hoarau (2001) believe that the historical and social background of a country influences its accounting practices. For example, Bloom *et al.* (1998, p. 641) point out that “*No accounting system can be judged superior to any other without considering how the system serves society in a specific*

⁴⁰ For example, accounting regulation in Thailand traditionally prefer a more conservative, creditor-oriented and tax-driven accounting system, similar to Germany and Japan; (Yunus, 1988).

⁴¹ Bangladesh, India and Pakistan were ruled through the same central administration until the independence period, with Bangladesh and Pakistan breaking from India in the late 1940s and Bangladesh eventually splitting from Pakistan in the early 1970s (Lange, 2004).

country. Given the totalitarian history of Armenia and its linkage to the former Soviet Union, it is not surprising that Armenia clings to a Soviet chart of accounts. The government has long dominated and controlled the Armenian economy, and thus has been the “user” of accounts”. Naciri & Hoarau (2001, p. 235) show that American and French philosophies of financial reporting diverge from each other. While the American system is influenced by the very positive financial and economic environment of the 19th century, the French system is impacted by political and wartime considerations from the 20th century.

2.6.2 Multinationals, Transfers of Technology and Foreign Aid

Multinational companies (MNCs) have been one of the most powerful channels of technology transfer, including accounting technology, for host countries (Wilkinson, 1965; Chandler & Holzer, 1984). Seidler (1969, pp. 36-37) explains that “*The strongest vehicle for the current international dissemination of accounting information is the Multinational Corporation and its associated activities*”. The main concern of the MNCs, though, is to make money, and they have little regard for the domestic requirements of the host countries because they see the elimination of dissimilarities in local practices purely as a means to facilitate their operations (Needles, 1976; Nair & Frank, 1981). Wallace & Briston (1993, p. 215) express reservations that “*the media of transfer may not always have similar effects on recipient countries, because of the differences in economic conditions, levels of preparation, willingness to account, skills, behaviour and culture of the people, training methods adopted and complexities of accounting legacies inherited. Some countries may be successful in the transfer of accounting technology; others may not*”. Perera (1975) attempts to portray the complex links between the various channels used to transfer accounting technology in Sri Lanka. He concludes that almost all the joint stock companies are owned by British investors and accountants who have come from the UK. Therefore, even though these firms are actually located in Sri Lanka, they are managed as though they are based in Britain. Despite this, no attempts are made to develop the accounting systems so that they are more suitable for local conditions.

In the same way, the professional accounting bodies⁴² have played a significant role in the process of transferring accounting technology to the developing countries, particularly to the former British colonies. British accountants immigrated to the colonies and formed the nucleus of the establishment of the professional bodies in the developing countries (Hove, 1986). Although these professional bodies in the developing countries were granted autonomy, the British accountancy bodies continue to exert considerable influence in both the general administration of professional bodies in developing countries, and in the style of their examining processes (Saudagaran & Diga, 1998). Neu *et al.* (2006) document that the World Bank increases its legitimacy with other potential borrower countries on accounting/financial practices and in this way it ensures its continuing influence.

Further, foreign aid plays a vital role in the process of developing accounting systems and transferring technology from the developed donor countries to the developing countries (Perera, 1985; Rahaman, 1997). The World Bank, the IMF, and other donor agencies require financial statements explaining the ways in which aid has been utilised by recipient countries (Mir & Rahaman, 2005). Hoarau (1995) argues that *“Imperialist institutions such as the World Bank and International Monetary Fund have become major active agents responsible for the proliferation of IASs in developing countries”*. The financial statements have to be prepared on the basis of the procedures followed by the donor agencies (Mir & Rahaman, 2005). Although Wilkinson (1965, p. 11) argues that *“the accounting principles and practices of Western capitalist countries were never ‘sold’ to developing countries on the basis of convincing arguments in support of their superior quality in terms of local needs”*, Points & Cunningham (1998) observe that foreign donor agencies (e.g. the World Bank and the IMF) are continuously trying to impose the IASB standards instead of assisting real accounting reforms within the developing countries.

Discussing the donor agencies’ attempts to assist the development of accounting systems in developing countries, Wallace & Briston (1993, pp. 216-217) argue that *“Donor agencies should collaborate more closely with the recipient country to ensure that their assistance is delivered only in accordance with national accounting*

⁴² The Institute of Chartered Accountants in England and Wales (ICAEW), The Institute of Chartered Accountants of Scotland (ICAS), The Association of Chartered Certified Accountants (ACCA), and The Chartered Institute of Public Finance and Accountancy (CIPFA).

development plans”. Problems with the transfer of accounting practices from developed countries to developing countries are manifold. First, no attention is given to ascertaining the needs of domestic users, resulting in an inappropriate accounting practice with limited usefulness (Mir & Rahaman, 2005). Second, the developing countries cannot modify their accounting practices in response to the changing needs of the corporate environments (Points & Cunningham, 1998). Third, it is very difficult to implement micro and macroeconomic goals on the basis of reported financial statements, and it must be kept in mind that every society contains unique features in terms of its social, cultural, economic and political aspects (Belkaoui, 1983, 1985). Finally, international lending agencies have become a major influence upon government policies (Uddin & Hopper, 2003). For example, the World Bank’s enhanced authority has emerged from the economic dependence and political weakness of Bangladesh, in particular because, “*Military leaders in Bangladesh turned to Western ideologies, especially Thatcherism and Reaganism, to legitimise their undemocratic actions*” (Uddin & Hopper, 2003, p. 741). Despite the wide-spread corruption of the Colombian government, the World Bank provides financial support for accounting education and does not question the state’s ability to implement the programmes (Neu *et al.*, 2006).

2.6.3 Public Sector Dominance

The prior research finds that modern accounting concepts and principles are not being implemented adequately in most developing countries, in part at least because of the dominant public sector⁴³. In Egypt, the government controls approximately 80 percent of economic resources (Amer, 1969); In East-Central Europe⁴⁴, the state controls over 85 percent of production (Dobosiewicz, 1992). Perera (1975) reports that Sri Lankan companies are more interested in preparing tax returns than accounting reports. Abu-Nassar & Rutherford (1995) find that users of annual accounting reports in Jordan doubt their reliability and credibility. It has been argued that governments of developing countries review and redefine the role of accounting under the new order in a way which is more supportive to their public sectors (Briston, 1978; Samuels & Oliga, 1982). Accounting transparency becomes irrelevant in state owned enterprises (SOEs)

⁴³ For example, Ghafur (1976) & Ahmad (1976) in Bangladesh; Briston (1978) in Indonesia, Sri Lanka and Tanzania; Samuels & Oliga (1982) in Egypt; and Perera (1985) in Sri Lanka.

⁴⁴ Albania, Czechoslovakia, Hungary, Poland and Yugoslavia.

because political influence over decisions outweighs formal accountability within the systems (Jones & Sefiane, 1992).

Increasingly, attention has been paid to raising accounting standards in developing countries where it is considered to be a prerequisite of granting FDI. This raises the question of the role of financial reporting in developing countries - is the dominant public sector supportive to the implementation of IFRSs? This is because some researchers find that public sectors (e.g. SOEs) are not transparent. For example, Wang *et al.* (2008) find that compared with non-state-owned firms, Chinese state-owned enterprises are controlled by province, city, and county governments (local SOEs) who are more likely to hire small auditors within the same region (small local auditors) because the tendency is to hide information. Similar findings are also observed in Armenia (Bloom *et al.*, 1998). Despite the Armenian privatisation movement, adopted in 1997, the country's public sector is reluctant to disclose information (Bloom *et al.*, 1998).

There are already many developing countries with dominant private sectors, reported by Cairns (1990) & Gernon *et al.* (1990) who find that some countries adopt the IFRSs standards as national standards. Bennell (1997, p. 1801) argues that "*The World Bank, IMF, and most of the major aid agencies are significantly increasing the pressure on governments to privatize, and wherever possible sell, most SOEs ...consequently, meeting privatization targets is becoming an increasingly central feature of the performance*". Although the public sector controlled about 350 SOEs (92%) in 1974 in Bangladesh, Uddin & Hopper (2003) provide evidence of a trend of highly concentrated family ownership patterns during the 1980s. Ahmed & Nicholls (1994) find significant evidence of non-compliance by Bangladeshi listed companies within the dominant private sector and only 63 company reports are available out of a sample of 95 companies for the fiscal year 1987-88. Similar findings are reported by Farooque *et al.* (2007) and Khan *et al.* (2011) in Bangladesh, Ghazali & Weetman (2006) in Malaysia and Abd-Elsalam & Weetman (2003) in Egypt. In India, Narayanaswamy (1996) reports that the quality of financial reporting disclosure remains low, despite widespread regulatory reforms aiming to internationalise and liberalise business. These arguments contradict the findings of Bennell (1997) who reports that privatisation improves the fiscal situation in developing countries and improves their efficiency. Therefore,

Siddiqui (2010, p. 260) argues that public sector dominance and private sector dominance can be explained by ownership structures and views that “*Like many other developing countries, most companies in Bangladesh are either family owned or controlled by substantial shareholders (corporate groups or government)*”.

2.6.4 Summary of section 2.6

In summary, the prior literature provides diverse evidence on colonial power, multinationals, the transfer of technology and foreign aid and the public sector. Section 2.6.1 shows that the prior research provides inconclusive evidence regarding accounting practices and colonial influence. For instance, some countries’ accounting practices are (heavily) influenced by colonial experience, whilst others are not (see section 2.6.1). Section 2.6.2 shows that prior research argues that multinational companies’ efforts to transfer accounting technology in developing countries are complex processes. Prior studies raise questions around foreign professional bodies and donor agencies’ influence in transferring accounting technology and in particular, accounting practices in developing countries. Section 2.6.3 shows that the researchers suggest that the IFRSs are not being effectively implemented in most developing countries, at least in part because of their dominant public sectors. They raise questions around the privatisation programmes and the issue of the effective implementation of IFRSs. However, little attention has yet been given to the work of other country specific factors in the implementation of IFRSs, nor has much research attempted to examine these factors, therefore it will be interesting to examine the impact of other country specific factors in the implementation of IFRSs in a developing country.

2.7 Summary and Conclusion

The overall discussion of this chapter leads towards the consideration of some research gaps which exist in the literature of IFRSs implementation. As discussed in section 2.2.4 (RQ-3), there has been relatively limited research into theories of the role of the state in relation to accounting change (e.g. implementation of IFRSs) in accounting literature. Additionally, the notion of the ‘state’ has many meanings, which can themselves depend on the purpose of the study. I have chosen to employ a Weberian concept of the state in the present study (see section 2.2.2). The analysis of the literature identifies that the most frequently discussed issues in terms of role of the state and

accounting change are accounting regulatory frameworks, politico-institutional factors and cultural factors (see section 2.2.3). Answers regarding the theory of the role of the state's application in a developing country still remain elusive, and the question therefore remains: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country?

Sections 2.3 and 2.4 (RQ-1), in considering the relative impact on accounting regulatory frameworks and politico-institutional factors, observe that the government involvement is not conducive to creating effective accounting regulatory frameworks. It has been argued that collaboration or co-operation between the private-sector standard setting body and the government regulatory body is essential in creating effective regulatory frameworks. Further, most researchers agree that standard setting is political in both developed and developing countries, but they raise the question of how best to create effective enforcement mechanisms in developing countries. Therefore, the researchers suggest that accounting regulatory frameworks may either help or hinder accounting change. In terms of accounting regulatory frameworks (see section 2.3) the following questions still remain: (a) do the regulatory and standard setting processes positively/negatively influence IFRSs implementation in a developing country? (b) what enforcement mechanism(s) have been used by developing countries to implement IFRSs? and (c) are the enforcement mechanism(s) (un)even in implementing IFRSs? Based on the prior literature reviewed in section 2.3, the first proposition (P_1) of the present study was developed, in section 2.3.4.

Section 2.4 (RQ-1) shows that opinions vary regarding politics, because some researchers find that politics have a negative impact on accounting change, while others find that politics do not have any notable influence; In particular, section 2.4.1 showed that opinions vary regarding government intervention because one group finds that government interventions are negatively associated with the development of accounting systems and accounting change, while the other group argues that intervention has little or no influence. Some researchers call for government intervention in developing countries. Most agree that participants in the lobbying process and those with political connectivity are (viewed as being) self-interested and, therefore, guarantees on political independence and freedom are essential to reduce lobbying. Because of the existence of mixed evidence in the literature on politico-institutional factors (see section 2.4.3), the

literature identifies the following questions: do politics (e.g. government intervention, lobbying activities) positively/negatively influence the implementation of IFRSs in a developing country?; and secondly, to what extent is co-operation among institutions supportive or unhelpful in relation to the implementation of IFRSs? Based on the prior literature in section 2.4, the second proposition (P_{II}) of the present study was developed, in section 2.4.3.

As discussed in section 2.5 [RQ-2(a)], researchers are divided on the impact of cultural influences on accounting change, because one group finds a positive association between cultures and accounting change while the other group finds no significant relationship. One possible explanation for this is that cultural characteristics change over time and depend on a particular country's environmental characteristics. Most of the studies are, as yet, unable to explain the nature of a positive association, or alternatively, the lack of association (see section 2.5). In this study, [i] training opportunities in the accounting profession and [ii] corruption have been used as proxies for cultural factors (see section 2.5.3). Because conflicting evidence exists both in nation specific and cross-sectional studies, the following question still remain: do [i] training opportunities in the accounting profession and [ii] corruption positively/negatively influence the implementation of IFRSs; Based on the prior literature in section 2.5, the final proposition (P_{III}) of the present study was developed, in section 2.5.3.

Section 2.6 [RQ-2(b)] suggests that not only do accounting regulatory frameworks, politico-institutional factors and cultural factors influence accounting change, but also that other country specific factors, such as past colonial power, multinationals, transfer of technology and foreign aid and public sector dominance also have impacts on financial reporting in developing countries. Prior studies report mixed findings. Therefore, it will be interesting to examine the impact of these other country specific factors and their influence on the implementation of IFRSs in a developing country.

This research attempts to fill the gaps by adding to the existing body of knowledge concerning the problems of implementing IFRSs from a developing country's perspective. Keeping these key research gaps in mind, the study's theoretical framework will be discussed in the next chapter.

Chapter Three

Theoretical Framework

3.1 Introduction

This chapter will help to develop the theoretical framework consistent with *RQ-3: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?* As mentioned in Chapter Two, there is no single theory which explains accounting change in a developing country in a broader context; therefore, a review of theories of the role of the state is offered, in order to predict accounting changes (i.e. the implementation of IFRSs).

In Chapter Two, the propositions of this study have been developed. The drivers of accounting change have been selected, by employing a systematic review of literature on the role of the state and accounting change (see section 2.2.3). It has been shown that three frequently discussed issues in the literature are accounting regulatory frameworks, politico-institutional factors, and cultural factors (with specific selection for this thesis of training opportunities in the accounting profession and the presence of systematic corruption). Based on the drivers of accounting change, three propositions have been developed in sections 2.3.4, 2.4.3 and 2.5.3.

Chapter Three is organised as follows: section 3.2 discusses key papers on theories of the role of the state in relation to accounting change. In particular, I discuss the role of the state in section 3.2.1. Section 3.2.2 discusses institutional dynamics in order to understand a link between the state and individual organisations and gain an in-depth understanding of IFRSs implementation issues in a developing country. In this section, I discuss the fact that the state is not solely responsible for accounting change, as lobbying groups and individual companies are also responsible. Finally, section 3.3 contains a summary and conclusion.

3.2 Key papers on theories of the role of the state in relation to accounting

The selection process of choosing fifteen key papers in relation to the theory of the role of the state and accounting change has been described in Chapter Two (see section 2.2.3). In particular, of the 15 papers, nine of them focus on developed countries, three of them are purely theory centred and a further three of them are based on developing countries. The theoretical framework of this study has been developed based primarily on these fifteen papers (see Table 2-2).

3.2.1 The role of the state (External Forces)

Prior research has identified that a state framework is based upon external forces. For example, Miller (1990) criticises Marxist views of the state and stresses the importance of a socio-historical approach to accounting change. Miller (1990) uses a state theoretical framework by following two basic approaches, ‘functional’ and ‘external factors’. The implicit assumption of Miller’s framework is that external factors can explain broader changes in accounting. Liguori & Steccolini (2012) argue that the prior research on the role of the state has primarily focused upon external forces, but change is not a simple matter of adjustment to external pressures. Researchers like Tinker (1984) proposes that theories of the role of the state may be applied to more specific accounting questions and may have greater implications in research in accounting and public policy. Tinker (1984, p. 71) identifies some questions and argues that neoclassical thought excludes such questions as, for example, *“What underlies major shifts in the regulatory practices of the state and how much importance should accountants attribute to these changes? What determines the state’s level of autonomy vis-a-vis advantaged and disadvantaged groups and, in this regard, how much credence may be attached to the views of writers, such as Benston [1976], that disclosure regulations are captive of vested interest? Does the degree of state autonomy vary across regulatory spheres of interests? What stance should the accounting profession take in relation to the “contested terrain” of state regulation? Who are the sides in the struggle for control over the state’s regulatory apparatus, and how should accountants choose a side to support?”*.

Although the outcomes of accounting change can be investigated at different levels of analysis, most studies explicitly employ external or macro level analysis. Hence, I will

explore how the state behaves and its role in accounting change emphasising external forces. As derived from section 2.2.3, the roles of the state are outlined below (see sections 3.2.1.1-3.2.1.4).

3.2.1.1 State approves experts to write rules

The state approves experts (e.g. professional bodies) to write rules (Tinker, 1984; Jonsson, 1991; Alexander & Servalli, 2010; Moran, 2010; Norton, 2012). Prior research argues that state intervention in regulatory processes means a questioning of the state's role. Jonsson (1991) proposes that state intervention should be avoided or minimised in order to formulate independent accounting rules and norms. Accounting finds a role through regulation. He further points out that *"The state may grow stronger by not intervening"* (Jonsson, 1991, p. 521).

Alexander & Servalli (2010) examine the extent to which, and in what ways, the state should be involved in the regulation of financial accounting and reporting using historical and conceptual analyses of 'the state' and 'accounting'. They further explore accounting regulation in the Anglo-Saxon (common law) and Continental (Roman law) traditions, considering political polemics relating to the role of, and inter-relationships between, the IASB and investor/creditor/fiscal/legal/prudential regulation stakeholders. They conclude that *"self-interested interference is endemic, is actively facilitated by 'due process', and that, crucially, a necessary (but not sufficient) condition of effectively dealing with this problem is to ensure that 'the State', whilst maintaining an essential overall monitoring role on the fundamental effectiveness of the process, is allowed, whether in the guise of elected representatives or otherwise, zero influence in the details and operational content of financial accounting and reporting regulations for market-based resource-allocation-focussed information"* (Alexander & Servalli, 2010, p. 2). The theoretical underpinnings of their findings are 'conceptually distinct, but a connection exists in that state involvement may, or may not, be conducive to more effective achievement of the purposes of financial reporting' (Alexander & Servalli, 2010, p. 35).

Moran (2010) argues that *"Making sense of the political economy of regulation involves making sense of national patterns of regulation....the application of these social technologies is inevitably a political matter, and is therefore shaped by the political setting – institutional and cultural - in which it operates accounting practice is a*

critical arena where politics and economics meet - and is therefore critical to the political economy of the market system” (Moran, 2010, p. 274). He differentiates between the US (which is the single most important national system of capitalist democracy) and the EU regulatory systems using the political economy of accounting analyses. The US capitalist democracy has been distinctive not only in its scale and global influence but also as it has established a special kind of state-business relationship, and this American regulatory state has a number of distinctive features. Since the Reagan revolution of the 1980s, these contradictory aspects of the state have struggled for supremacy (Moran, 2002, 2010). Moran (2010) suggests that the state is a manager of the market system, but a manager that intervenes only to return it to a point of equilibrium. The political leadership, the language of the ‘pilot’ of society in the democratic arena, can also mean that “[one of] the authoritarian governing systems of the 20th century, (China) celebrated the leadership of the ‘Great Helmsman’, Mao Zedong - one of the most savage tyrants in a century of savage tyrants” (Moran, 2010, p. 216). This argument questions the political economy of regulatory aspects within authoritarian (i.e. military) and democratic regimes respectively. In a theory based paper, Tinker (1984, p. 56) criticises Stigler’s (1971) view⁴⁵ of the role of the state by arguing that: “*There is no mention of the supply mechanisms that generate regulations (that is, little consideration is given to the various pressure groups, institutions, incentives, and other forces that combine to bring regulations into being)*”. However, he does not explore this view by providing empirical evidence. Theorising about minimising state intervention in the accounting regulatory process, Norton (2012, p. 119), using a Hegelian perspective, suggests that “*separation of functions between the executive branch of government and the judiciary is an essential prerequisite to the legitimacy of the state’s claim to the wealth and income of the individual and the use of coercion when that claim is resisted*”.

Prior studies provide ‘mixed evidence’ (as indicated in figure 3-1) of state intervention in the accounting regulatory process. For instance, the first group finds that state intervention should be minimised or even avoided (Jonsson, 1991; Norton, 2012), while the second group finds that state intervention may or may not be helpful in having an effective regulatory process (Alexander & Servalli, 2010); and the third group finds that

⁴⁵ According to Stigler (1971, p. 3), “*The central tasks of the theory of economic regulation are to explain who will receive the benefits or burdens of regulation, what form regulation will take, and the effects of regulation on the allocation of resources*”.

political economy may influence the regulatory process, depending on whether a regime is authoritarian or democratic (Tinker, 1984; Moran, 2010).

3.2.1.2 State consults with various stakeholders

The state consults with various stakeholders (e.g. investors, professionals and researchers) on the validation of rules (Streeck & Schmitter, 1985; Rose & Miller, 1992)[2010]; Kurunmaki *et al.*, 2011; Oehr & Zimmermann, 2012). Streeck & Schmitter (1985, p. 120) argue that “*a state without some kind of spontaneous solidarity among its citizens is no more than a bureaucratic or military conspiracy, and modern communities without a state would always be in danger of losing their identity and independence*”. They suggest that state may increase its effectiveness by involving the market and the community, whilst state intervention may distort markets. By distinguishing between two types of welfare states, residual⁴⁶ (e.g. the United Kingdom, the United States and Canada) and institutional⁴⁷ (e.g. Germany, France and Japan), Oehr & Zimmermann (2012) find that state involvement in the standard setting process is a political process in institutional welfare states.

By contrast, Rose & Miller (1992, p. 173)[2010, p. 271] investigate problems of government and demonstrate welfarism as a mode of ‘social’ government. They criticise the rhetoric of the welfare state because the welfare state depends on bureaucracy and is subject to constant pressure from bureaucrats wishing to expand their own empires. They point out that “*the welfare state has a morally damaging effect upon citizens, producing ‘a culture of dependency’ based on expectations that government will do what in reality only individuals can*” (p. 198 [296]). In terms of a neo-liberal state, they argue that “*the central mechanisms of neo-liberalism is the proliferation of strategies to create and sustain a ‘market’, to reshape the forms of economic exchange on the basis of contractual exchange. The privatization programmes of the new politics have formed perhaps the most visible strand of such strategies, and one most aligned with the political ideals of markets versus state*” (p. 198 [297]). Kurunmaki *et al.* (2011, p. 1)

⁴⁶ In the residual welfare state, ‘accounting is designed to maintain the efficiency of markets’ (Oehr & Zimmermann, 2012, p. 139).

⁴⁷ In the institutional welfare state, ‘the rules and standard setting at large will generally be state organised, state involvement in accounting runs much deeper, and this is in line with the societal motives and values’ (Oehr & Zimmermann, 2012, p. 139).

emphasise that “*Much is missed if we neglect the interaction between these [accounting & the state] twin poles*”.

These studies imply that accounting operates both within and beyond the state. Accounting involves calculative practices, but it should be noted that the ways in which these are mobilised depend on the nature of the state within which they are operating. The above studies provide ‘mixed evidence’ (as indicated in figure 3-1). For instance, one group finds that the state [e.g. a residual and neo-liberal state] consults with various stakeholders (Streeck & Schmitter, 1985; Rose & Miller, 1992[2010]; Oehr & Zimmermann, 2012) while the other group finds that the state [especially welfare states, and in particular, institutional welfare states] usually does not consult stakeholders, because of the complex political process and bureaucracy (Oehr & Zimmermann, 2012).

3.2.1.3 State enforces outcomes

The state enforces outcomes (Hoogvelt & Tinker, 1978; Krzywda *et al.*, 1995). The prior literature identified a lack of regulatory enforcement in developing countries. For instance, Hoogvelt & Tinker (1978) assess the changing role of the state in Sierra Leone. They find that the “*post-colonial period is characterised by a further recursion in the relations of exploitation: this time, a decline in returns to the state and an increase in allocations*” (Hoogvelt & Tinker, 1978, p. 67). Through a periodisation analysis, they find that the government lacks regulatory enforcement. According to Hoogvelt & Tinker (1978, p. 69), “*Political sovereignty, however, permits the state to demand an increasingly higher price for its ‘comprador role’⁴⁸: when this finally outweighs the attractions of low wage costs and ground rents, a company will pack up and cease their activities*”. They argue that historical and political influences may help or hold back regulatory enforcement (p. 75).

In a Polish case study, Krzywda *et al.* (1995) find that the existence of Soviet-era traditions prevents the functioning of fully transparent accounting systems; hence, this influence may inhibit enforcement activities. The Soviet-era traditions includes ‘*the continuing influence of the Ministry of Finance in accounting regulation and the continuation of state authorisation of accountants as members of the Chamber of*

⁴⁸ Early colonial (1930-47); late colonial (1948-61) and post-colonial (1962-75). Each of these periods reflects the underlying socio-political realities in Sierra Leone (Hoogvelt & Tinker, 1978, p. 75).

Auditors and as the foundation of the audit profession’ (Krzywda *et al.*, 1995, p. 651). Further, a lower rate of privatisation and a higher rate of subsidisation of state-owned enterprises undermine the emergence of transparent accounting practices (Krzywda *et al.*, 1995, p. 652). One limitation is that this study will not implicitly examine whether the state is accountable to its citizens in Bangladesh.

3.2.1.4 State is accountable to its citizens

The state initiates change because it is accountable to its citizens (Miller, 1990; Constable & Kuasirikun, 2007). Miller (1990) argues that political machineries provide the mechanisms whereby government, the state, or businesses can be held accountable to society. He further emphasises that “*Accounting can be understood through such a model by reference to the role it plays in assisting corporate accountability, installing monitoring systems within firms, contributing to the overall maximization of welfare in society, or even obviating the need for politico-regulatory mechanisms*” (Miller, 1990, p. 319). Constable & Kuasirikun (2007) argue that power and dominance play a critical role in political identity and nation-state formation in a developing country like Thailand.

The two studies outlined above suggest that the state’s accountability to its citizens depends on the nature of the country and therefore the evidence is ‘mixed’ (as indicated in figure 3-1). For example, in developed countries, the state is accountable to society, given that the state dispenses justice and protects equality, usually within an established tradition (Miller, 1990) whereas in developing countries, due to the power and dominance of the state, its accountability to its citizens may not be so guaranteed (Constable & Kuasirikun, 2007).

3.2.1.5 Role of donor agencies

Prior research has identified that the presence for donor agencies’ assistance and collaboration with the state may help in producing better outcomes of accounting change. For instance, Krzywda *et al.* (1995, p. 652) call for future research into donor agencies’ roles in accounting change in a developing country. Irvine (2008, p. 128) argues that there has been an increase in interaction between states and donor agencies such as the World Bank, the IMF and the ADB. She finds that the adoption of IFRSs

was mediated through the World Bank in the UAE. She further raises the question of the donor agencies' 'pushed down' effort for IFRSs adoption in developing countries. Researchers such as Points & Cunningham (1998), Mir & Rahaman (2005) and Uddin & Hopper (2003) were critical about donor agencies' efforts in reforming financial reporting regimes in developing countries. Wallace & Briston (1993) propose collaboration between the state and donor agencies as the best way to move towards effective reforms of accounting. Since prior research provide mixed evidence (as indicated in figure 3-1) regarding donor agencies' efforts in reforming accounting in developing countries, in this study I will explore the donor agencies' influences on accounting change. I therefore wish to modify proposition two (P_{IIA}), which was initially developed in section 2.4.3:

P_{IIA} : Politics will have a positive influence on implementation of IFRSs under the conditions of (a) common-law origin, (b) a lower level of government intervention (c) a lower level of donor agencies' pressure and (d) a lower level of political lobbying.

'or' Politics will have a negative influence on implementation of IFRSs under the conditions of a) code-law origin, (b) a higher level of government intervention, (c) a higher level of donor agencies' pressure and (d) a higher level of political lobbying.

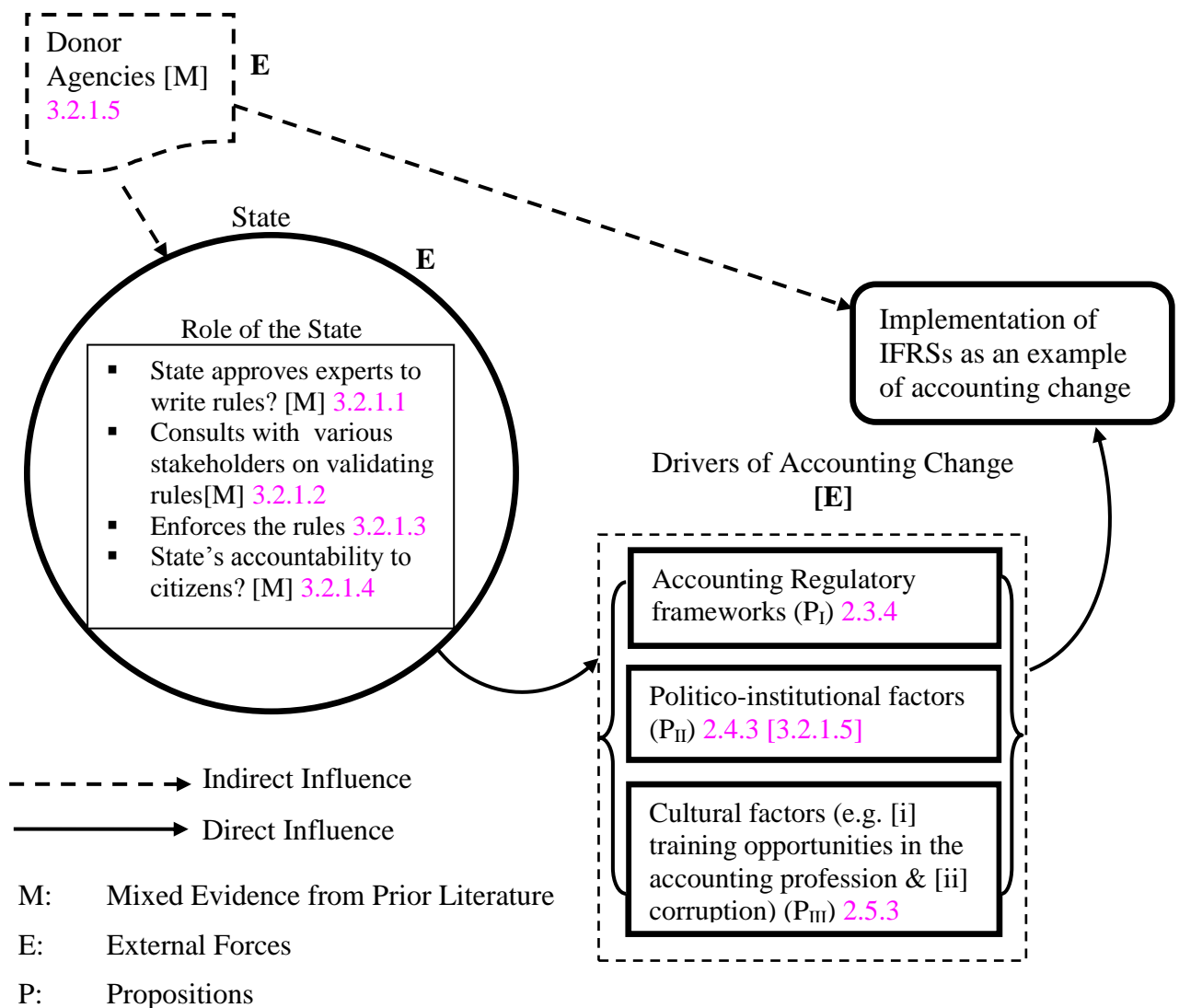
3.2.1.6 The proposed initial theoretical model

The prior research called for future research into the interrelations between accounting and the state, because an examination of this relationship may offer the possibility of identifying the key factors which define the nature of accounting change.

The proposed initial theoretical model of the role of the state and accounting change can be expressed diagrammatically (see Figure 3-1); in figure 3-1, the state (see sections 3.2.1.1-3.2.1.4) is accountable for the outcome of accounting change. In this process, the one-directional dotted line represents donor agencies (see section 3.2.1.5) who indirectly assist the government in making active decisions for the protection of stakeholders' interests. In terms of the 'drivers of accounting change', as I have already demonstrated in Chapter Two (see sections 2.2.3, 2.3.4, 2.4.3 and 2.5.3), accounting change can be explained through accounting regulatory frameworks, political-institutional factors and cultural factors (exemplified in this study through training opportunities in the accounting profession and through the presence of systematic

corruption). The prior studies suggest that the drivers of accounting change may either help or impede the outcome of accounting change (see the propositions development set out in Chapter Two). In figure 3-1, the donor agencies, the state and drivers of accounting change in relation to the outcomes of accounting changes are indicated by ‘E’ (i.e. external forces). The one-directional arrow shows how the state is directly influencing accounting change through drivers of accounting change.

Figure 3-1: Proposed Initial Theoretical Framework (The role of the state and accounting change)



3.2.1.7 Weberian view of the state-society

The diagram (3-1) expresses a general model of accounting change. Internal forces are missing in the model, since they were not indicated by the prior research. It is therefore important to pay attention to the Weberian view of state, in which Weber (1968)[1922] clearly demonstrates the relationship between the state and society (i.e. involving

external and internal forces). A view of culture in relation to the role of the state can be derived from Weber (1958)[1904], and Weber (1968)[1922]. In terms of the state-society argument, Weber (1968, p. 156)[1922] stresses that the role of the state through parliamentary process and democracy is intended to deliver power to all citizens through the creation of meaning in everyday life, and that power is ultimately social. Skocpol (1985, p. 7) points out the need for “*a fundamental rethinking of the role of states in relation to economies and societies*”. For Weber, “*human beings are motivated by ideal and material interests.... social systems exist to realize their core values, and values explain why different actors make different choices even in similar situations*” (Swidler, 1986, p. 274). Weber (1958)[1904] acknowledges that cultural values are not immutable, as “*they will change as the environment facing the society changes*” (Richardson, 1987, p. 344), and “*culture should have enduring effects on economic action*” (Swidler, 1986, p. 278). The Weberian view of the state-society will be discussed in Chapter Eight (see sections 8.3.6 and 8.5.6).

The next section addresses the linkages between the roles of the state and society (i.e. between external and internal forces).

3.2.2 Institutional Dynamics (A link between the role of the state and individual organisations): External Vs. Internal Forces⁴⁹

“.... [The] regulation of any domain of economic life is a political affair. And since it is a political affair at its heart lies a set of relationships between business interests and the state. Disentangling those relationships - making sense of that grand phrase ‘the political economy of regulation’ - involves close attention to territorial patterns of regulation, since states inhabit a world of territory” (Moran, 2010, p. 224).

A link between the theory of the role of state and institutional dynamics can be derived from Moran’s (2010) argument on the relationships between business interests (i.e. internal forces) and the state (i.e. external forces). He views accounting as being shaped by the political setting (institutional) in which it operates. He further argues that “*Accounting practice is a critical arena where politics and economics meet - and is therefore critical to the political economy of the market system*” (Moran, 2010, p. 224). However, he did not implicitly explore business interests in the study and calls for

⁴⁹ In this study, ‘internal forces’ means micro processes of accounting change (i.e. individual organisation and organisational field levels of institutional dynamics).

further research. In a recent study, Liguori & Steccolini (2012) argue that external forces fail to fully explain the final outcome of accounting change and, hence, internal forces (i.e. micro-processes or individual organisation and organisational field level of institutional dynamics) are seen to be important in driving accounting change in Italy. They argue that the internal forces occurring within organisations are significant in determining “*how the environment is interpreted and how organisations respond*” (Liguori & Steccolini, 2012, p. 30). Although these two studies (Moran, 2010; Liguori & Steccolini, 2012) analyse the role of state and individual organisations, neither provides any explicit model (i.e. the relationship between the state and society or between external and internal forces) to support their arguments. Therefore, to explore the relationship between the external and internal forces, I rely on Dillard *et al.*'s (2004) institutional dynamics model⁵⁰. Drawing upon Weber (1958[1904], 1961[1927] & 1968[1922]), Dillard *et al.* (2004) propose an articulation of institutional dynamics indicating how criteria and practices are linked over three levels of social systems. Their model postulates that “*action is changed but constrained by structure to develop a recursive institutionalisation model that prioritises processes over outcomes*” (Dillard *et al.*, 2004, pp. 512-513). The institutionalisation, transposition and deinstitutionalisation of practices (P) are continual and dynamic, and involve actors' power and interests (Dillard *et al.*, 2004, p. 513). The overarching political and economic level (PE) or state level establishes general, widely taken-for-granted norms (C_{PE}). These norms are disseminated to society and the organisational field level (OF), which translates into the individual organisation level (IO) (Hopper & Major, 2007). Different actors influence proceedings at different levels; for example, government officials, regulators and legislators do so at the PE/state level; industry leaders and trade unions at the OF level; and managers and workers at the IO level (Irvine, 2008). Considering institutional dynamics, the prior literature discusses two issues - actors and their interests, and politics and power.

Firstly, actors and their interests constitute an imperative issue in institutional dynamics (Burns & Scapens, 2000). Scapens (1994, p. 147) identifies the state and the professions as the primary modern shapers of institutional forms. Burns (1996, p. 28) argues that rules constitute a power resource and that social agents act in their own interests.

⁵⁰ Moran (2010) did not use Dillard *et al.*'s (2004) model. He emphasises the political economy of the market system. Dillard *et al.* (2004) provide a model to discuss the practice of accounting in organisations.

Therefore, it should not be assumed that the nation state and the professions will share the same interests (Scott, 1987). The state officials are more likely to create bureaucratic arrangements that centralise discretion at the top of the structure (Simon, 1983). By contrast, professional bodies will generally prefer more decentralised administration (Friedland & Alford, 1991). Subsequently, state actors are more likely to employ coercion in pursuing their ends, whilst the professions attempt to create cultural forms and beliefs (Moran, 2010). DiMaggio (1988, pp. 4-5) emphasises (1) norms or taken for granted assumptions “*that make actors unlikely to recognize or to act upon their interests*”, and (2) behavioural constraints or cognitive limitations “*that cause actors who do recognize and try to act upon their interests to be unable to do so effectively*” (p. 5). Taking a contrary view, Scott (1987) identifies the missing point of the ‘*common utilitarian position*’ as being that actors attempt to pursue their interests. Extending the work of Friedland & Alford (1991), Scott (1987, p. 508) argues that “*Institutional factors determine that actors in one type of setting, called firms, pursue profits; that actors in another setting, called agencies, seek larger budgets; that actors in a third setting, called political parties, seek votes*”. In terms of changing accounting practice, Carpenter & Feroz (2001) identify the factors that may lead to initial resistance to the adoption of GAAP and argue that, if accounting bureaucrats are not active in professional associations, then powerful interest groups may impede GAAP. Therefore, Coad & Herbert (2009, p. 190) offer the view that individual organisational actors and their interests are regarded as having a mutually constitutive nature of structure and agency.

Secondly, politics and power⁵¹ play a central role in institutional dynamics, where complex processes of change exist through time (Dawson, 1994). The politics can take place at various hierarchical institutional levels and the power refers to the means through which powerful individuals’ desires are exerted on others (Buchanan & Badham, 1999, p. 11). In essence, power and politics are interconnected in an institutional analysis (Pfeffer, 1981). Power is intended “*to produce intended effects*” in line with perceived interests (Pettigrew & McNulty, 1995), whereas politics is “*the practical domain of power in action*” (Buchanan & Badham, 1999, p. 11). Pfeffer (1981, p. 7) states that “*..politics involves those activities or behaviours through which*

⁵¹ Over the last few decades, research into the dimensions of politics and power has blossomed within institutional dynamics analysis (Pettigrew, 1973, 1990; Pfeffer, 1981; Mintzberg, 1983; Burns & Scapens, 2000; Perry & Nölke, 2006). I use the term politics and power in an analysis of the state level (PE), the organisational field level (OF) and the individual organisation level (IO).

power is developed". However, power in itself is not necessarily sufficient to achieve intended outcomes; it is important that individuals act (Mintzberg, 1983). Analyses of power and politics have been utilised by various researchers in the accounting domain. For example, Covalleski & Dirsmith (1988, p. 562) show that the process of institutionalisation appears to be infused with *power and self-interest*. Fogarty (1992, p. 348) documents that the structure of the FASB reflects the extensiveness of institutionalised involvements (Mezias, 1990, p. 455). Similarly, Bealing *et al.* (1996, p. 318) conclude that the SEC is a political institution because of the SEC's efforts and lack of success in terms of preserving the status quo in power relations among the business and political communities. Later, Hardy (1996, p.11) develops a power mobilisation framework with regard to the processes of accounting change but raises questions around the three forms of power's roles as facilitators /barriers⁵² in accounting change.

As previously mentioned, Weber emphasises the state's role in politico-cultural terms in shaping a particular form of society. Colignon & Covalleski (1991, pp. 154-155) hint that "*Theoretically, Weber's framework provides a critical and political basis for evaluating accounting.....Weber's use of accounting indicates that although accounting calculation may be considered neutral in its execution, accounting is not neutral in its consequences, which raises the issue of the social impact of accounting practices on organizations, industries, and society. On the other hand, this tension suggests accounting practices and procedures are mechanisms of domination and objects of struggle among social groups*". It has also been argued that the Weberian framework provides "*a more specific and heterogeneous view of the socio-historical context of accounting and the contingent relations of accounting to organizations and society*" (Colignon & Covalleski, 1991, p. 155).

3.2.2.1 The proposed new theoretical model

Most studies have utilised Weber's works in gaining a perspective of developed countries. More specifically, only three studies (Hoogvelt & Tinker, 1978; Krzywda *et al.*, 1995; Constable & Kuasirikun, 2007) have focused upon developing countries'

⁵² (1) *Power over resources* refers to instances where actors deploy (or restrict) key resources to modify the behaviour of others; (2) *Power over decision making* refers to an exerting of influence over subordinates' participation in decision-making processes; (3) *Power over meaning* means influencing actors' perceptions and/or preferences so that they accept the status quo.

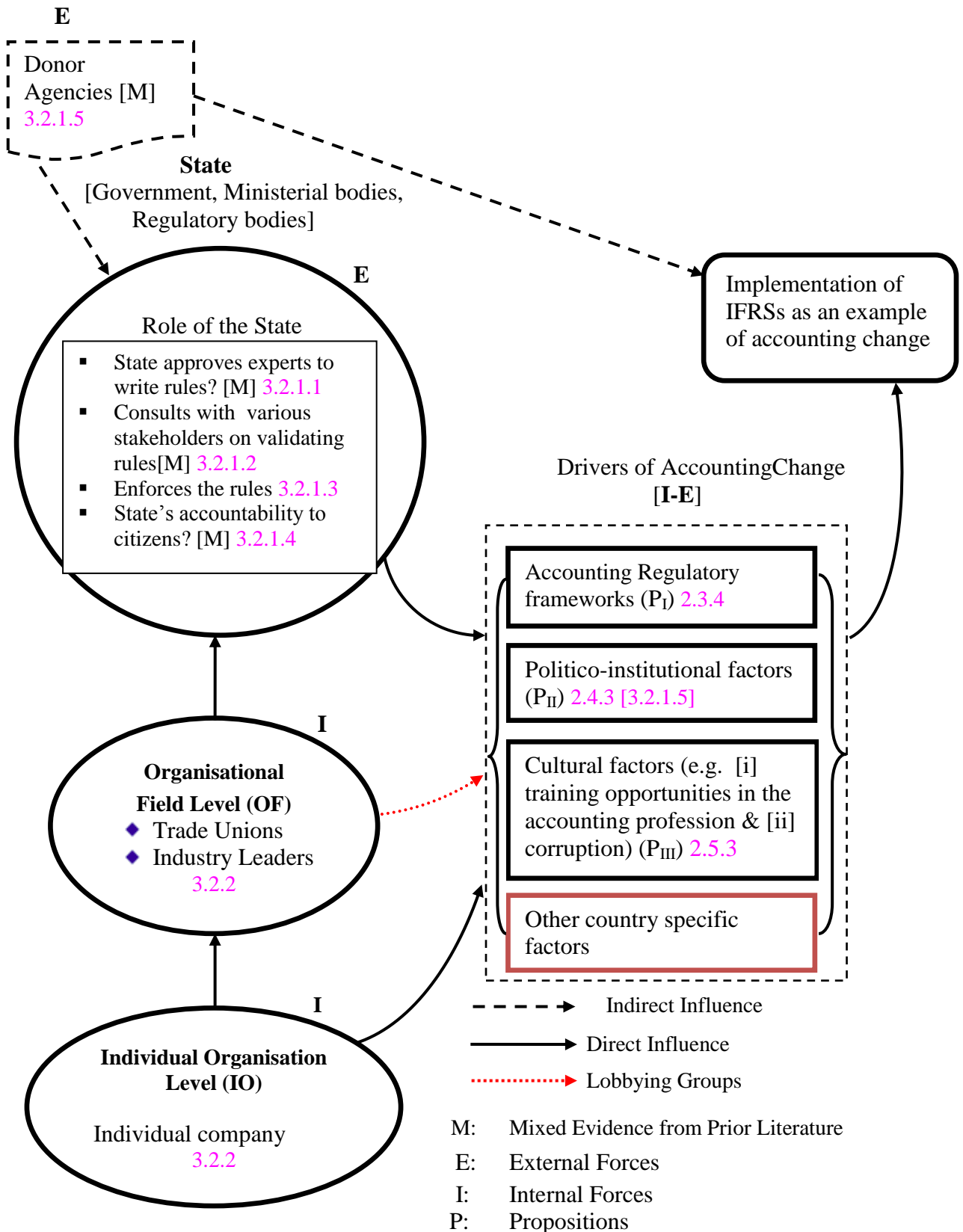
experiences. None of these studies focused on the state-society relationship (i.e. between external and internal forces). Therefore, in the present study, I use Weber's framework to provide a broader understanding of the role of the state and the relationship between the state and society in accounting change. In doing so, I want to explore whether there is a link between the state's role and that of individual organisations in the process of accounting change.

Drawing upon Dillard *et al.* (2004)'s study of institutional dynamics (i.e. the relationships between the state, the organisational field level and the individual organisation level), I have developed a proposed new theoretical framework which is shown as Figure 3-2. This figure is the extended form of the proposed initial theoretical framework, Figure 3-1. Figure 3-2 contains three levels: firstly, the state level includes government, ministerial bodies, regulatory bodies and donor agencies; secondly, the organisational field level includes trade unions and industry leaders, and finally, the individual organisation level includes individual organisations/companies listed in stock exchanges. In this model, the organisational field level and the individual organisation level are defined as internal forces (as indicated by 'I' in Figure 3-2) whilst state and donor agencies are defined as external forces (as indicated by 'E' in Figure 3-2). The one directional dotted lines (in black for donor agencies and in red for lobbying groups/organisational field levels) in Figure 3-2 represent indirect influences on accounting change. The one-directional straight line indicates that state and individual organisations directly influence the outcome of accounting change through the drivers of accounting change. As mentioned in 3.2.1.6, the drivers of accounting change are depicted as discussed in sections 2.2.3, 2.3.4, 2.4.3 and 2.5.3 in Chapter Two.

The role of the state is to make rules and enforce those rules (E), but lobbying groups or bureaucrats and individual organisations (I) may influence these processes. Specifically, at the organisational field level, "*the bureaucracy is a means of domination whose use and direction is distinct and whose consequences for social action are ...accounting practices are key elements of the bureaucratic means of domination*" (Colignon & Covaleski, 1991, p. 150; Dillard *et al.*, 2004). It will be interesting to investigate, via this framework, whether state actors are pursuing individual interests, bureaucratic interests and/or political power in shaping accounting change. At the individual organisation level, I will investigate whether individual organisations/companies are

following social norms, or regulation imposed by the state. This framework will be discussed in Chapter Eight (see sections 8.2-8.5).

Figure 3-2: Proposed New Theoretical Framework (linking the State and individual organisations through institutional dynamics)



3.3 Summary and Conclusion

In summary, this chapter has developed a generic theoretical framework of the role of the state in relation to accounting change. The relatively limited previous research has been conducted employing theories of the role of the state in accounting change (see section 3.2). Section 3.2 describes key papers with reference to their theories of the role of the state in accounting change, and further describes the external forces characteristics of the state, based on fifteen selected papers, as mentioned in Chapter Two.

The majority of papers (as discussed in section 3.2) call for further research to broaden understanding of the Weberian view of the state, and in particular, the link between the state and society. Section 3.2.2 therefore illustrates institutional dynamics, drawing upon Dillard *et al.* (2004)'s framework. In this section, I have discussed the relationship between the state and individual organisations in order to develop a proposed modified theoretical framework. This section also shows that the state alone is not solely responsible for accounting change; the outcome of change can be explained by (1) actors and interests, and (2) politics and power. It is assumed that theory of the role of the state may explain the different forces that bear on individuals acting within social organisations. The prior literature provides different opinions; for example, one group argues that actors are acting in their own interests, while the other group suggests that actors are unlikely to act primarily upon their own interests. Most researchers agree that power and politics hinder accounting change. The proposed theoretical model in the present study will be used to justify the research methods set out in Chapter Five. The framework will also be employed in the findings section in Chapter Eight (see sections 8.2-8.5).

Chapter Four

Financial Reporting Environment in Bangladesh

4.1 Introduction

The purpose of this chapter is to provide, evaluate and contextualise background information on Bangladesh, including its political regime, accounting regulatory frameworks, cultural factors and corruption problems. The information discussed in this chapter can help when analysing findings and answering the following research questions: *RQ-1: What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh as an example of a developing country?; RQ-2(a): How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs; RQ-2(b): What other country specific factors are affecting implementation of IFRSs?; and RQ-3: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?.*

Section 4.2 describes the political regime in Bangladesh. Section 4.3 discusses the accounting regulatory frameworks for financial and non-financial companies. Section 4.4 describes the accounting standard setting process including the status of the adopted accounting standards in Bangladesh, and South Asian regional efforts to implement IFRSs. Section 4.5 explains cultural factors, and section 4.6 summarises the chapter.

4.2 Political Regimes in Bangladesh

4.2.1 Chronological political regimes [1971-present]

[The] Bengal was absorbed into the Mughul Empire in the 16th century, and Dhaka, the seat of a nawab (the representative of the emperor), gained some importance as a provincial centre (Ghafur, 1976). Portuguese, Dutch and French traders were the first westerns to reach Bengal in the latter part of the 15th century. In 1859, the British Crown directly took the place of the East India Company, extending British dominion

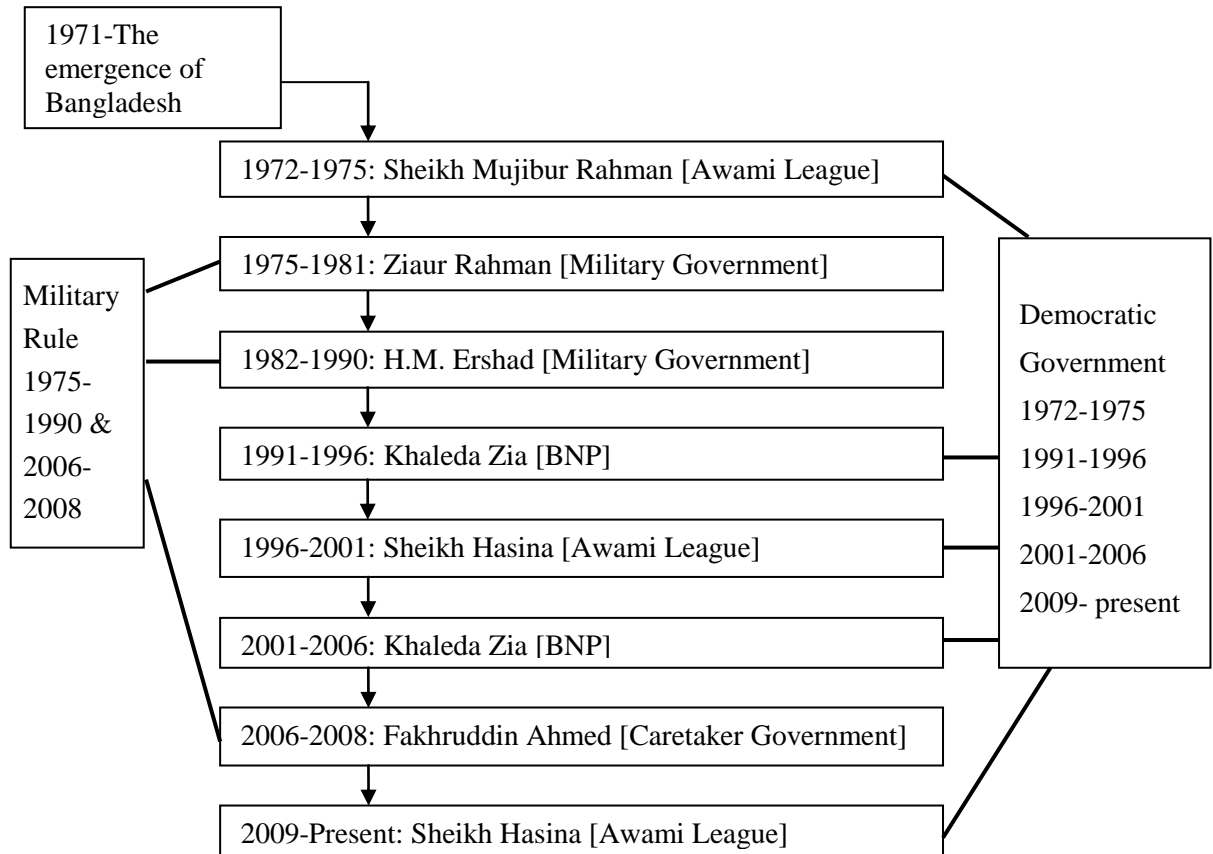
from Bengal, which became a region of India (Jahan, 2003; Ahmad, 1976). After the partition of British India in 1947, the independent states of India and Pakistan were created. It is argued that the government of West Pakistan contributed very little to the development of East Pakistan (Khan & Husain, 1996). Ahmad (1950, p. 194) argues that “*Industrialization of East Bengal [East Pakistan] showed signs of an initial unbalanced development*”. In 1948, Sheikh Mujibur Rahman formed a students’ organisation, the ‘Chhatra League’, to protest against inequality and injustice in comparison with West Pakistan (Jahan, 2005). In 1966, Sheikh Mujibur Rahman became president of the Awami League (AL) and emerged as leader of the Bengali autonomy movement (Ahmad, 1976). On March 26, 1971, following a bloody attack by the Pakistani Army, Bengali nationalists declared an independent ‘People’s Republic of Bangladesh’. There were an estimated three million people killed during the fight between the army and the Bengali Mukti Bahini/Freedom Fighters. On 16th December 1971, Pakistani forces surrendered, and Bangladesh - meaning ‘Bengal country’ - emerged as an independent state. The new country became a parliamentary democracy under a 1972 constitution (Jahan, 2003). The first government of the new nation of Bangladesh was formed in Dhaka with Justice Abu Sayeed Choudhury as President and Sheikh Mujibur Rahman as Prime Minister (Jahan, 2005). The successive political regimes in Bangladesh (see Figure 4-1) are described as follows:

Sheikh Mujibur Rahman (1972-1975): Sheikh Mujibur Rahman came to office with massive personal popularity levels, and he created a new constitution on a modified Westminster model which came into force in December 1972 (Ghafur, 1976). In March 1973, the first parliamentary elections were held under the 1972 constitution and the Awami League won with a massive majority. No other political party in Bangladesh's early years was able to challenge the Awami League's popularity (Ahmad, 1976). In December 1974, Sheikh Mujibur Rahman decided to establish a one-party system, the Bangladesh Krishak Sramik Awami League (BAKSAL) (Ahmed, 1998). In August 1975, Sheikh Mujibur Rahman and most of his family were assassinated by army officers (Ahmad, 1976).

Ziaur Rahman (1975-1981): Successive military coups resulted in the emergence of Army Chief of Staff General Ziaur Rahman as a strongman leader (Halim, 2005). He used Martial Law Administration (MLA) and banned political parties (Jalal, 1995). In November 1976, he became Chief Martial Law Administrator (Jalal, 1995). In elections

in June 1978, he won a 5 year term with a 76% majority (Ahmed, 2003). In May 1981, Ziaur Rahman was assassinated in Chittagong by the military (Khan & Husain, 1996). In accordance with the constitution, Vice President Justice Abdus Sattar became the president and the army stepped in once again (Jalal, 1995).

Figure 4-1: Time frame for Bangladesh Government [1971-present]



H.M. Ershad (1982-1990): Army Chief Lt. General H.M. Ershad assumed power in a bloodless coup in March 1982 (Ahmed, 1998). He suspended the constitution and declared Martial Law (Jahan, 2003). He sought public support for his regime in a national referendum on his leadership in March 1985 and after winning overwhelmingly he designed new party named the ‘Jatiya Party’ (Zafarullah, 1999). In 1986 elections, he won a majority of the 300 parliamentary seats and in July 1987, the government began to arrest scores of opposition activists under the Special Powers Act of 1974 (Jahan, 2005). He then dissolved Parliament and scheduled fresh elections for March 1988 (Jalal, 1995). On December 6, 1990, H.M. Ershad offered his resignation and in February 27, 1991, an interim government, headed by Acting President Chief Justice

Shahabuddin Ahmed, conducted the country's most free and fair parliament elections to date (Ahmed, 2003).

Khaleda Zia (1991-96): The *Bangladesh Nationalist Party* (BNP) won a plurality of seats and formed a government with support from the Islamic party Jamaat-I-Islami. The BNP leader Begum Khaleda Zia (widow of President Ziaur Rahman) became Prime Minister. The former President, General H.M. Ershad, served out a prison sentence on corruption charges (The Bangladesh Observer, 1991). In October 1991, MPs elected a new head of state, President Abdur Rahman Biswas, and re-created a parliamentary system. They also bestowed power to the office of the prime minister similar to that of Bangladesh's original 1972 constitution (Zafarullah & Akhter, 2000; The Daily Inquilab, 1991). In March 1996, following escalating political turmoil, the sitting Parliament enacted a constitutional amendment to allow a neutral caretaker government (Chief Justice Mohammad Habibur Rahman was the Chief Adviser, a position equivalent to Prime Minister) in order to conduct new parliamentary elections (Halim, 2005).

Sheikh Hasina (1996-2001): Under the caretaker government, new parliamentary elections were held in June 1996. The AL won a majority and formed a government with support from the Jatiya Party, led by former President H.M. Ershad (Jahan, 2003). The AL party leader Sheikh Hasina (The daughter of Sheikh Mujibur Rahman) became Prime Minister and formed a 'Government of National Consensus'. In September 1997, the Jatiya Party withdrew its support from the government (Zafarullah & Akhter, 2000) and a four-party opposition alliance was formed at the beginning of 1999 (Ahmed, 2003). In July 2001, the AL government stepped down to allow a caretaker government to preside over fresh parliamentary elections (Halim, 2005). The caretaker government was successful in holding a parliamentary general election on 1 October 2001 (Ahmed, 2003).

Khaleda Zia (2001-2006): The four-party alliance led by the BNP won more than a two thirds majority in Parliament (Jahan, 2005). Begum Khaleda Zia became Prime Minister for the second time (the first was in 1991). However, Sheikh Hasina rejected the results and boycotted Parliament (Halim, 2005). During 2005, an extremist Islamist group named Jama'atul Mujahideen, Bangladesh (JMB) claimed responsibility for bomb

blasts in 63 districts. In February 2006, the AL returned to Parliament and demanded early elections.

Caretaker Government [Military-backed government] (2006-2008): The 13th Amendment to the constitution required the President to offer the position of Chief Adviser to the last Chief Justice of the Supreme Court (Knox, 2009). The AL opposed Justice K.M. Hasan and claimed that Justice Hasan became the Chief Adviser in order to help the BNP win the parliamentary elections. On January 11, 2007, President Iajuddin Ahmed declared a state of emergency, resigned as Chief Adviser and indefinitely postponed parliamentary elections (Alamgir, 2009). On January 12, 2007, former Bangladesh Bank governor Dr. Fakhruddin Ahmed became the new Chief Adviser. Under emergency provisions, the government suspended certain fundamental rights guaranteed by the constitution and detained a large number of politicians and others on suspicion of involvement in corruption and other crimes (Alamgir, 2009). The government arrested the former Prime Ministers Sheikh Hasina and Khaleda Zia on charges of corruption and, after western pressure, the government eventually decided to step down, and the Election Commission then declared that parliamentary elections would take place (Ahmed, 2010).

Sheikh Hasina (2009-Present): In 29 December 2008, parliamentary elections were held and the AL leader, Sheikh Hasina, became Prime Minister for the second time (the first had been in 1996). As Bangladesh is one of the most vulnerable countries in terms of climate change, Sheikh Hasina has been a vocal advocate for mitigation and adaptation, aligning with the Copenhagen Accord in January 2010 (The Daily Star, 2010). During her term, in February 2009, there was a mutiny by Bangladesh Rifles (BDR)⁵³ in which more than 50 army officers were killed (The Guardian, 2009).

4.2.2 How do political regimes and the country's political history interact with business?

During the first democratic era (1972-1975), Bangladesh followed a socialist economic model by nationalizing all industries. The government took various positive steps regarding the capital markets: Firstly, the government establishes the Institute of

⁵³ Bangladesh Rifles (BDR) was renamed Border Guards Bangladesh (BGB) in 2010.

Chartered Accountants of Bangladesh (ICAB), the Institute of Cost and Management Accountants of Bangladesh (ICMAB), the National Board of Revenue (NBR), and Bangladesh Bank. Secondly, in order to ensure stability in all legal spheres in the newly independent country, the Laws Continuance Order 1971, Presidential Order No. 5 of 1972, Presidential Order No. 91 of 1972 and the 1972 Constitution of Bangladesh were introduced (Chowdhury, 2002).

In the second democratic era (1991-2006), the major regulatory reforms of the early 1990s were aimed particularly at moving towards an open economy. Examples include the announcement of a flexible market-oriented interest rate policy in January 1990 by Bangladesh Bank, the Financial Sector Reforms Programme (FSRP) in 1990, the establishment of the Securities and Exchange Commission (SEC) in 1993, the Privatisation Board in 1993, the Privatisation Commission in 2000, the SEC Act 1993, the Companies Act of 1994 replacing the older Companies Act of 1913, the Money Loan Court Act 1990, the Bank Companies Act 1991; the Financial Institutions Act, 1993, the Bankruptcy Act 1997, the Banking Reform Committee (BRC) in 1996, and the Securities & Exchange Rules in 1997 requiring the mandatory compliance of IASs. A major scam in the share market then took place, in 1996. Those who were involved in the scam were bailed from the high court through political connection (The Economist, 1997). According to the ADB (2005, p. 7), *“The share scam cases lodged by the SEC after the 1996 market manipulation remain unresolved”*.

During the first military regime (1975-1990), socialist concepts were abandoned. Some positive contributions were made by the government during this regime. Firstly, institutions like the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the Law Committee and the Board of Investment (BOI) were established. The ICAB became a member of the International Accounting Standards Board (IASB) and started working on the adoption of IASs in 1983. Secondly, the financial and capital market liberalisation trends of the 1980s brought increasing volatility into global financial markets and increased the need for information as a means to ensure financial stability (Chowdhury, 2002). More specifically, a privatisation programme was started in 1982, with the privatisation of two nationalised commercial banks, and the country entered into the IMF/World Bank adjustment programs. The financial sector’s reform agenda was launched in 1984. Finally, development of the legal system took place; for

example, the Ombudsman Act 1980 (Act XV of 1980), the Administrative Tribunals Act 1980 (Act VII of 1981), the Income Tax Ordinance 1984 (Ordinance XXV of 1984), the Land Reforms Ordinance 1984 (Ordinance X of 1984), the Family Courts Ordinance 1985 (Ordinance XVIII of 1985) and the Law Reform Ordinance 1978. During the second military era (2006-2008), the corporate governance codes (comply or explain) ordinance was introduced (in 2006). The government proposed the Financial Reporting Ordinance 2008 in order to implement IFRSs (Hasan *et al.*, 2008).

Additionally, economic development in terms of the Annual Growth Rate of GDP (%), from 1972-1975 was -0.35; in 1975-1990: 3.39; in 1991-2006: 5.01; in 2006-2008: 6.41 and in 2009-2010: 5.9 (World Bank, 2011). These figures indicate that the highest GDP (%) was during the second era of military government (2006-2008). Surprisingly, Pakistan also experienced its highest growth rates (6.7%) during military rule (Khan, 2011). According to World Bank's Governance Indicators (Kaufmann *et al.*, 2010) (see Table 4-1), Bangladesh experienced significant deterioration in political stability. Deterioration continued in terms of government effectiveness, control of corruption and voice and accountability (see Table 4-1). The regulatory quality and the rule of the law improved slightly. During the military government in 2008, the implementation of law was better than it was under the democratic government (see Table 4-1). It is observed that comparing years in the period 2000-2008, government effectiveness and control of corruption were better in the military government period (see Table 4-1). However, Barkat *et al.* (2004) argue that the militarily led government can be denoted as vulnerable to attracting foreign capital inflows, whilst mis-governance and a legitimised civil system of military rule are the de facto situation in Bangladesh. This evidence questions the overwhelming significance of democracy in Bangladesh.

Table 4-1: World Bank’s Governance Indicators⁵⁴ of Bangladesh [1996-2010]

Political Regimes	Democratic Government					Military Government		Democratic Government
	1996	1998	2000	2002	2004	2006	2008	
Governance Indicators								
Political Stability and Absence of Violence/Terrorism	24.52	29.81	23.56	17.31	9.13	8.65	9.62	9.91
Government Effectiveness	24.88	39.02	32.20	26.83	19.51	24.88	27.67	21.53
Regulatory Quality	16.18	17.65	18.63	18.14	13.24	18.14	18.93	21.53
Rule of Law	16.75	19.62	22.01	22.01	16.27	21.05	26.92	26.54
Control of Corruption	27.32	38.54	12.68	5.37	2.44	3.90	14.56	16.27
Voice and Accountability	46.63	41.83	39.42	37.02	26.92	32.697	33.17	38.39

Source: <http://info.worldbank.org/governance/wgi/pdf/wgidataset.xls> [Kaufmann, D., Kraay, A. and Mastruzzi, M. (2010). ‘The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues’. World Bank Policy Research Working Paper No. 5430]

[see Appendix 4-1 for copyright permission regarding Governance Indicators Data from the World Bank]

4.3 Accounting Regulatory Frameworks

4.3.1 Accounting Regulatory Frameworks for Non-financial Companies

According to the World Bank (2009, p. 19) “*Bangladesh is a common law country and has been influenced by British, and to a lesser extent, Indian and Pakistani law and legal tradition. The Companies Act (CA) and other legislation are based on dated UK equivalents. The Securities and Exchange Commission (SEC) have used their regulatory authority to compensate for this dated legal structure; however, key gaps remain in the*

⁵⁴ “The six aggregate indicators are: *Voice and Accountability*, which reflects perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media; *Political Stability and Absence of Violence/Terrorism*, which reflects perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism; *Government Effectiveness*, which reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies; *Regulatory Quality*, which reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development; *Rule of Law*, which reflects perceptions of the extent to which agents have confidence in, and abide by the rules of, society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence; and finally, *Control of Corruption*, which reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests” (World Bank, 2010). The rank ranges from 0 (lowest) to 100 (highest) rank. The data are only available from 1996.

current framework". The accounting regulatory frameworks for non-financial companies in Bangladesh can be found in the following sources: The Companies Act 1994⁵⁵ (for all companies, except public enterprises); The Securities and Exchange Rules 1987 (for listed companies in Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE)); Dhaka Stock Exchange Listing Rules 1998 (for companies listed with the DSE); Listing Regulations of the Chittagong Stock Exchange⁵⁶ (for companies listed with the CSE), and Income Tax Ordinance 1984 (for all companies). For financial companies, the regulatory frameworks are: The Bank Companies Act 1991 (for banking companies) and The Insurance Act 1938 (for insurance companies). The accounting rules and guidelines governing Bangladesh have been inherited from the period of British rule, and exhibit a pattern similar to those in the UK (Ahmed, 2006). Bangladesh's progress regarding corporate disclosure has been comparatively very slow due to inconsistencies between the regulatory frameworks (Ahmed, 2010; World Bank, 2009; Solaiman, 2006; Azizuddin, 2006; World Bank, 2003).

The Companies Act 1994 provides basic requirements for financial reporting by all listed companies in Bangladesh. Yet, the Companies Act 1994 is silent⁵⁷ about Bangladesh Financial Reporting Standards (BFRSs)/IFRSs (World Bank, 2009). The Companies Act 1994 lacks clarity with regard to statutory requirements on disclosures in the financial statements (World Bank, 2009). Moreover, some accounting requirements prescribed by the Companies Act 1994 are incompatible with IFRSs. Several examples can be given; *firstly*, contrary to IAS 21 (The Effects of Changes in Foreign Exchange Rates), the Companies Act 1994 (Sec. 185, Schedule XI, Part I) requires that capitalisation of gains and losses arising from changes in foreign exchange rates will be adjusted in Balance Sheets (see, for example, X Limited⁵⁸ which is a 'A

⁵⁵ The Act was originally formulated by the British authorities in India on 27 March 1913 and came into force on 1 April 1914. The Act has been amended on a number of occasions, once quite extensively, in 1936, in order to bring it into line with the British Companies Act of 1929. This Act was eventually adopted in Pakistan in 1949 and in Bangladesh in 1972 after these two countries became independent in 1947 and 1971 respectively. Finally, the Companies Act 1913 was extensively amended in 1994 and enacted as a new act, the Bangladesh Companies Act 1994. Since Bangladesh is a former British colony and the legal system of Bangladesh is influenced by the British legal system, Bangladesh is a common-law country. (Hasan *et al.*, 2008).

⁵⁶ The year of listing regulations is unknown (i.e. the year is not indicated in the CSE or SEC publications or websites) (See: <http://www.cse.com.bd/listing-regulation.php>).

⁵⁷ The Companies Act 1994 does not contain any provision for mandatory IFRSs.

⁵⁸ <http://www.summitpower.org/update%20info/Audited%20Financial%20Statements%20-%202010.pdf>

category⁵⁹ company in the DSE, and which complied with the Companies Act 1994 instead of IFRSs in 2010). *Secondly*, the Companies Act 1994 does not require consolidated statements for a group⁶⁰ (Sec. 186), but this is required under the IFRSs. According to Section 186, the Act requires that a set of financial statements for each subsidiary, together with some additional statements, be annexed to the holding company's balance sheet. World Bank (2003, p. 3) mentions that "*Companies Act provisions are not fully in line with IAS requirements on preparing consolidated financial statements*". *Thirdly*, Sections 210 (3a, b & c) and 211 of the Companies Act 1994 support the long-term employment of an auditor. In accordance with the Act, if the company auditor is appointed through a resolution passed at the AGM, the auditor will be guaranteed for an unlimited period unless the auditor is proven to be dishonest or unqualified or they resign. *Fourthly*, a Cash Flow Statement is not mandatory under the Companies Act 1994.

Section 183(4) provides that the financial year of a company may be more or less than a calendar year but shall not exceed fifteen months. It may, however, be extended to eighteen months with a Special Resolution/ Extraordinary Resolution of the Registrar of Joint Stock Companies (Form VII of RJSC). Section 185 (Schedule XI, Part I) recommends the format and the content of the balance sheet but not the format of the profit and loss account (Schedule XI, Part II). The provisions of this section, however, shall not apply to banks, insurance companies or electricity companies, because forms of balance sheets have been specified elsewhere, in the respective laws governing such companies.

The Securities and Exchange Commission Rules 1987 require compliance with IFRSs as adapted by the ICAB in Bangladesh (these are known as Bangladesh Financial Reporting Standards or BFRSs) (see also section 4.4 for accounting standard setting process in Bangladesh). The rules which are relevant to the preparation of financial statements are: "*All listed companies' financial statements shall be prepared in accordance with the requirements laid down in the Schedule and the IFRSs as adopted by the ICAB*" (Amended SEC/Sec-7/SER-1987/03/132 dated 22.10.1997). In this sub-

⁵⁹ The DSE introduced 'A' Category Companies from July 2, 2000. The category is introduced based on the company's financial strength and performance (i.e. holding Annual General Meetings regularly & declaring dividends at the rate of 10 percent or more in the English calendar year) to give clear information to the investors (DSE Annual Report, 2009-10).

⁶⁰ The Companies Act 1994 requires separate financial statements for each company.

rule, IFRSs refers to the accounting standards issued by the International Accounting Standards Board. However, the SEC Rules of 1987 suffer from a few shortcomings, for example, that no disclosure of significant accounting policies is required (IAS 1); and a statement of changes in financial position is not required (IAS 1).

Inconsistencies are also found between the Income Tax Ordinance 1984 and IFRSs. For example, provisions are not allowed under the Income Tax Ordinance, and therefore provisions are not tax deductible, but according to IAS 37, provisions are mandatory; some expenditures, for instance, amortisation and entertainment expenses are handled differently (Tax ordinance requires the limit of the expenses but according to IFRSs, an actual amount should be presented) (Section 30, Ordinance No. XXXVI of 1984); the tax authority also believes that the company should have the predetermined rate of gross margin which is quite unusual and is contradictory to IFRSs (Section 53DD, Ordinance No. XXXVI of 1984) (Azizuddin, 2006).

Despite the comments of various researchers (Ahmed, 2010; Solaiman, 2006; Azizuddin, 2006) and World Bank Reports (World Bank, 2009; World Bank, 2003) regarding inconsistencies in accounting regulatory frameworks, no real change has taken place. The former president of the ICAB, Azizuddin (2006, p. 3) states that *“Though the requirements of mandatory rules and non-mandatory guidelines need to be improved to attract foreign investors, the main problem is the implementation and compliance of the rules and guidelines the real problem lies regarding avoidance of laws and the annual reports, particularly the financial statements, are no exception”*. He strongly recommends that the Companies Act 1994 and the Securities & Exchange Commission Rules 1987 should be modified.

4.3.2 Accounting Regulatory Frameworks for Banks

The Bangladesh Bank Order, 1972, states that: *“Central Bank in Bangladesh [is]to regulate the issue of currency and the keeping of reserves and manage the monetary and credit system in Bangladesh with a view to stabilizing domestic monetary value; preserving the par value of the Bangladesh Taka; promoting and maintaining a high level of production, employment and real income in Bangladesh; and fostering growth and development of the country’s productive resources in the best national interest”* (Government of Bangladesh 1972, President’s Order No. 127, p. 4). The Bangladesh

Bank Order, 1972 and the Bank Companies Act, 1991⁶¹ empower the Bangladesh Bank to regulate and supervise the banking sector of Bangladesh (World Bank, 2003, 2009). As mentioned in section 4.3.1, the Securities and Exchange Commission Rules, 1987, the Companies Act 1994, listing requirements of the DSE & the CSE, and adopted accounting standards by the ICAB are the main basis of the financial reporting practices for banking companies in Bangladesh. However, complexities in banking regulation exist in Bangladesh (World Bank, 2009; Sobhan & Werner, 2003) (see Table 4-2 for various regulations in relation to banking companies). Therefore, disclosure of information for the banking sector in Bangladesh has not been increased over the last two decades (Ahmed, 2010). The regulatory frameworks set minimum legal requirements as to the disclosure of accounting information in corporate annual reports and are likely therefore to produce statements which are confined only to concepts of ‘minimum disclosure’ (Ahmed, 2006).

The Companies Act 1994 does not contain any provision for mandatory observance of the adopted IFRSs and ISAs in practice (Siddiqui, 2010). For Insurance companies, the Insurance Act 1938 does not mandate compliance with BFRSs/IFRSs. For other unlisted companies, neither the law nor the by-laws of the ICAB mandates compliance with BASs (Ahmed, 2006). This shows that different companies (in different sectors) are using different accounting policies and procedures in the preparation and presentation of their financial statements within annual reports (ADB, 2007). As a result of the diversified use of accounting practices, a meaningful comparison of financial position as well as performance among the companies becomes difficult to interpret on the part of the users of accounting information for their decision-making purposes (Siddiqui, 2010). To ensure more transparency in financial institutions in Bangladesh, the Central Bank (i.e. Bangladesh Bank) issued a circular BRPD Circular No.14⁶², dated 25 June 2003, for the mandatory adoption of IAS 30⁶³ (Bangladesh Bank Annual Report, 2006-07).

⁶¹ The amendment of Banking Ordinance 1961 was replaced by the Banking Companies Act, 1991.

⁶² http://www.microfinancegateway.org/gm/document-1.9.25611/38073_file_BRPD_Circular_No_14.pdf

⁶³ IAS 30 (BAS30) is superseded by IFRS 7 (BFRS 7) Financial Instruments: Disclosures effective from 1 January 2010.

Table 4-2: Relevant Regulations for Banking Industry in Bangladesh

- | |
|---|
| <ul style="list-style-type: none"> ▪ Bangladesh Bank Order No. 127, 1972 ▪ Bangladesh Bank (Amendment) Act, 2003 ▪ Banking Companies Act No. 14, 1991 ▪ Bank Company (Amendment) Act No. 13, 1993 ▪ Banking Companies (Amendment) Act No. 25, 1995 ▪ Banking Companies (Amendment) Act, 2003 ▪ Companies Act No. 18, 1994 ▪ Money Laundering Prevention Act No. 7, 2002 ▪ Bangladesh Bank Framework for Internal Control Systems in Banking Organisations ▪ Bangladesh Bank Guidelines for Merger/Amalgamation of Banks/Financial Institutions ▪ Bangladesh Bank Prudential Regulations for Banks, 2007 ▪ Bangladesh Bank Guidance Notes on Prevention of Money Laundering (Act No. 8 of 2009) ▪ Bank Regulation and Policy Department Circular No. 5, 2006 ▪ Bank Regulation and Policy Department Circular No. 14, 2007 |
|---|

4.3.3 Major Institutions involved in accounting regulatory frameworks

(a) **The Securities and Exchange Commission (SEC):** The Commission was established in 1993 under the provisions of the Securities and Exchange Ordinance 1969. The functions of the Commission as laid down in the SEC Act 1993 are to ensure proper issuance of securities, to protect the interests of investors in securities, and to promote the development of, and regulate, the capital and securities market (Akhtaruddin, 2005). The SEC issued Corporate Governance (CG) Guidelines (to comply or explain) in 2006 during the Caretaker [Military-backed] Government; it has not issued any guidelines or taken any steps so far toward the implementation of IFRSs. Siddiqui (2010) argues that although, similar to many other developing nations, Bangladesh has also adopted the Anglo-American shareholder model of corporate governance, and such adoption may be prompted by exposure to legitimacy threats rather than being for valid efficiency reasons. There are some contradictory issues between the SEC rules and Companies Act 1994. For example, the Companies Act 1994 (Section 210) allows both sole practitioners and partnership firms to act as auditors. However, according to the SEC rules 1987, only partnership firms with seven years experience in professional practice are allowed to audit listed companies (World Bank, 2009). The SEC also requires that auditor rotation takes place once every three years, except where the company declares dividends at a rate prescribed by the SEC, in which case the same auditor can continue in office (Azizuddin, 2006). The practice of linking auditor rotation with

the company's dividend declaration is highly unusual, and it is not clear what purpose it serves or is intended to serve (World Bank, 2003). World Bank (2003, p. 2) also points out that "*The SEC claims that its February 2000 rule on audit reports has mandated full compliance with IFRS, although this requirement does not appear to have the force of law. To ensure compliance and clarify its position, the SEC should issue a rule for mandatory observance of IFRS in preparing statutory financial statements*".

(b) The Institute of Chartered Accountants of Bangladesh (ICAB): The ICAB is the national professional accounting body of Bangladesh. The Institute was established in 1973 and given its legal status by the Bangladesh Chartered Accountants Order 1973 (Presidential Order No. 2 of 1973). The ICAB is an active member of various International and Regional accounting bodies such as The International Federation of Accountants (IFAC), The International Accounting Standards Board (IASB), The Confederation of Asian and Pacific Accountants (CAPA) and The South Asian Federation of Accountants (SAFA). The institute circulates all IFAC releases in relation to IFRSs to its members. The problem, though, is that the institute cannot enforce the accounting standards unless the standards are incorporated in the Companies Act 1994 or the institute is given legal power to do so by the SEC (Hasan *et al.*, 2008). Until this happens the institute is limited to an advisory role rather than an enforcing role. Nevertheless, in the absence of an accounting standards board in Bangladesh, the ICAB acts as the standard setting body in most cases where there is a need for standards (Akhtaruddin, 2005). There are some major problems, including a shortage of CAs, and the audit fees structure may impede the ICAB's objective to implement IFRSs:

Firstly, with regard to the shortage of CAs, the ICAB was founded with only 80 members (Siddiqui, 2010). The institute had 610 members in 1992 and 700 in 2000 (Ahmed, 2006). Of these 700 members, 565 were resident in Bangladesh and 135 were resident abroad; 274 were practicing as public accountants and the rest were serving in various sectors (Azizuddin, 2006). In 2009, the institute had a total of 914 members, of which 662 were fellow members and 252 were associate members. In 2010, the number had grown up to 1,200, of which 300 are in practice and the remainder are serving the Government, public enterprises, NGOs, donor organisations and different corporate sectors (Siddiqui, 2011). According to Ahmed

(2010), Pakistan had over 3,000 Chartered Accountants, Sri Lanka had over 2,700 and Nepal had around 270 Chartered Accountants (CAs), while Bangladesh had around 1,200 CAs. This indicates the shortage of CAs in Bangladesh. Since the economy of Bangladesh is expanding rapidly, it is estimated that the actual number of qualified accountants needed is more than 12,000 (Siddiqui, 2011). In 2010, among the four nationalised commercial banks in Bangladesh, two of them did not have any CAs; around 90 banks and insurance companies had only 15 CAs; 14 out of 52 state-owned enterprises (SOEs) had CAs; and 35 out of 250 listed companies had CAs (Ahmed, 2010). The government of Bangladesh does not employ any professional accountants in managing its budget of over Tk. 1,150 billion (Siddiqui, 2011). Therefore, transparency in both the public and private sectors is questionable (The Daily Star, 2011).

To increase the number of CAs in Bangladesh, the World Bank and the ICAEW are working together with the ICAB. For example, the ICAEW was awarded a contract under the Economic Management Technical Assistance Program (EMTAP) called a ‘Twinning Project’, funded by the World Bank, to strengthen accounting and auditing standards practices in Bangladesh (ICAEW, 2008). In 2009, the ICAB signed a Memorandum of Understanding (MoU) with the ICAEW to develop a new syllabus in line with the IFAC requirements and the new syllabus has been drawn up to increase the pass rate of candidates, meeting the local and international demand for accounting professionals (Siddiqui, 2010).

Secondly, with regard to the Audit Fees structure, audit fees of public sector enterprises were fixed during the Pakistani era and have continued in this way with only slight/nominal increases (Siddiqui, 2011). The audit fees in Bangladesh are very low compared to those in India and Pakistan. The audit fees of the Central Bank of Pakistan are Rs. 3,500,000⁶⁴, the Reserve Bank of India are Rs. 4,500,000 and in Bangladesh they are Tk. 7,200,000. In Bangladesh, the Audit fees of state-owned commercial banks are less than Tk. 1,000,000 for portfolios of more than Tk.

⁶⁴ The Bangladeshi currency is Taka (Tk.), the Indian currency is the Indian Rupee (Rs.) and the Pakistani currency is the Pakistani Rupee (Rs.). The exchange rate on 31.03.2012 was [£1 = Bangladeshi Tk. 119.815, £1 = Indian Rs. 75.634 & £1 = Pakistani Rs. = 138.963]: Source: <http://www.hmrc.gov.uk/exrate/bangladesh.htm>

100 billion to 200 billion, and the other SOEs are no exception to this⁶⁵. Even the audit fees of private sector foreign banks are much lower compared with India, Pakistan and Sri Lanka (Siddiqui, 2011). Therefore, overall, the audit fees of India and Pakistan are substantially higher than those of Bangladesh.

(c) The Institute of Cost and Management Accountants of Bangladesh (ICMAB):

The ICMAB was established in 1973 under the Cost and Management Accountants Ordinance (1977) and is attached to the Ministry of Commerce (MOC). The primary objective of the institute is to develop and train cost and management accountants. The fellows qualifying from ICMAB are not required to go through practical accounting and auditing training with a professional accounting firm (Solaiman, 2006). The ICMAB's capacity is constrained by the shortage of well-trained instructors and resources (i.e. a lack of high-quality training programs on the practical application of IFRSs) (Hasan *et al.*, 2008). The institute has no auditing power, and hence does not play any role regarding financial accounting standards (Akhtaruddin, 2005).

(d) The Dhaka Stock Exchange (DSE): The Dhaka Stock Exchange (DSE)⁶⁶ is registered as a Public Limited Company and its activities are regulated by its Articles of Association rules & regulations and bye-laws along with the Securities and Exchange Ordinance 1969, the Companies Act 1994 and Securities and Exchange Commission Act 1993. The volumes of transactions and the number of quoted companies in the DSE have increased significantly (Siddiqui, 2010). There are 250 companies quoted in the Dhaka Stock Exchange (source: <http://www.dsebd.org/>). While accounting has little use for individual investors, it is widely used by the institutional investors (Mir & Rahaman, 2005). For instance, there is no professional advisory service by financial analysts in the market, but institutional investors have their own financial analysts (Imam & Malik, 2007). The DSE mainly requires the submission of past financial statements but does not call for financial a disclosure checklist (the disclosure requirements are covered by the

⁶⁵ For example, the audit fee for the Power Development Board is less than Tk. 7,500,000 to audit a Balance Sheet of more than Tk. 260 billion; for the T&T Board it is Tk. 170,000 for a Balance Sheet of Tk. 50 billion and BTCL (formerly BTTB) has discontinued their private sector audit since 1997 and no financial statements have been prepared or audited (Ahmed, 2010).

⁶⁶ The DSE was incorporated in 1954 (East Pakistan) and formal trading was started in 1956 at Narayanganj, Bangladesh.

Securities and Exchange Rules 1987, the Companies Act 1994 and IFRSs) (Hasan *et al.*, 2008). Consequently, the stock exchange does not regard the monitoring the quality of published accounts to be part of its function (Ahmed, 2010).

- (e) **The Registrar of Joint Stock Companies (RJSC):** The function of the Registrar is to grant registration to new incumbents (Hasan *et al.*, 2008). The Companies Act 1994 requires that every joint stock company obtains a registration from the Registrar and files a copy of their annual report, including audited accounts, with the Registrar (Ahmed & Nicholls, 1994). However, the Registrar's role is reduced to one of routine licensing of companies, in exchange of a specified fee and housing the files of companies' accounts (World Bank, 2009; Ali *et al.*, 2004). Parry (1989) earlier opined about the physical environment, mentioning “[*The RJSC*]...*the shabby conditions of the office*” (p. 65). In addition, bribery has become a must for all applicants obtaining registration within a reasonable time and without bribery it may take months or even years to obtain a registration (Ahmed, 1996). The Registrar admitted that hundreds of companies have not filed annual accounts for years, and no action other than sending reminders has so far been taken against companies failing to file accounts with the Registrar (Hasan *et al.*, 2008). The World Bank (2003, p. 3) questions the activities of the RJSC by stating that “*The directors of limited companies both private and public are responsible for filing annual audited financial statements with the Registrar of Joint Stock Companies within 30 days of the annual general meeting. An annual general meeting should be held within 15 months of the previous annual general meeting. However, it is possible to get permission from the Registrar for a three-month extension*”.
- (f) **The National Board of Revenue (NBR):** The NBR was established by President's Order No. 76 of 1972, under the Internal Resources Division (IRD) of the Ministry of Finance (MOF). The NBR is the central authority for tax administration in Bangladesh and is responsible for the formulation and continuous re-appraisal of tax-policies and tax-laws, negotiating tax treaties with foreign governments and participating in inter-ministerial deliberations on economic issues which have a bearing on fiscal policies and tax administration (Ahmed, 2006). The main task of the NBR is to collect domestic revenue (primarily Import Duties and Taxes, VAT and Income Tax) for the government (source: <http://www.nbr-bd.org/>). However, the World Bank (2003, p. 2) criticises its operation by saying that “*Taxation*

authorities do not accept some IFRS-compatible accounting treatments for determining taxable profit, for example, recognizing finance leases, prior period adjustments, and expensing of pre-operation costs. Although there is no legal requirement on observance of tax accounting rules in external financial reporting, those who prepare and audit financial statements generally ensure that the accounting treatments that are acceptable to the taxation authorities are used not only for tax reporting purposes but also for preparing the general-purpose financial statements”.

4.4 Accounting standard setting process

The accounting standards and particularly, disclosure standards in Bangladesh originate from a combination of legal, institutional, and professional bodies providing rules and guidelines (Parry, 1989; Ahmed & Nicholls, 1994; Hasan *et al.*, 2008). As discussed in section 4.3, the professional responsibilities and conduct of Chartered Accountants are governed by the Bangladesh Chartered Accountants Bye-laws 1973 (Solaiman, 2006). These Chartered Accountants Bye-laws 1973 have not been amended to require mandatory compliance of the adopted standards by ICAB members (Farooque *et al.*, 2007). IASs (BASs) and IFRSs (BFRSs) are developed by the ICAB and based specifically on the original versions of IFRSs (Solaiman, 2006). Since the updated version is not mentioned in the SEC Rules of 1987 or 1997, the company is allowed to use the original version. From Figure⁶⁷ 4-2, it is observed that the Technical and Research Committee (TRC)⁶⁸ of the ICAB proposes the standards.

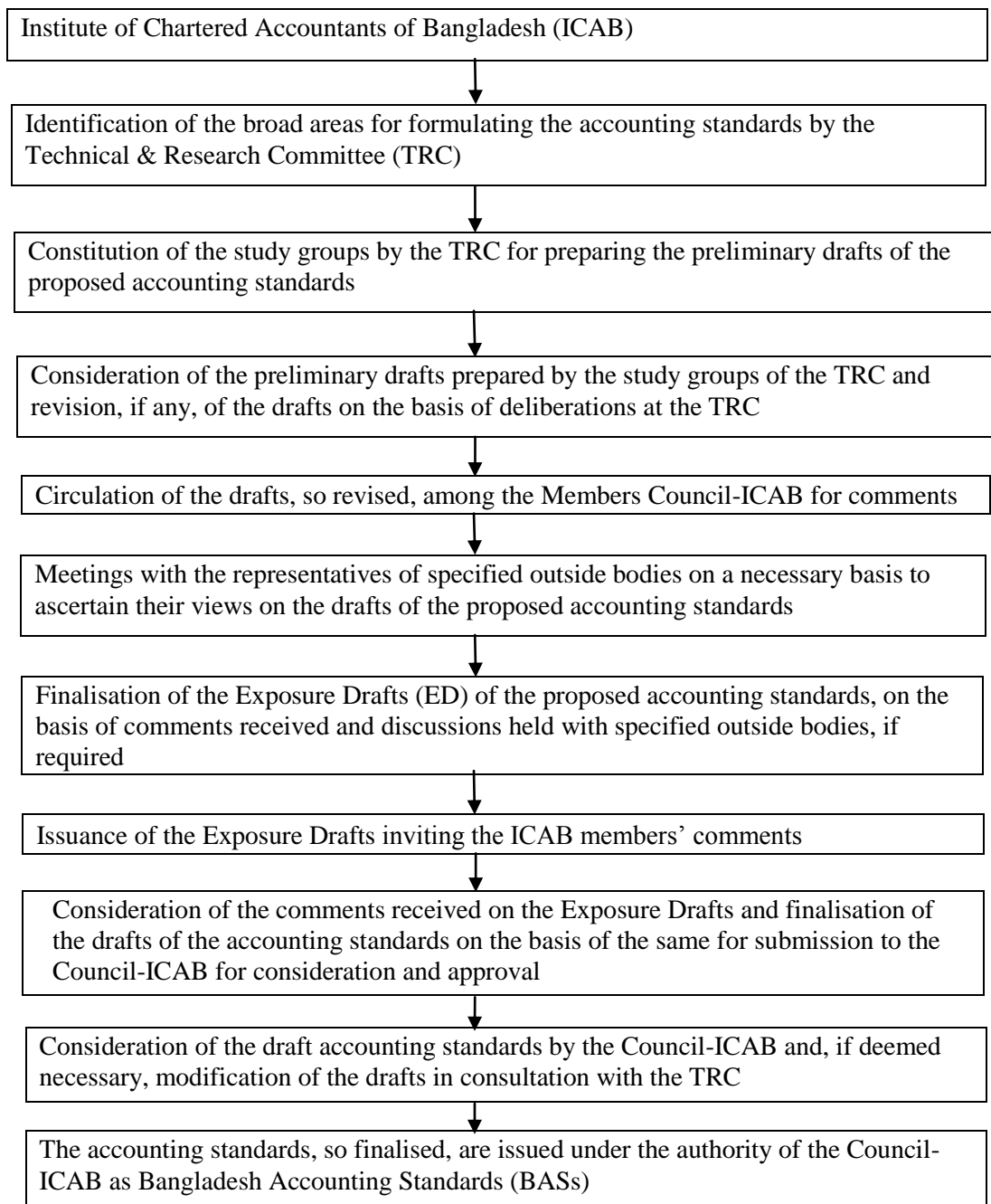
The adoption of standards requires the approval of the ICAB Council and adopted BASs/BFRSs are legally enforceable for the listed companies (ICAB Annual Report, 2010-11; Deloitte & Touche Tohmatsu, 2007). However, these standards are not mandatory or enforceable through the ICAB by-laws 1973 (Siddiqui, 2011). The question may arise of ‘whether there are significant departures from the requirements of

⁶⁷ The Accounting standard setting process is very vague and no information is provided in the ICAB websites or any of their publications. Therefore, I conducted an interview with the TRC of the ICAB on August 25, 2010.

⁶⁸ The TRC consists of a Vice-President and not more than five other members of the council. The council may co-opt such number of members of the Institute as it sees fit. The TRC performs various functions, including research in accounting, auditing, and framing recommendations on technical and professional matters for the ICAB members and Articled students, reviewing the latest national and international pronouncements of accounting standards on a regular basis, and carrying out technical reviews for the adoptability and acceptability of these in the country’s context. They arrange at least four technical CPE seminars in a calendar year for members. However, the Council shall always have the power to review any decision/recommendation of the TRC, in exercising its aforesaid functions.

IASs/IFRSs?’ while formulating the accounting standard, i.e. whether the TRC of the ICAB’s Council consider the IFRSs’ compatibility with local laws, conditions and practices (Hasan *et al.*, 2008). Implementation of the adopted standards are neither backed by law (as in Pakistan & Sri Lanka) nor professionally mandatory (as in Pakistan & Sri Lanka) (Ahmed, 2010). Hence, the auditor’s report and basis of presentation notes only refer to conformity with IFRSs instead of full compliance with IFRSs in Bangladesh (Hasan *et al.*, 2008).

Figure 4-2: Accounting Standard Setting Process in Bangladesh



[Source: prepared by the researcher, based on the interviews with ICAB officials in 25 August, 2010]

4.4.1 Status of Adopted Accounting Standards in Bangladesh

The Securities and Exchange Commission (SEC), through its Gazette Notification of December 1997, amended the Securities and Exchange Rules 1987, whereby all listed companies in Bangladesh are required to comply with the requirements of all applicable IASs, as adopted by the ICAB, in the preparation and presentation of their Financial Statements [Rule 12(2)]. The SEC, in its Gazette Notification of February 2000, then has further amended the statutory rules to require conformity with all applicable IFRSs – deleting the ICAB adoption reference (Hasan *et al.*, 2008). The ICAB Council decided to amend its By-laws in 2001 to mandate the ‘professional enforceability’ of adopted IFRSs and ISA among its members (Solaiman, 2006). This step is a positive one towards full implementation of IFRSs and audit practices in Bangladesh. However, there are no separate standards for small and medium-sized entities (SMEs) (Imam & Malik, 2007). Bangladesh has adopted the original version of 28 IASs out of 29 IASs (see Table 4-3). The reason for non adoption of the one remaining standard is that IAS 29 (Financial Reporting in Hyperinflationary Economies) is not applicable in the context of Bangladesh (Ahmed, 2010). In addition, 8 IFRSs were adopted in 2008, and these became effective from January 2010. However, no amendments of IASs/IFRSs have been made since the ICAB adopted the original version of the standards. After the SEC Gazette Notification in 1997, the caretaker government proposed a Financial Reporting Ordinance in 2008 and urged the future democratic government to pass a Financial Reporting Act and Financial Reporting Council in order to implement IFRSs effectively (Hasan *et al.*, 2008). Hasan *et al.* (2008) argue that the establishment of the FRC is essential to implement IFRSs because of the need for stakeholders’ engagement and an effective monitoring policy. The present democratic government is still considering the proposal (see Figure 4-3 for IASs/IFRSs time frame under different political regimes).

Figure 4-3: IASs/IFRSs Time Frame in Bangladesh 1998-2010

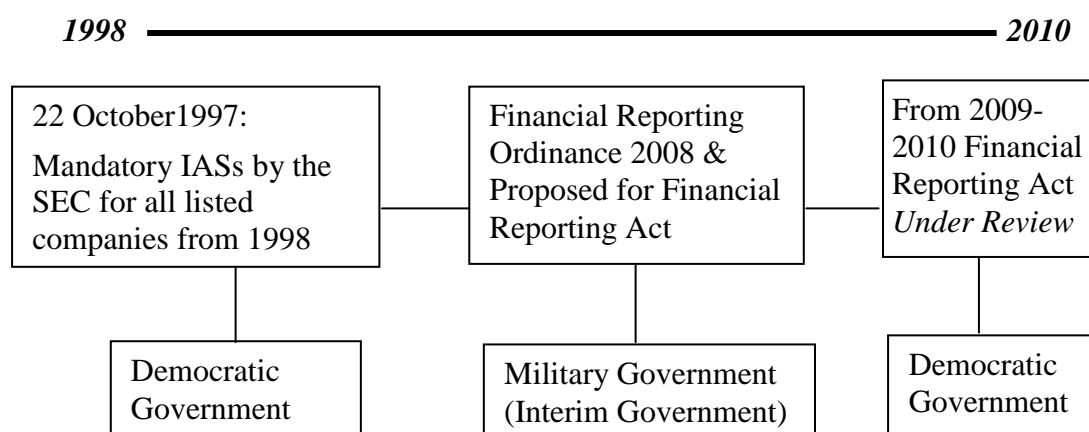


Table 4-3: Status of Bangladesh Accounting Standards 2009-2010[Source: <http://www.icab.org.bd/bas.php>, Accessed at: 12 February 2011]

BASs No.	BAS/IAS Title	Version of IASs	Effective Date	Remarks/Adoption status
1	Presentation of Financial Statements	1987	01.07.98	Adopted original version, revised in 2003, as amended in 2005
2	Inventories	1992	01.01.95	Adopted original version, revised in 1993
7	Cash Flow Statement	1992	01.01.94	Adopted original version Subsequently amended
8	Accounting Policies, Changes in Accounting Estimates and Errors	1993	01.01.95	Adopted original version
10	Events after the Reporting Period	1999	01.01.99	Adopted original version, revised in 1999
11	Construction Contracts	1993	01.01.95	Adopted original version
12	Income Taxes	2000	01.01.00	Adopted original version Subsequently amended
16	Property, Plant & Equipment	1997	01.01.95	Adopted original version, revised in 1998 ⁶⁹
17	Leases	1998	01.12.98	Adopted original version, revised in 1997
18	Revenue	1993	01.01.95	Adopted original version Subsequently amended
19	Employee Benefits	1998	01.01.99	Adopted original version, approved in 1998
20	Accounting for Government Grants and Disclosure of Government Assistance	1983	01.01.95	Adopted original version
21	The Effects of Changes in Foreign Exchange Rates	1993	01.01.95	Adopted original version, revised in 1993 ⁷⁰
23	Borrowing Costs	1993	01.01.95	Adopted original version, revised in 1993
24	Related Party Disclosures	1994	01.01.95	Adopted original version, revised in 1994
26	Accounting and Reporting by Retirement Benefit Plans	1987	01.01.95	Adopted original version
27	Consolidated and Separate Financial Statements	1998	01.01.98	Adopted original version, revised in 2003
28	Investments in Associates	1998	01.01.98	Adopted original version, revised in 2000 ⁷¹
29	Financial Reporting in Hyperinflationary Economics	Not yet Adopted	Not applicable	Not applicable

⁶⁹ SIC-6 Cost of Modifying Existing Software; SIC-14 Property, Plant and Equipment- Compensation for the Impairment or Loss of Items; and SIC-23 Property, Plant and Equipment - Major Inspection or Overhaul Costs.

⁷⁰ SIC-11 Foreign Exchange-Capitalisation of Loss Resulting from Severe Currency Devaluations; SIC-19 Reporting Currency-Measurement and Presentation of Financial Statements under IAS 21 and IAS 29; and SIC-30 Reporting Currency-Translation from Measurement Currency to Presentation Currency.

⁷¹ SIC-3 Elimination of unrealised Profits and Losses on Transitions with Associates, SIC-20 Equity Accounting Method-Reconnection of Losses; and SIC-33 Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests.

31	Interest in Joint Ventures	1999	01.01.99	Adopted original version, revised in 2000
32	Financial Instruments: Presentation	1995	01.01.96	Adopted original version, revised in 2000 ⁷²
33	Earnings per Share	1997	01.01.99	Adopted original version, Revised n 1997 ⁷³
34	Interim Financial Reporting	1998	01.01.99	Adopted original version
36	Impairment of Assets	1998	01.07.99	Adopted original version
37	Provisions, Contingent Liabilities and Contingent Assets	1998	01.07.99	Adopted original version
38	Intangible Assets	1998	01.07.99	Adopted original version
39	Financial Instruments: Recognition and Measurement	2000	01.01.01	Adopted original version
40	Investment Property	2000	01.01.03	Adopted original version
41	Agriculture	2003	05.07.06	Adopted original version

BFRS No.	Title	BFRS Effective Date	Adoption Status of ICAB
1	First-time adoption of International financial Reporting Standards	01.01.2010	Adopted as BFRS on 21 April 2008
2	Share-based Payment	01.01.2010	Adopted as BFRS on 05 July 2006
3	Business Combinations	01.01.2010	Adopted as BFRS on 15 December 2005
4	Insurance Contracts	01.01.2010	Adopted as BFRS on 23 October 2008
5	Non-current Assets Held for Sale and Discontinued Operations	01.01.2010	Adopted as BFRS on 15 December 2005
6	Exploration for and Evaluation of Mineral Resources	01.01.2010	Adopted as BFRS on 05 July 2006
7	Financial Instruments: Disclosures	01.01.2010	Adopted as BFRS on 27 July 2008
8	Operating Segments	01.01.2010	Adopted as BFRS on 21 April 2008

4.4.2 South Asian Regional efforts to implement IFRSs

The Institutes of Chartered Accountants in Bangladesh (ICAB), Pakistan (ICAP), India (ICAI) and Sri Lanka (ICASL) are engaged in the adoption and implementation of IFRSs in their respective countries (Ahmed, 2010). Pakistan has incorporated the standards that are relevant in its particular environment into its laws for listed companies; India recently adopted the IFRSs as the major component of its financial reporting standards; In Sri Lanka, the accounting standards are formulated by the ICASL (The Institute of Chartered Accountants of Sri Lanka), but their statutory compliance is laid down by the Sri Lanka Accounting and Auditing Standards Act. The

⁷² SIC-5 Classification of Financial Instruments-Contingent Settlement Provisions; SIC-16 Share Capital Required Own Equity Instruments (Treasury Shares); and SIC-17 Equity - Costs of Equity Transition.

⁷³ SIC-24 Earnings Per Share-Financial Instruments and Other Contracts that may be settled in Shares.

SAFA⁷⁴ (South Asian Federation of Accountants) announced the establishment of a Technical Directorate to ensure and monitor IFRSs with regard to requirements, contents and consistent application in the region. The process of adopting and issuing Accounting and Auditing Standards in the four⁷⁵ SAARC (The South Asian Association for Regional Cooperation) countries are substantially similar (Siddiqui, 2010). The relevant council committee from SAFA critically scrutinises the IFRSs in line with local laws and regulations, and recommends them to their Councils for adoption, with or without modification (Ahmed, 2010).

A significant aspect of progress in the direction of implementation is reflected by the Best Presented Published Accounts Competition organised in Bangladesh, Pakistan, India and Sri Lanka (Ahmed, 2010). Since 1997, this competition has been launched by the SAFA as a regional competition and has generated substantial interest among leading companies in the region in the presentation of audited published financial statements in the financial and non-financial sectors (Imam & Malik, 2007). In 1995, a regional WTO (World Trade Organisation) sub-committee was formed in the SAFA regions to ensure standardisation in professional accountancy qualifications, experience, and ethics, aimed at posing a united regional and cross-border practice of accountancy (Hossain, 1999).

4.5 Cultural Factors

4.5.1 Hofstede's model, Gray's model, the World Bank's Governance Indicators data and La Porta *et al.*'s data

The initial study by Hofstede (1980)⁷⁶ did not include Bangladesh, although two neighbours, India and Pakistan, were included in his study. Bangladeshi culture is quite similar to Indian and Pakistani culture, due to historical and religious ties among the people of these three countries (Abdullah *et al.*, 2011). Observations of commonalities between these countries have been made in the experiences of the researchers through their personal interactions with citizens of the countries, and field observations. This

⁷⁴The SAFA was established in 1984 and its motivations are: (i) improvement in the regional comparability of Financial Statements by narrowing areas of difference in accounting and audit practices; (ii) improvement in the principles and conceptual approach to financial reporting and audit practices and influencing future professional developments in the region; and (iii) contribution to enactment of new laws and regulations concerning accounting and auditing practices aimed at regional harmonisation.

⁷⁵ Bangladesh, Pakistan, India and Sri Lanka.

⁷⁶ Hofstede *et al.* (2010) include Bangladesh (see Table 4-5).

can be explained through a number of historical facts. Bangladesh was once part of the undivided Indian subcontinent and, for a time, a part of Pakistan (1947-1971). Pakistan, a predominantly Muslim country (about 90% of the population are Muslim), has many common practices with Bangladeshi Muslims in terms of their societal practices (CIA Factbook, 2008). As India has large representations of both Islam and Hinduism, it too possesses cultural similarity with Bangladesh (Hossain, 1999). The cultural score of Bangladesh, based on Hofstede's model (1980) and Gray's model (1988), are shown in Table 4-4.

Table 4-4: Cultural values based on Hofstede's Model (1980) and Gray's Model (1988) in Bangladesh, India & Pakistan

	Dimensions	Bangladesh	India	Pakistan
Hofstede's Model (1980)	Individualism (IDV)	Collectivism	Collectivism	Collectivism
	Power Distance Index (PDI)	Large power distance	Large power distance	Large power distance
	Uncertainty Avoidance Index (UAI)	Strong uncertainty avoidance	Weak uncertainty avoidance	Strong uncertainty avoidance
	Masculinity (MAS)	Masculinity	Masculinity	Masculinity
Gray's Model (1988)	Professionalism vs. Statutory control	Statutory control	Statutory control	Statutory control
	Secrecy vs. Transparency	Secrecy	Secrecy	Secrecy
	Uniformity vs. Flexibility	Uniformity	Uniformity	Uniformity
	Conservatism vs. Optimism	Conservatism	Conservatism	Conservatism

[Source: Author, (emphasis added for Bangladesh) based on Hofstede (1980) & Gray (1988)]

Table 4-5: Cultural Scores based on Hofstede *et al.* (2010) Model

	Bangladesh	India	Pakistan
Power Distance Index (PDI)	80	77	55
Individualism (IDV)	20	48	14
Masculinity (MAS)	55	56	50
Uncertainty Avoidance Index (UAI)	60	40	70
Long-Term Orientation (LTO)	47	51	50
Indulgence versus Restraint (IVR)	20	26	0 ⁷⁷

[Source: <http://www.geerthofstede.com/media/651/6%20dimensions%20for%20website.xls>
Hofstede, G., Hofstede, G.J. and Minkov, M. (2010). *Cultures and Organizations: Software of the Mind*. 3rd Edition. New York: McGraw-Hill]

[see Appendix 4-2 for copyright permission regarding cultural scores from Geert Hofstede B.V.]

⁷⁷ The score was 0 because of the influence of fundamentalist religious views.

As mentioned, Hofstede *et al.* (2010) include Bangladesh to explain cultural dimensions (see Table 4-5). In the case of Bangladesh, the high score of PDI indicates a high level of inequality of power and wealth within the society. The high UAI indicates the society's low level of tolerance for uncertainty and that the society does not readily accept change (i.e. a society may be more, or less, open to unstructured ideas and situations) (Sudarwan & Fogarty, 1996). The combination of these two high scores (UAI) and (PDI) create a society that is highly rule-oriented, with laws, rules, regulations, and controls in place to reduce the amount of uncertainty, while inequalities of power and wealth have been allowed to grow within the society (Abdullah *et al.*, 2011, p. 198) . The culture in Bangladesh is more likely to follow a caste system (e.g. the ruling class social group) that does not allow significant upward mobility for its citizens (Uddin & Hopper, 2001). This could be due to a combination of these two dimensions creating a situation where leaders have virtually ultimate power and authority, and the rules, laws and regulations developed by those in power, reinforce their own leadership and control (Dahawy *et al.*, 2002). This condition is not necessarily subverted upon the population, but rather it is accepted by the population as a cultural norm.

Bangladesh's LTO score is 40, but a higher LTO score can be indicative of a culture that is parsimonious in which a society that is ready to adapt change (Hofstede *et al.*, 2010). With respect to MAS, India's MAS score is 56 which is the third highest ranking in Hofstede's dimension, with the world average just slightly lower at 51. A similar picture is found in Bangladesh. The higher the country ranks in this dimension, the greater the gap between the score of men and women. In terms of IDV, Bangladesh is in the collectivist side, meaning that people are integrated into strong, cohesive in-groups from birth onwards; these are often extended families (Abdullah *et al.*, 2011). The word collectivism in this sense has no political meaning: it refers to the group, not to the state. Again, the issue addressed by this dimension is an extremely fundamental one, relatable to all the societies in the world. Finally, the lower score of IVR indicates that Bangladesh's society suppresses its gratification of needs and instead regulates it by means of strict social norms. In particular, natural human drives in relation to enjoying life and having fun are missing in a restraint society (Hofstede *et al.*, 2010). As mentioned, Bangladesh is a Muslim dominated country⁷⁸ and therefore it is not

⁷⁸ Hofstede *et al.* (2010) argue that the lower score of LTO & IVR are found in Muslim world.

surprising that low scores for IVR and LTO are found. It is important to mention that the cultural scores have not changed from 1980 to 2010 in comparison with the Hofstede (1980) & Hofstede *et al.* (2010) studies. Based on Hofstede's (1980) data, Han *et al.* (2012, p. 38) find that 'Pakistan is one of the most secretive⁷⁹ countries'. They argue that firms in more secretive countries tend to disclose less. Further, investor protection in Pakistan is weaker than it is in India. To explore the secrecy culture of Bangladesh, I use Hofstede's scores from 1980 and 2010. The comparison of India, Pakistan and Bangladesh is shown in Table 4-6. Unsurprisingly, the scores for Bangladesh and Pakistan are almost the same in 2010. This means that Bangladesh and Pakistan have more secretive cultures, while India follows weak uncertainty avoidance and hence has a more transparent culture.

Comparing the enforcement data, the present study finds that a lower rate of enforcement is seen in Pakistan and Bangladesh compared with India (see Table 4-7). This is because both Bangladesh and Pakistan have higher levels of corruption, a factor which weakens enforcement mechanisms. According to Leuz *et al.* (2003, p. 516), "Legal Enforcement is measured as the mean score across three legal variables used in La Porta *et al.* (1998): (1) the efficiency of the judicial system, (2) an assessment of rule of law, and (3) the corruption index". Han *et al.* (2012) and Leuz *et al.* (2003) use the data presented by La Porta *et al.* (1998, p. 1142). In this research, I use the World Bank's Governance Indicators Data (2010). The data from the World Bank ranges from 0 to 100, while La Porta *et al.*'s data ranges from 0 to 10.

Table 4-6: Secrecy Culture in India, Pakistan & Bangladesh

Secrecy Culture (PDI+UAI-IDV)	1980	2010
Bangladesh	N/A	120
India	77	69
Pakistan	123	111

[Source: <http://www.geerthofstede.com/media/651/6%20dimensions%20for%20website.xls>]

[see Appendix 4-2 for copyright permission regarding cultural scores from Geert Hofstede B.V.]

⁷⁹ Han *et al.* (2012, p. 37) defined a secrecy culture score as UAI + PDI - IDV. UAI, PDI and IDV scores derived from Hofstede (1980).

Table 4-7: Enforcement in India, Pakistan & Bangladesh

	World Bank's Governance Indicators Data (2010)								La Porta <i>et al.</i> (1998)			
	1998				2010				1998			
	J	R	C	Avg.	J	R	C	Avg.	J	R	C	Avg.
Bangladesh	17.65	19.62	38.54	25.27	21.53	26.54	16.27	21.45	N/A ⁸⁰	N/A	N/A	N/A
India	34.80	61.72	43.41	46.65	39.23	54.50	35.89	43.21	8	4.17	4.58	5.6
Pakistan	27.94	26.79	15.61	23.45	30.14	25.59	11.96	22.57	5	3.03	2.98	3.7

Notes: J = The efficiency of the judicial system/Regulatory quality; R = the rule of law; C= control of corruption; Avg. = average of judicial system, the rule of law and control of corruption, N/A = Not Applicable

[Source: <http://info.worldbank.org/governance/wgi/pdf/wgidataset.xls>]

[see Appendix 4-1 for copyright permission regarding Governance Indicators Data from the World Bank; and Appendix 4-3 for copyright permission regarding La Porta *et al.*'s data from the University of Chicago Press]

Focusing upon corporate culture, Uddin & Hopper (2003, p. 767) reveal that privatised companies in Bangladesh are reluctant to disclose financial information due to a tax avoidance culture and the weakness of regulatory frameworks and lack of enforcement culture. They raise questions around the veracity of financial data disclosed and the difficulties of using it. Donor agencies like the World Bank have made great efforts to create an 'enabling environment' for privatisation in Bangladesh by financing but paying little attention to regulatory frameworks and enforcement issues that facilitate transparent capital markets (Uddin & Hopper, 2001; Uddin & Choudhury, 2008). Akhtaruddin (2005, p. 402) supports that '*Cultural value is no less important a determinant of disclosure or transparency*'. For example, Bangladesh has a high sense of secrecy in its culture and, therefore, management is less likely to pursue a high level of disclosure. He concludes that "*The lacklustre disclosure performance by Bangladeshi firms can be attributed to organizational culture, poor monitoring, and lapses in enforcement by the regulatory body... Disclosure decisions are culture-driven*"(p. 415). Mir & Rahaman (2005, p. 832) also note that "*India, next door to Bangladesh, which has cultural and economic similarities with Bangladesh, did not go for the wholesale adoption of IFRSs*". However, the corporate sectors in India are more transparent compared to Bangladesh (Banerjee, 2002). One reason for this might be weak professionalism; for instance, classifying those countries which fall behind in terms of professionalism and rely on statutory controls. Askary (2006) finds that

⁸⁰ La Porta *et al.* (1998) did not include Bangladesh.

Bangladesh has a tendency toward statutory control and the lowest professionalism among 12 Muslim developing countries.

4.5.2 Corruption

Corruption is perceived as most rampant in Bangladesh, which is one of the poorest⁸¹ countries in the world (Knox, 2009; Riaz, 2006). Therefore, corruption remains a major obstacle to fully addressing developmental issues. For five consecutive years (2001-2005), Bangladesh topped the list of the most corrupt nations in the world on the Corruption Perception Index (TIB, 2005). Huque (2010) explains that corruption has taken many forms in the public sector, and has rendered the framework of accountability very weak. Corruption has progressively intensified since the gaining of independence in 1971. Some of the key agencies of government such as the police, customs, taxation and the central secretariat are among the most corrupt departments (Riaz, 2006). Key politicians, including the former Prime Minister and the current Prime Minister, have been charged with corruption (Knox, 2009). The political parties in power initiate cases of corruption against those in opposition (Huque, 2010). Choudhury (2008) argues that the MPs/legislators are corrupt and encourage corrupt people to be involved in politics. For example, Article 66 of the Constitution of Bangladesh states that “*A person shall be disqualified for election as, or for being, a member of Parliament, who has been convicted for a criminal offence involving moral turpitude, or sentenced to imprisonment for a term of not less than two years, unless a period of five years has elapsed since his release*”. These ideas appear to be based on unreasonable assumptions and might encourage corrupt personalities to run for membership of the legislature (Knox, 2009). Ministers and public officials become partners in corrupt deals, and avoid practices that would potentially make the country’s administrative systems more transparent (Riaz, 2006; The Daily Star, 2009; Banglanews24.com, 2012). The decisions are made by people in authority without consulting stakeholders, and the network of corruption protects its members from being exposed or prosecuted (Ahmad, 2002; New Age, 2012). Consequently, accountability suffers, as the existing channels and frameworks are never put to use (IMF, 2005, 2010).

⁸¹ Almost half the population living on less than one dollar per day (Oxford Economics, 2008).

In terms of accountability and transparency, Mir & Rahaman (2005, p. 832) find that some companies have taken it for granted that their auditors will fulfil the directors' wishes and there are a large number of malpractices in the corporate sectors including (and linked to) insider trading and unacceptable profit manipulations. However, the auditors have provided qualified audit opinions. These malpractices have been overlooked by the SEC. They warn that "*Corruption is becoming endemic in the Bangladeshi culture and should be the main focus, if accountability is required. Without eradicating the culture which enhances corruption, accountability would continue to be seen as rhetoric*" (pp. 832-833). The IMF (2010, p. 20) suggests that "*Bangladesh Bank banking supervision needs to implement a model anti-corruption program for its staff, both protecting staff from corruptive incentives and making known the high integrity of its personnel*".

To tackle the widespread corruption, the Government of Bangladesh has established institutions and laws over the years. The key initiatives have been (1) *Prevention of Corruption Act, 1947*; (2) *Anti-Corruption Act, 1957*; (3) *Criminal Law Amendments Act, 1958*; and (4) *Anti-Corruption Tribunal Ordinance, 1960*. However, the TIB (2005) criticises the transparency of the Anti-Corruption Bureau, since the bureau has been established within the Prime Minister's Department. On 26 April 2010 the democratic government amended the relevant legislation to require the Commission to seek the government's approval before initiating a case against any government official (The Daily Star, 2010). Therefore, the Anti-Corruption Bureau needs to make such an institution clearly independent of the executive. While the necessary laws and institutions seem to be in place, their effectiveness in curbing corruption is limited in practice, in part because of the widespread prevalence of non-transparent practices in the public and private sectors (Huque, 2010).

4.6 Summary and Conclusion

This chapter has described the political regimes, accounting regulatory frameworks, accounting standard setting process and cultural factors in Bangladesh. In summary, firstly, with regard to the political regimes in Bangladesh, there are two political patterns, i.e. democratic and military eras. In 40 years of independence, the military-backed government ruled for 19 years and democratic government for the other 21. During both the democratic and the military eras, many initiatives have been introduced including the Companies Act 1994, the adoption of IFRSs, the proposed Financial Reporting Act and development of the private sector. Questions still remain about the implementation of these paper based laws because of the scarce application of their rules and regulations in different political eras in practice (in particular from 1998-2010: RQ-1, Proposition P_I & P_{IIA}). The political regimes were not covered by the interview questions, and the interviewees mentioned that the nature of the two different regimes may have an impact on the implementation of IFRSs in Bangladesh.

Secondly, in relation to accounting regulatory frameworks, the Companies Act 1994 provides the basic requirements for financial reporting by all listed companies, and the Securities and Exchange Commission Rules of 1987 and 1997 require that financial statements shall be prepared in accordance with the ICAB adopted IFRSs. However, some contradictions exist between the Companies Act 1994 and IFRSs. The inconsistencies are observed in the SEC Act 1993, The SEC Rules 1987 & 1997, the Income Tax Ordinance 1984, and the Banking Companies Act 1991 (see section 4.3). The World Bank (2003 & 2009) has criticised the current regulatory frameworks. Major institutions like the SEC, the ICAB, the ICMAB, the DSE, the RJSC and the NBR are involved in the accounting regulatory process in Bangladesh. The ICAB is responsible for adopting IFRSs but the standards setting process is not co-operative or fully engaged with the stakeholders. This study therefore investigates how the slow pace of the accounting regulatory reforms and the standard setting process influences the implementation of IFRSs (RQ-1, Proposition P_I).

Finally, with respect to cultural factors in Bangladesh, the chapter discusses Hofstede's model, Gray's model⁸², the World Bank's Governance Indicators data and La Porta *et al.*'s data (see section 4.5.1). As has been mentioned in section 4.5.1, the cultural score for Bangladesh has not significantly changed over the last 30 years (Comparing Hofstede's (1980) & Hofstede *et al.* (2010) model). It has also been argued that negative aspects of the corporate sector, e.g. a secrecy culture, low levels of professionalism and a lack of consistent enforcement, remain common in Bangladesh; corruption spreads every corner of society and hinders the country's economic development (see section 4.5.2). Legislators, the major political parties and auditors are involved in corrupt activities to some extent (i.e. at least some members of each are involved) (see section 4.5.2). Unfortunately, the Anti-Corruption Bureau is acting as no more than a political institution. As has been mentioned in Chapter Two, the present study concentrates on [i] training opportunities in the accounting profession and [ii] corruption in relation to cultural factors in Bangladesh. The question remains as to how [i] training opportunities in the accounting profession and [ii] corruption in Bangladesh can affect the implementation of IFRSs (RQ-2a, Proposition P_{IIIA} & P_{IIIB}). These issues will be used to discuss the findings in Chapters Seven and Eight.

⁸² In line with, Hofstede's (1980) & Hofstede *et al.* (2010) cultural perspectives, Bangladesh's culture is based on: collectivism, Large power distance, Strong uncertainty avoidance, Masculinity, Short-term oriented & Restraint; According to Gray's Model (1988) model, Bangladesh's culture is based on: Statutory control, Secrecy, Uniformity & Conservatism.

Chapter Five

Research Methodology and Method

5.1 Introduction

The objective of this chapter is to discuss the research methodology and method used to achieve the research objectives set out in Chapter One. It attempts to provide a comprehensive description of the mixed methods employed (interviews and documentary analyses) and the philosophical justification of using these methods in the present study. Firstly, qualitative methods using primary data sources are suitable for answering research questions and interviews have therefore been used to gather the information necessary to study the implementation of IFRSs in Bangladesh. Secondly, documentary analyses (e.g. of enforcement data) are used to justify the regulator's role in the compliance of IFRSs in a developing country.

The remainder of this chapter is organised as follows: Sections 5.2 and 5.3 describe research design and mixed methods. Qualitative interviews are then discussed in section 5.4. Section 5.5 discusses the documentary analyses (e.g. enforcement actions by the SEC), and section 5.6 contains a summary and the conclusion of the chapter.

5.2 Research Design

According to De Vaus (2001, p. 9), *“The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible”*. It has also been argued that a research design should minimise any incorrect causal relation between a theory and research question (Bryman & Bell, 2007). There are two types of research approaches to research design; deductive and inductive. The deductive approach⁸³ is a method employed by researchers who are concerned with developing hypotheses in a form which is testable in the real world (Bryman, 2008). With inductive approaches⁸⁴, on the other hand, researchers *“begin with detailed observations of the world and move toward more abstract generalisations and ideas”* (Neuman, 2000, p. 49). Unlike a (positivist) deductive approach, the theory is inductively derived from the observations/findings of the inductive approach.

⁸³ Theory -----> Observations/findings [Deductive]

⁸⁴ Observations/findings -----> Theory [Inductive]

In the present study, the focus is on testing the theory of the role of the state. Given this consideration, the choice of research methods to be used in the present study is informed by the research objectives and research questions. The objective of this research is to explore the implementation of IFRSs in a developing country, emphasising accounting regulatory frameworks, politico-institutional factors, cultural factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption) and other country specific factors. This objective can be achieved through qualitative research. Because the present study is explorative in nature, a deductive approach fits, as a theory is to be tested rather than generated. The initial phase of the research, as set out in Chapter Two (see sections 2.3.4, 2.4.3, 2.5.3 and 2.6.4) help to identify various issues in relation to IFRSs implementation, and Chapter Three (containing the theoretical framework) creates a general theoretical framework. In the second phase of the research, the first and second round of interviews, and documentary analyses will help in testing the theory of the role of the state. The theoretical framework in the present study informs the paradigm of research design, and in particular the usage of mixed methods. The Weberian notion of the state suggests that ‘*the development of accounting is not an evolutionary or holistic process, but emergent, open-ended and contingent*’ (Mommson, 1987, p. 35). It therefore provides a methodological strategy for analysing the relations between state and society (Colignon & Covaleski, 1991⁸⁵).

5.3 Mixed Methods

The strengths of one method can be balanced by the weaknesses of the other method (Bennett & Braumoeller, 2006). Fuentes (2008) argues that mixed methods provide “*richer detail than either method can generate alone*” (p. 1592). The prior literature illustrates some of the advantages of mixed methods in their studies. Firstly, when some theoretical expectations exist but appropriate propositions need to be developed, mixed methods can be a useful tool for understanding and validating those theories (Hesse-Biber, 2010) (see section 5.2). Secondly, the complementary principle or the acceptability of mixed methods is better than a single method⁸⁶. Finally, in terms of the generalisation of the conclusions, mixed methods provide evidence which contributes

⁸⁵ According to Colignon & Covaleski (1991, p. 154), “*Weber’s advocacy of multiple methodologies, alternatively employing nomothetic institutional analysis with more ideographic historical and cultural features, provides the guidelines for bringing sociology and history together for the study of accounting*”.

⁸⁶ The weakness of single method usage will be overcome through mixed methods (the complementary principle) (Jick, 1979; Tarrow, 2004).

towards richer conclusions and a wider set of plausible explanations (Maxwell & Loomis, 2003). In terms of ‘*philosophical issues*’ (with regard to mixed methods), the traditional view of ontological and epistemological approaches to social sciences is as a differentiation between two schools of thoughts. A critical debate exists when choosing paradigms (ontology and epistemology), and evaluating their validity and ability to generate an understanding of the social system (Bhaskar, 1978; Sayer, 2004). Watts & Zimmerman (1990, p. 149) argue that “... *debating methodology is a “no win” situation because each side argues from a different paradigm with different rules and no common ground*”. Therefore, ‘critical realism’ as a philosophical stance can explain the reasons for choosing mixed methods (Archer, 2002; Llewellyn, 2007). This view is also supported by Modell (2010, p. 125), who argues for “*Critical realism as a more appealing foundation for mixed methods research providing some paradigmatic ‘middle ground’ entailing clearly articulated analytical procedures*”.

It has been stated in Chapter One that the research methods employed in this research is determined by the research questions and research objectives (see Table 5-1). One of the purposes of this research is to explore the problems experienced in IFRSs implementation in a developing country such as Bangladesh. This aim can be achieved using interviews because constructing a social reality is a characteristic of this area of research. Another specific objective of the present research is to explore the evidence of the regulator’s role in IFRSs compliance over a period of time, and the documentary analyses will help in achieving this objective. It may be argued that the survey questionnaire and disclosure studies could be used as an alternative method in this research. However, these will overlap with the findings, because prior research already informs of the poor level of IFRSs compliance in Bangladesh.

Table 5-1: Research Questions and how to investigate RQs (Mixed Methods)

RQs	How to investigate
<i>RQ-1:</i> What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh, as an example of a developing country?	Interviews & Documentary analysis (The SEC Ordinance, Company Act, Stock Exchange Regulations, DSE SEC & ICAB Library)
<i>RQ-2(a):</i> How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs; <i>RQ-2(b):</i> What other	Interviews & Documentary analysis (Newspapers, Comments,

RQs	How to investigate
country specific factors are affecting implementation of IFRSs?;	DSE, SEC & ICAB Library)
<i>RQ-3: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?</i>	Literature Review, Interviews & Documentary analysis

5.4 Interviews

5.4.1 Semi-structured interviews [1st Round]

A total of 27 semi-structured interviews were conducted over a twelve-week period from 3rd June 2010 to 30th August 2010 during a field trip. Communication with all interviewees was done through e-mail regarding the date of the interview (see Appendix 5-1). A letter of introduction and interview questions were sent in advance before the interview (see Appendices 5-2 and 5-3). The researcher's initial motivation was to record all interviews. However, 13 of the interviewees (4 policy makers, 7 account preparers & professionals, and 2 users) were not convinced about recording the interview. Therefore, extensive notes were taken during the interview. The length of most of the interviews ranged from 60 minutes to 90 minutes. In addition, notes were taken on the major issues raised by respondents, not only for back-up purposes but also as a quick reference during subsequent interviews. Then, the interviews were transcribed through coding and respondent anonymity was guaranteed based on the interviewees' permission.

The study uses a non-random stratified sampling method, often used in qualitative research, to select the interviewees (Gibbs, 2008). The idea behind the qualitative research is to purposively select interviewees who can help the researcher to understand the specific problem and the research question (Creswell, 2007, p. 178). Qualitative research does not necessarily suggest a large number of participants, as are found in quantitative research (Patton, 2001). Therefore, Miles & Huberman (1994) suggest six to eight interviews are enough to justify the results. Similarly, the present study considers 27 interviews consisting of four groups. Street (2002, p. 218) argues that *“Yet, this final [implementation of IFRSs] step will represent a long process and significant progress will require a joint effort in each country by the government, stock market regulators, preparers, users and standard setters, and the accounting profession. Achieving the Vision is dependent on various parties, including accounting educators,*

contributing their resources and expertise to this important effort". Consistent with this comment, in the present study a broad spectrum of respondents, grouped into four defined groups [(a) policy makers, (b) accounts preparers & professionals, (c) users and (d) academics & researchers)] were selected for the interviews (see Table 5-2 for the summary of the interviewees and Appendix 5-4 for the detailed summary of the interviewees). These interviewees were chosen because they play important roles in the implementation of IFRSs in Bangladesh. The selection criteria for the four groups were as follows:

- a. The policy makers, including the ICAB (The Institute of Chartered Accountants of Bangladesh) officials, the ICMAB (The Institute of Cost and Management Accountants of Bangladesh) officials, the SEC (The Securities and Exchange Commission of Bangladesh) official, the World Bank liaison personnel, a Bangladesh Bank (the central bank of Bangladesh) official and a Ministry of Finance official were selected because they were directly and closely involved in the decision making processes of the adoption and implementation of Bangladesh Accounting Standards (BASs) and IASs/IFRSs. These seven interviewees from the ICAB, ICMAB, SEC, World Bank, Bangladesh Bank, and Ministry of Finance were responsible for standard setting and for monitoring the compliance with the standards.
- b. Accounts preparers & professionals (e.g. auditors and company accountants) were chosen because they were responsible for following/complying the mandated standards in the financial statements. This group includes twelve interviewees, selected based on their experience (at least 5 years) preparing accounts and auditing.
- c. Users⁸⁷ (e.g. bank managers, credit rating agency officials and stock brokers) were chosen because they could voice their opinions on the adoption and the implementation process. In this study, I have used a bank manager, a credit rating agency official and a stock broker as a proxy of users because some users in developing countries like Bangladesh would have no direct knowledge of IFRSs. I selected six interviewees based on their experience (of at least 5 years) in banks, credit rating agencies and stock broking houses.

⁸⁷ The researcher gratefully acknowledges Professor David Alexander & Brian Singleton-Green (ICAEW) for commenting on the selection of users in the study (BAFA Colloquium 2010, Cardiff, UK).

- d. The academics and researchers were selected because they have been researching the adoption and implementation of IFRSs issues in Bangladesh and have formed opinions on this issue. Two interviewees were chosen based on their experiences (of at least 10 years) in researching accounting standards issues in Bangladesh.

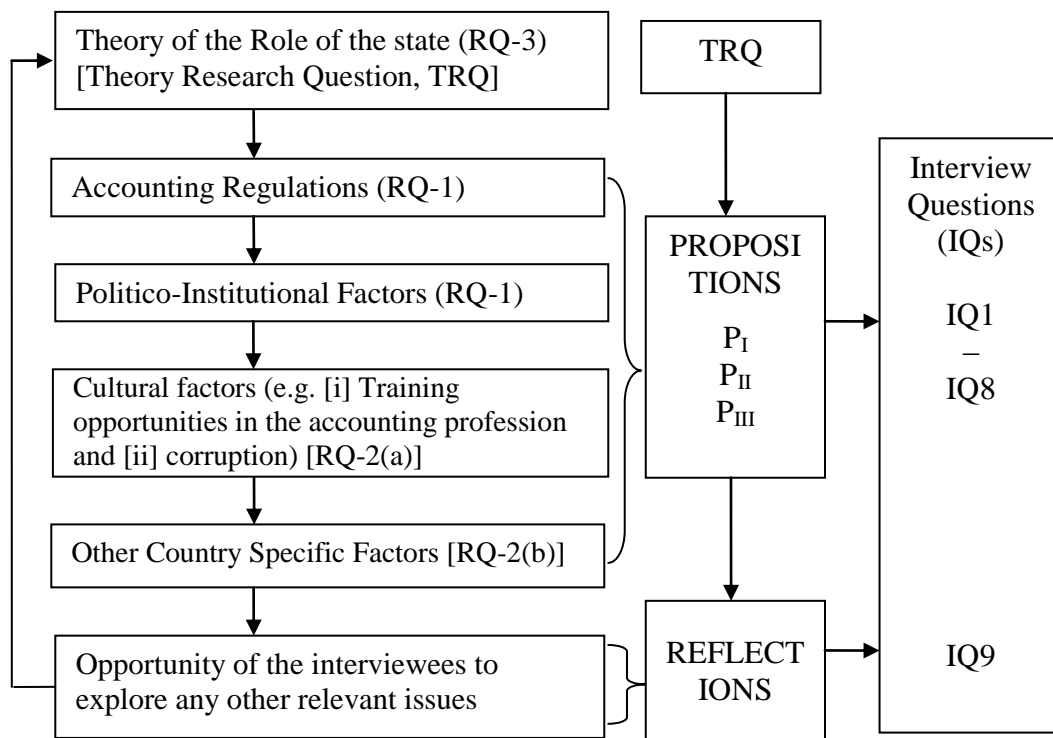
Table 5-2: Summary of the interviewees

	Code	Company/Organisation	Work Exp.(yrs.)
Policymakers (7)	PM1	ICAB (The Institute of Chartered Accountants of Bangladesh)	26
	PM2	ICAB (The Institute of Chartered Accountants of Bangladesh)	10
	PM3	ICMAB (The Institute of Cost & Management Accountants of Bangladesh)	30
	PM4	SEC (The Securities & Exchange Commission of Bangladesh)	11
	PM5	World Bank	14
	PM6	Bangladesh Bank	40
	PM7	Ministry of Finance	16
Preparers & professionals (12)	AP1	Big 4 Accountancy Firm in Bangladesh	32
	AP2	A Pharmaceutical company	24
	AP3	Big 4 Accountancy Firm in Bangladesh	9
	AP4	Small Accountancy Firm	10
	AP5	Bank	10
	AP6	An Engineering company	8
	AP7	Bank	15
	AP8	Small Accountancy Firm	5
	AP9	Small Accountancy Firm	20
	AP10	Multinational company	11
	AP11	A Pharmaceutical company	7
	AP12	Big 4 Accountancy Firm in Bangladesh	15
Users (6)	US1	Bank	10
	US2	Stock Broker and Central Depository Bangladesh Limited (CDBL) participatory	9
	US3	Financial Institution and Central Depository Bangladesh Limited (CDBL) participatory	8
	US4	Bank	10
	US5	Credit Rating Agency of Bangladesh	5
	US6	Bank	18
Academics (2)	AR1	A Private University, Bangladesh	21
	AR2	A Public University, Bangladesh	10

In addition to the planned interviews, informal discussions with senior executives and directors of government departments provided informal initial briefings for this study. These included personnel from the Ministry of Finance, Bangladesh, the Technical and Research Committee of the ICAB, the Credit Rating Agency of Bangladesh, senior officials from the Bangladesh Bank, the Securities and Exchange Commission of Bangladesh and various university academics in Bangladesh.

All of the interview questions were open-ended and semi-structured in order to allow respondents to provide their views through a ‘free-flowing’ discussion. Cottle (1977, p. 27) argues that “*Without allowing people to speak freely we will never know what their real intentions are, and what the true meaning of their words might be*”. In order to prepare the interview questions, Wengraf (2006, p. 75) suggests that the interview questions should follow sequences starting from the theory research question, research propositions and follow up questions (reflections) (Kvale, 1996). This approach is also discussed by Easterby-Smith *et al.* (2002) who argue that the interview questions should include open/commenting questions that allow the interviewees opportunities to remark on the particular issues they feel important (Healey, 1991; Jankowicz, 2005). In the present study, I use Wengraf’s (2006) sequential pyramid model to prepare the interview questions (see Figure 5-1). However, Beardsworth & Keil (1992, pp. 261-262) expressed the view regarding the sequential approach that “*The semi-structured interviews programme should not be based upon a set of relatively rigid pre-determined questions and prompts. Rather, the open ended, discursive nature of the interviews permitted an iterative process of refinement, whereby lines of thought identified by the earlier interviewees could be taken up and presented to latter interviewees*”.

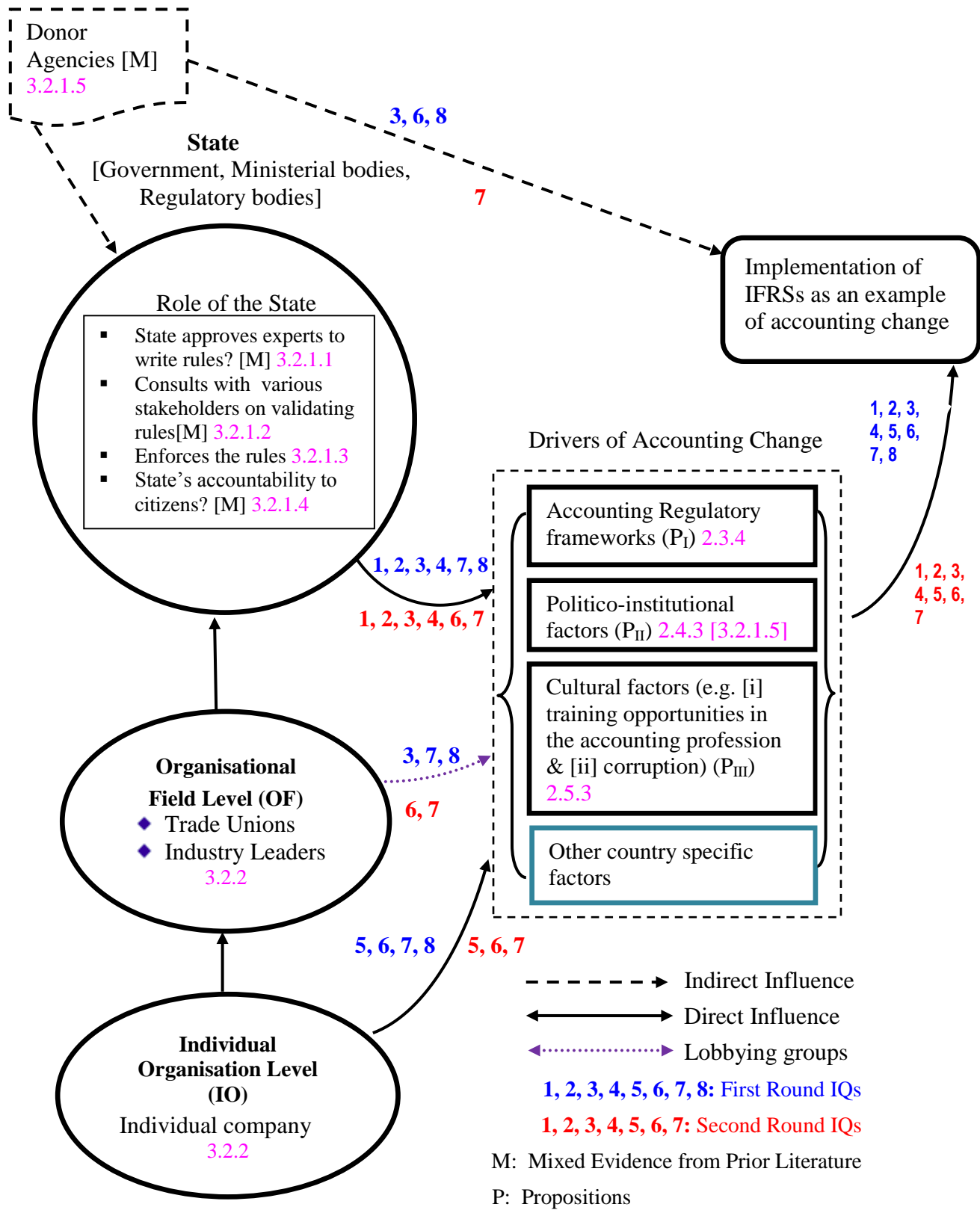
The interview questions (IQ) in the present study are prepared based on the prior research on the role of the state and accounting (see section 2.2.3), propositions development (see sections 2.3.4, 2.4.3 and 2.5.3), and the theoretical framework (see section 3.2.2.1). IQ1 and IQ2 are related to accounting regulatory frameworks (proposition one). IQ3 and IQ4 are related to politico-institutional frameworks (proposition two). IQ5, IQ6 and IQ7 concern [i] training opportunities in the accounting profession and [ii] corruption (proposition three). IQ8 refers to other country specific factors while IQ9 concerns interviewees’ further comments regarding IFRSs implementation. Figure 5-2 provides a link between the first round interview questions and the present study’s theoretical framework.

Figure 5-1: Sequential pyramid model to prepare the interview questions in the study

The general interview guides⁸⁸ for the study are shown in Appendix 5-5; these guides are modified because the study includes four different groups (i.e. policy makers, preparers & professionals, users, and academics and researchers).

⁸⁸ This approach is suggested by Creswell (2007).

Figure 5-2: Theoretical Framework [Based on Figure 3-2] and Interview Questions



5.4.2 The 2nd Round Interviews

I decided to follow up the first round of interviews in order to investigate IFRSs implementation issues in more depth. 27 interviewees (i.e. 1st round interviewees) were therefore contacted for follow-up interviews via e-mail and telephone, but only 12 of them agreed (see Table 5-3). The follow-up interviews were conducted between 2nd and 27th of September 2011. Creswell (2007) argues that follow-up interviews help researchers to obtain detailed and in-depth data. They also provide some useful information for the development of an analytical framework (Yin, 2003). The interview questions for the second round interviews are prepared based on the findings of the first round interviews (see Appendix 5-6 and Figure 5-2). Figure 5-2 provides a link between the second round interview questions and the theoretical framework. This systematic process has been used to validate the propositions and theoretical framework of the present study.

Table 5-3 shows that AP and US groups represent 33% of the sample when comparing the 2nd round interviews to the 1st round interviews. The follow-up rate was below 50% but selection bias was minimised by ensuring that interviewees from all the groups were seen. Wrate *et al.* (1985, p. 622) argue that well standardised measures can minimise selection bias. Myers & Newman (2007, p. 22) also note that representing a variety of voices can overcome various biases (e.g. selection bias) and researcher(s) should therefore include a variety of subjects in their sample at various organisational levels, if this is possible and appropriate. Hayes & Walsham (2001, p. 265) view that “*Given the number of interviewees (33 in total) it is most likely that there were a variety of voices represented*”. However, no articles in financial reporting research have reported on follow up interviews’ selection bias⁸⁹. The findings from the 2nd round interviews in the present study are discussed in Chapters Six and Seven.

⁸⁹ In financial reporting literature, although Illés *et al.* (1996, p. 531) comment on selection bias based on the first round interviews and opine that “*Respondents were generally very cooperative. Consequently respondent bias is not thought to be a problem in these particular cases....Crosschecking the overall attitudes to the specific responses on any accounting issues did not reveal any significant bias*”, they did not conduct 2nd round interviews or, therefore, encounter the risk of follow up selection bias.

Table 5-3: The 12 Interviews from the existing pool of 27 interviewees [The 2nd round]

Two Phases of Interviews	Interviews Year	PM	AP	US	AR	Total	
2 nd Round	2011	4 [PM1, PM2, PM4, PM5]	4 [AP5, AP6, AP10, AP12]	2 [US4, US5]	2 [AR1, AR2]	12	
1 st Round	2010	7	12	6	2	27	
2 nd Round Interviews to 1 st Round Interviews (%)		57% [4/7]	33% [4/12]	33% [2/6]	100% [2/2]	12/27	44%

5.4.3 Ethical Issues

The study includes consideration of the human participants' involvement (in the semi-structured interviews). With regard to research questions 1, 2 and 3 (see Table 5-1), *confidentiality* (Elliot & Judy, 1997) and *informed consent* (Esterberg, 2002) are rigorously maintained. The participants of the interviews are guaranteed that their involvement of the study will not be disclosed and that their *anonymity* will be preserved as well (Henslin, 1995). In addition, *debriefing* (Lincoln & Guba, 1989) means that the interviewees involved the study are assured that they will have a 100% right to withdraw from the participation at any time (Kvale, 1996). The study also follows the research ethics guidelines of the University of Edinburgh Business School (see Appendix 5-7). The data that the researcher collects are kept confidential. Information about the participants which has been collected during the research is put away and access restricted so that no-one but the researcher is able to consult it. Any information about the participants has a code number instead of the participant's name and/or their organisation's name.

The data are managed on the researcher's personal laptop, with password protection and a firewall system installed. Only the researcher has access to the laptop. File sharing services have not been used by the researcher, since sharing services such as Google Docs or Dropbox may not be completely secure. So, the data are not shared with, or given to, anyone. The data are not sent via email or by any other file transfer means without encryption. It is also assured that no names will be identified or preserved by the researcher and that the data will be destroyed after 10 years.

5.4.4 Coding and analysing

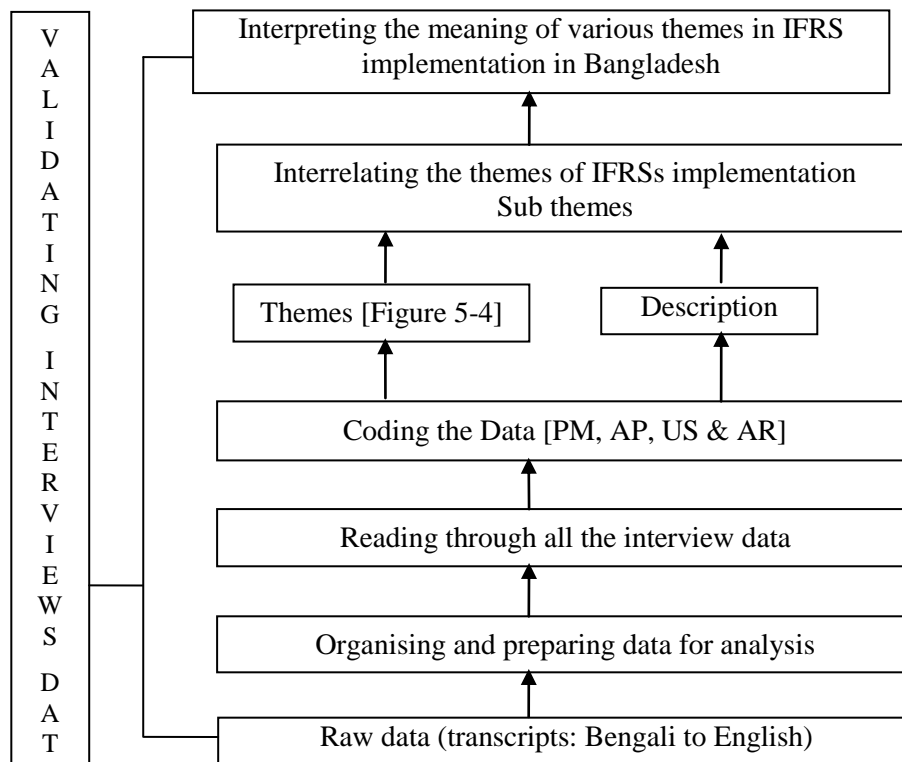
Three main methods for developing themes and codes are the theory-driven approach, the prior-research-driven approach and the data-driven approach (Boyatzis, 1998). For the purposes of this research, the main methods used are prior-research-driven and theory-driven. With regard to Chapter Two (previous research) and Chapter Three (theoretical papers), these are used to develop the theoretical framework which is to be used as coding schemes for the propositions. Three propositions (i.e. accounting regulatory frameworks, politico-institutional factors and cultural factors) and other country specific factors are used as the main themes in the coding. Data from the interviews is analysed using the coding, which constitutes “*two simultaneous activities: mechanical data reduction and analysis categorisation of data into themes*” (Neuman, 2000, p. 421). In this research, the main aim is to summarise data and categorise it into information relating to different themes. Two types of coding are used in this research. The first type is open coding (policy makers [PM]; accounts preparers & professionals [AP]; users [US]; and academics & researchers [US]), which condenses the bulk of the data into manageable categories (Easterby-Smith *et al.*, 2002).

In this research, the open codes consist of four themes (the three propositions, and other country specific factors). The second type of coding is axial coding (Jankowicz, 2005), which the researcher uses for the additional coding of sub themes (quality of investor protection laws, stakeholders’ participation/non-participation in the standard setting process and stringent/looser enforcement of the laws are all sub-themes of accounting regulatory frameworks). Appendix 5-8 shows the open and axial coding of a transcribed interview. With reference to coding bias, it is worth mentioning that non-coded texts (i.e. texts in black font) have been excluded for consistency with the research questions. For instance, out of 27 interviewees, only one interviewee, a policymaker, mentions trade unions (see Appendix 5-8) by stating “*I think [that] there should be some kind of discussion and all that. But to implement or formulate IFRSs, you cannot please everyone. So it is not like an open ended participatory approach because trade bodies and business people will object so many things specially some of the regulatory laws*” [PM6: Q4]. Hence, this issue has been excluded from coding.

Creswell (2007, p. 57) states that qualitative interview data can be analysed using several generic processes. With regard to analysis, this research therefore employs coding schemes to analyse data from the interviews, using several generic processes

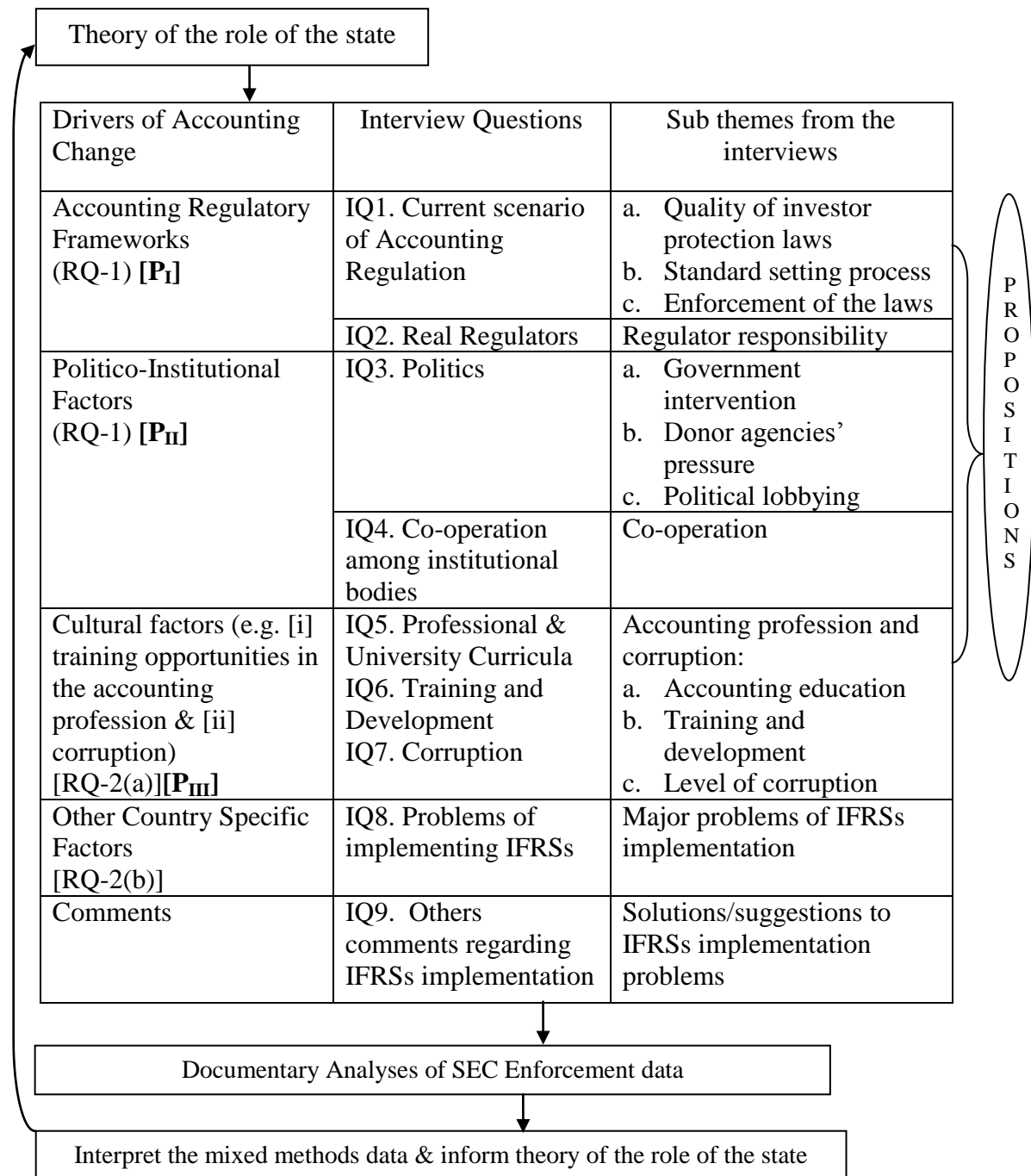
(Creswell, 2007, p. 185) (see Figures 5-3 and 5-4). In this study, the interviews are translated into English, as most of the interviewees responded in Bengali (see Appendix 5-8 for an example of the transcription). The text data generated from the first round of 27 and the second round of 12 interviews comprised 253 pages (in Bengali and English versions). Secondly, the data are organised and highlighted. Thirdly, from the interview data, the four themes are classified into sub-themes. Fourthly, any information that would not fit within any of the four themes, such as opinions/suggestions, is also highlighted using colour. Lastly, the researcher reread the transcript in order to ensure consistency and validity. One limitation of this analysis is the fact that the interviews are time consuming, because all conversations require translation into English. Therefore, a computer aided software programme is not used to analyse data in the present study. Some researchers point out that software can make the analysing process faster and more efficient (Bryman & Bell, 2007). Wengraf (2006) suggests that a researcher may analyse qualitative information into a quantitative form. However, if the sample size is small, the researcher can use descriptive statistics to analyse data (Boyatzis, 1998). Since the number of interviewees in the present study is only 27 and this does not represent a very large data set; the data are therefore analysed manually.

Figure 5-3: Data Analyses procedures in the study



Source: Adapted from Creswell (2007, p. 185).

Figure 5-4: Data analyses relationships (Drivers of accounting change and interview questions from the theory and sub themes from the interview data)



5.4.5 Limitations of interviews

Some limitations arise from conducting the interviews in Bangladesh, as an example of a developing country. Firstly, some of the interviewees cancel their appointments, and in some cases the waiting time⁹⁰ is too long. Some interviewees are attending to phone calls, having conversations with their colleagues and background noise during the interviews. Secondly, some interviewees answer with ‘yes/no’ and/or ‘no comment’ and are reluctant to explain much. Thirdly, as most of the interviewees explain their answers in Bengali, it is time consuming to translate all the conversations into English. I rely on the behaviour, tone and intentions of the interviewees and on extensive note taking during the interviews. Finally, there are a number of technical difficulties observed when transferring information from Bengali to English. Some words have the same meanings, a different meaning or no equivalent meaning. For example, ‘democracy’ or ‘democratic’ have been used to explain ‘co-operative’ purposes, ‘gravity’ to explain ‘nature’; and there is no equivalence for the Bengali words ‘sailab’, or ‘sairachar’, etc., in English. Grammatical and syntactical structures also vary; for example, the majority of interviewees’ responses are a mix of Bengali and English, and also often feature incomplete sentences, overlapping speech and a lack of clear-cut endings in speech. This is understandable because the official language of the interviewees is Bengali and therefore they feel comfortable speaking Bengali. Allowing interviewees to respond in their primary language increase the interviewees’ comfort levels with the researcher (Edwards, 1998). Further, the researcher as translator/interpreter and sharing the cultural background of the participants’ country may minimise the problems with language barriers to some extent (Williamson, 2011, p. 391). This process helps the researcher to obtain richer data from first language responses (Esposito, 2001).

5.4.6 Reliability and validity

Neuman (2000, p. 170) defines reliability as ‘*dependability and consistency*’. During the research process, some concerns may arise, such as errors and bias. Audiotape and videotape recording are important methods of recording information (Boyatzis, 1998). In this study, an audio recorder (Digital Stereo Recorder) is used to record the interviews, together with manual note taking during the interviews. During the interviews, cross-checked questions are helpful in ensuring reliability. For example, the

⁹⁰ For example, the initial appointment time was 10:00 am and on one occasion I waited until 3:00 pm to conduct the interview.

researcher asks the same questions more than once. The consistency⁹¹ of the coding is thereby maintained. The researcher checks the transcripts twice to make sure that no mistakes were made during the transcription.

Qualitative validity means that researchers check the accuracy of their findings by employing certain procedures (Gibbs, 2008). So, validity is based on determining whether the findings are accurate from the standpoint of the researcher, the participant or the readers (Creswell & Miller, 2000). However, Neuman (2000) argues that qualitative researchers are more interested in authenticity⁹² than in validity. In the present study, 12 second round/follow up interviews (i.e. interviews from each category: PM, AP, AR & US) help the researcher to gain confidence in the generalisability of the findings (Internal validity: *the selection of interviewees*; External validity: *generalisability of the conclusion*; and Construct validity: *reflection of theory concepts*) (Jick, 1979; Miles & Huberman, 1994). In addition, different data sources and comparison of people with different points of view from each category (triangulation⁹³) are used to build a coherent justification of themes (Ryan *et al.*, 2002; Modell, 2005; Gibbs, 2008). The researcher uses the SEC enforcement data to confirm information that the researcher has received from the interviews.

5.5 Documentary Analyses

The study examines the enforcement notices issued by the SEC from the beginning of 1998 through the end of 2010, that relate to violations of accounting regulations. The period of study is selected because the SEC began taking a more proactive role in the monitoring of those involved in the disclosure process during this period because the SEC mandate IFRSs compliance from 1998. In addition, this time period corresponds with a period of significant change which has occurred within the market and the political regime including comments from the ICAB on the quality of annual reports, the SEC Corporate Governance Ordinance 2006, recommendations for Financial Reporting Act, the establishment of an independent oversight board, recommendations

⁹¹ Miles & Huberman (1994) recommend that the consistency of the coding means at least 80% of the time for good qualitative reliability.

⁹² Authenticity means giving a fair, honest, and balanced account of social life from the viewpoint of someone who lives it every day.

⁹³ Campbell & Fiske's study (1959, p. 83) defines triangulation as "*use of multiple methods*". Later, Patton (1999, 2001) argues that the issues of reliability and validity can be maintained by triangulation.

for education requirements for the accountancy profession, significant changes in the overall practice of accounting firms (e.g. quality control and the scope of services of audit firms) and different government systems (democratic and military-backed government).

The enforcement notices during this period are SEC releases which address a number of accounting, auditing and reporting concerns. However, few of these releases involve SEC enforcement action on accounting standards. The researcher has hand-collected information from the SEC website (<http://www.secbd.org/>). Each SEC filing is carefully reviewed to ensure consistency (Rollins & Bremser, 1997; Chen *et al.*, 2005). I carefully review SEC announcements and eliminate 57 observations that are repeating from an earlier press release; 24 are not accessible from the website⁹⁴. The 1,647 enforcement actions are not equal to the number of releases, because, as mentioned, some of the releases contain more than one enforcement action. Bremser *et al.* (1991), Feroz *et al.* (1991), Campbell & Parker (1992) and Files (2012) also address the fact that some releases repeat enforcement actions. The data analysis⁹⁵ in this study is based upon the examination of these enforcement actions, as contained in the releases of the SEC during the study period. My final sample consists of 42 unique observations because these enforcement notices are related to specific violations of accounting regulations.

There are some limitations in terms of the data collection and analyses: first, some of the enforcement actions in Bengali and part of the notices are not readable. Second, the information given in some of the notices is not available on the website. The researcher contacted the SEC by e-mail and with a personal visit but was unable to collect the information. It can be understood that since the SEC is a state institution, it is likely to be highly bureaucratic and its employees may be uncomfortable or even afraid to disclose the information. Third, a few of the releases contain repeated information on the same enforcement actions. Fourth, manually retrieving the press release announcements is time consuming because the bandwidth of the website they are posted on is very low. For example, the SEC does not maintain a fully computerised database

⁹⁴ For example, Sl. No. 3, Date: 09/02/2010, Subject: Warning: Non-compliance of securities laws: Regarding inspection. R Ltd.
<http://www.secbd.org/List%20of%20Enforcement%20Actions%20for%20the%20month%20of%20February%202010.htm>

⁹⁵ In the study, the data is analysed following the procedure of Campbell & Parker (1992) & Files (2012).

system for enforcement systems and is still maintaining a manual filing system. Fifth, no full record of enforcement documents was available; for instance, data related to thirteen years ago was not available. Sixth, there was a lack of co-ordination among the staff. The researcher had to get signatures from all the staff in the Enforcement Department of the SEC. Seventh, there was a tendency to frequently cancel meetings with the researcher. Finally, the study follows a subjective analysis of the SEC enforcement releases. The material does not lend itself to quantitative analysis. Nevertheless, this limitation is mitigated by the fact that a substantial number of enforcement releases are analysed. Thus, subjective interpretations are reinforced throughout the study period in reviewing all the actions taken by the SEC. As a result of this analysis additional research avenues are identified, in particular regarding the role of the SEC in developing countries.

5.6 Summary and Conclusion

To recap, this chapter has focused on the research methods involved in the study. The deductive approach has been used in this research to achieve the closely related objectives set out in chapter one (e.g. the specific objective of this research is to study the implementation of IFRSs in Bangladesh) (see section 5.2). This research is designed as a combination of interviews and documentary analysis (i.e. mixed methods) (see section 5.3). The critical realism philosophy justifies the reasons for choosing the mixed methods (see section 5.3). With regard to qualitative analyses (see section 5.4), 27 semi structured interviews (1st Round) and 12 second round interviews are conducted (see sections 5.4.1 and 5.4.2). In order to analyse data from the interviews, coding schemes are developed using Creswell's (2007) generic approach (see section 5.4.4). The limitations of conducting interviews are also reported (see section 5.4.5). The reliability and validity issues involved in qualitative interviews are discussed (see section 5.4.6). The results of the interviews are reported in Chapters Six, Seven and Eight.

The second method employed is documentary analyses (see section 5.5). The study examines 42 IFRSs related enforcement notices issued by the SEC from the beginning of 1998 through to the end of 2010, relating to violations of accounting regulations. In order to analyse the data, the study uses manual analysis.

Mixed methods employed in the study will help in discussing the findings of research questions in the next three chapters respectively. Firstly, in chapter six (RQ-1), the main objective is to provide findings on the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs. Secondly, in chapter seven, the impact of [i] training opportunities in the accounting profession and [ii] corruption [RQ-2(a)] and other country specific factors [RQ-2(b)] in the implementation of IFRSs will be discussed. Finally, in chapter eight (RQ-3), the theory of the role of the state in accounting change will be explored based on the findings from the interviews and the enforcement data. More specifically, this mixed methods will generally attempt to evaluate three propositions and their theoretical application in terms of IFRSs implementation in a developing country such as Bangladesh.

Chapter Six

Relative Impact of Accounting Regulatory Frameworks and Politico-Institutional Factors on the Implementation of IFRSs

6.1 Introduction

The chapter presents the results of *RQ-1: What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh as an example of a developing country?* The principal objective is to ascertain interviewees' views regarding the implementation of IFRSs. Based on a review of prior literature, I developed three propositions with regard to the discussion of IFRS implementation in Bangladesh (see sections 2.3.4, 2.4.3 [3.2.1.5] and 2.5.3). The interview questions are developed in section 5.4.1. These questions cover the three propositions and request information about how the four groups of interviewees perceive the implementation of IFRSs in Bangladesh. In this chapter, based on an analysis of the interview data⁹⁶, I will emphasise the first two propositions (i.e. accounting regulatory frameworks and politico-institutional factors). A limitation of the interviews is that most of the interviewees explained their answers in Bengali (see details in section 5.4.5). As mentioned in section 5.4.4, I rely on the tone of the interviewees and on extensive note taking. In this research, the italics in the interview quote indicate that the interviewee strongly emphasised the specific issue (i.e. I have tried to convey the interviewees' tone by use of italics).

The first proposition relates to the effectiveness of accounting regulatory frameworks (see section 2.3.4). Accounting regulation and its effect upon IFRSs implementation is the central issue to be considered. The second proposition relates to politico-institutional factors, including governmental intervention in terms of IFRSs implementation, and the degree of co-operation between other institutional bodies in ensuring effective implementation of IFRSs. I used enforcement documents from 1998-2010 available from the SEC websites (see section 5.5). Firstly, the documentary evidence will offer insights into trends in accounting standards-related violations in

⁹⁶ The details of the interview data analyses process are provided in Chapter Five (see section 5.4.4).

Bangladesh. Secondly, the issue of a lack of regulations to carry out the regulators activities is discussed. Thirdly, I ask: is there any political influence in monitoring violations of accounting rules, and is there any co-operation between different institutional bodies in support of the regulator's activities?

Section 6.2 reports the interview findings and the documentary evidence on accounting regulatory frameworks. Section 6.3 presents the findings on politico-institutional factors. Section 6.4 reflects on the relative impact of accounting regulatory frameworks and politico-institutional factors, and Section 6.5 contains the summary and conclusions.

6.2 Accounting Regulatory Frameworks (Proposition I)

In this section, I will explore the following proposition:

***P₁**: Accounting regulatory frameworks will have a positive influence on implementation of IFRSs under the conditions of (a) common-law origin, (b) high quality investor protection laws, (c) stakeholders' participation in the standard setting process and (d) stringent enforcement of the laws.*

***'or'** Accounting regulatory frameworks will have a negative influence on implementation of IFRSs under the conditions of (a) code-law origin, (b) low quality investor protection laws, (c) stakeholders' non-participation in the standard setting process and (d) looser enforcement of the laws.*

In doing so, I will analyse whether Bangladesh's accounting regulatory frameworks will have a positive/negative influence on implementation of IFRSs under four conditions. As mentioned in Chapter Four (see section 4.3.1), Bangladesh has common-law origins, the following sections will discuss the conditions of (b), (c) and (d) to analyse proposition I.

The interviewees were asked: ***How would you describe the accounting regulatory frameworks in relation to the existing laws for investor protection, standard setting process and enforcement issues in Bangladesh?*** (see section 5.4.1). As reported in Table 6-1, out of 24 respondents who are negative, nine interviewees believe that solid regulations are essential because of low quality 'investor protection laws'; four believe that the standards setting process should be more participatory, democratic, engagement and transparent rather than having a 'closed door policy', and 11 argue that enforcement

is questionable because of apparent looser outcomes of the laws. Only three interviewees are convinced that the current regulations are satisfactory. The following sections (6.2.1-6.2.5) will evaluate the accounting regulatory frameworks for implementing IFRSs in Bangladesh in line with proposition I.

Table 6-1: Perceptions of the current regulation scenario in Bangladesh [The 1st round interviews]

Non-satisfactory regulations (A)	PM	AP	US	AR	Total	%
Low quality investor protection laws	4 [PM1,PM3, PM4, PM6]	2 [AP1,AP5]	3 [US1, US3, US4]	0	9/27	33%
Stakeholders' non-participation in the standard setting process	0	3 [AP3, AP6, AP10]	0	1 [AR1]	4/27	15%
Looser enforcement of the laws	2 [PM2, PM5] [PM3: ^{*a}]	5 [AP4,AP7, AP8,AP11, AP12]	3 [US2, US5, US6]	1 [AR2]	11/27	41%
<i>Total (A)</i>	<i>6</i>	<i>10</i>	<i>6</i>	<i>2</i>	<i>24/27</i>	<i>89%</i>
Satisfactory regulations (B)	1 [PM7]	2 [AP2, AP9]	0	0	3/27	11%
<i>Total (B)</i>	<i>1</i>	<i>2</i>	<i>0</i>	<i>0</i>	<i>3/27</i>	<i>11%</i>
Subtotal (A+B)	7 [6+1]	12 [10+2]	6 [6+0]	2 [2+0]	27 [24+3]	100 %

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; *AR*: Academics & Researchers; and ^{*a}: The interviewee mentions more than one issue; the less discussed issue = '0', otherwise '1'.

6.2.1 Quality of investor protection laws

6.2.1.1 The 1st round interviews

Nine interviewees (four policy makers, two account preparers and three users) are sceptical about the corporate motives behind the need for regulations (see Table 6-1). In their opinions, the regulations are not satisfactory and there is a need to establish efficient regulations for improving the transparency of corporate reporting to gain the public trust. They question the intentions and motivations behind creating an effective regulatory system. According to interviewees, effective regulations are a prerequisite of the implementation of solutions for any accounting issues; effective regulatory

mechanisms will ensure transparency of information provided by companies. The following comment is representative of those made by the interviewees regarding the need for regulation:

“I think that many international investors really require transparent information in financial reporting, and corporate sectors recently realised that unless they produce good financial standards with all disclosures and compliance with the IFRSs, they will not be able to please the investors [or] make them happy. So, the motivations are to make sound regulatory systems for providing transparent and detailed information” (PM1).

The users and account preparers are also sceptical about the current state of regulations. They argue that the inconsistencies between local laws and IFRSs are overlooked by the regulatory bodies and need much more attention to make the regulatory systems effective (see also sections 4.3.1 and 4.3.2). One account preparer expressed the following view:

“Well, I would say it’s not very satisfactory because there is lack of consistency between the Companies Act 1994 and IFRSs. This inconsistency has not yet been resolved by the ICAB or the SEC for the last 13 years. To be honest, the accounting profession and sectors like the ICAB, SEC, DSE, and CSE do not care to resolve this matter” (AP5).

To make effective regulations, the policymakers (four interviewees) believe that the most effective way to improve corporate accountability is through public pressure exerted by domestic and international organisations. The following comment represents the sentiments of these interviewees:

“Yes, the government has already made a commitment to international authorities such as the World Bank, the ADB and other donor agencies, that they will take steps to implement IFRSs. That’s why the interim government has already enacted one provision under the Financial Reporting Ordinance which is supposed to supervise the implementation of status of IFRSs” (PM3).

The interviewees from the AP group see the recent move (i.e. best published annual reports award in Bangladesh and the South Asia) by the ICAB and the SAFA as encouraging and an excellent way of potentially improving the quality of financial reporting. The motivating factors for companies to make competitive reports include greater initiatives taken by the ICAB and SAFA. Two interviewees from the AP group supported the ICAB:

“I think [that] introducing best published accounts [by the] ICAB really motivates companies to follow IFRSs. I also think [that] the more you make it competitive, the more [there will be] compliance with IFRSs. So, the motivation

is basically [as to] how to make this published accounts good to enhance the image of the company and the investors” (AP1).

“Three years ago, the financial regulation situation in Bangladesh was not good. But in [the] last two to three years the scenario has changed. *The ICAB provides rewards to local companies for better compliance with accounting regulations. Companies who get reward[s] from the ICAB can qualify for a SAFA award. So, it becomes very important for the competitive image of companies to comply with IFRSs [for example, Bangladeshi companies have received the best annual report practice award within the SAFA]” (AP5).*

However, according to the interviewees, legal and corporate governance reforms that are beneficial to less powerful stakeholders may be difficult to implement because of relatively high levels of government corruption in Bangladesh. It is hard to anticipate whether or not accounting professionals will do their jobs in creating a transparent corporate environment. The interviewees feel that the fundamental problems lie in the fact that accountants are fulfilling the wishes of directors, and most privatised companies in Bangladesh are closely family-led businesses. Hence, those companies do not want to disclose confidential information. Questions are raised by three interviewees (two policy makers, and one academic & researcher) about the professional ethics as well. One interviewee expressed this sentiment:

“I don’t think it is very satisfactory, because CAs are paid fees for their audit services and they submit the reports to the companies and regulatory bodies. *The CA firms are obligated to the clients [companies]. They should give a completely impartial view but I have seen, in my past experience as a Governor, that many of the reports [by] companies, banks or financial institutions [sent] to Bangladesh Bank and different regulatory agencies only reflect their [company directors] wishes... So, there is no impartiality or professionalism in preparing the reports..... there is a large scope for improvement of accounting regulations of Bangladesh” (PM6).*

The evidence from the 1st round interviews (see section 6.2.1.1) suggests that the importance of high quality investor protection regulations which can play a positive role in the development of financial reporting in Bangladesh, especially regarding the implementation of IFRSs. However, in order to effect meaningful change, the interviewees suggest that reforms to existing corporate laws and corporate governance structures are necessary.

6.2.1.2 The 2nd round interviews

The interviewees were asked: *1(a). How would you describe the accounting regulatory process in Bangladesh?* (see section 5.4.2). Eleven interviewees (92%) feel that there is a need for regulations in order to implement IFRSs because of the existing low quality investor protection laws (see Table 6-2). The only interviewee from the SEC believes that there are enough regulations already (see Table 6-2). This is an understandable view of Bangladesh because the SEC official is linked with the Ministry of Finance. Two out of the eleven interviewees also feel that some contradictory regulations exist between the Bangladesh Bank and IFRS 7 (BFRS 7), explained as follows:

“There are some contradictory issues between the BRPD Circular No.14 and IFRS 7. *if the company follows BRPD Circular No. 14, the true profit (held for maturity) of the company will not be shown*” (PM5).

“BRPD circular no. 14 contradicts the financial instrument valuation...this means that *fair value accounting is not applicable in Bangladesh*” (AP5).

Table 6-2: Perceptions of the quality of investor protection laws in Bangladesh [The 2nd round interviews]

	PM	AP	US	AR	Total	%
Low quality investor protection laws	3 [PM1,PM2, PM5]	4 [AP5,AP6, AP10, AP12]	2 [US4, US5]	2 [AR1, AR2]	11/12	92%
High quality investor protection laws	1 [PM4]	0	0	0	1/12	8%

6.2.2 Stakeholders’ participation/non-participation in the standard setting process

6.2.2.1 The 1st round interviews

Four interviewees (three account preparers and one academic & researcher) express disappointment regarding the accounting standard setting process in Bangladesh (see Table 6-1). They state that the standard setting process should be more transparent (e.g. stakeholders’ participation in the standard setting process) than it is at present. The current practice of standard setting in Bangladesh is viewed as far from satisfactory and does not promote the desired levels of transparency and accountability. One interviewee states this clearly:

“It is very important that a form of the Bangladesh Accounting Standard Board (BASB) be established under the statute by virtue of the Securities Commission Act. *The accounting professions (the ICAB and the ICMAB), the regulatory agencies (for example, SEC), stock exchanges, chamber of commerce and major users of corporate annual reports should participate [in] reviewing accounting standards. The standard-setting should be broad-based, with legal backing and punitive measures in respect of non-compliance” (AR1).*

In line with accountability and transparency, accounts preparers are also supportive of creating a Financial Reporting Council (FRC) and enforcing it through a Financial Reporting Act (FRA). However, this is a political process, since the caretaker government made the encouraging step of the Financial Reporting Ordinance of 2008; the present democratic government is reluctant to make this Ordinance an Act. The key advantage of making FRC and FRA are engagement and an effective monitoring policy, rather than having too many key actors in the regulatory process (see section 4.4.1). One interviewee expressed this sentiment:

“I suggest that if the MOC can really asks professional bodies to fully comply with IFRSs, as to what needs to be done and how we can get the task done,then we should work out together towards an action plan so that *full compliance and monitoring responsibilities can be given to the proposed Financial Reporting Council (FRC). Once the FRC is in place [then] they can monitor. So, one step is to establish the FRC and another is to make the FRC fully effective and functional.....Therefore, the MOC should include the preparers and accountants in the standard setting process in order to accommodate the problems we are facing in practice”*” (AP10).

The interviewees in the study also reveal that the standard-setting process⁹⁷ in Bangladesh is highly political in nature. The interviewees criticised the standard setting process, seeing it as ‘political’, for various reasons including the fact that there is no exposure draft, and that the members of the standards setting committee change when a new democratic government comes into power.

The interviewees are asked: *Who really regulates accounting issues in the country [Bangladesh] today?* (see section 5.4.1). It is found that 26 of the 27 respondents perceive ICAB to be the regulator of accounting issues in Bangladesh (see Table 6-3). The majority⁹⁸ of interviewees strongly believe that the ICAB is the key regulatory body. In reality, there are other regulatory bodies [e.g. SEC, BB, ICMAB, MOC, MOF

⁹⁷ The ICAB has a standard-setting committee that selects particular IFRSs as the basis for drafting BASs. The BAS are prepared by adapting IFRS to reflect specific local requirements under Bangladesh laws and regulations. The draft versions of the BASs are then submitted to the Council of the ICAB for discussion, finalisation, and adoption (see section 4.4).

⁹⁸ A majority simply means more than 50% of the interviewees’ perceptions are in agreement.

and DSE/CSE] which are also involved in the accounting regulatory process. The interview findings reveal that the ICAB is restricted to supervising different accounting issues rather than having any overall enforcement power enabling it to take action against companies violating accounting rules. If ICAB is the real regulatory body, their activities and powers should fundamentally shape organisational behaviour to gain legitimacy. But, does the ICAB [as a real regulator] cover major accounting issues? This sentiment is captured in the following quote given by one of the policymakers:

“There are three accounting regulatory institutions: the SEC, the ICAB and the BB. [The] SEC is a regulating authority for [the] listed companies. Rule 12 state[s] that only financial statements should be prepared on the basis of IFRSs and IFRSs which [are] adopted by the ICAB. The ICAB only gives license to the CA firms [which have] authority to do statutory audit jobs, and Bangladesh Bank monitors the banking sector. The ICAB is indeed the regulatory body of accounting issues in Bangladesh” (PM2).

Table 6-3: Perceptions of the real regulators of accounting issues in Bangladesh

	PM	AP	US	AR	Total	%
ICAB [<i>The Institute of Chartered Accountants of Bangladesh</i>]	7/27	12/27	5/27	2/27	26/27	96%
SEC [<i>The Securities and Exchange Commission of Bangladesh</i>]	4	3	2	2	11	41%
BB [<i>Bangladesh Bank</i>]	2	2	0	0	4	15%
ICMAB [<i>The Institute of Cost and Management Accountants of Bangladesh</i>]	2	1	1	0	4	15%
MOF [<i>Ministry of Finance</i>]	1	0	0	0	1	4%
MOC [<i>Ministry of Commerce</i>]	1	0	0	0	1	4%
DSE [<i>Dhaka Stock Exchange</i>]	0	1	0	0	1	4%

Hence, the comment represents the narrow scope of ICAB’s activities. One of the users extends the policymaker’s views:

“There are two accounting regulatory bodies: ICAB and ICMAB. *The accounting regulations are basically published in the first instance by the ICAB. They are the real authority which regulates the accounting profession in Bangladesh....*either by adoption of IFRSs or in advising the SEC to issue circulars or guidelines with regard to the IFRSs” (US1).

Five interviewees (three policy-makers and two academics and researchers) demonstrate the centrality of regulators in the implementation of IFRSs. They also feel that the need

for ‘regulators’ is exacerbated especially because of the lack of engagement with the companies listed in the DSE and CSE, lack of enforcement, and particularly following the lack of initiative in making sure that companies are following rules and regulations including IFRSs. The following opinion demonstrates the emerging realisation of the need for real regulators. One of the policy makers is very critical about the ‘regulators’:

“Strictly speaking, *there is no ‘real’ regulatory body as such to oversee [the] implementation of accounting regulations.* What happens is [that] the regulatory bodies like Bangladesh Bank and SEC require some kind of financial statements formats which are mandatory....companies must submit their quality report to the respective regulatory bodies. However, *IFRSs are not strictly being examined by any particular body ...* As you know [that] no particular body cares much....*ICAB should give orientation and guidelines. ICAB is supposed to really look into this matter. But I don’t think [that] ICAB is competent or that they have the mandate to do that” (PM6).*

This interviewee, from a policy-making group, thus enthusiastically acknowledges the need for real regulators. However, my interpretation is that most of the interviewees (i.e. 20 of 27) from the other interviewee groups are reluctant to express their views regarding real regulators because of the perceived ‘threat and fear’ towards a company’s reputation.

6.2.2.2 The 2nd round interviews

The interviewees were asked: *1(b). How would you describe the accounting standard setting process in Bangladesh* (see section 5.4.2). Ten interviewees (83%) feel that the standard setting process is not transparent and is non-participatory (see Table 6-4). An account preparer commented that:

“*Nobody knows what the standard setting committee is. It is awful that this committee has not produced any consultation paper(s) on any standards as yet” (AP12).*

Table 6-4: Perceptions of the stakeholders’ participation/non-participation in the standard setting process in Bangladesh [The 2nd round interviews]

	PM	AP	US	AR	Total	%
Stakeholders’ non-participation in the standard setting process	2 [PM4, PM5]	4 [AP5, AP6, AP10, AP12]	2 [US4, US5]	2 [AR1, AR2]	10/12	83%
Stakeholders’ participation in the standard setting process	2 [PM1, PM2]	0	0	0	2/12	17%

On the other hand, two of the policy makers (17%) from the ICAB think that the standard setting process is a very authentic and democratic process in which stakeholders' actively participate (see Table 6-4). In the 1st round of interviews, only four interviewees (15%) commented on the standard setting process (see Table 6-1).

6.2.3 Stringent/looser enforcement of the laws

6.2.3.1 The 1st round interviews

As explained in Chapter 4 (Section 4.3.3), the sharing of responsibility by a number of government agencies (e.g. ICAB, DSE, SEC, RJSC, MOC & MOF) complicates the enforceability of corporate regulations and reduces overall effectiveness. The SEC is to be the main institution for enforcement issues. Interviewees explained that enforcement mechanisms that encourage and facilitate compliance, and 'punitive arrangements' that force compliance, are, to a great extent, absent in Bangladesh. To make enforcement mechanisms more effective, interviewees hinted that the SEC and other regulatory bodies might be 'stricter'. The only AR is very sceptical about the SEC's enforcement role:

“The enforcement issue is indeed frustrating. Companies are not following mandatory IFRSs...The adoption of the accounting standards did not bring any remarkable changes in the financial reporting practices of Bangladesh. What is the role of SEC? The SEC did not constitute a separate Financial Reporting Council or take any punitive measures against the directors of the respective companies in order to revise financial statements (those who do not follow IFRSs in the preparation of their Financial Reports). Again, disciplinary action is simply not taken if any accountant fails to comply with IFRSs or audit ethics (for example, a fine, or expulsion from the respective professional bodies). That is why Bangladesh has had to wait a long time to achieve the target of compliance with IFRSs - because regulations and enforcement [are] not linked as they should be in the requirements” (AR2).

The interviewees feel that that tightening the enforcement culture will create *high quality financial reporting* that will also ensure investors' faith and trust in a firm's fundamental soundness. All three users who respond are very critical about the current scenario of enforcement. One of the users observes that:

“The regulation and accounting standards are there but there is no enforcement. You will be amazed to hear that the authority doesn't care enough to make it enforceable. My question is: What benefit do they [the monitoring bodies] gain from not enforcing the rules?” (US2).

Although the SEC's enforcement role in the context of IFRSs implementation is unclear, there are some infrastructure problems which are not supportive of the SEC's functions. As mentioned in Chapter 4 (see section 4.3.3), there are no qualified accountants in the SEC commission and salary structures are not competitive. The SEC lacks sufficiently trained staff to conduct detailed analyses to monitor compliance with accounting and financial reporting requirements. There are mixed opinions of the SEC's role in implementing IFRSs among accounts preparers. Two interviewees feel that the SEC's infrastructure problems are key problems in monitoring compliance issues:

“The SEC has no qualified accountants to oversee IFRSs disclosures. So, the enforcement solely relies upon other aspects [for example] AGMs, Interim Reporting etc.” (AP4).

“Why does the government not recruit qualified accountants into the SEC? The answer is that the salary is only TK. 15,000 [£150] to 20,000[£200] monthly. Do you think any qualified accountant would be interested in joining the SEC with this salary structure? Obviously, the answer is ‘No way’. So, the government should appoint qualified accountants otherwise ‘dreams of implementing IFRSs will never come true’!” (AP12).

Two interviewees comment that the SEC is more active now in comparison with prior years:

“Before 2003, the regulatory systems were less strict. Nowadays, it is strictly regulated. However, I feel [that] this trend should be further improved soon. What is the benefit of those regulations if there is no enforcement?” (AP7).

“To an extent, the SEC [is] working on enforcement and monitoring whether full compliance exists in disclosures [or not]” (AP11).

One policy maker from the ICAB tried to push the full burden to the SEC and believed that the SEC should take the responsibility of all blame not assumed by the ICAB. This represents a perspective that conflicting interests exist between the regulatory bodies in Bangladesh. The majority of the interviewees agreed that the ICAB had not made an effective effort to review the practices of the auditors and audit firms and to evaluate the existing degree of compliance with the auditing requirements. Such efforts will require the unhealthy rivalry between the members of ICAB and SEC to be set aside in the interests of accounting development in the country. He emphasises that:

“The current situation of accounting is a controversial issue. How can I answer? ICAB is trying to regulate but I don't know to what extent the SEC is contributing. So, the SEC is fully responsible for this controversy around regulatory aspects” (PM2).

The reason for blaming the SEC is so that they (the ICAB) take the power and responsibility to monitor the compliance with IFRSs. A policy maker phrases this in the following way:

“The accounting regulations are obligatory for listed companies, not others [non-listed companies]. If any listed company doesn’t prepare accounts according to guidelines [the] ICAB provides, then the ICAB can’t take any legal action against them. The SEC and the Bangladesh Government have no guidelines for IFRS and therefore they should delegate the ICAB to monitor the implementation issues. The preparation of financial statements according to IFRS is the task of the company; the CA firm can’t do this if the company does not want it to be done” (PM5).

Interviewees from the AP and US groups also stress the usefulness of regulating professional bodies to improve the current enforcement mechanisms. These interviewees express concerns with the professional bodies and their role as regulators, often viewing conflicting roles among different institutions and political pressures as the most likely causes of difficulties in implementing IFRSs. One AP comments that:

“Professional bodies are not regulated enough in Bangladesh. If you look at the ACCA and ICAEW in the UK, they have disciplinary committees, whereas in Bangladesh this sort of disciplinary practice is very rare and minimal. There is no compliance watchdog committee to oversee professionals” (AP8).

In order to make enforcement activities more proactive, the interviewees from the US group focus on the need for a depoliticised regulatory body. This sentiment is critical since the regulatory body needs to be stable rather than to make radical changes at frequent intervals. This culture (i.e. frequent changes of regulatory body) fundamentally weakens effective enforcement in Bangladesh. One user said that:

“To be honest the regulatory body is not stable. If the government changes, the regulatory staff will change. Even [if] any company violates the regulatory requirements and is linked with the political party in government, the authority won’t take any action against them. The government is aware of this fact but chooses to ignore it” (US6).

According to two policymakers, the culture of changing regulatory body can be resolved through concerted efforts by the government, the accounting profession and the Chamber of Commerce in Bangladesh (see Table 6-1). A policy maker (PM3) strongly adds that the government, the SEC and the ICAB are not involved as much as they should be, and that their involvement is essential to reform the regulation. He commented that:

“The main problem is the lack of enactment of the appropriate legislation because it has not been made compulsory to follow the same principles in preparing the accounting statements and there is no clear central regulatory body in Bangladesh to supervise or oversee the implementation of IFRSs and that’s why ICMAB is always advocating the establishment of one supervisory oversight board in Bangladesh” (PM3).

For unlisted companies, the financial reporting formats and disclosure requirements set out by the Companies Act 1994 are mandatory, but these requirements are not consistent with IFRSs. For listed companies, the SEC requires full compliance with IFRSs. Only interviewee (AR2) points out that there are some contradictions between the Companies Act 1994 and IFRSs:

“This is the right time for Bangladesh [to] modify the Companies Act 1994, Securities Exchange Regulations and Ordinances.....including standards setting and implementation guidelines” (AR2).

6.2.3.2 The 2nd round interviews

In the second round interviews, the interviewees were asked: 2. *How effective is the enforcement mechanism in implementing IFRSs?* (see section 5.4.2). Most of the interviewees (i.e. 11 out of 12) believe that enforcement is not effective in Bangladesh (see Table 6-5). Only one interviewee from the SEC chooses not to make any comment on enforcement issues (see Table 6-5). This quite possibly means that the SEC official does not wish to take any blame for their enforcement activities. However, interviewees from all groups feel that the SEC should be responsible for non-compliance of the IFRSs. The SEC is lenient in taking action against nationalised organisations. The following comment is representative of the interviewees’ sentiments:

“The SEC cannot identify corrupt CA firms for non-compliance with IFRSs, because the SEC itself does not have qualified accountants. For example, in 2009, Janata Bank provided ‘miscellaneous earnings’ which were equivalent to 80% of their total income but there is no explanation of these miscellaneous earnings...in their cash flow statement, they provided 15 billion interest received and in their income statement 14.8 billion as interest income. How can they recover 105%? It is shocking that the SEC did not take any appropriate action against the nationalised bank. You see [that] where we live regarding IFRSs implementation” (PM2).

Table 6-5: Perceptions of stringent/looser enforcement of the laws [The 2nd round interviews]

	PM	AP	US	AR	Total	%
Looser enforcement of the laws	3 [PM1,PM2, PM5]	4 [AP5,AP6, AP10,AP12]	2 [US4, US5]	2 [AR1, AR2]	11/12	92%
No comment on enforcement of the laws	1 [PM4]	0	0	0	1/12	8%

6.2.3.3 Documentary analyses

This section will emphasise enforcement in relation to violations of accounting standards.

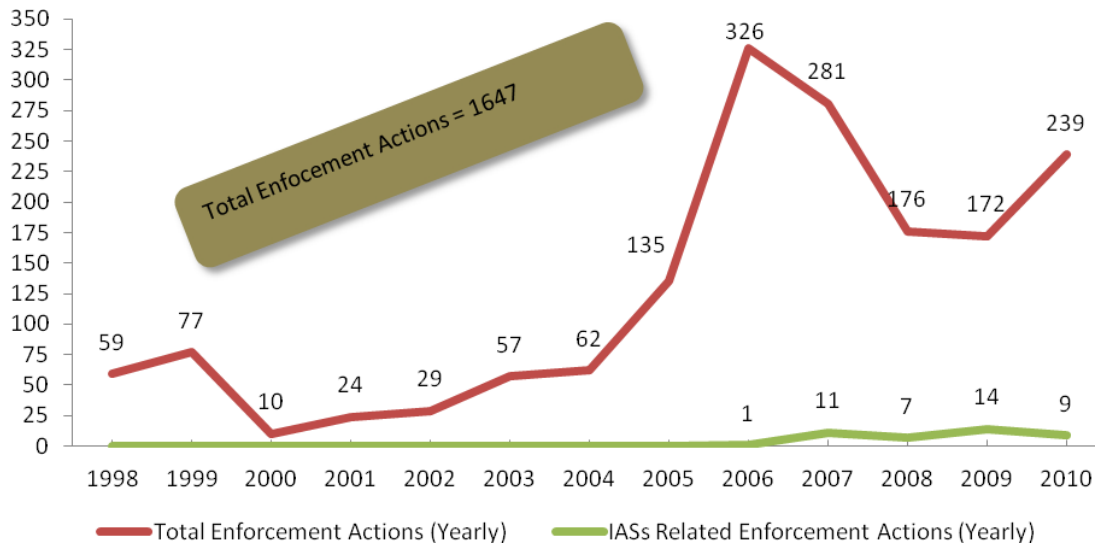
The distribution of regulatory enforcement actions by year is shown in Figure 6-1. The number of enforcement actions peaked in 2006 and 2007. The number of enforcement actions in 2006 and 2007 totalled about four times those taken in 1999 and 2000. During the period 1998-2010, there were 1647 market enforcement actions and of these documents, 42 are related to IFRSs (see Appendix 6-1). The accounting standards were not addressed in the enforcement documents and hence in reading all enforcement documents, I found only 42 enforcement notices which were IFRSs related. In relation to enforcement actions based on IFRSs, 42 actions started from the year 2006, representing 2.6% (42/1647) of the total of enforcement actions, which is a very low proportion (see Appendix 6-1). Appendix 6-1 shows that the enforcement notices are based on fifteen accounting standards, namely, IAS 1 (30 times⁹⁹), IAS 2 (11 times), IFRS 7 (three times), IAS 12 (four times), IAS 16 (nine times), IAS 17 (once), IAS 19 (once), IAS 23 (once), IAS 24 (once), IAS 34 (four times), IAS 36 (once), IAS 37 (two times), IAS 38 (once), IAS 39 (two times), and IAS 41 (once). It is clear that the most of the violations are based on IAS 1, IAS 2, IAS 12, IAS 16, IAS 34 & IFRS 7.

In my opinion, one possible explanation for the SEC's lack of identifying violations regarding IFRSs compliance is a lack of personnel. As mentioned in Chapter Four, they have no qualified accountants. This means that the enforcement department of the SEC relies heavily on basic accounting requirements like inventories amounts or methods,

⁹⁹ Number of times indicates the number of violations which have occurred against each standard.

the formats of the balance sheets, income statements and cash flow statements, depreciation methods, disclosures of true and fair view.

Figure 6-1: Comparing Total Enforcement Actions vs. IFRSs Related Enforcement Actions (Yearly) 1998-2010



The fine amount also varied. For example, the minimum issued was a warning and a fine of Tk. 0.10 million, the maximum was Tk. 15 million and the average was Tk. 1.61 million (Tk. 1,607,143). 25 of the 42 enforcement notices imposed a penalty of less than a million. Further, the lack of regulatory frameworks regarding penalty criteria possibly encourages companies not to comply with the SEC regulations (or at least, nothing exists to discourage them). For instance, Appendices 6-2 and 6-3 show that penalty amounts for violating regulations (in particular, the Companies Act 1994 and the SEC Act 1993) and even for providing false information in statements are not more than Tk. 200 (or less than £2). Therefore, the lack of regulation regarding stringent enforcement mechanisms (e.g. punitive fine/penalty) may impede the implementation of IFRSs in Bangladesh.

6.2.4 Reflecting on section 6.2

The results show that in Bangladesh, accounting regulatory frameworks have a negative influence on implementation of IFRSs under the conditions of (b) low quality investor protection laws, (c) stakeholders' non-participation in the standard setting process and (d) looser enforcement of the laws. This section brings together the arguments of

interviewees that effective regulations for investor protection, stakeholders' participation in the standard-setting process and stringent enforcement of the laws are a prerequisite for the effective implementation of IFRSs.

In relation to the quality of investor protection laws (condition b), negative perceptions are observed with regard to the current regulations (see section 6.2.1.1). The interview findings reveal that there are contradictions between the local laws and IFRSs. For instance, the Companies Act 1994 does not require mandatory IFRSs compliance or compliance with BRPD Circular No.14 and IFRS 7 (see sections 6.2.1.1 and 6.2.1.2). Although the ICAB encourages companies to follow IFRSs fully, in reality, accountants are fulfilling directors' wishes (i.e. usually not to follow IFRSs). The interviewees mention that most companies are closely family led and their cultural instinct remains one of hiding information in Bangladesh (see section 6.2.1.1). The majority of interviewees in the 2nd round interviews also question the quality of investor protection laws (see section 6.2.1.2).

In terms of stakeholders' participation/non-participation in the standard setting process (condition c), the findings reveal that the standard setting process is not transparent (see section 6.2.2.1). According to some interviewees, the ICAB has a standard setting committee but this committee does not consult with stakeholders to make effective decisions regarding IFRSs implementation (see section 6.2.2.1). The interviewees also feel that the ICAB is developing and making comments on IFRSs/BFRSs in Bangladesh and therefore, the ICAB are the real regulators in Bangladesh (see section 6.2.2.1). In particular, the policy-makers strongly perceive a necessity for real regulators in Bangladesh. However, the findings suggest that the ICAB has not published any exposure drafts, consultation papers or even the standards setting committee's reports (see section 6.2.2.1). The interviewees argue that the military-backed government's proposals to set up an independent oversight body (i.e. FRC) and a Financial Reporting Act 2009 has been slowed down or even stopped completely by the present democratic government (see section 6.2.2.1). This raises questions around the democratic government's intentions towards the full and effective implementation of IFRSs. There is a consistency between the perceptions revealed in the 1st and 2nd rounds of interviews. For instance, in the second round interviews, most of the interviewees argue that the

regulations should be updated and that stakeholders should participate in the standard setting process to implement IFRSs effectively (see section 6.2.2.2).

With respect to enforcement of the laws (condition d), the findings reveal that effective enforcement mechanisms are vital in effectively implementing IFRSs. The majority of the interviewees are negative about the SEC's role regarding enforcement actions (see section 6.2.3.1). This is possibly because the enforcement mechanisms themselves are not tight enough to deal with the violators (i.e. those companies who are not complying with IFRSs). In the 2nd round of interviews, the findings also question the current enforcement mechanisms (see section 6.2.3.2). They add that these enforcement mechanisms are very unclear and lack strict penalties/fines. In addition to the 1st round of interviews, the interviewees in the second round generally feel that the political lobbying and government intervention in the SEC are impeding the enforcement process. The SEC should therefore be depoliticised, and the SEC should take action against nationalised organisations (see section 6.2.3.2). The interviewees (the AR and US groups) suggest that the SEC is itself a government institution and not inclined to take action against nationalised organisations' violations (see section 6.2.3.2). The only interviewee in the PM group who has affiliation with the SEC denies any wrongdoing. The documentary analyses offer evidence that a lack of regulations may hinder the stringent enforcement of laws in Bangladesh (see section 6.2.3.3). It is found that a very limited number of IFRSs related enforcements (i.e. 2.6%) from 1998-2010 raises questions as to the effective implementation of IFRSs (see section 6.2.3.3).

6.3 Politico-Institutional Factors (Proposition II)

This section will explore the following proposition:

P_{II}: *Politico-institutional factors will have a positive/negative influence on implementation of IFRSs.*

P_{IIA}: *Politics will have a positive influence on implementation of IFRSs under the conditions of (a) common-law origin, (b) a lower level of government intervention (c) a lower level of donor agencies' pressure and (d) a lower level of political lobbying.*

'or' *Politics will have a negative influence on implementation of IFRSs under the conditions of a) code-law origin, (b) a higher level of government intervention, (c) a higher level of donor agencies' pressure and (d) a higher level of political lobbying.*

P_{IIB}: Co-operation among institutions will have a positive influence on implementation of IFRSs under the conditions of (a) democratic government and (b) ensuring the participatory rights of the stakeholders.

‘or’ Lack of co-operation among institutions will have a negative influence on implementation of IFRSs under the conditions of (a) undemocratic government and (b) an absence of participatory rights for the stakeholders.

In examining the above proposition, I will discuss findings concerning political pressure and co-operation among institutional bodies with regard to IFRSs implementation in Bangladesh. In relation to *P_{IIA} (Political influence)*, the conditions of the legal origin of the country (common-law/code-law) were mentioned in Chapter Four [i.e. Bangladesh is a common-law country] (see section 4.3.1), and therefore, the analysis of *P_{IIA}* in this section is done under the conditions of (b) a higher/lower level of government intervention, (c) a higher/lower level of donor agencies’ pressure and (d) a higher/lower level of political lobbying.

With respect to *P_{IIB} (co-operation among institutional bodies)*, the condition of (b) the participatory/non-participatory rights of the stakeholders was discussed in section 6.2.2, where the findings derived from the interviewees responses suggest that the stakeholders have no participatory rights in accounting regulatory and standard setting processes in Bangladesh. The analysis in section 6.3.2 will be carried out under the condition of (a) democratic government or undemocratic government. In particular, co-operation/lack of co-operation among institutional bodies in implementing IFRSs will be discussed.

6.3.1 Political influences

In terms of political influences, the interviewees were asked: *Is there any higher/lower level of political pressure (e.g. government intervention, donor agencies’ pressure and political lobbying) to implement or not implement IFRSs?* (see section 5.4.1). 27 interviewees express their sentiments on politics in ways which can be classified into five categories: (a) relating to a higher level of government intervention; (b) a higher level of donor agencies’ pressure (i.e. pressure from the World Bank, the IMF and the ADB); (c) a higher level of political lobbying; (d) no government intervention; and (e) no comment on politics (see Table 6-6). Of the 27 interviewees, two are critical of the government’s intervention, five feel that donor agencies’ efforts towards implementing

IFRSs are political pressure, and seven believe that a higher level of political lobbying are significant contributing factors in impeding the implementation of IFRSs (see Table 6-6). However, 12 interviewees provided no comment at all on politics and only interviewee thinks that there is no government intervention in IFRSs implementation. My interpretation of this is that the main reason for avoiding comment on politics, especially by the accounts preparers and by members of professionals group is that the interviewees feel that doing so would pose a risk to their job security.

Table 6-6: Views on political influences to implement or not implement IFRSs [The 1st round interviews]

	PM	AP	US	AR	Total	%
(a) A higher level of government intervention	1 [PM6]	0 [AP1: * ^a]	1 [US5]	0	2/27	7%
(b) A higher level of donor agencies' pressure	2 [PM1, PM7]	2 [AP1, AP2]	0	1 [AR1]	5/27	19%
(c) A higher level of political lobbying	3 [PM2, PM3, PM5]	2 [AP5, AP12] [AP1, AP2: * ^a]	2 [US2, US3]	0	7/27	26%
<i>Total (A)</i>	<i>6</i>	<i>4</i>	<i>3</i>	<i>1</i>	<i>14/27</i>	<i>52%</i>
(d) No government intervention	1 [PM4] [PM7: * ^a]	0	0	0	1/27	4%
<i>Total (B)</i>	<i>1</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1/27</i>	<i>4%</i>
(e) No comment on politics	0	8 [AP3, AP4, AP6, AP7, AP8, AP9, AP10, AP11]	3 [US1, US4, US6]	1 [AR2]	12/27	44%
<i>Total (C)</i>	<i>0</i>	<i>8</i>	<i>3</i>	<i>1</i>	<i>12/27</i>	<i>44%</i>
Subtotal (A+B+C)	7	12	6	2	27/27	100%

Note: *^a: The interviewee mentions more than one issue; the less discussed issue = '0', otherwise '1'.

6.3.1.1 A higher/lower level of government intervention

6.3.1.1.1 The 1st round interviews

The respondents believe that 'government intervention' is one of the major problems in impeding IFRSs implementation in Bangladesh. They think that the government is 'not

sincere’ about establishing an independent board and instead simply wants to keep bureaucratic control over the determination of accounting standards and monitoring processes in the country. No progress has been made towards the development of an independent board since then. Therefore, the bureaucracy of the government ministry has seemingly been deeply influenced by Bangladeshi culture’s reliance on secretiveness (see Chapter Four). One AP is highly sceptical in this regard:

“Two to three years ago, there was a Financial Accounting Ordinance ...I would not say it had gone through a proper political process as such.... Bureaucrats wanted to prevent the making of the Ordinance into an Act.....when the bureaucrats [e.g. government ministry] took an interest, they did not understand the standards, but they thought (they) could impose an Act of this nature and would exercise a controlling authority over the accounting professionals. *Bureaucracy, you see, is a never ending process in Bangladesh, and they want to extend their influence everywhere*” (AP1).

The different government systems help to explain the issues with regard to high/low levels of government intervention. The only PM feels that a higher level of government intervention has existed under the democratic government in comparison to the military-backed government. A military-backed government earlier took the initiative on FRA and finally it seems that full commitment will depend on a democratic government. He said that:

“I really appreciate the initiative that the Caretaker government [i.e. the Military-backed government] took in producing the Financial Reporting Ordinance of 2008, but it has not been effectively enacted. I think this was initiated during the BNP Government when Mr. Saifur Rahman, the ex-Finance minister, being a chartered accountant, also felt the necessity for such an Act. But he was also *influenced by political pressure not to run very fast.....*When the caretaker government came to power... after taking the comments of the chartered accountants, business people and the trade bodies... they passed the principles but could not implement them... when the Awami League government came into power, they found it to be a very *sensitive* [in terms of being transparent] and loaded Act because lots of people in their party possibly, did not really want to go ahead with it” (PM6).

The two respondents from the policy making groups deny that the existence of government intervention as such is responsible for implementing IFRSs. This is not surprising given the fact that some policy making interviewees represent government institutions or ministerial bodies. For instance, the SEC Executive Director (under the Ministry of Finance) and the Deputy Secretary (of the Ministry of Finance) are directly involved with the government. The interviewees do not really drill down to the question

of differences in the comments between some groups' feelings about the importance of political pressure and some groups' denials of the same. In fact, they focus on explaining non-political approaches. Only two interviewees (both policy makers) believe that politicians are unconcerned about accounting issues in Bangladesh.

“I have not felt any political pressure by the government to implement it. You know [that] there are two groups of the government: one of them is demanding implementation of IFRSs while the other group is not. There is political competition among the government officials as to who will be the chairman of the SEC/DSE” (PM4).

“I don't think government intervention is impeding the implementation process. I am doubtful as to whether the politicians know what IFRS is and what the implication of IFRSs are.... Government intervention is immaterial. It is only the ICAB's intention whether they will implement it or not (which matters)” (PM7).

6.3.1.1.2 The 2nd round interviews

The interviewees were asked to comment on the existence of political pressure to implement or not implement IFRSs in Bangladesh. Nine out of the twelve interviewees were of the opinion that politics within the government are responsible for intervening in implementing IFRSs (see Table 6-7). Consistent with the 1st round interviews, all the interviewees from PM group agree that higher levels of government intervention impede the implementation process. They point out that auditors' qualified opinions do not matter and carry no value for the regulators, and that even government departments are not following IPSAS. One PM stresses that:

*“The auditors provide *emphasis of matter* as qualified audit opinion. The presentation of financial statements by non-financial companies are not up to proper international market standards because the Board is in somebody's control (for example, due to politics and/or family ties) and often tries to hide the true picture of the company” (PM1).*

Table 6-7: Perceptions of higher/lower levels of government intervention [The 2nd round interviews]

	PM	AP	US	AR	Total	%
A higher level of government intervention	4 [PM1,PM2, PM4, PM5]	0	2 [US4,US5]	2 [AR1, AR2]	8/12	67%

6.3.1.2 *A higher/lower level of donor agencies' pressure*

6.3.1.2.1 The 1st round interviews

As mentioned in section 3.2.1.5, donor agencies play a key role behind the scenes in adopting IFRSs including during the implementation phase in developing countries. Developing economies like Bangladesh, which are in great need of external funds, have been forced to open up their economies as part of the donor agencies' sponsored globalisation processes¹⁰⁰. These donor agencies have encouraged the adoption of internationally accepted accounting and corporate governance practices as a prerequisite for obtaining loans, and the interviewees express their concerns about the roles of the donor agencies in terms of their influence on the development of accounting practices in Bangladesh. One interviewee sums up the IFRSs as a form of global political pressure:

“For IFRS there is international pressure from donor agencies. I think it is like, ‘*you are asking somebody to sing but he/she can't*’. ICAB already adopted some policies of IFRS but they converted those IFRS standards to Bangladeshi Standards. However, IFRSs in fact were not implemented” (PM7).

The interviewees point out that there is an absence of private sector rule-making bodies in Bangladesh, something which creates a gap for the donor agencies to exploit, by intervening with pressure to implement their policy-making decisions through private-sector think-tanks. Thus, decisions in favour of wholesale adoption and implementation of IFRSs have been prompted by exposure to threats to legitimacy, rather than by efficiency perspectives. The interviewees in the present study tend to believe that the whole process is very political and that the engagement of local professionals and corporate employees is being ignored in terms of decision making while the ‘donor agencies' wishes' is transformed through the government without considering local cultures. One of the policy makers strongly argues that:

“...it is an injustice to the developing countries to implement the requirements of IFRSs, because they are not logistically prepared. Making it compulsory for everybody without any adequate training and support does not make sense to us. The IFAC and IASB are dominated by accounting firms based in developed industrialised countries [who] dominate these issues and even the development of any IFRSs. But in the cases of developing countries, they have their own problems....the developing countries' unique characteristics are being ignored

¹⁰⁰ This is a specific concept which is being used in a generalised sense in the present study, because IFRSs are a global idea.

in reality. The IASB should consider the development of IFRSs in developing countries by engaging their (local) accountants and policy makers” (PM1).

Three interviewees (two PM and one AP) feel that the political nature of the World Bank’s relationship with Bangladesh and the degree of aid dependence have been excessive and that these factors have therefore seriously distorted accounting development patterns. They recommend that donors take a long-term view of their aid commitments to Bangladesh and that aid funding should not involve any government intervention. Interviewees think that donor agencies are aware that the funds are not utilised efficiently, but they have been careless. It is argued that the aid provided by donor agencies to implement IFRSs in Bangladesh without considering the basic problems of accounting infrastructure and institutions, may produce negative outcomes in the near future.

“We need technical assistance from [say] the ICAEW or AICPA or EAA for a project like this to teach us, not only for the qualified members but also for the SEC. We had a lecturer from Greenwich University, UK, under the World Bank-Twinning Program....we enjoyed his visit very much and learned a lot from his lecture here. So, this should be a continuous process*But the problem here is that the World Bank [and] ICAEW are heavily linked with the government, so they want to spend money to make the government’s bank balance healthier, not the country’s direct benefit.* As you know, funds are transferred from them [World Bank] to the government and then the government tries not to spend them for the purposive issues” (AP1).

Another interviewee from AP extended this issue that the World Bank is one of the key donor agencies for financing the diffusion of accounting practices in Bangladesh, but the actual usage of their funds is often questionable. Despite the World Bank’s role in encouraging the adoption of IFRSs in Bangladesh, the interviewee criticises the way in which the Bank’s lending activities are taking place:

“The World Bank is pressuring for regulating as per westernised countries’ IFRSs.although International Accounting Standards have been introduced -- *there’s no implementation guideline from the World Bank.* They need implementation but there’s no help for it. They are very careless about providing resources and help... *giving foreign aid to implement it, but they do not care much where those funds are used and how effectively they are used*” (AP2).

The findings reveal that the behaviour desired by the World Bank becomes somewhat political in the context of Bangladesh. Arguably, these lending/donor agencies must have an interest in the exercise, and similar fashions are still practised now. Therefore, the influence of donor agencies in implementing of IFRSs (in terms of the political and

economic level of a country) varies, and is mixed in Bangladesh. For example, the only researcher (AR1) put it this way:

“The ICAB received a grant totaling US\$200,000 from the World Bank to facilitate the adoption process; however, this process is much more political than the establishment of legitimacy. The SEC also received technical as well as financial assistance from the ADB to support a number of projects for ensuring a smooth transition to the use of IFRSs, but the real motivations for those projects are unclear” (AR1).

6.3.1.2.2 The 2nd round interviews

The interviewees did not provide any comments on the donor agencies’ political pressure in the second round of interviews. This is possibly because the present democratic government has so far failed to introduce the Financial Reporting Act of 2009, to tackle the stock market crash or to establish an independent supervisory board like the Financial Reporting Council.

6.3.1.3 A higher/lower level of political lobbying

6.3.1.3.1 The 1st round interviews

Seven interviewees criticise the political lobbying involved in implementing IFRSs in Bangladesh (see Table 6-6). They provide different opinions as to how a higher level of political lobbying is negatively associated with the most needed goals, of transparency and the implementation of IFRSs.

Firstly, they express concerns that some politicians do not actually want transparency in financial reporting. They hint that transparency (e.g. creating global standards) is a threat to politicians in continuing to receive corrupt money. An example is:

“I am sure about the existence of political pressure..... there are some problems which lie with politicians and they fear that if it is implemented the true picture of the companies will be mirrored in the public sphere and they might have fewer options to make corrupt money” (US5).

An account preparer and professional (AP2) provides an interesting example of the political lobbying taking place around IFRSs implementation:

“You know [that] the World Bank and ICAEW provided around £180,000 to support Bangladesh for implementing IFRSs....in August 2008, the Ministry of Finance sent 35 people from different sectors to London to study for the

ICAEW's IFRS certificate. On their return, the people planned to train others around the country.... But the political process is dominant in selecting those people.....[which] is shocking.....*the ministry selected 35 people from the Ministry of Health, the Ministry of Environment, the Ministry of Science and Technology and some tutors from a college level who have no knowledge of accountancy whatsoever, but they are politically involved in the governmentultimately the government spent £180,000 for nothing and the country did not gain any benefit from this project” (AP2).*

Secondly, it is argued that the parliamentary process of passing or approving accounting related laws is political in nature in Bangladesh, since some MPs simply do not want to pass a Financial Reporting Act; the interviewees express a belief that the government is delaying the process because of political lobbying. The following two interviewees comment on this issue:

“Political lobbying is one of the biggest obstacles to implementing IFRSs ...*there are some interested groups in the parliament who are directly involved in the corruption taking place, as they are directors of many companies. In addition, a majority of professionals (doctors, engineers, and solicitors etc.) exists in the parliamentary committee... So, they don't want to pass the FR Act 2009. The ICMAB is trying to amend the Income Tax Act, but because of those parliamentary members, it is delayed quite often” (PM3).*

“As far as I know, there is a bit of political pressure, although the terms are technical and only related professionals know about it. The interesting part is that the politics of implementation *are a political process* because *some parts of the government and MPs do not want the IFRSs.....therefore, the government is not more focused on this issue” (US3).*

Thirdly, the government has a set of predetermined beliefs and a political manifesto which excludes accounting related issues and it prefers that the banking sector is the main driving force in improving the economy; and the government feels the banking sector should be more regulated than the non-banking sectors. The non-banking sectors are mostly run by the politicians (see Chapter Four). One user sums this up in the following way:

“*Under the same domain, the government is very conscious of the financial sector, where they think [that] the banks should follow strict laws and regulations, but it is careless about the non-financial sector..... [this] is the government's pre-determined concept or how things should be. However, the non-financial sectors constitute half of the economy. The government thinks that losses in the non-financial sector are losses for shareholders, not for the economy. So, if you are only concerned about 50% of the economy, there will be scope for corruption and a non-disclosure tendency. That's exactly what is happening in the non-financial sector. But, I think [you see] the garments sector, and jute, are doing really well and are potential industries for investment by foreign investors. If those industries do not represent the true picture by*

following IFRSs, then Bangladesh is losing opportunities....*the governmental body should come out from the pre-determined concepts and look more broadly than the current, narrow focuses allow*” (US2).

Although the 12 interviewees (i.e. eight AP, three US and one AR) are silent about the existence or otherwise of political pressures (see Table 6-6), three interviewees (from AP group) viewed political influences by the government, and in particular, government intervention and political lobbying, as indirect factors in implementing IFRSs. These three interviewees, who appeared most in favour of opposing direct political influence by the government, provide evidence about why political pressure is not important. The following two quotations are representative of this issue:

“There is *no direct political pressure. The issue of pressure comes when any company is involved with forgery. For instance, when any bank is involved with forgery then the Central Bank and the Ministry of Finance try to control the situation politically connected Banks do not get any punishment or fine*” (AP1).

“*I don't see, or I have no idea, about political pressure because our politicians are mostly unconcerned about what is happening in the accounting world*” (AP12).

6.3.1.3.2 The 2nd round interviews

Only one of the four APs thinks that political lobbying is a key problem, but the other three APs are silent on the issue (see Table 6-8). This evidence is similar¹⁰¹ to the findings of the 1st round of interviews (see section 6.3.1.3.1). The only AP5 argues that:

“*We follow IFRSs to satisfy only the SEC and the tax authority, and not shareholders. You know, only 10% of companies provide actual information in Bangladesh. The rest of them are heavily politically connected and they can easily satisfy the SEC and the tax authority*” (AP5).

All academics and users were critical regarding political lobbying. The views given by the two interviewees represent the political problem:

“You see [that] the recent stock market crash (i.e. 2011) occurred due to political connections” (AR1).

“I think [that] many companies are politically connected and therefore they do not feel scared of violating regulations” (US4).

¹⁰¹ AP5 is critical regarding political lobbying in the 1st round of interviews. AP6 and AP10 are silent in the 1st round of interviews.

Nine interviewees had emerging expectations of action from the present democratic government regarding the effective implementation of IFRSs. One of the policy makers commented that:

“Actually, within one year, no such improvement has happened. You see, *political connectedness is a major problem in Bangladesh in implementing IFRSs*. Because of political connectedness, the basic requirements, like trial balances and books of accounts, are not being properly followed. *If the basic requirements are not followed, how can we expect compliance with IFRSs?* To me it is like a dream. (PM5).

Table 6-8: Perceptions on higher/lower level of political lobbying [2nd round interviews]

	PM	AP	US	AR	Total	%
A higher level of political lobbying	4 [PM1,PM2, PM4, PM5]	1 [AP5]	2 [US4, US5]	2 [AR1, AR2]	9/12	75%
No comment on politics		3 [AP6, AP10,AP12]			3/12	25%

6.3.2 Co-operation/lack of co-operation among institutional bodies

6.3.2.1 The 1st round interviews

In Bangladesh, the level of co-operation among the major institutional bodies who are involved in accounting regulatory frameworks, the standards setting process and in monitoring the capital market, are atrocious, according to respondents. All the interviewees agreed that implementation could be successful in Bangladesh through a huge improvement in co-operation among the major actors (see Table 6-9). The respondents suggest that all the actors (i.e. institutions) involved tend to blame one another in trying to maintain their individual positions. So, the implementation process seems to be focused on individual actors' efforts, rather than the necessary team-working and co-ordinated efforts. The majority respondents perceive that the whole exercise is flawed because of the undemocratic nature of the accounting standard setting, regulating and monitoring processes which presently exist in Bangladesh.

Table 6-9: Perceptions of co-operation/lack of co-operation among institutional bodies [The 1st round interviews]

Need for co-operation	PM	AP	US	AR	Total	%
Agree 'with explanation'	7 [PM1,PM2, PM3, PM4, PM5, PM6, PM7]	2 [AP1, AP2]	0	1 [AR2]	10/27	37%
Agree but 'no explanation'	0	10 [AP3, AP4,AP5, AP6, AP7, AP8, AP9,AP10, AP11,AP12]	6 [US1,US2, US3,US4, US5,US6]	1 [AR1]	17/27	63%
Total	7 [7+0]	12 [2+10]	6 [0+6]	2 [1+1]	27/27 [10+17]	100 %

The policy making group (all seven interviewees) are critical of the current co-ordination of decision making, consultation and monitoring issues regarding IFRSs implementation. One PM sums it up this way:

“There is really *no drive*; A good mind-set among the professional bodies and a sufficient human resource base for making the system popular are essential. We have to have someone to deliver the reforms. *I don't know why the Ministry of Commerce is not in a position to lead professional bodies and there is really no-one who can lead this agenda in the professional bodies.* Basically there's a lack of change agents in the institutions. There are of course many problems. *We have a lack of institutional transparency and a lack of capacity to implement, and even when you accept new standards, there are lots to be adopted, and resource constraints exist.* So, all of these issues need to be addressed” (PM7).

The existence of a '*blaming culture*' is something which is also strongly expressed by the respondents. The interviewees think that the two major institutions, i.e. the ICAB and the SEC, appear to be uncritically supportive of efforts by the World Bank and other donor agencies in the implementation of IFRSs in Bangladesh, without reflecting on the long-term implications of such proposals. As previously pointed out in section 6.2.3.1, these interviewees are undivided in their opinions when it comes to blaming one another. They are in favour of their own institutional activities, and criticise other institutions' activities. To co-operate with each other, this culture needs to end and achieving this might be a panacea for co-operation among them. The following comments from different institutions' policy makers represent the frustrating scenarios which exist regarding non co-operation:

“Yes co-ordination is needed. We are basically working with SEC, MOF and professional bodies, on how you can create a congenial environment that allows the corporate sector to adopt and implement IFRSs. I believe [that] once the Financial Reporting Act (FRA) is implemented then it will, perhaps, create a big change in our corporate culture. So, *we strongly encourage the Ministry of Finance to pursue IFRSs so that it can be enacted in the parliament*” (PM5).

“We developed a corporate governance code, in 2005-2006, which is mandatory. We also carried out an assessment in 2005 that brought out lots of issues facing the corporate sector in terms of compliance with IFRSs. *The main findings concerned the lack of government support, and the professional bodies - the SEC and the MOF which are responsible for enacting laws governing financial reporting standards....* However in practice, *government provides very little (or no) support to the corporate sector to strengthen audit and quality assurance projects.* Therefore, the institutional bodies and the government should work together to come up with a solution” (PM2).

“*Our department has no role, as the role is reserved by the ICAB and the corporate world.* However, with some World Bank finance project initiatives, we are trying to create a separate authority by enacting a new law, Financial Reporting Act. This is largely in line with the UK system in creating a separate independent council or FRC to issue, to implement and to oversee the accounting standards. In that reporting Act, we we will keep a provision which is in the line with international accounting standards. So, IFRS will be included” (PM4).

Accounts preparers and professionals and researchers expressed many of the same sentiments. They strongly believe in a need for co-operation among institutions like the ICAB, the ICMAB, the SEC, and the Ministry of Commerce; the following two comments represent this issue:

“.....*they are trying but I must say that there is still scope for institutional bodies like the ICAB and the ICMAB to be more rigorous and careful about the adoption and implementation of IFRSs, through active and continuous monitoring systems*” (AP1).

Ten interviewees also explained what they felt were the reasons for non-cooperation among institutional bodies (see Table 6-9). They believe that the major actors could work together but that problems tended to occur owing to their conflicting interests. One policy maker views the problem in this way:

“Obviously, the institutional and professional bodies can work together to better implement IFRSs. But the real scenario is complicated. The two professional bodies (the ICAB and the ICMAB) are very much conflicted. In recent times, to pass the Financial Reporting Ordinance 2008, the ICAB disputed the making of an Act. The professional bodies only care about their own interests, not the greater good of companies, or the country, or the stakeholders. This is a cultural

problem in our country, because we can't accept that some companies are doing well and we are jealous about it" (PM3).

The policy makers think that transparency among institutional bodies and a consultation process like the exposure draft in the UK or the USA should be conducted, which would engage corporate people. But actions are more important than discussion, otherwise the implementation process would be a 'political manifesto agenda' rather than a real agenda. One of the policy makers states that:

"I think there should be some kind of discussions... But in implementing IFRSs, you would not please everyone. So, *it is not like an open ended participatory approach, because trade bodies and business people will have objections to too many things especially in the cases of some of the regulatory laws. So, I think [that] if possible the ICAB, ICMAB, SEC, Bangladesh Bank, listed companies and the Government should take a lead in the implementation of IFRSs.* They can take opinion from business people but I am doubtful about whether these could be implemented, because these people will give so many comments and you would not be able to implement them all. My comment would be that they can make a comprehensive report based on the comments received and, later on, they can incorporate and adjust. At the last stage, they can discuss with stakeholders and the discussion report can be passed to the cabinet. But what happens is that *the more you discuss the matter, the less you will be able to implement it*" (PM6).

6.3.2.2 The 2nd round interviews

As mentioned in section 6.3.2.1, all of the interviewees agree that co-operation among institutional bodies is essential in implementing IFRSs. In the first round of interviews, all of the AP and US interviewees (making a total of 18) agreed on co-operation but only two from the AP group provided any explanation of their views. In the second round of interviews, all of them agreed and provided explanations (see Table 6-10).

Table 6-10: Perceptions on politico-institutional factors in relation to IFRSs implementation [2nd round interviews]

	PM	AP	US	AR	Total	%
Lack of co-operation among institutional bodies	4 [PM1,PM2, PM4, PM5]	4 [AP5,AP6, AP10,AP12]	2 [US4,US5]	2 [AR1, AR2]	12/12	100%

Firstly, multiple regulators create problems because there is no unified and co-ordinated appreciation of the application of IFRSs between them. These multiple regulators fail to

consult with the professionals and therefore a communication gap (i.e. a lack of co-operation) appears among different institutional bodies:

“In the Companies Act 1994, IFRSs are not mandatory...*there are multiple regulators* like the SEC and Bangladesh Bank and *they are not knowledgeable enough regarding the IFRSs. In my experience, if we follow IFRSs then Bangladesh Bank, the SEC and the NBR will create many problems*” (US4).

“*There is no co-ordination among the policy makers. Most importantly, the ministry does not consult with the professionals and even they do not understand the standards. Whatever they think is the final decision*” (AP5).

Secondly, a ‘blaming culture’ is another key aspect of non-cooperation. For instance, the Credit Rating Agency of Bangladesh (CRAB) thinks that auditors should take the responsibility for non-implementation of IFRSs. Meanwhile, the SEC thinks that the DSE should be more accountable in overseeing implementation issues, and the ICAB is not co-operative because they (i.e. the ICAB) are reluctant to take action against their members (i.e. people who qualified through the ICAB). The following comment is representative of this issue:

“Our (SEC) officials and the stock exchange in Bangladesh are working together to implement IFRSs. We believe [that] there should be a separate FRC, as in the UK, to oversee IFRSs implementation issues. I think [that] the Dhaka stock exchange should take responsibility for non-compliance with standards. *Listed companies are the stock exchange’s children and therefore the DSE should take care of them....is not our responsibility to identify who are following or not. In addition, the ICAB is not co-operating. For example, if we identify any mistakes in annual reports and violations against CA firms, then we seek comments from the ICAB. But they don’t bother replying within six months, even after reminder(s) are sent. The ICAB is like a clubhouse in which the ICAB is very reluctant to take action against their club members*” (PM4).

6.3.2.3 Documentary analyses

This section will discuss the enforcement actions taken under different political regimes in Bangladesh.

With respect to these different political regimes, Table 6-11 shows that, in the democratic era, there have been 864 enforcement actions (representing 52% of the total of enforcement actions), while the military era saw 783 enforcement actions (representing 48% of the total of enforcement actions) (see Figure 6-2). This is surprising given that the military government ruled for only three years while the democratic government ruled for more than ten years. This fact raises questions around the efficiency of the democratic government. The relative failure of the democratic

government may well be due to the partisan political landscape and the tendency to politicise each and every sector when a new government comes to power (see sections 6.2.2.1 and 6.3.1.3.1). For example, the normal practice of appointing the SEC chairman is that the chairman has political ties to the government (see section 6.2.3.1 and Table 6-12).

Table 6-11: Enforcement Actions by Political Regimes

Periods	Total Enforcement Actions	Political Government Type
2006-2008	783	Military Government
1998-2005, 2009-2010	864	Democratic Government

Figure 6-2: Enforcement Actions by Political Regimes (1998-2010)

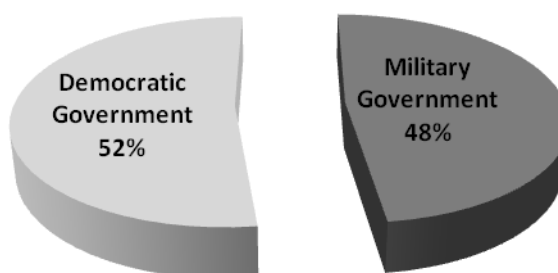


Table 6-12: List of the Securities and Exchange Commission's (SEC) Chairmen under different political regimes

Sl.	Period(s)	Government Type ¹⁰²
1.	1997 - 1998	Awami League
2.	1999 - June 2003	Awami League & BNP
3.	July 2003 - Oct 2003	BNP
4.	2003 Nov - Feb. 2006	BNP
5.	March 2006 - April 2009	Military
6.	May 2009 - May 2011	Awami League
7.	June 2011- Present	Awami League

Table 6-12 shows that different chairmen are appointed under different government regimes, meaning that each of the chairmen has been appointed by each successive government. This political connectedness may well slow down the enforcement activities of the SEC. The SEC Chairman has stated that: *"The chairman and the*

¹⁰² The Awami League and the BNP are democratic governments.

members shall be appointed from amongst the persons of capability and standing who have shown capacity in dealing with problems relating to company matters, securities markets or have special knowledge and experience of law, finance, economics, accountancy and such other disciplines as, in the opinion of the Government, shall be useful to the Commission. According to the securities law, the Commission ensures proper issuance of securities and registers, supervises and regulates the stock exchanges, broker/dealers, merchant bankers, portfolio managers, mutual funds, asset management companies, trustees', custodians, depository company and all other intermediaries, persons or institutions related with the capital market. The expenses of the Commission are met out of the fund contributed by the government as grants and money received from other sources viz. consent fees for raising capital, registration fees etc” (SEC Annual Report, 2004-2005, p. 5). This quotation emphasises that the role of the SEC is to efficiently monitor the market; in reality, the scenario is different. To illustrate this point, I find that 13 of 42 IFRSs related violations are cases in which 13 companies have continuously violated regulations (see Table 6-13). Most notably, J Ltd. & N Ltd. violated six times in 2007, whilst C Ltd. did so three times, and L Ltd. four times, in 2007. It is found that the SEC has not taken significant action against any of them. This is possibly because of political connections between these violators and the SEC. This state of affairs may slow down the implementation of IFRSs.

Table 6-13: Companies with Repeated Violations from 1998-2010 regarding IFRSs Compliance

✓ A Ltd. (Textile): <i>Once in 2008 & twice in 2009</i>
✓ B Ltd. (Textile): <i>Once in 2009 & once in 2010</i>
✓ C Ltd. (Textile): <i>Three times in 2007 & once in 2009</i>
✓ D Ltd. (Food & Allied): <i>Twice in 2008</i>
✓ E Ltd (Food & Allied): <i>Once in 2009 & once in 2010</i>
✓ F Ltd. (Food & Allied): <i>Once in 2007 & once in 2008</i>
✓ G Ltd. (Food & Allied): <i>Once in 2006 & twice in 2007</i>
✓ H Ltd. & I Ltd. (Food & Allied) [H-I Group]: <i>Twice in 2007</i>
✓ J Ltd. (Tannery): <i>Six times in 2007</i>
✓ K Ltd. (Tannery): <i>Once in 2008 & once in 2009</i>
✓ L Ltd. (Cement): <i>Four times in 2007 and once in 2010</i>
✓ M Ltd. (Miscellaneous): <i>Twice in 2007</i>
✓ N Ltd. (Miscellaneous): <i>Six times in 2007 and once in 2009</i>

Note: Company names have been anonymised. Detailed information is available on request from the author.

6.3.3 Reflecting on section 6.3

The findings of proposition II (P_{II}) show that politico-institutional factors have a negative influence on implementation of IFRSs in Bangladesh.

With respect to political influences (P_{IIA}), the findings reveal that politics have a negative influence on the implementation of IFRSs in Bangladesh, under three conditions. This political pressure emerges from a higher level of government intervention (see section 6.3.1.1 for condition b), a higher level of donor agencies' pressure (see section 6.3.1.2 for condition c) and a higher level of political lobbying (see section 6.3.1.3 for condition d). This study finds that higher levels of government intervention and political lobbying have negative influences on the effective implementation of IFRSs in Bangladesh. The findings suggest that the government's role is negatively associated with the potential for achievement of the most urgently needed goals of transparency in Bangladesh. The parliamentary process of approving accounting related laws is also political in nature. Hence, regulatory efforts often struggle in Bangladesh because business elites utilise their political connectedness in order to influence any progress. The 2nd round of interviews (see sections 6.3.1.1.2 and 6.3.1.3.2) confirm that companies are repeatedly violating the SEC regulations and that in doing so, they are protected from punishment by their political connections.

The study finds that the donor agencies' efforts regarding IFRSs adoption and implementation in Bangladesh are transformed through government intervention without considering local cultures. Since IFRSs implementation in Bangladesh depends highly on donor agencies' funding, the country is exposed to diverse international pressures. The donor agencies' funding processes towards the development of the financial reporting environment in Bangladesh are marked by a lack of consultation and transparency. However, the interviewees in the 2nd round of interviews did not mention political pressure by donor agencies (see section 6.3.1.2.2). This is possibly because they may have an interest in, or expectations of, the current democratic government. As the year ended (i.e. 2010-11), no significant improvements had emerged and therefore, they felt frustration with the government's role in IFRSs implementation.

In relation to co-operation/ non-cooperation among institutional bodies (P_{II}) the findings reveal that the absence of co-operation among institutional bodies including state institutions and professional bodies (e.g. the ICAB, the ICMAB, the SEC, the MOC and the MOF) impedes the implementation process in Bangladesh (see section 6.3.2). The policy makers, who represent different institutions, were sceptical about non-cooperation in implementing IFRSs. The reason for non-cooperation among institutional bodies was seen as being that major actors are working in their own self interests. For example, the ICAB disputed the creation of the Financial Reporting Act. A lack of transparency among institutional bodies is also observed. In Bangladesh, the ICAB's standard setting body does not produce any exposure drafts or consultation papers whatsoever. Hence, the implementation process seems to come down to individual actors' efforts rather than co-ordinated team-working efforts. An absence of co-ordination¹⁰³ is observed during the adoption process, which immediately results in dissension, confusion, and in the communication problems that stakeholders experience in Bangladesh. It is important to add that all of the interviewees, in both the 1st round and 2nd round of interviews, agreed that in order to implement IFRSs effectively, co-operation among institutional bodies needs to be established – this is a vital prerequisite for success (see sections 6.3.2.1 and 6.3.2.2). The findings reveal that the institutional bodies are eager to blame one another for the difficulties encountered so far in implementing IFRSs. The documentary analyses reveal that the military-backed government is surprisingly efficient in terms of the stringent enforcement, while a lack of co-operation among institutional bodies is found under both the democratic and military-backed government eras (see section 6.3.2.3). Ultimately, politicised government institutions are impeding the implementation of IFRSs in Bangladesh.

6.4 Relative impact of accounting regulatory frameworks and politico-institutional factors

To illustrate the relative impact of accounting regulatory frameworks and politico-institutional factors, after reading and reflecting on the transcripts, I summarised the first and second round interviewees' attitudes to IFRSs implementation, and set this

¹⁰³ For example, in an attempt to resolve the stalemate between the ICAB and the ICMAB, the Ministry of Commerce (MOC), acting on behalf of the Government of Bangladesh, issued a memorandum in October 1999 which proposed the establishment of a Bangladesh Accounting and Auditing Standards Monitoring Board involving all interested parties, but this proposal was rejected by the ICAB which perceives itself as 'the only competent legal authority in the country to adopt IAS' (ICAB Annual Report, 1998-99, p. 19) [Cited in Mir & Rahaman, 2005, p. 829]

information alongside each interviewee's work experience and qualifications (see Appendices 6-4 and 6-5). I also developed ordinal categories for their responses regarding the main topics and questions that are asked. The view of each interviewee on a given topic is represented by one answer (see Q1 to Q4 in Appendices 6-4 and 6-5). This approach requires making a judgement about the interviewee's primary opinion about a topic if he/she expresses positive/negative/no comment. This allowed me to detect any relationship between the four groups of interviewees' perceptions on IFRSs implementation. In addition, this comparison helps to establish whether the interviewees' background characteristics, such as their work experience and qualifications, are related to or influence their attitudes. However, there is relatively little opportunity to obtain cell sizes sufficiently large for a chi-square test and therefore the analysis concentrates on descriptions of the extent and cause of IFRSs implementation. The conclusions seek to draw out general factors influencing IFRSs implementation, but specific comments by the respondents are presented in sections 6.2 and 6.3 to give the reader an indication of the breadth of reasons for poor implementation of IFRSs in Bangladesh.

Interview Questions 1 and 3 of Appendix 6-4 are examples of areas of IFRSs implementation upon which interviewees' perceptions differ. Q1 is relevant to accounting regulations and Q3 is relevant to politico institutional factors. From the responses to Questions 1 and 3, it is found that there is a relationship between interviewees' perceptions of accounting regulatory frameworks and political influence. The majority of interviewees who are disappointed with the accounting regulatory frameworks feel that there is a political influence in the implementation of IFRSs. However, some dissimilarities are observed. Firstly, two policy makers' (PM4 and PM7) views are different on political issues and accounting regulation. For example, PM4 (an SEC Executive Director) is unhappy with current regulations but at the same time sees no political influence. This is understandable given that the interviewee's position is closely related to the government's Ministry of Finance. PM7 (Deputy Secretary, Ministry of Finance) is pleased with the accounting regulations but commented on politics. It is not surprising that this interviewee commented on donor agencies' political influence rather than the government's political influence. This is possibly because of his appointment in the current democratic government (i.e. the Ministry of Finance) which is a 'political appointment' (see section 4.2.2). Therefore,

this policymaker is cautious of talking about any possible negative role of the government. Secondly, while 52% respondents were negative about political influence, 44% interviewees (12 out of 27) provided no comment on politics (see Table 6-14). In particular, the majority of the account preparers (9 out of 12) were hesitant to discuss politics. This could be due to feelings of insecurity towards their jobs (see section 6.3.1).

As mentioned in Chapters One and Five, the purpose of the second round of interviews was to test the reaction of the interviewees, as the second round of interviews took place a year after the first. The first round of interviews was conducted when the present democratic government was in its second year (2010) while the second round was conducted in its third year (2011). I assumed that the interviewees might change their attitudes because of the maturity of the democratic government (i.e. the democratic government has been in power for a longer period) and the interviewees are of course free to comment. In the 2nd round interviews, the attitudes of interviewees were not very different from previous responses (see Appendix 6-5 and Table 6-15). In line with accounting regulatory frameworks, the majority of interviewees provide negative sentiments on accounting regulation, the standard setting process and enforcement issues. With respect to politico institutional factors, 75% of interviewees feel that political pressure by the government is impeding implementation of IFRSs whilst 100% of respondents say that institutional co-operation is also needed. Some similarities in the interviewees' perceptions are observed; for example, 100% of interviewees feel co-operation among institutional bodies is needed, in both the 1st and 2nd Round of interviews. Some differences in the interviewees' perceptions are observed: firstly, the 2nd interviewees were more critical, in particular, of the possibility of political pressure by the government (75% compared to 52%). Secondly, the lower level of 'no comment' (25% compared to 44%) on political influence add some confirmation to the greater critical sentiments of the 2nd round respondents. This is possibly because the interviewees are more open to talking about politics in the 2nd round interviews; thirdly, the 2nd round interviewees only mention political pressure by the government, whilst in the 1st round, the interviewees mentioned political pressure from other sources (e.g. donor agencies). PM1, PM2 & PM4 provided negative comments on accounting regulatory frameworks in the 1st round of interviews. Surprisingly, in the 2nd round of interviews, PM1 & PM2 both said that the standard setting process is already becoming

more co-operative, and PM4 is happy with current accounting regulations and the SEC's enforcement actions. This is possibly due to the fact that PM1 & PM2 are officials of the ICAB (Under the Ministry of Commerce) and PM4 is an official of the SEC (under the Ministry of Finance), and they want to legitimise and justify their government's position.

A further observation from Appendices 6-4 and 6-5 is that there is no association between the interviewees' work experience/qualifications and their attitudes. For example, based on similar work experiences (years), seven interviewees have 20 years and above, thirteen have 10-20 years and seven have 5-9 years' experience. However, variations are observed in their perceptions. Similarly, based on the qualifications, eleven are qualified accountants, two are part qualified CA, three are PhD and eleven are postgraduates (e.g. MBA/MSc/MCom/MA in Accounting).

The findings on the interviewees' attitudes indicate that politico-institutional factors are stronger and more dominant factors than accounting regulatory frameworks. The findings reveal that political connectedness in the regulatory process and looser enforcement of the laws are hindering the effective implementation of IFRSs during the democratic government era, while the military government era is depoliticised and effective in terms of its stringent enforcement of the law. However, stakeholders' non-participation in policy making is evident in both the democratic and military government eras. Comparing the first and second round of interviews, nothing significant has changed in the interviewees' attitudes. The second round interviewees were more negative about the current democratic government's initiative regarding IFRSs implementation in Bangladesh. According to the majority of the interviewees, political pressure by the government is impeding IFRSs implementation, with the exception of the views of the policy making group. This is possibly because these policymakers are politically appointed by the present democratic government.

Table 6-14: Quantification of perceptions of interviewees [1st Round Interviews, n=27]

Code	Accounting Regulation	Politico-Institutional	
	Q1	Q3	Q4
PM1	0	0	1
PM2	0	0	1
PM3	0	0	1
PM4	0	1	1
PM5	0	0	1
PM6	0	0	1
PM7	1	0	1
AP1	0	0	1
AP2	1	0	1
AP3	0	9	1
AP4	0	9	1
AP5	0	0	1
AP6	0	9	1
AP7	0	9	1
AP8	0	9	1
AP9	1	9	1
AP10	0	9	1
AP11	0	9	1
AP12	0	0	1
US1	0	9	1
US2	0	0	1
US3	0	0	1
US4	0	9	1
US5	0	0	1
US6	0	9	1
AR1	0	0	1
AR2	0	9	1
Positive perceptions	11% [3/27]	4% [1/27]	100% [27/27]
Negative perceptions	89% [24/27]	52% [14/27]	0%
No comment	0%	44% [12/27]	0%
Total	100%	100%	100%

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*: Academics & Researchers.

‘0’ = negative perceptions, ‘1’ = positive perceptions & ‘9’ = no comment;

Q1: ‘0’ = negative (non-satisfactory) perceptions & ‘1’ = positive perceptions on accounting regulation;

Q3: ‘0’ = political pressure; ‘1’ = no political pressure & ‘9’ = no comment on political pressure;

Q4: ‘0’ = no need for co-operation & ‘1’ = need for co-operation among institutional bodies;

Q2 [Regulators] cannot be quantified due to nature of the questions and perceptions of the interviewees.

Table 6-15: Quantification of perceptions of interviewees [2nd Round Interviews, n=12]

	Accounting Regulation			Politico-Institutional	
<i>1st Round IQs</i>	<i>Q1</i>			<i>Q3</i>	<i>Q4</i>
2nd Round IQs	Q1(a)	Q1(b)	Q2	Q3	Q4
PM1	0	1	0	0	1
PM2	0	1	0	0	1
PM4	1	0	1	0	1
PM5	0	0	0	0	1
AP5	0	0	0	0	1
AP6	0	0	0	9	1
AP10	0	0	0	9	1
AP12	0	0	0	9	1
US4	0	0	0	0	1
US5	0	0	0	0	1
AR1	0	0	0	0	1
AR2	0	0	0	0	1
Positive perceptions	8% [1/12]	17% [2/12]	8% [1/12]	0%	100% [12/12]
Negative perceptions	92% [11/12]	83% [10/12]	92% [11/12]	75% [9/12]	0%
No comment	0%	0%	0%	25% [3/12]	0%
Total	100%	100%	100%	100%	100%

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*: Academics & Researchers.

‘0’ = negative perception, ‘1’ = positive perceptions & ‘9’ = no comment;

Q1(a): ‘0’ = negative perception & ‘1’ = positive perception of accounting regulation;

Q1(b): ‘0’ = negative perception & ‘1’ = positive perception of standard setting process;

Q2: ‘0’ = negative perception & ‘1’ = positive perception of enforcement;

Q3: ‘0’ = political pressure; ‘1’ = no political pressure & ‘9’ = no comment on political pressure;

Q4: ‘0’ = no need for co-operation & ‘1’ = need for co-operation among institutional bodies.

6.5 Summary and Conclusions

The aim of this chapter has been to reflect upon the evidence from the two rounds of interviews and on the available information regarding the enforcement actions in the implementation of IFRSs in Bangladesh. Two propositions are discussed, involving accounting regulatory frameworks and politico-institutional factors. Proposition P_I on accounting regulatory frameworks is examined in section 6.2. The evidence suggests that the current accounting regulatory frameworks in Bangladesh have a negative influence on the implementation of IFRSs (see section 6.2.4).

In relation to the quality of investor protection laws (condition b), the findings confirm that low quality investor protection laws in Bangladesh are impeding IFRSs implementation (see section 6.2.1). The contradictions between local laws¹⁰⁴ and IFRSs are delaying the implementation process, causing it to be less effective (see sections 6.2.1.1 and 6.2.1.2). This implies that companies have some scope to decide not to comply fully with IFRSs, and can do so because the legal systems in Bangladesh are flawed and thus very unlikely to punish them.

In relation to stakeholders' participation/non-participation in the standard setting process (condition c), the findings reveal that the ICAB does not engage stakeholders in the standard setting process in Bangladesh (see section 6.2.2.1). The ICAB, as the real regulator, is seen as being responsible for accounting standard setting (see section 6.2.4). The absence of any consultation with stakeholders and publishing exposure drafts calls into question the effectiveness of this institution (see section 6.2.2.1). This is because a government ministry is involved with the ICAB and the government is directly or indirectly intervening in appointing the chairman and the members of the standards setting committee (see sections 6.2.2.1 and 6.2.2.2). In addition, the findings suggest that the present democratic government is not inclined to set up the FRC or FRA (see section 6.2.2.1).

In relation to enforcement of the laws (condition c), the SEC, as the enforcer institution, is failing to perform effectively in Bangladesh (see section 6.2.3). The evidence gained from interviews and documentary analysis suggests that the SEC is not tightening its

¹⁰⁴ The Companies Act 1994 has not been updated, despite the formation of a government committee to update regulations (see section 4.3.1).

enforcement mechanisms to make sure that companies are bound by regulation to comply with IFRSs. This is likely to be due to political lobbying and government intervention in the SEC, which impedes the enforcement process (see sections 6.2.3.2 and 6.2.4). The SEC is unable to identify IFRSs-related violations because there are no qualified accountants in the institution. Further, the penalty criteria for the violators are vague and insignificant.

Section 6.3 presents evidence on politico-institutional factors in relation to propositions *P_{II}*, *P_{IIA}* and *P_{IIB}*: The findings confirm that politico-institutional factors have a negative influence on implementation of IFRSs in Bangladesh (see section 6.3.3).

Taking first *P_{IIA}*, Bangladesh is a common law country (condition a). In relation to the level of government intervention (condition b), the findings confirm that a higher level of government intervention in Bangladesh inhibits the implementation process (see section 6.3.1.1). In relation to the level of donor agencies' pressure (condition c), interviewees mentioned a higher level of donor agencies' pressure in Bangladesh (see section 6.3.1.2). The donor agencies are providing funding towards the successful implementation of IFRSs, but the funding is not utilised in appropriate ways (see section 6.3.1.2.1). The question has therefore been raised by the interviewees - if the donor agencies are aware of these corrupt activities, then why they are not taking action against the government? (see section 6.3.1.2.1).

In relation to the condition of (d) a lower/higher level of political lobbying, the findings suggest that higher levels of political lobbying in Bangladesh are hindering the effective implementation of IFRSs (see section 6.3.1.3). Respondents give strongly negative sentiments regarding the government's political influence. For example, the regulators (e.g. the SEC and the judiciary) are toothless in penalising companies which are politically well connected. Furthermore, the government has not legislated for new regulations, or even updated the existing accounting related regulations, for the last 14 years.

With respect to co-operation/lack of co-operation among institutional bodies (*P_{IIB}*), it is found that a lack of co-operation among institutional bodies is slowing down the implementation process (see section 6.3.2). In relation to ensuring the participatory

rights/an absence of participatory rights for the stakeholders (condition a), the findings suggest that no participatory rights for the stakeholders exist in Bangladesh (see section 6.3.3). In terms of democratic/undemocratic government (condition b), the study finds that a lack of co-operation exists among the institutional bodies which are responsible for the implementation process under both democratic and undemocratic governments (see sections 6.3.2.1 and 6.3.2.2). However, the military-backed government was more efficient in taking action against corrupt companies (see section 6.3.2.3). This is possibly because the implementation of law is seemingly better in military era, in comparison with the democratic era in Bangladesh. The institutions are blaming each other and this ‘blaming culture’ is not assisting the implementation process (see sections 6.3.2.1 and 6.3.2.2). In my opinion, the blame is deployed as an attempt to remove power and responsibility from others in order to facilitate the legitimacy of, and increase the scope of, government bureaucracy.

The overall conclusion to be drawn in this chapter is that, despite the fact that Bangladesh is a common-law origin country¹⁰⁵ (condition a of each proposition) the findings of other conditions (in particular, conditions b, c, and d) of both propositions (**P_I** and **P_{II}**) reveal that common-law origin has minor or no influence on implementation of IFRSs in Bangladesh (see sections 6.2 and 6.3). This is possibly because Bangladesh contains an unique environment which may be explained, via several factors (e.g. [a(i)] training opportunities in the accounting profession, [a(ii)] corruption and [b] other country specific factors). This study raises a question as to why a common-law origin country has no influence on the implementation of IFRSs or has moved toward code-law regarding the implementation of IFRSs.

In relation to the relative impact of accounting regulatory frameworks and politico-institutional factors, a comparison of interviewees’ perceptions and reflecting attitudes has been discussed (see section 6.4). The findings suggest that politico-institutional factors are stronger and more dominant factors than accounting regulatory frameworks with regard to the effective implementation of IFRSs in Bangladesh. It is observed that there is a link between the interviewees’ views on accounting regulatory frameworks and political influences. However, the majority of interviewees are very concerned about the impact of the democratic government’s political influence in implementing

¹⁰⁵ As explained in Chapter Four (see section 4.3.1).

IFRSs (see section 6.4). The attitudes of the interviewees indicate that policy makers are keen to comment on donor agencies' political influence, while denying the existence of government intervention or political lobbying. As mentioned earlier, this is likely to be because the policy makers represent different government institutions. In the first round of interviews, account preparers and professionals seem hesitant to talk about politics. One interpretation is that these interviewee groups feel too insecure to comment and believe that doing so may harm their livelihoods. But, in the second round of interviews, the interviewees are more critical of the present democratic government's perceived attempts to apply political pressure. The persisting feeling expressed is that the interviewees are becoming more familiar with the present democratic government because the government is in its third year in power, so its methods are becoming clearer to observers. The interviews and documentary evidence collected in the study also reveal that in addition to politicised government institutions, outdated accounting regulatory frameworks are impeding the implementation of IFRSs in Bangladesh. This is an indication that accounting change has not taken place over the last decade. In particular, the accounting regulations are outdated even though the national political government has changed. This state of affairs also confirms the current democratic government's failure so far to play a major role in driving the effective implementation of IFRSs in Bangladesh (see section 6.3.2.3).

Chapter Seven

The Impact of [a(i)] training opportunities in the accounting profession & [a(ii)] corruption and [b] other country specific factors on the implementation of IFRSs in Bangladesh

7.1 Introduction

The purpose of this chapter is to present the results of the second research question with reference to the implementation of IFRSs in Bangladesh, as follows: *RQ-2(a): How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs; RQ-2(b): What other country specific factors are affecting implementation of IFRSs?* In particular, the findings will answer proposition three and analyse issues around other country specific factors. As mentioned in section 2.2.3, the most frequently discussed issues in the prior literature on the role of the state and accounting change are accounting regulatory frameworks, politico-institutional factors and cultural factors (investigated here through training opportunities in the accounting profession and through corruption). In this chapter, drawing upon the 27 first round and 12 second round interviews as well as documentary analyses, I will discuss the third proposition which was developed in Chapter Two (see section 2.5.3) and other country specific factors. The third proposition relates to (i) training opportunities in the accounting profession and (ii) corruption, as proxies for cultural factors (see section 2.5).

As mentioned in Chapter Two, this research does not explore cultural values or beliefs, as proposed by Hofstede (1980, 1987), Hofstede *et al.* (2010) and Gray (1988) (see section 2.5). Although Weber (1958)[1904] argues that cultural changes played a critical role in the development of capitalism and its institutions, the Weberian view of the state is opposed to Hofstede's model (Baskerville, 2001; Wickramasinghe & Hopper, 2005). Hofstede's cultural dimensions model has been criticised in prior literature (Gernon & Wallace, 1995; Baskerville, 2001, 2003, 2005; Stulz &

Williamson, 2003; Wickramasinghe & Hopper, 2005). This is because Hofstede's survey was limited to a single organisation and may not be applicable to other contexts (Gernon & Wallace, 1995). Baskerville (2001, p.3) also argues that "...the 'dimensions of culture' provided by Hofstede (or Gray) allows accounting researchers to sample and survey behaviour, and apply cultural indices to isolate the impact of the social environment...[and] could be attributed to non-cultural causes, such as corporate practices and ethics". Another possible criticism comes from Wickramasinghe & Hopper (2005, p. 478) who argue that the cultural practices associated with accounting practices are "unlikely to be consistent within single national values (c.f. Hofstede, 1980)..... culture, politics and the state, economics or accounting: they are intertwined and wax and wane according to contingencies". An understanding of accounting practices cannot be obtained without reference to its cultural political economy, because culture will provide arguments that help to rationalise political arguments (Merryman, 1985; Rajan & Zingales, 2000).

The present study identifies some country specific factors that are impeding the implementation of IFRSs in Bangladesh, which are as follows: a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies, a culture of secrecy, a lack of research, public sector dominance and a predominantly family-based private sector. Some of these factors are supported by prior research (see section 2.6). The interview questions developed in section 5.4.1, include references to [i] training opportunities in the accounting profession and [ii] corruption, and other country specific factors. Enforcement documents from 1998-2010 available from the SEC websites have also been used in this study (see section 5.5). As mentioned in Chapter 4, Bangladesh's culture is strongly ingrained, meaning that corruption¹⁰⁶ is rife (both in the private and public sectors). Subsequently, the analyses will examine whether corruption is hindering the regulator's attempts to enforce the regulations.

Section 7.2 discusses [i] training opportunities in the accounting profession and [ii] corruption in relation to proposition three. Section 7.3 reflects on the influences of other country specific factors in the implementation of IFRSs in a developing country and section 7.4 summarises the chapter.

¹⁰⁶ Bangladesh topped the list of the most corrupt nations in the world for five consecutive years from 2001-2005 (Transparency International Bangladesh, 2005).

7.2 (i) Training opportunities in the accounting profession & (ii) corruption (Proposition III)

In this section, I will explore the following proposition:

P_{IIIA}: Effective development of the training opportunities in the accounting profession will have a positive influence on implementation of IFRSs.

‘or’ Ineffective development of the training opportunities in the accounting profession will have a negative influence on implementation of IFRSs.

P_{IIIB}: Low levels of corruption will have a positive influence on implementation of IFRSs.

‘or’ High levels of corruption will have a negative influence on implementation of IFRSs.

I will analyse whether or not Bangladesh’s training opportunities in the accounting profession and levels of corruption are impeding the implementation of IFRSs.

7.2.1 An effective/ineffective development of the training opportunities in the accounting profession

In terms of an effective/ineffective development of the training opportunities in the accounting profession in Bangladesh, the interviewees are asked: *Do you feel that the current syllabus of the professional accountancy qualification is suitable to implement IFRSs effectively?* and *Will the IFRSs be included in the universities’ curricula?* (see section 5.4.1). 18 of the 27 interviewees feel that the current professional exam syllabus is not suitable to better implement IFRSs (see Table 7-1). All the interviewees agree that university curricula should include IFRSs content.

7.2.1.1 The 1st round interviews

7.2.1.1.1 Professional and University curricula

There is mixed evidence regarding the suitability of the current professional syllabus for implementation of IFRSs. Nine out of 27 interviewees felt that the current syllabus is at an equivalent level to international standards (see Table 7-1). This view is summed up by the following comment by PM1, the president of the ICAB:

“Of course, recently we have initiated a combined project known as the Twinning Project in which we have tried to match international accounting education standards. Further, members of the ICAB can be members of the

ICAEW and this is a milestone intended to encourage Bangladeshi students” (PM1).

The majority of the interviewees (18 of 27) mention that the professional syllabus is not suitable to implement IFRSs (see Table 7-1). According to the interviewees, the syllabus¹⁰⁷ do not contain related examples and applications of IFRSs, and the students gain inadequate knowledge on IFRSs from the teaching which is offered by the ICAB. Therefore, the quality of newly qualified auditors in Bangladesh still remains questionable. The following two comments summarise this view:

“The syllabus of the professional bodies in Bangladesh does not include any courses on IFRSs that will help accountants in preparing annual reports which are based on mandatory accounting standards” (AR2).

“I don’t think the ICAB’s syllabus is up to date enough to really implement IFRSs and Basel II.....The ICAB should include IFRSs in their syllabus and also engage students in arranging regular seminars and workshops on IFRSs” (PM6).

Table 7-1: Views on Accounting Education’s (Professional and University Curricula) suitability towards IFRSs implementation [The 1st round interviews]

Curricula	View	PM	AP	US	AR	Total	%
Professional Curricula	Current syllabus is <i>suitable</i> to implement IFRSs	3 [PM1, PM2, PM5]	4 [AP1,AP3, AP10,AP12]	2 [US1, US6]	0	9/27	33%
	<i>Not suitable</i> to implement IFRSs	4 [PM3, PM4, PM6, PM7]	8 [AP2,AP4, AP5,AP6, AP7,AP8, AP9,AP11]	4 [US2, US3, US4, US5]	2 [AR1, AR2]	18/27	67%
University Curricula	Should include IFRSs contents in Universities’ curricula	7 [PM1, PM2, PM3, PM4, PM5, PM6, PM7]	12 [AP1,AP2, AP3,AP4, AP5,AP6, AP7,AP8, AP9,AP10, AP11,AP12]	6 [US1, US2, US3, US4, US5, US6]	2 [AR1, AR2]	27/27	100%

All the interviewees comment that the universities’ curricula should include IFRSs content (see Table 7-1). The interviewees point out that none of the universities has an accountancy and finance programme linked with the professional bodies. Therefore, the accountancy graduates who become a company’s account preparers are unaware of

¹⁰⁷ With the agreement between the ICAB and the ICAEW in 2009, the syllabus has changed from 2010 onwards (http://www.icab.org.bd/index.php?option=com_content&view=article&id=54&Itemid=64) (see Chapter Four also).

IFRSs. Consequently, they cannot prepare financial statements complying with IFRSs.

For instance, one interviewee argues that:

“The IFRSs content is missing in the universities curricula in Bangladesh. The public universities’ are inclined to incorporate IFRSs curricula. However, the private universities are reluctant to incorporate IFRSs content at all. More than 55% students are studying at private universities” (AP8).

However, the real problem of involving IFRSs content in the universities syllabus is the lack of qualified accountancy academics. There are about 82 universities with a total of 19,409 academics in Bangladesh (source: <http://www.ugc.gov.bd/reports/Part-2.pdf>). According to interviewees there are about 200 accounting academics. Two interviewees mentioned:

“Yes, there is a global desire to include IFRSs in the universities curricula. However, there is a shortage of academics to teach the content” (AP11).

“To be honest, there is a shortage of accounting academics. You know the method of teaching is different here because teachers only teach theoretical underpinnings, and ignore practical application” (PM7).

7.2.1.1.2 Training and Development

The interviewees are asked: *What kind of training and development are you offering them (the preparers and professionals) to cope with IFRSs?*¹⁰⁸ (see section 5.4.1). Two PMs from the ICAB respond that they are providing training to cope with IFRSs (see Table 7-2). For instance, the ICAB arrange regular seminars on IFRSs which teach preparation of financial statements in accordance with IFRSs. In addition, they have included CPD hours for an accountant to participate in IFRSs seminars and discussions. However, the SEC, the ICMAB, the World Bank in Bangladesh, the Bangladesh Bank and the Ministry of Finance have no training opportunities. One interviewee from the World Bank reflects on that issue:

“In the World Bank [World Bank’s Bangladesh office], there is nothing mentioned about IFRSs related training in Bangladesh. In 2006, the UN General Assembly adopted the IPSAS which are followed by IFRSs” (PM5).

¹⁰⁸ This question was asked of the PM groups; the AP groups were asked: what training and development did you attain to cope with IFRSs? The US and AR groups were asked a question regarding the importance of training and development.

Table 7-2: Views on Training and development from four groups of interviewees [The 1st round interviews]

<i>PM: Providing Training and development to cope with IFRSs (n=7)</i>															
	PM1	PM2	PM3	PM4	PM5	PM6	PM7	Total							%
Provide training	√	√						2/7							29%
Not providing training			√	√	√	√	√	5/7							71%
<i>AP: Attended Training to cope with IFRSs (n=12)</i>															
	AP1	AP2	AP3	AP4	AP5	AP6	AP7	AP8	AP9	AP 10	AP 11	AP 12	Total	%	
Yes	√									√		√	3/12	25%	
No		√	√*	√*	√	√	√	√*	√*		√		9/12	75%	
*AP3, AP4, AP8 & AP9 are working in the CA firms but they have not attended any training on IFRSs															
<i>US and AR: Training and development are essential to cope with IFRSs (n=8)</i>															
Training is essential	US1	US2	US3	US4	US5	US6	AR1	AR2	Total						%
	√	√	√	√	√	√	√	√	8/8						100%

Secondly, three out of twelve APs say that they have attended IFRSs related training programmes (see Table 7-2). These three interviewees included two accountants from a ‘big 4’ and one from a multinational company. This is a clear indication that multinationals and ‘big 4’ are aware of global standards. The training opportunities are also limited (e.g. IFRSs seminars and disclosure requirements). Nine interviewees did not attend any training programme. Four CA firms do not offer any training to their accountants. This view is summed up concisely by an accountant preparer:

“I do not have any training at all. I am interested in attending the IFRSs training programme. However, the company is not in favour of it. *The company doesn’t care, so why should I?*” (AP11).

Finally, all USs and ARs feel that training is very much essential (see Table 7-2). All the interviewees express the cynical view that the current culture of providing limited training to account preparers and professionals by the companies and professional bodies would not benefit the effective implementation of IFRSs at all. The following quotation from AR, is illustrative of this point of view:

“I strongly believe [that] *there is a need to train the trainers/trainers to comply with IFRSs*. The ICAB is not doing such a remarkable job. The preparers [and] professionals need extensive training regarding IFRSs” (AR1).

7.2.1.2 The 2nd round interviews

The interviewees are asked: *Q5. How effective are accounting education and the profession in implementing IFRSs?* (see section 5.4.2). Twelve interviewees agree that accounting education and the profession can be improved by including a syllabus of IFRSs contents in the universities' and professional exams (see Table 7-3). In addition, they point out that syllabus should be more practical based rather than purely theoretically oriented.

Table 7-3: Perceptions of effective/ineffective development of the training opportunities in the accounting profession in relation to IFRSs implementation [The 2nd round interviews]

	PM	AP	US	AR	Total	%
Ineffective development of the training opportunities in the accounting profession	4 [PM1,PM2, PM4, PM5]	4 [AP5, AP6, AP10,AP12]	2 [US4,US5]	2 [AR1, AR2]	12/12	100%

In the 1st round of interviews, 67% interviewees said they felt that the current syllabus of professional exams is not suitable and all of them thought that the university syllabuses should include IFRSs related content (see Table 7-1). In the 2nd round of interviews, 100% of the interviewees were concerned about the current syllabuses (i.e. both the professional exams and the universities' curricula) (see Table 7-3). It can be argued that PM1, PM2, PM5, AP10 & AP12 feel that the current syllabus is suitable for the implementation of IFRSs, but in the 2nd round they raise questions around the current syllabus. It is understandable that they change their views (June 2010 to September 2011) because very little progress has been made although the ICAB and the World Bank have signed a memorandum in 2009 to reform the syllabus. The interviewees feel that professionalism is not being practised by accountants. The most striking point is that the preparers do not know the standards. Two interviewees from the AR and AP groups extensively commented along the following lines:

“There are no values of disclosure because it is not culturally accepted in Bangladesh. Companies are not following this because the preparers and even the auditors do not know the standards” (AR1).

“There are around one hundred CA firms in Bangladesh. Apart from the big four, the others follow director's wishes. Some CA firms are like a one man show, in which case quality assurance is not maintained at all. This is a deliberate negligence by the CA firms regarding IFRSs implementation” (AP6).

7.2.1.3 Documentary analyses

In this section, I have examined CA firms' violations from 1998 to 2010. Based on the analysis, approximately 36% of independent auditing firms (31 from a total of 86) have violated the SEC rules regarding IFRSs.

Table 7-4 shows that enforcement notices were not released against the CA firms until 2002. The largest number of violations was identified during the years 2006 and 2009. The findings reveal that none of the firms was penalised for violating the SEC's rules, with the exception of two cases. This means that 36 violations were flagged (The SEC stated '*Failure to comply with securities related laws regarding financial statements of the issuers*' [Warning]) and two of them were fined. In terms of the two exception cases, in 2008, the SEC stated a '*Failure to submit qualified audit report of the issuer*' [Penalty] and in 2010, the SEC stated a '*Failure to comply with securities related laws regarding financial statements of the issuers*' [Penalty]. None of these firms paid a penalty.

Table 7-4: CA Firms' Violations (1998-2010)

2010		2009		2008		2007		2006		2005		2004		2003		2002		2001		2000		1999		1998		Total			
O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F		
3	3	8	8	5	3	6	4	8	6	2	2	2	2	3	2	1	1	0	0	0	0	0	0	0	0	0	0	3	3
																												8	1

Notes: O= Number of occurrences¹⁰⁹; F= Number of CA Firms; Company names have been anonymised. Detailed information is available on request from the author.

Certain audit situations were very common in many of the independent CA firms' violations which were examined. For instance, some CA firms continuously violated the SEC rules; for example, A & Co. were warned for non-compliance with securities related laws in connection with the audited financial statements of Bangladesh X Ltd. for the years ended 30 June 2006, 2009 and 2010; and B & Co. were warned for non-compliance with securities related laws in connection with the audited financial statements of Y Ltd. for the years ended 30 June 2008, 2009 and 2010. Notably, B & Co. is one of the 'big four' companies in Bangladesh. This shows that not only small CA firms but also the 'big four firms' have violated the SEC rules. Further, the SEC

¹⁰⁹ The term 'occurrences' is used for violations in this study.

restricted access to the documentation on one CA firm in the SEC websites. The released information was a ‘Disposal of review petition against Penalty Order. In connection with auditor’s qualifications and Commission’s observations on the audited financial statements of Z Ltd. for the year ended June 30, 2006’ (<http://www.secbd.org/List%20of%20Enforcement%20Actions%20for%20the%20month%20of%20February%202010.htm>) M/S C & Co. (http://www.secbd.org/April-27-2010%20Ms%20Mowla%20Mohammad%20&%20Co_.pdf). It also evident that the CA firms were retained for more than three years but the SEC did not penalise the companies; an example of this would be the auditors of XX Ltd. (<http://www.secbd.org/Keya%20Cosmetics%20Ltd.%2026.04.11-458.pdf>). This evidence raises a question as to why these corrupt practices are repeated. According to the perceptions of the interviewees, the ICAB interprets the matter in favour of the CA firms (see sections 6.2.3.1 and 6.2.3.2). Another possible explanation suggested by the interviewees is that the SEC suffers from a lack of professionals and therefore they cannot identify the CA firms’ violations or act upon these if they are discovered (see section 6.2.3.1).

This study also finds that the SEC’s enforcement actions against CA firms do not convince companies to change auditors. Table 7-4 indicates that the ramifications of enforcement actions did not go beyond the impact of press releases. Further, the SEC did not identify any CA firms’ violations of auditing standards. Hence, the evidence in this study indicates that the SEC’s actions have no other market and economic consequences. One SEC official mentioned that when the SEC identifies any corrupt firms it then seeks comments from the ICAB. But the ICAB doesn’t reply to the SEC on time. There is a quality assurance committee of the ICAB for overseeing CA firms’ activities, but this committee is possibly not active in this regard. Another significant finding is that the identified CA firms are able to continue their work because of a culture of non punishment for violating rules. This indicates the absence of any reliable exercising of due care or professional ethics in Bangladesh. It also raises questions around the quality of annual reports and investors’ trust in the annual reports presented to them.

7.2.2 Low/high levels of corruption

7.2.2.1 The 1st round interviews

The interviewees are asked: *How would you regard corruption as an issue in implementing IFRSs effectively?* Twenty one interviewees comment regarding corruption in relation to IFRSs implementation (see Table 7-5). They feel that a high level of corruption is a big threat to the implementation of IFRSs.

Table 7-5: Negative perceptions of corruption from four groups of interviewees [The 1st round interviews]

Corruption by:	PM	AP	US	AR	Total	%
Governmental bodies	1 [PM5]	5 [AP1,AP4, AP7,AP8, AP12]	2 [US3, US4]	2 [AR1, AR2]	10/21	47%
Audit firms & professional bodies	0	5 [AP2, AP5, AP6, AP10, AP11]	1 [US2]	0	6/21	29%
Companies	0	2 [AP3, AP9]	3 [US1,US5, US6]	0	5/21	24%
Total	1	12	6	2	[21/27] ¹¹⁰	78%

Six interviewees from the policy making groups do not feel that corruption is a big problem (see Table 7-5). The majority of interviewees think that corruption is embedded in three sectors: governmental bodies, audit firms & professional bodies, and private companies. Ten out of the 21 interviewees feel that financial reporting practices are affected by the widespread corrupt practices of governmental bodies. Respondents agree that the governmental bodies have become the epitome of corruption, given the close relation between the business elite and the political class. The only PM comments that:

“I think [that] the government does not want to implement IFRSs fully. *The government knows very well about the corrupt practices of its regulatory bodies but is reluctant to take action against them because of their political connections*” (PM5).

¹¹⁰ Six interviewees from the total of 27 do not feel that corruption is a threat to the implementation of IFRSs.

Further, the regulatory bodies are themselves involved with corrupt practices. The interviewees express frustration regarding the regulator's role in monitoring financial reporting practices. For instance, one AP said:

“Sometimes, inspectors from the regulatory bodies like the SEC and the National Audit Office visit our office to verify our accounts. They ask some irrelevant questions on IFRSs but do not even give us an opportunity to explain things in detail. I have a feeling that they have no background in accountancy at all (e.g. they might have an MA in History, or an MA in Sociology) and simply want bribes. It seems like whatever you explain to them they will respond NO but if you bribe them, they will respond YES” (AP7).

Respondents express that the corrupt auditors and professional bodies' members can continue their activities because of their close proximity to politicians. Respondents also agree that implementers of IFRSs (i.e. the ICAB, the SEC, the Ministry of Finance and the Ministry of Commerce) are not necessarily honest and are likely to have high levels of corruption. None of the auditors comment on their corrupt practices. The following comments are representative of this issue:

“The professional bodies have not taken any action against corrupt auditor(s) since the independence of Bangladesh” (US2).

“You know, the rating agency decides the credit ratings through bribery. So, financially, the company is not strong enough but their credit rating is very high. How is this possible?” (AP10).

Finally, corrupt practices are often found in companies. Five interviewees (two APs and three USs) believe that there is history of a considerable number of large scale frauds which have been carried out by managers and directors of listed companies (see Table 7-5). According to a group of respondents, some companies hide true information to evade taxes and the tax authority is satisfied with bribery (see sections 6.3.1.3.1, 6.3.1.3.2 and 7.2.2.2). One interviewee from the AP group in particular, commented:

“The directors are very influential. So, the annual reports are being prepared according to the wishes of the directors. We are more concerned about the stability of our jobs and family than about IFRSs and honesty. If we lose our jobs then who will feed our family?. You know [that] the tax authority does not care about IFRSs either and they are satisfied with bribery when it comes to IFRSs compliance” (AP9).

7.2.2.2 The 2nd round interviews

The interviewees are asked: *Q6. How does corruption affect effective IFRSs implementation?* (see section 5.4.2). Nine out of 12 interviewees feel that corruption is impeding the IFRSs implementation process (see Table 7-6). Apart from the PM group, all the interviewees in the other groups (i.e. AP, US and AR) agree with this view. One interviewee sums up that:

“To convince the Tax authority that you are complying with regulatory requirements, you have to bribe them” (US5).

Table 7-6: Negative perceptions of corruption in relation to IFRSs implementation [The 2nd round interviews]

Corruption by	PM	AP	US	AR	Total	%
Governmental body	1 [PM5]	4 [AP5, AP6, AP10,AP12]	2 [US4,US5]	2 [AR1, AR2]	9/12	75%

The findings of the 2nd round of interviews are similar to that seen in the 1st round of interviews. For example, PM1, PM2 and PM4 feel that corruption is not a big issue in the implementation of IFRSs (see the similar findings in section 7.2.2.1). PM1, PM2 and PM4 are linked with the Ministry of Commerce and the Ministry of Finance respectively. Consequently they tend not to comment on governmental bodies' corruption. According to the perceptions of the interviewees, during mid 2011, the country's capital market experienced major turbulence which resulted in the collapse of several companies, and led to the attrition of investors' confidence, leading to shareholder distrust and low confidence (see section 6.3.1.3.2). Only one PM is very critical about the corruption issue and expresses the opinion that:

“Recently, I chaired the quality assurance board of the ICAB. I saw [that] many CA firms were identified as violating professional ethics, but they were not fined or penalised... the ICAB are taking membership fees from the violators. It means [that] they can carry out their job legally. It is a culture in Bangladesh to violate the rules because criminals know that nothing will happen to them. I do not know where it will end so how do you expect IFRSs implementation and transparency to be achieved?” (PM5).

7.2.2.3 Documentary analyses

This section of the present chapter examines enforcement releases during the period 1998-2010. More specifically, violations across various industries and court cases, with reference to corruption, are examined.

7.2.2.3.1 Violations across various industries

The distribution of enforcement actions across various industries on the DSE's list is shown in Tables 7-7, 7-8 and 7-9. These tables were created based on overall enforcement actions from 1998-2010 as depicted in Appendix 7-1. Table 7-7 shows that 19 industries violated the SEC rules and that the number of occurrences has increased from 2006 onwards, and also specifies the number of years over which the wrongdoing took place. Most notably, in 2006, 174 companies were subject to a total of 326 enforcement actions. This is possibly a reflection of the fact that, during the period 2001 to 2005, Bangladesh was officially the most corrupt country in the world (TIB, 2005, see also section 4.5.2). As soon as the military-backed government took over from the democratic government, they tried to reduce corruption levels. For example, Transparency International Bangladesh TIB (2007) stated that corruption in Bangladesh was ranked seventh while in 2006 it had been ranked third. TIB (2007, p. 2) mentioned some reasons for the improvement of Bangladesh's position by stating "*It is quite likely that a perceived sense of insecurity and uncertainty that is widely believed to have prevailed among the business community in the wake of the post 1/11 [Military-backed Government]'s anti-corruption drive in Bangladesh may have prevented the possibility of a better score*". Table 7-8 shows that the highest number of occurrences was among Food and Allied, Pharmaceuticals and Chemicals, Textiles, and Miscellaneous industries. These industries are dominated by politicians. On average, 186% [1647/887] occurrences are reported in 19 industries from 1998 to 2010. This fact represents that the effort of IFRSs implementation may be slower if this practice is continual.

Table 7-7: Industry wise Total Number of Occurrences by Year (1998-2010)

Industry	2010		2009		2008		2007		2006		2005		2004		2003		2002		2001		2000		1999		1998	
	O	C	O	C	O	C	O	C	O	C	O	C	O	C	O	C	O	C	O	C	O	C	O	C	O	C
Cement	3	2	0	0	2	1	10	2	5	3	0	0	0	0	3	3	0	0	0	0	0	0	1	1	0	0
Ceramics	5	3	4	1	2	1	9	2	7	4	3	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Engineering	12	6	4	4	5	5	10	7	10	10	10	7	1	1	0	0	0	0	3	3	1	1	2	2	1	1
Food and Allied	36	19	21	10	14	5	28	12	58	23	19	13	4	4	4	4	5	2	1	1	1	1	2	2	1	1
Fuel and Power	13	6	5	5	7	5	5	4	3	3	3	3	6	4	0	0	4	1	2	2	0	0	0	0	0	0
Jute	2	2	5	2	1	1	26	6	10	3	6	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0
Paper and Printing	9	4	14	6	4	4	6	4	12	6	2	2	6	3	0	0	0	0	1	1	0	0	1	1	0	0
Pharmaceuticals and Chemicals	20	9	7	6	11	7	21	11	21	12	15	6	3	2	1	1	6	3	2	2	2	2	5	5	1	1
Services and Real Estate	0	0	1	1	2	2	6	4	5	2	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Tannery	4	3	8	4	6	4	17	6	13	4	2	1	1	1	2	1	0	0	0	0	1	1	0	0	0	0
Textile	44	21	36	14	21	9	59	23	60	25	17	9	6	6	22	6	4	2	1	1	2	2	6	5	3	3
Miscellaneous	19	9	9	4	6	5	32	10	19	10	8	4	1	1	5	3	5	1	1	0	0	0	49	13	50	17
IT	5	1	6	1	4	2	8	2	3	2	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0
Bank	5	4	4	4	14	10	10	7	26	6	9	7	5	4	3	3	0	0	1	1	1	1	0	0	0	0
Brokerage	33	25	14	13	27	8	14	7	30	21	12	7	13	7	9	8	4	4	11	10	2	2	11	11	3	3
Insurance	8	7	20	14	28	9	8	7	9	9	7	5	1	1	1	1	0	0	1	1	0	0	0	0	0	0
Financial Institutions	5	4	6	4	5	1	2	2	8	7	1	1	0	0	2	2	0	0	0	0	0	0	0	0	0	0
CA firms	3	3	8	8	5	3	6	4	8	6	2	2	2	2	3	2	1	1	0	0	0	0	0	0	0	0
CDBL	13	9	0	0	12	1	4	0	19	18	18	16	11	0	0	0	0	0	0	0	0	0	0	0	0	0
Total year wise	239	137	172	101	176	83	281	120	326	174	135	86	62	38	57	36	29	14	24	22	10	10	77	40	59	26
Total Number of Occurrences of Enforcement Actions (1998-2010): 1647; Total Number of Companies: 887																										

Note: O= Number of occurrences; C= Number of Companies.

Table 7-8: Total Number of Occurrences by Industry (1998-2010)

Industry	No. of Occurrences	No. of Companies	Occurrences by Industry (%)
Cement	24	12	200
Ceramics	30	12	250
Engineering	59	47	126
<i>Food and Allied</i>	<i>194</i>	<i>97</i>	<i>200</i>
Fuel and Power	48	33	145
Jute	52	17	306
Paper and Printing	55	31	177
<i>Pharmaceuticals and Chemicals</i>	<i>115</i>	<i>67</i>	<i>172</i>
Services and Real Estate	16	11	145
Tannery	54	25	216
<i>Textile</i>	<i>281</i>	<i>126</i>	<i>223</i>
<i>Miscellaneous</i>	<i>204</i>	<i>77</i>	<i>265</i>
IT	27	9	300
Bank	78	47	166
Brokerage	183	126	145
Insurance	83	54	154
Financial Institutions	29	21	138
CA firms	38	31	123
CDBL	77	44	175
Total	1647	887	186

Note: The italics indicate the highest number of occurrences by industry.

Table 7-9 shows the number of occurrences in relation to IFRSs by industry. What is apparent from this table is that no occurrences in relation to violations of IFRSs were reported during the period 1998 to 2005. In total there were 42 enforcement actions by 40 companies, and two companies had multiple violations. The main violations included a major failure to disclose information, false statements, and issues with true and fair views. The largest number of cited companies belonged to the Food and Allied, Pharmaceuticals and Chemicals, Textiles, and Miscellaneous industries which is consistent with the results for overall violations by industry, as mentioned in Table 7-8. Despite the fact that a limited number of enforcement releases were regarding IFRSs issues, it should be noted that Food and Allied and Textiles had instances of non compliance with IFRSs. One important observation is that the highest number of enforcement releases regarding IFRSs violations was seen in 2009 while the most enforcement releases with reference to SEC laws violations were seen in 2006. This is possibly because the SEC officials are becoming more concerned about IFRSs compliance in recent years than they had been in the past.

Table 7-9: Number of Occurrences in relation to IFRSs, by Industry (1998-2010)

Industry	2010		2009		2008		2007		2006		Total	
	O	C	O	C	O	C	O	C	O	C	O	C
Cement	1	1	0	0	0	0	1	1	0	0	2	2
Engineering	1	1	0	0	0	0	0	0	0	0	1	1
<i>Food & Allied</i>	4	4	2	2	3	2	5	5	1	1	15	14
Jute	0	0	1	1	0	0	0	0	0	0	1	1
Paper & Printing	1	1	0	0	1	1	0	0	0	0	2	2
<i>Pharmaceuticals & Chemicals</i>	1	1	3	3	0	0	0	0	0	0	4	4
Tannery	0	0	1	1	1	1	1	1	0	0	3	3
<i>Textile</i>	1	1	6	5	1	1	1	1	0	0	9	8
<i>Miscellaneous</i>	0	0	1	1	0	0	3	3	0	0	4	4
Insurance	0	0	0	0	1	1	0	0	0	0	1	1
Total year wise	9	9	14	13	7	6	11	11	1	1	42	40

Notes: O= Number of occurrences; C= Number of Companies; The italics indicate the highest number of occurrences by industry.

7.2.2.3.2 Court cases of enforcement actions

The number of court cases regarding enforcement actions has been increasing year by year on a cumulative basis from 1998 to 2010 (see Figure 7-1). Table 7-10 shows that during 1999, 43 court cases took place whereas in 2010 the total reached about 332. It also shows that in the last three years, these cases have increased dramatically. One cautionary note is that these court cases are concerned with violations of the SEC's rules. I tried to find out how many cases were specifically related to IFRSs. However, the SEC did not provide any information. My interpretation is that these cases, as indicated in Table 7-10, include IFRSs related violations (see sections 8.5.1-8.5.4). The cumulative increases of court cases weaken the SEC's enforcement motivations. Companies can appeal regarding the SEC's enforcement and go through various courts. Most cases are judged in the High Court Division, the Chief Metropolitan Magistrate Court, the 5th Joint District Judge Court and the General Certificate Court (see the judicial structure of Bangladesh and its functions, in Appendices 7-2 and 7-3). But, there are no specialised courts (lower court/higher court) regarding the SEC enforcements. In the High court and the District judge court, a money laundering bench exists but there are no SEC related benches and no Parliamentary Acts have been passed

since the emergence of the SEC. The common scenario in Bangladesh is that the guilty companies are reluctant to pay the penalty because the court cases normally take a long time to complete. This is not limited to the SEC's enforcement related court cases but also applies to other cases¹¹¹. After a case is filed in the court, nobody knows when it will end (The Daily Star, 2007). Barrister Moudud Ahmed (The former Law Minister) argues that the present judicial system in Bangladesh is old fashioned, traditionalist and corrupt and needs reform; and that under existing procedures, a hundred years will be required for the disposal of ten million cases (The Daily Star, 2007).

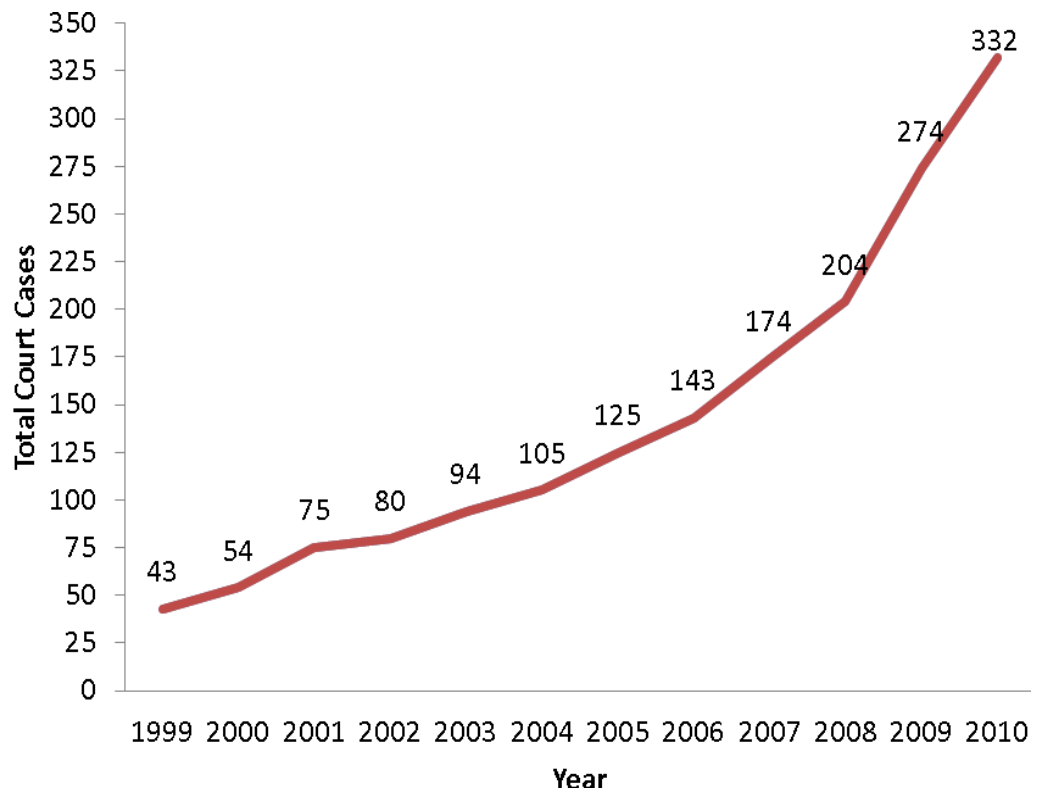
Corruption in the judicial system is a well-known phenomenon. Transparency International Bangladesh (TIB) in its 'Global Corruption Report' (2007, p. 15) mentioned that "*Bangladesh failed to ensure full independence of the judiciary and the politicisation of the judiciary is one of the major reasons behind judicial corruption...Two thirds of the people who used a court in 2004 paid bribes, with the typical bribe amounting to 25 percent of average annual income*". This Judicial corruption allows criminals (e.g. corrupt companies) to go unpunished. According to the Former Chief Justice, "*the corruption in the judiciary system has taken a turn into blood cancer and it will not be eradicated if nepotism and favouritism are not stopped*" (The Daily Star, 2007). The politicisation of the judiciary strengthens judicial corruption (The Daily Star, 2004; Bhattacharjee, 2007). Under the provision of Article 94(4) of the Constitution of Bangladesh, the Chief Justice and the other Judges shall be independent in the exercise of their judicial functions. However, in reality, their appointments are not determined solely by their abilities, experience or professionalism but by the extent to which they have served the pecuniary and political benefit of the appointing party and supported its leaders and workers (The Dainik Ittefaq, 2007). Therefore, the outcome of the cases regarding the SEC rules or IFRSs non-compliance violation may be influenced by the political executive. It also may weaken the SEC's enforcement effort towards IFRSs implementation in Bangladesh.

¹¹¹ There are approximately ten million (9,683,305) cases pending in different courts (4,946 in the Appellate Division; 127, 244 in the High Court Division; 344,518 civil cases and 95,689 criminal cases in the Judges courts; 296,862 cases with Magistrate courts and 99,004 cases with the Metropolitan Magistrate courts (The Daily Star, 2003).

Table 7-10: The SEC Court Cases of enforcement actions (1999-2010)

Sl.	Court	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
1	Supreme Court of Bangladesh - Appellate Division	6	9	6	4	3	3	3	4	4	17	14	12
	- <i>High Court Division</i>	<i>116</i>	<i>99</i>	<i>77</i>	<i>73</i>	<i>71</i>	<i>66</i>	<i>55</i>	<i>53</i>	<i>46</i>	<i>37</i>	<i>27</i>	<i>21</i>
2	District Judge Court, Dhaka	1	0	1	0	0	0	0	0		0	1	0
3	2 nd Addl. Metropolitan Session Judge Court, Dhaka	0	0	0	0	0	0	0	0	0	1	1	1
4	8 th Asst. Judge Court, Dhaka	0	1	0	0	0	0	0	0	0	0	0	0
5	9 th Asst. Judge Court, Savar, Dhaka	1	1	0	0	0	0	0	0	0	0	0	0
6	6 th Asst. Judge Court, Dhaka	0	0	0	0	0	0	0	0	2	2	2	2
7	4 th Asst. Judge Court, Dhaka	1	1	2	2	3	3	2	0	0	0	1	1
8	1 st Addl. Asst. Judge Court, Dhaka	0	0	0	0	0	0	5	0	1	1	0	0
9	<i>Chief Metropolitan Magistrate Court, Dhaka</i>	<i>10</i>	<i>9</i>	<i>6</i>	<i>7</i>	<i>6</i>	<i>6</i>	<i>0</i>	<i>4</i>	<i>4</i>	<i>7</i>	<i>0</i>	<i>0</i>
10	Metropolitan Session Judge Court	6	6	6	6	6	6	9	3	3	0	0	0
11	1 st Asst. Metropolitan Session Judge Court, Dhaka	1	1	1	0	0	0	0	0	0	0	0	0
12	1 st Joint District Judge Court, Dhaka.	0	0	0	0	0	0	0	1	0	0	0	0
13	<i>5th Joint District Judge Court, Dhaka</i>	<i>8</i>	<i>8</i>	<i>9</i>	<i>8</i>	<i>8</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>4</i>	<i>4</i>	<i>3</i>	<i>3</i>
14	4 th Joint District Judge Court, Dhaka	1	1	0	0	0	0	0	0	0	0	0	0
15	1 st Asst. Judge Court, Dhaka.	0	0	0	0	0	1	1	1	0	0	0	0
16	2 nd Asst. Judge Court, Dhaka.	0	0	1	0	0	0	0	1	0	0	0	0
17	Asst. Judge Court, Savar, Dhaka.	0	0	1	0	0	0	0	0	0	0	0	0
18	<i>General Certificate Court, Dhaka</i>	<i>181</i>	<i>138</i>	<i>94</i>	<i>74</i>	<i>46</i>	<i>32</i>	<i>21</i>	<i>17</i>	<i>16</i>	<i>6</i>	<i>5</i>	<i>3</i>
	Total	332	274	204	174	143	125	105	94	80	75	54	43
	Cumulative Increase by year	58	70	30	31	18	20	11	14	5	21	11 [54-43]	

Notes: The data for 1998 was not available; the italics indicate the highest number of court cases in various courts.

Figure 7-1: Court Cases of enforcement actions (1999-2010)

7.2.3 Comparison of Interviewees' perceptions & reflecting attitudes

I have summarised the first and second round interviewees' attitudes to IFRSs implementation after reading and reflecting on the transcripts (see Appendices 7-4 and 7-5). The view of each interviewee on a given topic is represented by one answer (see Q5 to Q9 in Appendices 7-4 and 7-5). This approach requires making a judgement about the interviewee's primary opinion about a topic (i.e. whether he/she expresses positive/negative/no comment). This comparison of interviewees' attitudes helps to establish whether the interviewee's background characteristics such as work experience and qualifications are related to their expressed attitudes. However, Appendices 7-4 and 7-5 suggest that there is no association between the interviewees' work experience/qualifications and their attitudes.

The evidence of the study reveals that there is a link between [i] training opportunities in the accounting profession and [ii] corruption (Q5, Q6 & Q7: professional syllabus, training opportunities and corruption). In relation to policy making groups, the four policymakers who are unhappy with the current professional syllabus and lack of

provision of any training opportunities, feel that corruption is not a big factor affecting the implementation process (see Table 7-11). But there are some contradictory comments observed. For example, although three policymakers (PM1, PM2 and PM5) are satisfied with the professional syllabus, two (PM1 and PM2) out of these three are providing training and feel that corruption is not an important factor. One possible observation is that PM1 and PM2 are highly placed officials in the ICAB and the ICAB is within the Ministry of Commerce. Therefore they are disinclined to provide negative views on the ICAB's professional syllabus, training issues or possible corruption. PM1 and PM2's answers represent their personal views rather than an institutional view. PM5 is an official of the World Bank and is therefore able to talk freely about corrupt activities. The respondent is happy with the professional syllabus because the respondent is chairing quality assurance boards of the ICAB. Table 7-11 also shows that 67% of the respondents feel that the professional syllabuses are not good enough to implement IFRSs; 52% of interviewees are not providing or attending training and 78% of respondents feel that corruption is impeding the implementation process.

With respect to the AP group, those who feel that the professional syllabus is up to date enough have attended training on IFRSs and feel that corruption is a problem (see Table 7-11). The only AP (AP3) who has not attended any training on IFRSs from his audit firms is happy with the professional syllabus. This is possibly because of his affiliation with the standards setting body of the ICAB. Those who perceive that the professional syllabus is not up to date have not attended training on IFRSs and view corruption as impeding the implementation process.

But the majority of the APs are not getting access to any training opportunities. The findings of the study reveal that the big four audit firms and large companies have more training opportunities in Bangladesh than average, but the smaller ones do not see themselves as training facilitators and/or best-practice companies. The main point here is that the smaller companies' managements are not worried about disclosure policy and therefore their directors' attitudes toward training are vague. From the US and AR groups, it is important to mention that (except for US1 and US6), a majority of the respondents are dissatisfied with the professional syllabus and also strongly believe that training opportunities are essential and that corruption is holding back the implementation of IFRSs. One possible interpretation is that US1 and US6 may be

heavily linked with the ICAB. In particular, the affiliated banks Brac Bank (US1) and the Mercantile Bank (US6) have been awarded the 11th ICAB National Awards for best published accounts and reports as well. Therefore, these two interviewees provide no comment on politics.

The purpose of the second round of interviews is to test the interviewees' attitudes after a further year of the present democratic government has passed (i.e. its 3rd year) (see Chapter Five). The perceptions of the interviewees in the 2nd round of interviews are quite similar to previous responses (see Appendix 7-5 and Table 7-12). PM1, PM2, PM5, AP10 and AP12 were positive about the professional syllabus in the first round interviews, but in the 2nd round, they were more critical about it. This could be because there is a very low pass rate in the professional exams and there are very few qualified accountants in Bangladesh. Further, agreement in 2009 that the ICAEW should update the professional curricula in Bangladesh may suggest that these five interviewees have changed their minds on professional syllabus issues (Siddiqui, 2010; see also section 4.3.3). Some differences in the interviewees' perceptions are observed. For instance, the 2nd round interviewees only mention corruption by government while in the 1st round, the interviewees had pointed out corruption in various bodies (e.g. audit firms and professional bodies, and in companies). It is unsurprising that PM1, PM2 and PM4 held the opinion that corruption is not an important factor. This is possibly due to the fact that these interviewees are heavily involved with the government and hence are hesitant to talk about government corruption. Table 7-12 also shows that 100% of the interviewees opine that professional and university syllabuses are not suitable for the implementation of IFRSs, and 75% of respondents feel that corruption within the government is slowing down implementation. None of the interviewees provided 'no comment' on [i] training opportunities in the accounting profession and [ii] corruption (see Tables 7-11 and 7-12).

Table 7-11: Quantification of perceptions of interviewees [The 1st round interviews, n=27]

Code	[i] Training Opportunities in the Accounting Profession and [ii] Corruption			
	Q5	5(a)	Q6	Q7
PM1	1	1	1	1
PM2	1	1	1	1
PM3	0	1	0	1
PM4	0	1	0	1
PM5	1	1	0	0
PM6	0	1	0	1
PM7	0	1	0	1
AP1	1	1	1	0
AP2	0	1	0	0
AP3	1	1	0	0
AP4	0	1	0	0
AP5	0	1	0	0
AP6	0	1	0	0
AP7	0	1	0	0
AP8	0	1	0	0
AP9	0	1	0	0
AP10	1	1	1	0
AP11	0	1	0	0
AP12	1	1	1	0
US1	1	1	1	0
US2	0	1	1	0
US3	0	1	1	0
US4	0	1	1	0
US5	0	1	1	0
US6	1	1	1	0
AR1	0	1	1	0
AR2	0	1	1	0
Positive perceptions on	33% [9/27]	100% [27/27]	48% [13/27]	22% [6/27]
Negative perceptions on	67% [18/27]	0%	52% [14/27]	78% [21/27]
Total	100%	100%	100%	100%

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*:

Academics & Researchers; '0' = negative perceptions & '1' = positive perceptions;

Q5: '0' = professional syllabus is not suitable & '1' = professional syllabus is suitable to implement IFRSs; Q5(a): '0' = university syllabus should not include IFRSs contents & '1' = university syllabus should include IFRSs contents; Q6: '0' = not providing training/not attending training/training is not essential & '1' = providing training/attending training/training is essential; Q7: '0' = corruption by government, audit firms & professional bodies & companies; '1' = no corruption; Q8 [other country specific factors] & Q9 [Comments/suggestions] cannot be quantified due to the nature of the questions and the perceptions of the interviewees.

Table 7-12: Quantification of perceptions of interviewees [The 2nd round interviews, n=12]

Code	[i] Training Opportunities in the Accounting Profession and [ii] Corruption	
	Q5	Q6
PM1	0	1
PM2	0	1
PM4	0	1
PM5	0	0
AP5	0	0
AP6	0	0
AP10	0	0
AP12	0	0
US4	0	0
US5	0	0
AR1	0	0
AR2	0	0
Positive perceptions	0%	25% [3/12]
Negative perceptions	100% [12/12]	75% [9/12]
Total	100%	100%

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*: Academics & Researchers; ‘0’ = negative perceptions & ‘1’ = positive perceptions.

Q5: ‘0’= professional syllabus & university syllabus are not suitable & ‘1’ = professional syllabus & university syllabus are suitable to implement IFRSs; Q6: ‘0’ = *corruption* by governmental body & ‘1’= *no corruption*; Q7 [other country specific factors]: cannot be quantified due to the nature of the question and the perceptions of the interviewees.

7.2.4 Reflecting on section 7.2

The findings show that (i) *training opportunities in the accounting profession and (ii) corruption have a negative influence on implementation of IFRSs in Bangladesh under the conditions of (a) deficiencies in the training opportunities in the accounting profession and (b) high levels of corruption* (see section 7.2)

In relation to condition (a), the effectiveness of accounting profession, the findings confirm that deficiencies in training opportunities in the accounting profession in Bangladesh inhibit the implementation process, rendering it ineffective (see section 7.2.1). The findings suggest that the professional syllabus contains limited content on IFRSs, and lacks practical examples and applications; meanwhile, the interviewees are

not aware of the universities' curricula content (or lack of it) on IFRSs (see section 7.2.1.1.1). The interviewees' attitudes suggest a generally negative perception of the structure of accounting education. Interviewees' responses are also negative about the provision of training opportunities by policy makers and companies (see section 7.2.1.1.2). Only the ICAB provides training facilities to its members. Some of the interviewees think that the regulators have very little knowledge of IFRSs, and they cannot therefore identify those companies who are failing to comply with IFRSs (see section 7.2.1.3). This is because the SEC has lack of professionals (see section 6.2.3.1). Preparers with no training are preparing annual reports and these annual reports do not reflect IFRSs. The 2nd round of interviews confirms that the current professional syllabus of the ICAB and the universities' curricula are not effective enough to support the implementation of IFRSs (see section 7.2.1.2). The number of accountants has not substantially increased over the last 15 years. The findings from the documentary analysis suggest that true interpretations of IFRSs may be rare, although the accountancy profession has moved with the help of the ICAEW to increase the number of CAs with knowledge of IFRSs in recent years (see section 7.2.1.3). Questions also arise around why a very low number of CA firms were penalised during the period 1998-2010 and why the corrupt firms are continuing to freely operate; and, finally, why none of these firms paid any penalty. In my opinion, these practices may influence prospective accountants in Bangladesh towards the same corrupt practices (see section 7.2.1.3).

With respect to low/high levels of corruption (condition b), a high level of corruption in Bangladesh is seen to be slowing down the implementation process (see section 7.2.2). The findings suggest that the widespread corruption evident in governmental bodies, audit firms and professional bodies and companies is a significant obstacle to the implementation of IFRSs in Bangladesh (see section 7.2.2.1). Corruption is widespread in both the public and private sectors (see section 4.5.2). The reason for this in Bangladesh is that there has been an established history of corruption ever since the country's independence. Indeed, Bangladesh was ranked as the most corrupt country in the world for five consecutive years (see section 4.5.2).

A further point from the interview findings is that almost all government agencies, including ministerial bodies, tax authorities and regulators, seem to be involved to some extent in corrupt practices. The 2nd round of interviews also provides strong evidence

that corruption is impeding the IFRSs implementation process (see section 7.2.2.2). 75% of the respondents in the second round of interviews only mentioned corruption by governmental bodies (see Table 7-6). However, the policy makers do not express any belief that corruption is hindering the implementation process, either in the first or the second round of interviews. From the documentary analysis (see section 7.2.2.3), it is evident that the highest number of SEC rule violations, including IFRSs related violations, were among the Food and Allied, Pharmaceuticals and Chemicals, Textiles, and Miscellaneous industry sectors. Since these industries tend to be owned by politicians, political influence possibly slows down the effective implementation process (see section 7.2.2.3.1). In addition, the increasing number of court cases and the corruption in (and politicisation of) the judicial system may impede the effective implementation of IFRSs (see section 7.2.2.3.2).

In comparing interviewees' perceptions and reflecting attitudes (see section 7.2.3), links between professional syllabuses, training opportunities and corruption are evident. The majority of members of policy making group who were interviewed do not provide training and are dissatisfied with the professional syllabus, but they also feel that corruption is not a major issue. Their views are understandable because the policy makers want to be seen to be supporting their government's activities. Only account preparers from the 'big four' and large companies are given access to training opportunities.

7.3 Influences of other Country Specific Factors

7.3.1 The 1st round interviews

The interviewees were asked: *What are the main problems of effective implementation of IFRSs in Bangladesh?* (see section 5.4.1). Different groups emphasised different problems, including a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies, culture of secrecy, a lack of research, public sector dominance and a predominantly family-based private sector in an orderly fashion (see Table 7-13).

Table 7-13: Perceptions of other factors impacting on implementing IFRSs in Bangladesh [The 1st round interviews]

Problems of Implementing IFRSs	PM	AP	US	AR	Total	%	Rank
(1) Lack of qualified accountants	2 [PM5, PM6]	9 [AP1, AP2, AP3, AP4, AP5, AP6, AP7, AP10, AP11]	5 [US1, US2, US4, US5, US6]	2 [AR1, AR2]	18/27	67%	I
(2) Lack of interest in IFRSs by managers of some companies	3 [PM3, PM5, PM6]	4 [AP1, AP5, AP10, AP12]	3 [US1, US4, US5]	2 [AR1, AR2]	12/27	44%	II
(3) Culture of secrecy	3 [PM1, PM4, PM7]	4 [AP1, AP8, AP9, AP12]	3 [US3, US5, US6]	1 [AR1]	11/27	41%	III
(4) Lack of research	2 [PM1, PM5]	0	0	2 [AR1, AR2]	4/27	15%	IV
(5) Public sector dominance	1 [PM3]	0	0	2 [AR1, AR2]	3/27	11%	V
(6) Family based private sector	1 [PM2]	0	0	2 [AR1, AR2]	3/27	11%	VI

7.3.1.1 Lack of qualified accountants

According to interviewees (18 out of 27), the root of many problems in implementing IFRSs can be pinpointed on one principal issue: a lack of qualified accountants (see Table 7-13). There are not enough CAs to meet the needs of the country. Without adequate numbers of qualified CAs, it is nearly impossible even to consider implementing IFRS. There would be no one to physically implement the regulations of IFRS. Several factors can be attributed as causes for the small numbers of CAs, including the low salary, an absence of desire in students wanting to pursue a CA career, as well as the societal perception of CAs. The comment below represents this issue:

“In Bangladesh, we have only 700-800 qualified accountants, whereas we have more than 80,000 companies. *Without qualified CAs, it is a dream to implement IFRSs*” (AR2).

Further, many students choose to pursue alternative careers to CA, because they feel the services a CA provides are not properly compensated. They also feel the salary of CAs

is insufficient. One of the main reasons for this is the unwillingness of companies to pay a decent salary to CAs. As a result of low salary levels, society in general views a career as a CA to be inferior to others and that CAs are incapable of supporting themselves and their families. One interviewee's thoughts on this debate are given below:

“There is a lack of qualified professionals because *the companies don't want to pay the same as those in a developed country would. The low level of audit fees de-motivates students from becoming CAs*” (AP1).

Despite the barriers and odds there are a few students who choose to study CA. These students, however, have a difficult time throughout their education because of the inconsistencies among the assessment criteria and the difficulty of the curricula. As a result, many students who choose to study CA do not pass national exams. These students feel they are at a disadvantage. There is a continuous cycle of small numbers of students studying CA, and even from those, a smaller number of students actually pass exams and become CAs. This cycle is an overwhelming factor that causes an ongoing shortage in CAs to meet the needs of the country. One interviewee states his opinion on this issue:

“The pass rate for CAs is very low due to the lack of transparency in the assessment criteria. It creates a *real frustration for us in studying CA*. Although nepotism plays a big role, the majority of the students still fail” (US5).

7.3.1.2 Lack of interest in IFRSs by managers of some companies

12 out of 27 interviewees express that in order to implement IFRS effectively the companies' management have to take a wide and in-depth interest first (see Table 7-13). One of the main reasons companies lack interest is due to the fact that costs override benefits. One interviewee states:

“The Company thinks that there won't be any benefit in complying with IFRSs because the tax department won't trust them. They also think [that] training and development costs will be higher in implementing IFRSs” (PM3).

Two policy makers hold the belief that directors do not fully understand the underlying meaning of IFRS and its usefulness. One PM comments:

“I would say [that]..... *business directors think [that] if IFRSs are implemented, they will be unduly controlled and monitored....* Their attitude is, *if the old system is working then why implement a new one [e.g. IFRSs]*” (PM6).

Another core problem with the implementation of IRFS is a lack of initiative by management with regard to auditing and the costs associated with it. In order to save on costs, management often opt out from being audited by one of the ‘Big Four’. This issue is highlighted by one interviewee:

“In the UK or other developed countries, about 95% - 96% of the listed companies are audited by the Big Four. Conversely, *in Bangladesh, about 95% - 96% companies are audited by Tom, Dick and Harry and only 4% by the Big Four. This is because companies’ management are not interested in spending money on being audited by one of the Big Four*” (AP12).

7.3.1.3 Culture of secrecy

The interviewees also emphasised another topic constituting a central problem in the effective implementation of IRFS as being corporate practice. 11 of the 27 interviewees mention that the current corporate practice in Bangladesh allows for hiding and copying of information as well as a lack of knowledge among shareholders (see Table 7-13). The two interviewees from the PM group state:

“Bangladesh is a closed society in terms of disclosure, as *hiding of information is a natural phenomenon*. Therefore, being in a closed society, the disclosure level is not [as] per expectations” (PM1).

“*Our company’s culture is to hide income or profit for different purposes*. They don’t want to reveal the actual [or] true picture of the company” (PM4).

Interviewees also feel that it is easy for accountants to copy extracts from the notes to the financial statements (e.g. accounting policies) of big companies’ financial statements. This type of practice occurs because of a lack of enforcement of laws and a lack of punishment. The thoughts of one interviewee are given below:

“The ‘*copying culture*’ in our country is a very common phenomenon. For example, *one of my friends is an accountant in another company who copied one particular standard practice from British American Tobacco*. But this is very ironic, as BAT and his company are completely two different entities” (AP8).

According to the respondents, the culture of Bangladesh is such that shareholders are not concerned about whether accounts are prepared in accordance with IFRSs or not; the culture allows for companies to neglect the following of IFRSs. One interviewee states:

“The first, immediate and direct users of accounting information are shareholders. However, *shareholders are not concerned with whether the accounts have been prepared in accordance with IFRSs. How will the present culture of (non-)compliance with IFRSs change, if the users are not demanding that change?*” (AP9).

7.3.1.4 Lack of research

According to the interviewees, a lack of research has been found to be another fundamental problem in the implementation of IFRS. The interviewees feel that research is not only important but also necessary to further current knowledge about accounting and finance. One reason for the small amount of research being done in accounting and finance could be the lack of funds provided by the government. One of the interviewees’ thoughts on the issue are given below:

“You know in Bangladesh, *there is a paucity of research with respect to financial reporting in particular. There has been a handful of research done on voluntary disclosure. Therefore, the government and the professional bodies should encourage researchers by providing more funds to conduct research on IFRSs issues*” (AR1).

Further, respondents (in particular, policy makers) think that not only does the government have an apparent lack of interest in research but academia also fails to give research any significance in Bangladesh. Two interviewees state:

“*Do the university academics care about research? No, they don’t, because of a lack of incentives to conduct research. Without research, how do we inform the policymakers of what is happening and what to do?*” (PM1).

“*The World Bank and the IMF are helping to carry out research on accounting issues. I think [that] more research papers should be conducted by development partners and academics*” (PM5).

7.3.1.5 Public sector dominance and family based private sector

Public sector dominance and family based private sector play key roles in the problems associated with the implementation of IFRS. According to the respondents, the public sector has always had an overwhelming dominance in Bangladesh. During the 1980s, the private sector increased to vast numbers of companies, but the majority of these are family based (see section 4.2.2). The interviewees suggest that in order to effectively implement IFRS, there should be a decrease in the public sector and an increase in the private sector - that is not primarily family oriented. The following three comments

below from policy makers and academics highlight the conflicting issue of public versus private sectors:

“Since the *beginning of the country*, the public sector used to dominate industry in Bangladesh. According to the *financial System* (equity based finance, bank finance and state finance), the public sector was/is not equity based. But you know, in the US, about 65% of companies are equity based and disclosure is much needed for them. *The capital market in Bangladesh is very small in size which is an inherent weakness of the economy of Bangladesh. ‘The structure of the Bangladeshi economy does not permit disclosure’*” (PM3).

“*If the government sector does not follow the IPSAS, why should the private sector follow IFRSs?*” (AR1).

“The private sector is gradually rising from the late eighties, but those private sector companies are mostly family based. *More than 70,000-80,000 registered companies are small size private companies where there is no disclosure and no corporate governance practices are observed*” (AR2).

7.3.2 The 2nd Round Interviews

The interviewees are asked: Q7. *What are the main problems in the effective implementation of IFRSs?* (see section 5.4.2). In the second round of interviews, interviewees emphasise four major issues, including a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies, culture of secrecy and higher costs of IFRSs compliance with lower benefits for small companies according to ranking. All of the issues except the cost-benefit problems emerged in the 1st round of interviews according to ranking. Firstly, eleven out of 12 interviewees respond that there is a lack of qualified accountants in Bangladesh (see Table 7-14). They strongly point out that without qualified accountants the implementation process is *more rhetoric than reality*. An AR opines that:

“*Of course, the lack of qualified accountants (is important)...Additionally, the professional accountants do not know how to properly follow these IFRSs in the preparation and auditing of the annual reports of the companies and in practice; they are copying others’ annual reports!*” (AR1).

Secondly, 83% of the interviewees (against 44% in the 1st round interviews, Table 7-13) believe that companies in Bangladesh have a lack of interest in IFRSs implementation issues. PM5, AP5, AP10, AP12, US4, US5, AR1 and AR2 shared the same perceptions in the 1st round of interviews. PM2 thinks that the accounting standard setting and adoption process will be useless if companies are not interested in following it. Interviewees feel that ‘A-category’ companies (i.e. large and profitable ones) are not

employing qualified accountants, meaning that other companies do not bother about qualified accountants either. AP6 comments that:

“We are trying to implement IFRSs, in particular depreciation and inventory issues. ... We are a loss making company and follow a conservative approach. Therefore, we can’t follow IFRSs fully. I think [that] if a company fully complies with IFRSs, then its weaknesses will be visible to its competitors” (AP6).

Table 7-14: Perceptions of other factors causing problems in the implementation of IFRSs in Bangladesh [The 2nd round interviews]

Problems of Implementing IFRSs	PM	AP	US	AR	Total	%	Rank
(1) Lack of qualified accountants	3 [PM1,PM2 PM5]	4 [AP5, AP6, AP10,AP12]	2 [US4, US5]	2 [AR1, AR2]	11/12	92%	I
(2) Lack of interest in IFRSs by managers of some companies	2 [PM2, PM5]	4 [AP5, AP6, AP10,AP12]	2 [US4, US5]	2 [AR1, AR2]	10/12	83%	II
(3) Culture of secrecy	3 [PM1,PM4 PM5]	2 [AP10, AP12]	1 [US5]	2 [AR1, AR2]	8/12	66%	III
(4) higher costs of IFRSs compliance with lower benefits for small companies	4 [PM1,PM2 PM4, PM5]	3 [AP5, AP6, AP12]	0	0	7/12	58%	IV

Thirdly, 66% (41% in the 1st round of interviews, Table 7-13) of interviewees argue that the general corporate practice in Bangladesh is to hide information, resulting in a lack of transparency (see Table 7-14). In the first phase, PM5, AP10 and AR2 do not provide any comment on that, but they are sceptical in the second phase. The interviewees view that companies are inclined to hide information, and that this is facilitated by their political connections. In addition, directors are aware of the fact that the regulators will not question their non-complying activities, because they themselves are corrupt. This culture makes it difficult to implement IFRSs. One accountant from a multinational company explains that:

“As a multinational company, we strictly follow IFRSs because we have global guidance to follow them. The orientation is also bigger than that of the local companies in Bangladesh. As a matter of fact, the culture of multinational companies is to be transparent, far more than the in local companies” (AP10).

Finally, 58% of the interviewees view that cost-benefit is a significant factor in the implementation of IFRSs (see Table 7-14). This issue has been raised only by the PM

and AP groups. The US and AR groups are not involved in the implementation process and therefore they are not aware of the cost-benefit issues.

Respondents point out that university graduates from various backgrounds (e.g. History, Marketing, Management, Finance, Accountancy etc.) are working as company accountants in small companies. These graduates have a very limited technical knowledge of accounting standards. The AP group criticised the regulator's policy of the implementation of IFRSs by all listed companies. They believe that the regulators are only concerned about large companies. A partner of the audit firm expresses his sentiments in the following way:

“First of all, *size does matter*. For example, *a small company cannot employ a CA because the costs would not be bearable*. Further, companies are not well equipped to comply with IFRSs” (AP12).

7.3.3 Reflecting on section 7.3

These findings reveal that other factors (i.e. a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies, a culture of secrecy, a lack of research, public sector dominance and a predominantly family-based private sector - all ranked in order of dominance; see Table 7-13) are playing a part in slowing down the IFRSs implementation process in Bangladesh (see section 7.3.1). For example, a lack of qualified accountants is one of the key problems in implementing IFRSs in Bangladesh (see section 7.3.1.1). The majority of the interviewees suggest that company managers in Bangladesh are hesitant to comply with IFRSs (see section 7.3.1.2). Respondents think that normal practice is that most companies copy big companies' reporting styles (see section 7.3.1.3). Shareholders do not bother to acquaint themselves with what is happening through annual reports, for example whether or not their companies are complying with IFRSs (see section 7.3.1.3). The purpose of IFRSs is therefore questionable, if even shareholders do not care about this compliance. The interviews reveal that the government is not providing enough funding to conduct research into IFRSs issues (see section 7.3.1.4). As mentioned in Chapter Four (see section 4.2.2), the government has not conducted any research into accounting standards issues over the last ten years. Moreover, the public sector's dominance is apparent, and the family-based private sector is not inclined to comply with IFRSs (see section 7.3.1.5).

The 2nd round of interviews (see section 7.3.2) indicate that a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies and culture of secrecy are hindering the implementation process. Interviewees from the 2nd round of interviews express beliefs that the government and donor agencies should plan solutions in order to enable small companies to comply with IFRSs. Small companies in Bangladesh are not usually in a position to employ a qualified accountant, and the cost of doing so would be a major issue for them. As a result, although some of these companies may be interested in complying with IFRSs, the reality is that the costs involved do not permit them to do so.

7.4 Summary and Conclusion

The purpose of the present chapter is to discuss the influences of [a(i)] training opportunities in the accounting profession and [a(ii)] corruption, and [b] other country specific factors on the implementation of IFRSs in Bangladesh. With respect to [i] training opportunities in the accounting profession and [ii] corruption, the proposition *P_{IIIA}* and *P_{IIIB}* are examined. The evidence from the interviews suggests that (i) training opportunities in the accounting profession and (ii) corruption exert a negative influence on implementation of IFRSs in Bangladesh (see section 7.2).

In relation to the effective/ineffective development of training opportunities in the accounting profession (condition a, *P_{IIIA}*), the findings show that in Bangladesh, deficiencies in training opportunities in the accounting profession are impeding IFRSs implementation (see section 7.2.1). The respondents who are directly or indirectly linked with the ICAB (e.g. as a member of the ICAB or by chairing any of its committees) display positive attitudes towards the professional syllabus (see section 7.2.1.1.1). However, most of the respondents feel that the syllabus should be brought up to date. Additionally, IFRSs course content is not incorporated into the universities' syllabuses. All of the interviewees agree that IFRSs should be included so that prospective accountants will be aware of the benefits of complying with IFRSs. Similarly, training opportunities are seen to be very limited for accountants (see section 7.2.1.1.2). The findings reveal that training opportunities are a serious, inherent weakness with regard to compliance with IFRSs. This is because policy makers are not providing training and companies' managements are not encouraging it, or to some

extent are not helpful, in supporting their accountants towards attending some training on IFRSs. Perhaps because of this, account preparers generally come to feel that the training is not essential, since their companies are not concerned about it.

With respect to low/high levels of corruption (condition b, P_{IIIb}), the evidence in the study finds that high levels of corruption in Bangladesh have a negative influence on implementation of IFRSs (see section 7.2.2). According to respondents, corruption is an everyday problem in Bangladesh. As mentioned in Chapter Four, Bangladesh was top of the list of the most corrupt countries in the world for five consecutive years. It is part of the established culture for companies to violate regulations, confident that the regulators (e.g. the SEC and tax officials) can be controlled through bribery. The enforcement evidence collected in this study suggests that a combination of a lack of professional ethics, the existence of corruption in the judiciary and political motivations impedes the implementation of IFRSs in Bangladesh (see section 7.2.2.3). Hence, the evidence in this study confirms that implementation may not be effective in a corrupt country, such as Bangladesh.

In terms of comparing interviewees' perceptions and attitudes, the study finds that a link exists between professional syllabuses, training opportunities and corruption (see section 7.2.3). It is found that the views of the users, academics and researchers do not significantly vary, while, the policymakers and account preparers provide opinions contrary to the aforementioned grouping. In the 2nd round of interviews, all the interviewees, with the exception of the policy making group, agree that corruption in the government is hindering the effective implementation of IFRSs in Bangladesh. It is worth noting that the interviewees in the 1st round allude to corruption in various areas (e.g. corruption by governmental bodies, audit firms & professional bodies and companies; see section 7.2.2.1). The interviewees were not satisfied with the democratic government's slow move towards IFRSs implementation. Nothing has changed in the policy makers' attitudes, possibly because they are representing their respective government institutions. According to the perceptions of the interviewees, the policy making group did not provide any training except by the ICAB. The respondents also mentioned that training opportunities were limited to the 'big four' and large companies while the majority of companies did not bother with providing IFRSs training for their accountants.

In relation to the influences of other factors on implementing IFRSs (see section 7.3), the evidence suggests that there are country specific factors which are also slowing down the implementation process in Bangladesh. Based on the respondents' comments, the other factors were ranked in the following order of dominance: a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies, a culture of secrecy, a lack of research, public sector dominance and a predominantly family-based private sector (see section 7.3.1). It is evident that Bangladesh's lack of an adequate number of qualified accountants, as seen in Bangladesh, is unhelpful in effectively implementing IFRSs (see section 7.3.1.1). Several reasons are likely for the low number of CAs; for example, that the salary structure of CAs is much lower than in other comparable South Asian countries (e.g. India, Pakistan or Sri Lanka) (see Chapter Four). Students are perhaps less interested in studying CA because the pass rate is very low. Despite donor agencies' efforts to assist in this regard, state institutions seem to be inactive in doing anything to rectify the problem. It has also been argued that companies' management are reluctant to comply with IFRSs (see section 7.3.1.2), while the norm for many companies in Bangladesh is to copy the format of other companies' annual reports (see section 7.3.1.3). The underlying issue therefore remains that if shareholders care about the quality of their annual reports, then the quality of these annual reports (including their compliance with IFRSs) will increase. Again, because of a lack of any significant research by the government and donor agencies, the real motivations of the companies towards IFRSs remain unknown (see section 7.3.1.4). No policy documents or consultation papers on IFRSs have been published by the government over the last decade.

Negative responses are found regarding state owned enterprises' non-compliant activities (see section 7.3.1.5). Respondents strongly indicate that the SEC allows non-compliance with IFRSs because of its government affiliations. In a similar environment, most of the listed companies in the stock exchange are family led businesses, which often have close connections to various members of the government. This encourages these companies to hide information and any evidence of corrupt activities. In the second round interviews, the findings reveal that small companies are interested in compliance with IFRSs but following this through (e.g. by hiring qualified accountants) is not possible because the costs of doing so override the benefits (see section 7.3.2).

Chapter Eight

Theory of the role of the state in the implementation of IFRSs as an example of accounting change in a developing country

8.1 Introduction

The objective of this chapter is to present the results of research question three; *RQ-3: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?* In particular, the findings of Chapters Six and Seven will be discussed in light of the theory of the role of the state. Based on the findings of the interviews and documentary analyses, I discuss institutional dynamics in order to explain how external and internal forces (i.e. the state-society relationship) have influenced IFRSs implementation, as an example of accounting change in Bangladesh, in section 8.2. Section 8.3 discusses the state level (i.e. the role of the state); section 8.4 presents the organisational field level, although this level has not been researched in this study, and section 8.5 discusses 13 case studies of IFRSs non-compliance, in order to explore the relationship between the state level and the individual organisational level in terms of individual organisations' tendencies towards non-payment of monetary fines. This analysis of the social and political dimensions of the IFRSs implementation process in Bangladesh may yield insights that will assist understanding of the way in which standards are developed and diffused from the state level to the individual organisation level. In sections 8.3.6 and 8.5.6, I will offer a possible explanation of the extended Weberian view of theory of the role of the state and accounting change. Section 8.6 concludes this chapter.

As mentioned in Chapter Two (see section 2.2.3), the drivers of accounting change (i.e. the most frequently discussed issues on the role of the state and accounting change) are accounting regulatory frameworks, politico-institutional factors, and cultural factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption). In terms of accounting regulatory frameworks (P_I), the findings of the study reveal that accounting regulatory frameworks have a negative influence on accounting change in Bangladesh under the conditions of low quality investor protection laws, stakeholders'

non-participation in the standard setting process and looser enforcement of the laws (see section 6.2.4). With respect to politico-institutional factors (P_{II}), the findings of the study suggest that politics have a negative influence on accounting change under the conditions of a higher level of government intervention, a higher level of donor agencies' pressure and a higher level of political lobbying (see section 6.3.3). The absence of co-operation among institutional bodies is slowing down the effective implementation process in Bangladesh (see section 6.3.2). Regarding cultural factors (P_{III}), the study reveals that deficiencies in the training opportunities in accounting profession and high levels of corruption have negative influence on accounting change in Bangladesh (see section 7.2.4).

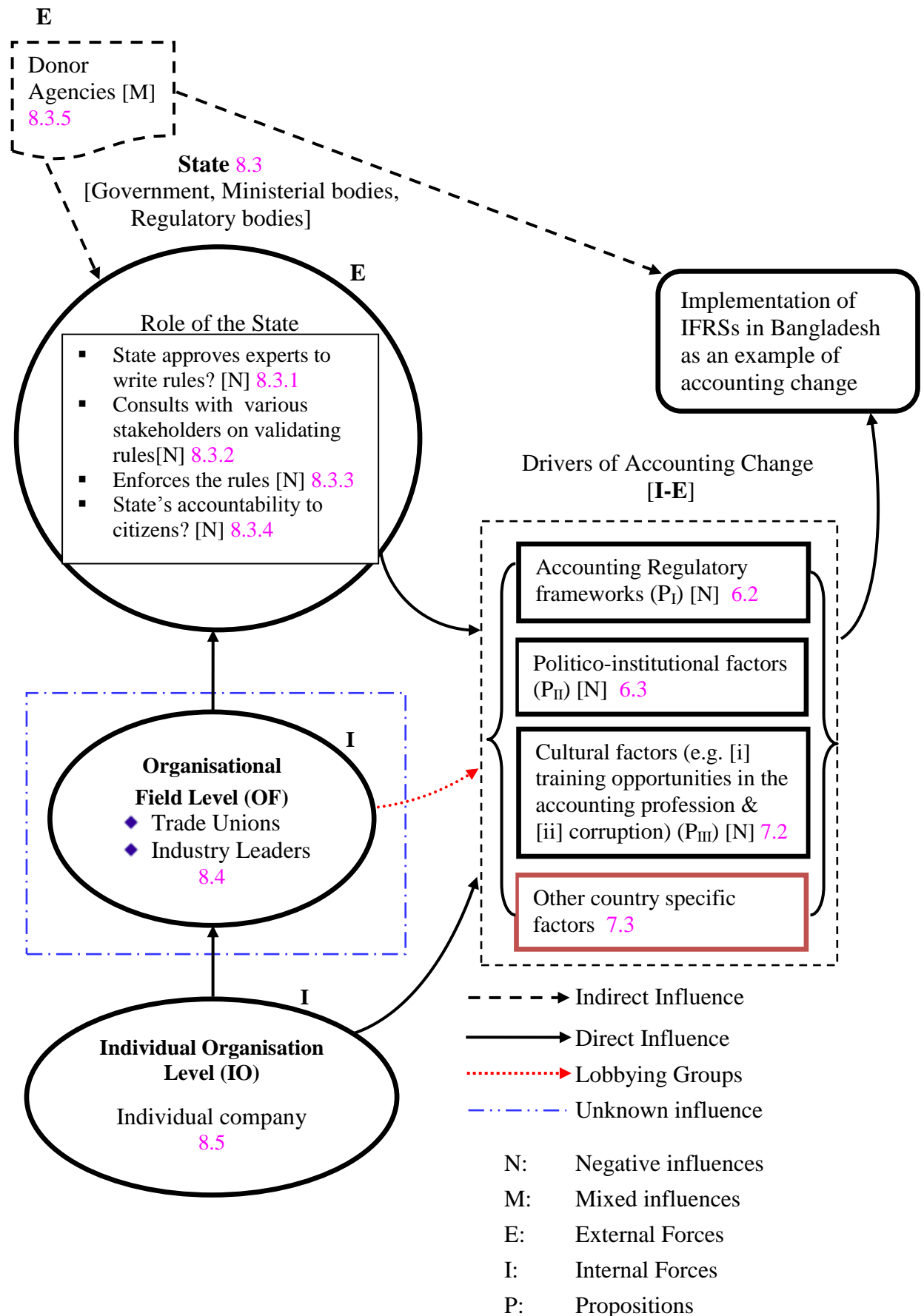
8.2. Institutional Dynamics (A link between the role of the state and individual organisations)

As mentioned in section 3.2.2.1, none of the state theorists have explored the theoretical aspects of the state-society relationship in accounting literature. Most studies have employed Weber's works in developed countries in focusing upon external forces. Further, very few studies employed a case study to explain their theoretical framework. Hence, in this study, I have employed Dillard *et al.* (2004)'s model of institutional dynamics. This model's implications in Bangladesh are shown in figure 8-1. This model has three levels: the state, the organisational field and the individual organisation level.

8.3 State level [the role of the state]

In terms of the state level, the roles of the state (external forces) negatively influence accounting change, as asserted by 'N' in figure 8-1. The state institutions employ an unfavorable distribution of power which may very well prevent manifestations of negative outcomes of accounting change in Bangladesh (See section 6.3). In the external forces (E), the state level, directly (see sections 8.3.1-8.3.4), and the donor agencies, indirectly (see section 8.3.5), influence accounting change. Based on the drivers of accounting change, I also find that accounting regulatory frameworks, politico-institutional factors, accounting profession and corruption have a negative influence on accounting change (as indicated 'N' in figure 8-1) (see sections 6.2, 6.3 and 7.2).

Figure 8-1: Theoretical Framework in relation to Bangladesh (Based on Figure 3-2)



Based on the findings of drivers of accounting change (see Chapters Six and Seven), in this section I discuss the roles of the state in determining the outcomes of IFRSs implementation as an example of accounting change in Bangladesh.

8.3.1 State approves experts to write rules

The findings in this study indicate that the inter-play between state institutions and politics in the Bangladeshi context is a story shaped by the complexity of accounting change (see sections 6.3.1.1 and 6.3.1.3) (as indicated ‘N’ [negative] in figure 8-1). It is found that a higher level of government intervention in the accounting regulatory process negatively influences accounting change in Bangladesh (see section 6.3.3). The present democratic government has not yet passed the Financial Reporting Act which was proposed during the military-backed government of 2006-2008. The findings reveal that the delayed process is due to the political interests of the government, because some politicians simply do not want to assist any Act which implements IFRSs. The ruling parties transform the core decision-making structure of the government into a political club. This political club is glued tightly together, and thus politics play an instrumental role in pulverizing state institutions’ competence in implementing IFRSs. Hence, continuous interference by politics renders the state dysfunctional and unaccountable to the people and corruption encompasses the judiciary. The state in Bangladesh as a manager of the market system does not reach an equilibrium of the state-society’s interest for the betterment of accounting change because continual intervention and politicisation create complexities in the regulatory process and, of course, conflicts of interest. Since state institutions should be democratic in general, the ultimate question is whether the state in Bangladesh needs to answer to its stakeholders. To minimise state intervention, the state should create an independent body like the FRC to ensure the effectiveness of the regulatory process.

8.3.2 State consults with various stakeholders

The findings of the present study reveal that the state does not engage stakeholders in the standard setting process in Bangladesh (see section 6.2.2) (as indicated ‘N’ [negative] in figure 8-1). National accounting has been characterised as being intimately linked to the exercise of national power in Bangladesh. Due to a lack of co-operation,

the state's actions are considered as 'taken for granted' and individual organisations are legally restricted to following these rules. It is found that interested parties are working for their own interests and engaging in continual political connections. For example, a tension exists between two professional bodies provoked by the apparent lack of consultation with members of the ICAB, ICMAB and the SEC. Even the standard setting body is very much unknown to the stakeholders. High levels of government intervention and blame culture are also observed in Bangladesh, because existing state institutions are maintaining individualistic approaches. These institutions are reluctant to undertake collective actions and therefore tussles between different actors' interests take place. If politics, actors' interests and heavy involvement of the government exist within a regulatory process, then the process will suffer from the overwhelming credibility problems when trying to establish an efficient regulatory system and gain public trust in Bangladesh. In contrast to DiMaggio¹¹² (1988), the state actors in Bangladesh attempt to pursue their self interests. Therefore, the interrelations between accounting and the role of the state in Bangladesh need to be depoliticised, establishing a strengthened and engagement based regulatory process in order to build effective regulatory systems. Standard setting bodies in Bangladesh have to respond to political forces and strike a balance between the needs of interested parties, in a process that is inescapably political in nature.

8.3.3 State enforces outcomes

The findings in this study show that the lack of regulatory enforcement have a negative influence on accounting change because of the inefficacy of the judicial system and a lack of punitive penalties/fines (see section 6.2.4) (as as indicated 'N' [negative] in figure 8-1). As documented in section 4.5.1 that Bangladesh has a lower rate of enforcement than India and Pakistan (see Table 4-7, using World Bank's Governance Indicators Data, 2010). This is because Bangladesh has higher levels of corruption, which eventually weakens enforcement. The documentary analyses confirm that the enforcement mechanisms are vague and that regulatory loopholes may hinder the effective implementation of IFRSs (see section 6.2.3.3). There is also a concern over issues of political influence on enforcing accounting standards (e.g. that the Ministry of Finance is closely linked with the SEC) because the state enforces the standards. In this

¹¹² DiMaggio (1988, pp. 4) argues the importance of norms or taken for granted assumptions "...that make actors unlikely to recognize or to act upon their interests".

case, since the state fails to enforce the standards, the establishment of an independent FRC to enforce the standards may help to produce better outcomes of accounting change. The military-backed government proposed a FRC in 2008, but was unable to follow through because of parliamentary systems' unavailability in the military period. The present democratic government was less interested and failed to put out a consultation paper to even initiate the creation of such an independent institution. This raises a question: why is the democratic government not interested in establishing the FRC for better outcomes of accounting change?

8.3.4 State is accountable to its citizens

Although in this study the state's accountability has not been implicitly examined, the three propositions may inform whether the state is accountable to its citizens in Bangladesh in terms of accounting change. As mentioned in section 4.2.2, according to the World Bank's Governance Indicators [1996-2010], the voice and accountability was lower during the democratic government in 2004. In terms of quality of investor protection laws and stakeholders' participation/non-participation in the standard setting process, the interviewees suggest that an independent Financial Reporting Council (FRC) and the enforcement of accounting standards through a Financial Reporting Act (FRA) may create an effective framework of accountability (see sections 6.2.1.1 and 6.2.2.1). Since accounting regulatory frameworks, politico-institutional factors, [i] training opportunities in the accounting profession and [ii] corruption have negative influences on accounting change then this may call the state's accountability into question in Bangladesh (as indicated 'N' [negative] in figure 8-1). It is found that due to a lack of political independence, IFRSs practices are very poorly developed in Bangladesh. Since its independence in 1971, the country has frequently been ruled by military dictators. As the military-backed government has ruled for 19 years out of 40 years of independence, the political freedom of the country has not been smoothly developed. In both democratic and in military eras, there has been an absence of stakeholders' participation in the standard setting process and regulatory processes. Further, certain political groups' incentives are seen as more important by those with political power and/or connections than the common interests of the citizens of Bangladesh. Therefore, democratic and military governments' efforts in reforming

accounting systems may also provide insights into role of the state in a developing country such as Bangladesh (see section 6.3.3).

8.3.5 Role of donor agencies

In this study, the findings in the first round of interviews evidence the critical role of the donor agencies in Bangladesh (see section 6.3.1.2). In the second round interviews, the respondents did not provide any comments on the donor agencies' political pressure (see section 6.3.1.2.2). Therefore, the donor agencies influences in Bangladesh regarding accounting change is indicated 'M' [mixed] in figure 8-1. The donor agencies are providing funding for the reform of accounting in Bangladesh. There is no doubt that these reforms are essential for the effective implementation of IFRSs. However, their collaboration with the state raises some issues: firstly, that funding is possibly not being used effectively by the state for its intended purpose. It has also been found that donor agencies are aware of this fact but do nothing to stop the evident practices. This research is unable to reveal why this is the case and what the true intentions of the donor agencies are. Hence, the donor agencies must presumably take a long-term view of their aid commitments, and their aid funding should not involve government intervention. Secondly, the processes of IFRSs adoption and implementation in Bangladesh are likely to involve taken-for granted norms without considering the engagement of societal values and norms. In my opinion, the donor agencies should not impose any reforms without considering the local or national culture, since Bangladesh's culture is more secretive in nature (see sections 4.5.1 and 7.3.1.3).

8.3.6 Discussion of the state level [the role of the state]

At the state level, the role of the state has been discussed in explaining the diffusion of good practice, when donor agencies (such as the World Bank, the IMF and the EU) come to accept IFRS as a legitimate form of international best practice, and later adopters then follow in adopting it (especially developing countries like Bangladesh) in order to secure legitimacy, provide meaning, facilitate communication, underpin social action and, often, to reflect political and economic ideologies. In terms of the state-society argument (see section 3.2.1.7), all roles of the state are seen to have negative influences on accounting change in Bangladesh. Power and politics create complex processes of accounting change in Bangladesh because the state constitutes rule and a

power resource towards IFRSs implementation. The state as a social agent acts in its own interests (see sections 8.3.1-8.3.5). In contrast to general arguments put forth by Friedland & Alford (1991)¹¹³ in relation to western developed countries, the state and professions share common interests in Bangladesh because the professional bodies are under the Ministries of Finance and Commerce, and bureaucratic arrangements are in place among various state institutions. Subsequently, state actors are more likely to create and maintain social beliefs (in particular, stakeholders' non-participation) within a society, and this may ultimately impede the effective implementation of IFRSs.

8.4 Organisational field level

In the organisational field, lobbying groups' activities towards influencing IFRSs implementation are unknown in this research (see figure 8-1, indicated as *unknown influence*); one caution is that lobbying groups were not interviewed, and the interviewees in this research argued about the influence of ministerial bureaucracy and political lobbying rather than about industry leaders' and trade unions' lobbying. This is because, in Bangladesh, the fulfillment of political functions and the election manifesto are seemingly deemed more important than societal and economic fitness. This is likely to create conflicts of interest, within which accounting choice could be a major factor at the organisational field level. It can be argued that political factionalism, derived from family politics, essentially undermines the rule of law and the independent effectiveness of institutions by maintaining loyal political supporters in various positions within key institutions in Bangladesh. This phenomenon can also be thought of as 'personification of the state institutions' in Bangladesh.

8.5 Individual organisation level

At the individual organisation level, the evidence presented in this study shows that the majority of individual organisations may negatively influence outcomes of accounting change, given the presence of political lobbying, family businesses, a lack of training facilities and corruption. The individual organisation level directly (as indicated by internal forces 'I' in Figure 8-1), influences accounting change. This section examines case studies in the form of 13 enforcement notices regarding IFRSs non-compliance during the period 1998-2010 in order to explain the individual organisation's tendency

¹¹³ Friedland & Alford (1991) argue that the state and professions will not share the same interests.

not to pay a fine or a penalty in Bangladesh. Table 8-1 shows that there were 1647 violations of the SEC rules including IFRSs non-compliance between 1998-2010. Only 42 violations were IFRSs related and the IFRSs related enforcement actions represent only 2.56% (42/1647) of total enforcement actions. The analysis in this study is limited to 13 violations for 12 companies. This is because these 13 companies have been identified as having perpetrated similar types of IFRSs non-compliance, but were then penalised differently. The case study of 13 enforcement notices signifies 31% (13/42) with reference to IFRSs non-compliance. In the following subsections, I will discuss these enforcement notices, classifying them into four categories (see Table 8-2).

Table 8-1: Total Enforcement Actions including IFRSs (1998-2010)

Year	Total Enforcement	Total %	IFRSs related Enforcements	IFRSs %	Case study	Case study %
1998	59	3.6	0	0	0	0
1999	77	4.7	0	0	0	0
2000	10	0.6	0	0	0	0
2001	24	1.5	0	0	0	0
2002	29	1.8	0	0	0	0
2003	57	3.5	0	0	0	0
2004	62	3.8	0	0	0	0
2005	135	8.2	0	0	0	0
2006	326	19.7	1	2.4	0	0
2007	281	17.1	11	26.2	5	38.5
2008	176	10.7	7	16.7	2	15.4
2009	172	10.3	14	33.3	2	15.4
2010	239	14.5	9	21.4	4	30.8
Total	1647	100 [1647/1647]	42	100 [42/42]	13	100 [13/13]

8.5.1 Cases on Depreciation related violations [n=7]

Seven companies were subject to depreciation related violations (see Table 8-2). Of the seven companies, five were ‘Z’ category¹¹⁴ companies and all were politically connected and family ownership based. There were also variations of the fines/penalties applied to those companies. For example, the minimum amount was Tk. 0.60 million and the maximum was Tk. 1.4 million. To explore the variations of fine amount, I examine the detailed nature of the violations (see Appendix 8-2). Appendix 8-2 shows

¹¹⁴ Companies which have failed to hold current annual general meetings or have failed to declare any dividend (DSE Annual Report, 2009-10).

that six companies failed to charge depreciation on fixed assets and one company did not provide the method of depreciation used in the financial statements. The SEC provided information about five companies regarding whether the fine amount has been paid or not and hence information for two of the companies was unknown for the present study. Of the five companies, one of the companies was warned, meaning that no fine was imposed by the SEC. A question can be raised as to why this particular company was warned rather than penalised (i.e. monetary penalty). The rest of the four companies' cases are still pending.

8.5.2 Cases on Qualified Audit Opinion [n=2]

The SEC issued enforcement actions against H Ltd. and I Ltd. because these two companies provided qualified opinions but their financial statements for the year ended 30th June, 2007 and 30th June, 2003 respectively did not reflect a 'True and Fair View' (see Appendix 8-3). The details of the violations were not provided by the SEC. But the fine amount varied (e.g. Tk. 0.60 million and Tk. 3.5 million) (see Table 8-2). H Ltd. (public shareholding 23%) did not hold an AGM in 2008 and I Ltd. allegedly earned an abnormal return on shares of 6.57% in 2003; however, at the time the SEC failed to take action of these two companies (The Independent, 2003).

8.5.3 Cases on Disclosures as prescribed by the ICAB [n=2]

Two companies were issued with enforcement actions because their financial statements, for the year ended 30th June, 2007 (J Ltd.) and 30th June, 2006 (I Ltd.) respectively were not prepared in accordance with IFRSs and notes as prescribed by the ICAB (see Appendix 8-4). The SEC provided details on the nature of the violations for J Ltd. but not for I Ltd. Although I Ltd. is in the 'A' category¹¹⁵, the study reveals that there is no relationship between the company category and fine amount (see Table 8-2). Then the question may arise, on what basis does the SEC impose penalty amounts? As mentioned in the section 8.5.2, I Ltd. was issued with enforcement actions in 2007. Further, J Ltd. has not paid listing fees to the DSE amounting to Tk. 0.09 million since 2003 (The Financial Express, 2008). These companies are repeatedly violating the rules but, the SEC did not provide any further information regarding the settlement of their fine.

¹¹⁵ Companies which have regularly held annual general meetings in recent years and have declared a dividend at a rate of ten percent or more in the last English calendar year (DSE Annual Report, 2009-10).

8.5.4 Cases on Half yearly Audited Report [n=2]

The SEC issued enforcement actions to two companies for violating SEC rules regarding half yearly audited statements including Balance Sheet, Income Statement, Cash Flow Statement and Changes in Equity. K Ltd. is a ‘B’ category¹¹⁶ company (public shareholdings only 12.5%) and was fined Tk. 0.80 million, whereas L Ltd. (public shareholdings 50%), a ‘Z’ category company, was fined Tk. 0.70 million (see Table 8-2). The study did not find any information on whether L Ltd. paid its fine or not and K Ltd.’s court case is pending. Both companies have violated the same regulations by failing to provide half yearly Financial Statements in accordance with BASs/IFRSs (see Appendix 8-5). These two companies are part of the K-I Group and have a regular record of violating SEC rules. For instance, neither of the companies held any AGM in 2000 and 2001 respectively, nor paid any dividend to its shareholders (The Financial Express, 2004).

8.5.5 How to avoid a penalty imposed by the SEC

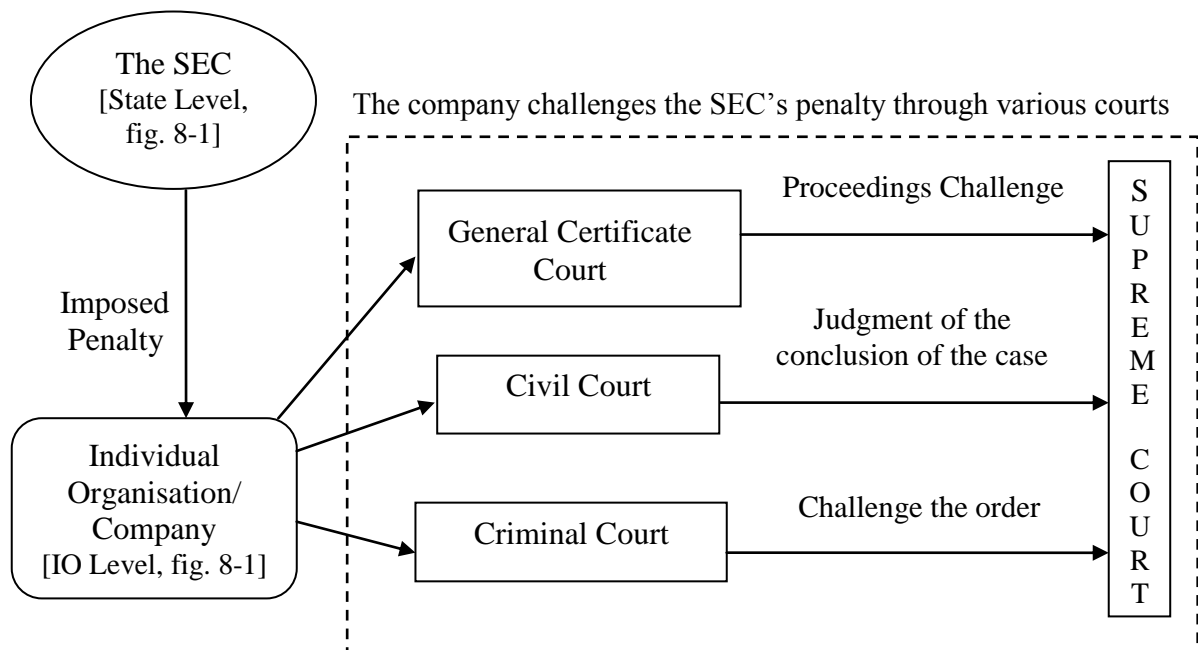
Generally, there are two ways to avoid incurring a financial penalty in Bangladesh. Firstly, a company may challenge the SEC’s enforcement action, and can file a case in courts of Bangladesh (see figure 8-2). Three courts¹¹⁷ handle most of the cases. The cost of filing a case in these courts is in general lower than the penalty amount ordered. For instance, the minimum penalty is Tk. 100,000 (approximately £1,000), but the minimum costs of going to the Supreme Court, including the writ petition/court order and filing a case etc. are approximately Tk. 40,000-50,000 (£400-£500). In my opinion, this regulatory loophole may make companies less likely to pay a penalty. It is also understandable that the company may think paying a penalty results in a bad record for

¹¹⁶ Companies which have regularly held annual general meetings in recent years but have failed to declare a dividend at a rate of ten percent or more in the last English calendar year (DSE Annual Report, 2009-10).

¹¹⁷ (a) *The General Certificate Court (GCC)*: This court is for SEC ordinance violation related cases. If the SEC identifies any violations, then they issue show-cause cum-hearing. If the SEC is satisfied at the hearing, no further action is taken against the companies; otherwise the SEC imposes a penalty. To recover the penalty/revenue (Public Demands Recovery Act 1913), the SEC stands by the decision of the officer of the GCC. If the company opposes the GCC’s decision of a payable penalty, the company may appeal to the Supreme Court of Bangladesh. This court is the highest court in Bangladesh and has two divisions, namely the Appellate Division and High Court Division; (b) *The Civil Court*: The Company may also appeal against the SEC’s decision in the civil court. If the outcome of the civil court goes against the company, then the company may appeal to the Supreme Court; and (c) *The Criminal Court*: If any pending case is heard in the criminal court, then before disposal/judgement in the criminal court, the company may also appeal to the Supreme Court challenging the order of the criminal court. The detailed court structure and functions of other courts are shown in Appendices 7-2 and 7-3.

the company (which may lose their investors’ faith and confidence). Therefore, a company may feel that the safer option is to file a case rather than paying a penalty. Secondly, as mentioned in section 8.5, all thirteen companies had political connections or the political affiliations which may impede the enforcement actions of the SEC. The court(s) may favour these companies and the decision can be classed as ‘pending’ for a seemingly unlimited period of time (i.e. stay order permission from the Supreme Court of Bangladesh, High Court Division) (see sections 8.5.1-8.5.4). I was unable to find out whether the six companies’ fines were paid or not because the SEC did not provide any information on this, raising the question ‘how many companies are paying the fines?’ (see Table 8-2). Again, the enforcement notices had no effect on the share prices (e.g. EPS) of the 12 companies (see Table 8-3 for EPS from 2006-2011). Since the enforcement notices have no market implications in Bangladesh, the companies may not care about the amount of fine imposed on them.

Figure 8-2: The procedure to avoid a penalty by a company



8.5.6 Discussion of the individual organisation level

This section demonstrates that at an individual organisation level, the outcome of accounting change is likely to be negative in Bangladesh. Weber (1968, pp. 67-68)[1922] emphasises the state’s role in politico-cultural terms in shaping a particular form of society. The efficiency of the role of the state depends on how power and

interests are transmitted from the state level to the individual organisation level (Dillard *et al.*, 2004, p. 512). In Bangladesh, the state actors (i.e. state institutions, ministers and government MPs) are unable to restrict or modify the behaviour of individual organisations regarding IFRSs implementation. Such behaviour is accepted as resulting from social norms (see sections 6.3.3 and 8.5.1-8.5.5). Interviewees have indicated that state institutions in Bangladesh are politically motivated regarding IFRSs implementation. The individual organisations researched in this section are shown to be politically connected to state institutions and appear to be free to carry out corrupt activities, including non-compliance of IFRSs and falsification of their financial statements (see sections 7.2.4 and 8.5.1-8.5.4). This is also likely because actors in individual organisations (e.g. the directors) and their interests are likely to centre around the pursuit of profits, to the exclusion of compliance with the law.

Several other factors are impeding the implementation of IFRSs (see section 7.3.3). These include a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies, a culture of secrecy, and a predominantly family based private sector of individual organisations. To minimise the current tensions and struggles within IFRSs practices in Bangladesh, effective implementation of IFRSs will depend on individual organisations' attitudes to the power which has been developed by the state through engaging stakeholders, and non-political connectedness.

I conclude that in terms of the relationship between the state level and the individual organisation level, political connectedness and corruption are the strongest, most dominant factors, something which brings the role of the state regarding the effective implementation of IFRSs in Bangladesh into serious question.

Table 8-2: Non-Disclosure Violations in relation to IFRSs (n=13)

Violations	Company	Year	Industry	Category ¹¹⁸	Politics ¹¹⁹	Family ¹²⁰	Fine/Warning	Fine Paid/ Not Paid
1. Depreciation (n=7)	A Ltd.	2010	Cement	Z	√	√	1,400,000	Pending
	B Ltd.	2010	Paper & Printing	Z	√	√	1,000,000	Pending
	C Ltd.	2010	Engineering	Z	√	√	1,000,000	Not Known
	D Ltd.	2009	Textile	A	√	√	900,000	Pending
	E Ltd.	2008	Tannery	Z	√	√	800,000	Pending
	F Ltd.	2007	Tannery	Z	√	√	600,000	Not Known
	G Ltd. ¹²¹	2007	Miscellaneous	Z [A]	√	√	Warning	N/A
2. Qualified Audit Opinion (n=2)	H Ltd.	2009	Textile	Z	√	√	600,000	Not Known
	I Ltd.	2007	Food & Allied	A	√	√	3,500,000	Not Known
3. Disclosures as prescribed by the ICAB (n=2)	J Ltd.	2010	Pharmaceuticals & Chemicals	Z	√	√	500,000	Pending
	I Ltd.	2008	Food & Allied	A	√	√	1,000,000	Not Known
4. Half yearly Audited Report (n=2)	K Ltd.	2007	Food & Allied	B	√	√	800,000	Pending
	L Ltd.	2007	Food & Allied	Z	√	√	700,000	Not Known

Notes: Fine Paid: *Pending* = 6 (i.e. Court cases); *Not Known* = 6 (i.e. the SEC did not provide any information); *Warning* = 1 (i.e. N/A); Company names have been anonymised. Detailed information is available on request from the author.

¹¹⁸ 'A' category companies are regular in holding current annual general meetings and have declared a dividend at the rate of ten percent or more in the last English calendar year; 'B' category companies are regular in holding annual general meetings but have failed to declare a dividend at the rate of ten percent; and 'Z' category companies have failed to hold current annual general meetings or have failed to declare any dividend (DSE Annual Report, 2009-10).

¹¹⁹ In terms of politics, a tick (√) indicates the company is politically connected.

¹²⁰ In terms of family, a tick (√) indicates the company is predominantly family owned.

¹²¹ G Ltd. was renamed Z Ltd. after an amalgamation in August 2008. Then it became an 'A' category company, from Z category previously.

Table 8-3: EPS of 12 Companies [2006-2011]

Violations	Company	Month ¹²²	Year ¹²³	Industry	EPS [Taka]					
					2011	2010	2009	2008	2007	2006
1. Depreciation (n=7)	A Ltd.	Jan.	2010	Cement	0.36	1.93	0.18	-2.97	-10.74	-10.60
	B Ltd.	June.	2010	Paper & Printing	0.06	0.04	0.04	0.02	0.19	-0.66
	C Ltd.	Sept.	2010	Engineering	0.04	0.013	-7.20	-8.50	-34.97	1.70
	D Ltd.	Nov.	2009	Textile	1.81	1.37	10.59	18.61	13.97	10.62
	E Ltd.	Sept.	2008	Tannery	0.69	0.62	0.19	0.67	-0.17	-2.59
	F Ltd.	May	2007	Tannery	-15.22	-62.73	-66.31	-98.21	-121.19	-56.79
	G Ltd.	Nov.	2007	Miscellaneous	7.36	8.23	66.57	23.41	N/A	N/A
2. Qualified Audit Opinion (n=2)	H Ltd.	Jan.	2009	Textile	N/A	N/A	N/A	N/A	-47.43	-3.03
	I Ltd.	Dec.	2007	Food & Allied	1.57	3.11	1.01	0.10	-0.14	-0.14
3. Disclosures as prescribed by the ICAB (n=2)	J Ltd.	Jan.	2010	Pharmaceuticals & Chemicals	N/A	N/A	N/A	N/A	-28.00	-20.11
	I Ltd.	Oct.	2008	Food & Allied	1.57	3.11	1.01	0.10	-0.14	-0.14
4. Half yearly Audited Report (n=2)	K Ltd.	Sept.	2007	Food & Allied	-4.43	0.59	0.55	-10.21	-14.46	-1.35
	L Ltd.	Sept.	2007	Food & Allied	-0.63	-1.64	-1.02	-1.84	-0.03	-1.00

Notes: N/A means that information was ‘Not Available’; Company names have been anonymised. Detailed information is available on request from the author.

¹²² The month of enforcement releases.

¹²³ The year of enforcement releases.

8.6 Summary and Conclusion

As a result of my study of Bangladesh, I can now make the following statements about the theory of the role of the state:

Firstly, with respect to the state level [the role of the state], this study reveals that power struggles among state institutions may have negative outcomes on accounting change in Bangladesh (see section 8.3). The state acts as a social agent in Bangladesh to fulfil its own interests rather than the interests of the stakeholders regarding IFRSs implementation (see section 8.3). This study discusses the following roles of the state based on the findings of the interviews and documentary analyses:

- (a) State approves experts to write rules [N] (see section 8.3.1);
- (b) State consults with various stakeholders [N] (see section 8.3.2);
- (c) State enforces outcomes [N] (see section 8.3.3); and
- (d) State is accountable to its citizens [N] (see section 8.3.4).

It is evident that, all of the state's roles have negative influences (as indicated 'N') on IFRSs implementation. This is because of a higher level of government intervention and the political interests of the government in approving experts to write rules (see section 8.3.1); the state's actions regarding IFRSs implementation take for granted the non engagement of stakeholders in the decision making process (i.e. the ICAB and the SEC are fulfilling their own interests) (see section 8.3.2); higher levels of corruption and political influence on enforcing accounting standards exist (e.g. the Ministry of Finance's close links with the SEC) (see section 8.3.3); a lack of political independence from the emergence of an independent Bangladesh onwards (i.e. regular intervals of military intervention, 19 years of military-backed government in 40 years of independence) are impeding accounting reforms and hence the state's accountability to its citizens may not be guaranteed (see section 8.3.4). However, the roles of the donor agencies have mixed influences (as indicated by 'M') in accounting change (see section 8.3.5). According to the first round of interviews, the interviewees suggest that donor agencies' aid funds are transformed through the government ministries, and those funds are not being utilised efficiently in progressing IFRSs implementation in Bangladesh. In the second round of interviews, the interviewees ignored the donor agencies' critical role because the interviewees were frustrated with the current democratic government in terms of its failures so far to approve the IFRSs Act or establish the Financial Reporting Council (see Chapter Six).

Secondly, in relation to the organisational field level, the influence of industry leaders' or trade unions' lobbying is unknown in this research (see section 8.4). This is one of the limitations of this research (see also Chapter Nine). I was unable to conduct interviews with any members of these groups, because they were not interested in taking any part in this study, despite being invited to do so. Additionally, the findings from the interviews and documentary analyses did not reveal any particular influence of these groups in implementing IFRSs (see Chapters Six and Seven). The interviewees in this study were keen to comment on politics and corruption at state level and individual organisation level rather than at the organisational field level.

Thirdly, in terms of the individual organisation level, the study has shown that the outcomes of accounting change can be negative at the individual organisation level (see section 8.5). The individual organisations are regarded as being politically connected to state institutions and this political connectedness may generate negative outcomes of accounting change (see section 8.5.1). This is possibly also because the directors of individual organisations have links to state institutions, ministers and government MPs in carrying out activities which are non-compliant with IFRSs without being penalised. In addition, many directors are not inclined to train their company accountants to comply with IFRSs (see Chapter Six). Furthermore, a lack of qualified accountants, a lack of interest by companies' management, poor corporate practice and a predominance of family businesses among individual organisations, are also slowing down the implementation of IFRSs (see section 7.3). It is strikingly evident that thirteen violations by twelve companies were penalised but that none of these companies then paid the financial penalty imposed on them. The findings also show that all of these thirteen companies were politically connected family businesses and were penalised differently (see sections 8.5.1-8.5.4). The links between state institutions (i.e. the SEC and the Supreme Court of Bangladesh) and individual organisations are so politicised in a developing country like Bangladesh that the effective implementation of IFRSs may be difficult to put in practice.

In summary, focusing on the institutional dynamics (i.e. the state-society relationship), the results show that the reasons for the slow implementation of IFRSs in Bangladesh can be observed at the state and individual organisation field levels, and especially at the state level. One limitation is that the influence of the organisation field level is

unknown in this research. As has been mentioned in Chapter Three, according to Weber, cultural values explain ‘*why different actors make different choices even in similar situations*’ (Swidler, 1986, p. 274). The findings of this study extend the Weberian (1958)[1904], (1968)[1922] view of the state-society relationship (see sections 8.3.6 and 8.5.6). In the case of Bangladesh, within the state, various political regimes have behaved in different ways towards IFRSs implementation. More specifically, under a democratic government, politico-institutional factors and corruption (as an indication of societal values) may be more important and concentrated factors than for a state under a military-backed government in terms of impeding IFRSs implementation.

Chapter Nine

Conclusions and Contributions

9.1 Introduction

The purpose of this chapter is to summarise the results of the study, discuss the theory involved, make recommendations and offer suggestions about future research. The motivating research question of this thesis is to examine what factors have been affecting the implementation of IFRSs in Bangladesh from 1998 to 2010. To answer this motivating question, three more specific questions are studied in this research, which are: *RQ-1: What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh as an example of a developing country? RQ-2(a): How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs; RQ-2(b): What other country specific factors are affecting implementation of IFRSs?; and RQ-3: How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?* These questions have been answered by applying mixed methods (i.e. interviews and documentary analyses; see sections 5.4 and 5.5).

Section 9.2 summarises the findings and original contributions of this thesis. The subsections of 9.2 reflect original contributions in relation to RQ-1, RQ-2 and RQ-3. Section 9.3 discusses the limitations of the study, and suggestions for future research are discussed in section 9.4.

9.2 Findings and original contributions

A summary of the findings and contributions in relation to the three research questions is provided below:

9.2.1 Contribution to the relative impact of accounting regulatory frameworks and politico-institutional factors (RQ-1)

This study contributes regarding the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in a developing country such as Bangladesh, and it also has important implications for other developing countries in general.

With respect to accounting regulatory frameworks, the evidence suggests that the accounting regulatory frameworks in Bangladesh have a negative influence on the implementation of IFRSs (see section 6.2.4). This is for several reasons, including low quality investor protection laws in Bangladesh which are hindering the effective implementation of IFRSs (see section 6.2.1); stakeholders' non-participation in the standard setting process (see section 6.2.2); and relatively looser enforcement of the laws (see section 6.2.3). As mentioned in Chapters Four and Six, the Companies Act 1994 has not been updated regarding IFRSs since 1994, and contradictions exist between local laws and the requirements of the IFRSs (World Bank, 2003, 2009; Siddiqui, 2010). Unlike the findings of prior studies on developing countries (Boross *et al.*, 1995; Saudagaran & Diga, 1997; Taplin *et al.*, 2002; Banerjee, 2002) on professional bodies' engagement with stakeholders, the ICAB is responsible for accounting standard setting in Bangladesh but does not engage the stakeholders in the setting of standards; there has even been a lack of any published exposure drafts and/or consultation papers on standards. This is possibly because the ICAB is directly linked with the Ministry of Commerce and their decisions are political and based on closed-door policy making rather than being engagement based. Prior studies argue that government agency is in a prime position to enforce accounting regulations effectively (Belkaoui, 1983; Parker, 1986; Watts & Zimmerman, 1986; Zeff, 1988; Tower, 1993). But, in Bangladesh, the continual political lobbying and government intervention in the SEC are impeding the operation of a stringent enforcement process. A lack of effective penalty criteria calls into question the SEC's role regarding tightening enforcement mechanisms in Bangladesh.

In terms of politico-institutional factors, the findings suggest that these factors have a negative influence on the implementation of IFRSs in Bangladesh (see section 6.3.3).

This is due to a higher level of government intervention (see section 6.3.1.1), a higher level of pressure from donor agencies (see section 6.3.1.2), and a higher level of political lobbying (see section 6.3.1.3). Similar to previous studies (Leuz & Oberholzer-Gee, 2006; Siddiqui, 2010; Faccio, 2010), the evidence in this research confirms that government intervention and political lobbying are hindering the effective implementation of IFRSs. It is found that companies are often not penalised because of their political connections with the government. In addition, a lack of co-operation among institutional bodies is hindering the implementation of IFRSs in Bangladesh (see section 6.3.2). This is because of an absence of participatory rights for the stakeholders and an undemocratic government (McKinnon, 1984). The study finds a lack of co-operation to be evident among the institutional bodies in both democratic and undemocratic governments (see sections 6.3.2 and 6.3.3). It is important to mention that military-backed government in Bangladesh was effective in comparison to democratic government in terms of taking action against companies identified as being corrupt (see section 6.3.2.3). Although the blame culture has previously been limited to developed countries (Hood, 2007, 2009; O'Neill, 2002), the state institutions and professional bodies in Bangladesh (as an example of a developing country) are blaming each other regarding the IFRSs implementation process. This could be because 'the blame game' may be aimed at attempting to remove power and responsibility from other institutions in order to facilitate the legitimacy, and increase the scope of government bureaucracy (see sections 6.3.2.1 and 6.3.2.2).

Prior research argues that common-law origin is more transparent in terms of setting accounting standards (La Porta *et al.*, 1998; Kothari, 2000; Ball *et al.*, 2000, 2003; Leuz *et al.*, 2003). However, in this research, common-law origin has little or no influence on implementing IFRSs in Bangladesh (see sections 6.2 and 6.3). This is possibly because Bangladesh contains an unique environment which may be explained via several factors (e.g. [a(i)] training opportunities in the accounting profession, [a(ii)] corruption and [b] other country specific factors) (see Chapter Seven). The legal origins (common-law vs. code-law) argument in this study raises a question as to why a country with common-law origins has no influence on the implementation of IFRSs or has moved toward code-law regarding the implementation of IFRSs (see section 6.5). This may require further investigation.

This study also finds that politico-institutional factors are stronger and more dominant factors than accounting regulatory frameworks in inhibiting the implementation of IFRSs (see section 6.4). The findings suggest that policy makers are keen to comment on donor agencies' political influence, while denying the existence of government intervention or political lobbying. This is because the policy makers appointed by the government represent different government institutions and want, therefore, to be seen to support the government. By contrast, the account preparers and professionals seemed hesitant to talk about government intervention and it is possible that the account preparers and professionals feel under pressure because they are fearful of losing their jobs if they become involved in commenting on politics (see section 6.5).

9.2.2 Contribution to training opportunities in the accounting profession, corruption and other country specific factors (RQ-2)

The evidence in this research suggests that [i] training opportunities in the accounting profession and [ii] corruption have a negative influence on implementing IFRSs in Bangladesh (see section 7.2). As mentioned in Chapter Two, two factors are investigated in the present research: (a) training opportunities in the accounting profession and (b) corruption. With respect to the training opportunities in the accounting profession, this study finds that deficiencies in the training opportunities in accounting profession are inhibiting IFRSs implementation (see section 7.2.1). The majority of respondents feel that the curricula should be brought up to date and that IFRSs course content is not incorporated into the universities' curricula (see section 7.2.1.1.1). The respondents affiliated with the ICAB (e.g. as a member of the ICAB or by chairing any of its committees) were positive regarding the professional curricula of the ICAB. In addition, the limited training facilities for accountants are an issue of concern in compliance with IFRSs (see section 7.2.1.1.2). Although the policy makers argued for the necessity of IFRSs related training facilities, they are not providing any training. With the exception of 'big 4' and other large companies, a majority of companies are reluctant to provide training for their company accountants. These findings are in disagreement with prior studies in developing countries (Parry & Groves, 1990; Abayo & Roberts, 1993; Ahmed & Nicholls, 1994; Haniffa & Cooke, 2002), who argue that the training opportunities in the accounting profession are not an important factor in explaining levels of corporate disclosure. However, the training opportunities

in the accounting profession is an important factor in Bangladesh as an example of a developing country¹²⁴ in explaining issues with the implementation of IFRSs.

This research also finds that high levels of corruption in Bangladesh have a negative influence on implementing IFRSs (see section 7.2.2). As mentioned in Chapter Four (see section 4.5.2), Bangladesh was top of the list of the most corrupt countries in the world from 2001-2005. The respondents feel that corruption is deeply rooted in Bangladeshi society. Listed companies can violate the SEC's regulations, including IFRSs non-compliance and can satisfy the relevant authority (e.g. the SEC, tax officials etc.) through their political connections. It is found that a perceived lack of professional ethics among auditors and company accountants is inhibiting effective IFRSs implementation (see section 7.2.2.3). It is not surprising that the policy makers and users who have links with the ICAB and state institutions were in agreement that corruption is not an important issue in implementing IFRSs, while for a majority of account preparers, users and academics, corruption is a big threat in a developing country like Bangladesh towards effectively implementing IFRSs (see section 7.2.3). The findings in this research are somewhat similar to Hofstede *et al.* (2010)'s index of Bangladesh (see section 4.5.1), in which Bangladesh has the highest Power Distance score, indicating a high level of inequality of power and wealth within its society. In addition, Bangladesh has a more secretive culture than India or Pakistan (Mir & Rahaman, 2005). Hence, company managements are less likely to pursue a high level of disclosure. Moreover, using the World Bank's Governance Indicators Data (2010) and La Porta *et al.* (1998) [see also Leuz *et al.*, 2003 and Han *et al.*, 2012]'s data, the present study reveals a lower rate of enforcement in Bangladesh compared with India and Pakistan. This is due to higher levels of corruption, a factor which weakens enforcement of the laws (see section 4.5.1). The study also finds that Bangladesh and Pakistan's secrecy scores and enforcement scores are relatively similar, compared to India (see section 4.5.1). This is due to the fact that both Bangladesh and Pakistan have experienced political instability due to military intervention. Levels of corruption were noticeably lower in Bangladesh during the military-backed government. Although the government established the Anti-Corruption Bureau to tackle corruption in Bangladesh, the government's involvement and the political appointment of the chairman and the staff of that Bureau mean that the independence of this institution must seriously be

¹²⁴ See similar findings in other developing countries, Wickramasinghe & Hopper (2005) in Sri Lanka; and Zeghal & Mhedhbi (2006) in developing countries.

questioned (Choudhury, 2008; Knox, 2009; IMF, 2005, 2010; Huque, 2010) (see section 4.5.2).

In relation to the influences of other factors on implementing IFRSs, this study finds that country specific factors (e.g. a lack of qualified accountants, a lack of interest in IFRSs by managers of some companies, a culture of secrecy, higher costs of IFRSs compliance with lower benefits for small companies, a lack of research, public sector dominance and a predominantly family based private sector - all ranked in order of dominance) are also impeding the implementation process in Bangladesh (see section 7.3). The study reveals reasons for the lack of qualified accountants: (i) the poor salary structure of CAs in Bangladesh compared with India, Pakistan or Sri Lanka, and (ii) the low pass rate to become a CA; hence students are not interested in studying CA (Var, 1976; Perera, 1989) (see section 7.3.1.1). Companies' managements are not inclined to comply with IFRSs (see section 7.3.1.2) while a majority of companies are copying extracts from the notes to the financial statements (e.g. accounting policies) of big companies' (i.e. a culture of secrecy) financial statements (see section 7.3.1.3). Again, state companies are relaxed about IFRSs compliance (Jones & Sefiane, 1992; Abu-Nassar & Rutherford, 1995). As seen in prior studies in Bangladesh (Uddin & Hopper, 2001, 2003; Akhtaruddin, 2005; Farooque *et al.*, 2007; Khan *et al.*, 2011), the interviewees comment that most listed companies in Bangladesh are family led businesses which tend to follow non-compliance with IFRSs (see section 7.3.1.5). It is important to add that small companies' IFRSs compliance is an issue of concern because for them the costs of complying with IFRSs will exceed the benefits (see section 7.3.2). According to interviewees, if the shareholders do not care about, or demand, higher quality annual reports, then the effectiveness of the implementation process remains questionable in Bangladesh.

In summary, effective implementation may require the depoliticising of state institutions and the establishment of an independent financial reporting council. Since managers and directors in Bangladesh conventionally strive to reap maximum benefits from political relationships and tend to follow a secretive culture, the state should pursue a stringent enforcement of the laws. In this regard, the state should make sure that politicians and their associates are not abusing their powers in order to violate the SEC rules. The current democratic government has acknowledged the need to introduce a culture of

transparency in the public and private sectors through the Anti-Corruption Bureau, the Financial Reporting Act and the Financial Reporting Council. To date, though, these remain more promising rhetoric than concrete reality.

9.2.3 Contribution to the theory of the role of the state and accounting change (RQ-3)

As has been mentioned in Chapters Three and Eight, the contribution of this study is to discuss the literature on the role of the state and accounting change in a developing country and to link the findings with theories of the role of the state. The theoretical contribution of this study in response to RQ-3 is fourfold, as is outlined below.

Firstly, the study contributes to literature on accounting change studies in developing countries such as Bangladesh by applying a Weberian view of the theory of the role of the state (see section 3.2.2.1 and Chapter Eight). Through this, the study has been able to show that different outcomes of accounting change in Bangladesh can be explained by the most frequently discussed issues in the literature, i.e. drivers of accounting change (see section 8.2).

Secondly, the study takes into consideration how external and internal forces influence accounting change. The prior research which employed the Weberian framework to both developed and developing countries, did not consider the state-society relationship (see section 3.2.1.6). In this study, the adoption of institutional dynamics has allowed a broader understanding of the theory of the state and to overcome some of the limitations of previous studies by considering accounting change on at least two levels (i.e. external and internal forces) (see sections 3.2.2.1, 8.3 and 8.5). In particular, outcomes of accounting change in Bangladesh are observed from the state level and the individual organisation level (see sections 8.3 and 8.5). However, the influence of the organisational field level is unknown in this research because industry lobbying groups were not interviewed. Extending Weber's (1958)[1904], (1968)[1922] argument on state-society (see sections 8.3.6 and 8.5.6), the study finds that for a state in an era of democratic government, politico-institutional factors and corruption (as an indication of societal values) may be more important and concentrated factors than for a state under a military-backed government in terms of impeding IFRSs implementation.

Thirdly, as has been mentioned, very limited research has been conducted on the theory of the role of the state, and the roles of the state are vague in the prior research (see section 3.2.1). I have discussed roles of the state (i.e. the state approves experts to write rules; it consults with various stakeholders; it enforces outcomes; it is accountable to its citizens; and it engages with donor agencies) in a developing country's experience during the process of change (see sections 3.2.1 and 8.3-8.5). The study reveals that all roles of the state have negative influences on accounting change. Several consequences arise from this. Accounting regulatory frameworks have not been updated to include IFRSs requirements and a contradiction exists between the Companies Act and IFRSs. Stakeholders' participation is not guaranteed in the standard setting process in Bangladesh. Political pressure by the government and in particular by successive democratic governments inhibits the IFRSs implementation process. A lack of co-operation among state institutions and professional bodies negatively impacts the outcomes of accounting change. Finally, corruption (as a societal value) is one of the major contributing factors in impeding IFRSs implementation (see Chapters Six and Seven). However, interviewees' initial concerns about the roles of donor agencies are transformed into concerns about the democratic government's failure to implement IFRSs.

Finally, the new understanding which emerges from my thesis regarding the theory of the role of the state can be summarised as follows:

- (a) For Weber (1958, p. 113)[1904], the social sources of the role of the state may change. However, in Bangladesh, individuals in society follow consistent societal values (i.e. continuous corruption) because corruption is considered to be natural and is widely accepted by the country's society (see sections 7.2.2 and 7.2.4).
- (b) Weber (1968, p. 72)[1922] argues that different actors make different choices, and stresses that power is exercised over the state's citizens, who have a duty to obey, and the state's power (e.g. compliance with laws) becomes the objective of social action. In Bangladesh, different actors (in different democratic governments) have been seen to make the same choices in terms of not effectively implementing IFRSs. Some specific observations can be made regarding IFRSs implementation: the state tends to be politicised, with a looser enforcement of laws which allows corruption and pays scant attention towards actual, effective implementation. Nevertheless, the

present study raises major questions around how effective implementation can be achieved, given the state's ongoing failure to initiate and enable it over the past thirteen years or more (see sections 6.2.2.1 and 6.2.3.3).

- (c) Weber (1968, pp. 156-157)[1922] saw that a democratic state, by means of elections and a parliamentary process, can reduce tension and struggles for power. Weber predicted that the essential role of the state is to make and enforce rules. In my opinion, Weber did not allow in his argument for the consequences of a developing country's experiences. In a developing country like Bangladesh, regulatory frameworks are often unenforceable in the presence of strong political connectedness, and obligations to the state become insignificant in the face of obligations to political connectedness. In particular, successive democratic eras in Bangladesh have been marked by inhibited IFRSs implementation in comparison to the military era (see sections 6.3.3 and 6.4). Weber (1968, p. 156)[1922] argues for the creation of meaning in everyday life, and that power is ultimately social through the parliamentary process and democracy. In the case of Bangladesh, the parliamentary process and democracy do not guarantee power to all citizens, meaning that power may not be ultimately social because of politicisation and continuum corruption within a state (see sections 8.3.6 and 8.5.6).

9.3 Limitations of the study

The following limitations are inherent in this study.

Firstly, some limitations exist in conducting interviews (both in the 1st and 2nd round of interviews) in a developing country such as Bangladesh. As mentioned in section 5.4.5, some of the interviewees cancel their appointments, and in some cases the waiting time is too long. Another limitation was in relation to translating and transcribing the interviews. Although the interviews were conducted in English, the interviewees respond mostly in Bengali and to some extent a mixture of Bengali and English. Further, respondents were often reluctant to explain much or talk extensively (e.g. offering only 'yes/no/no comment'), and some of the Bengali words used by the interviewees have the same meaning, a different meaning or no equivalent meaning in English. Researchers like Miles & Huberman (1994) and Williamson (2011) argue that that coding and interpretation is dependent on the knowledge and skill of the researcher.

As the present researcher is fluent in Bengali and English, the experience and knowledge of the researcher (in sharing the cultural background of the participants) in terms of translating and transcribing interview data could minimise any interpretation bias.

Secondly, another limitation of the research is the small sample size of the interviews. It may be argued that conducting more interviews could have obtained a deeper insight into the issues at hand. Miles & Huberman (1994) suggest that six to eight interviews are enough to justify the results of a study. This study purposively selected interviewees likely to be able to help the researcher to understand the specific problems and the research question (Street, 2002; Creswell, 2007). Accordingly, 27 interviews were conducted in the 1st round of interviews consisting of four groups (i.e. (a) policy makers [PM]; (b) accounts preparers and professionals [AP]; (c) users [US]; and (d) academics/researchers [AR]) (see section 5.4.1). According to Myers & Newman (2007), representing a variety of voices can overcome various biases. However, in the 2nd round only 12 of 27 agreed to participate. In particular, interviewees in the AP and US groups were disinclined to participate (representing 33% of the sample when comparing the 2nd round to the 1st round of interviews) (see section 5.4.2). Patton (2001) argues that qualitative research does not necessarily suggest a large number of participants. Nevertheless, two rounds of interview data were available to be used for the generalisation of the findings of this study.

Thirdly, the leaders of the industry groups (e.g. BAB, BAPLC, BGMEA, BIGUF, BTMA, DCCI, FBCCI and NGWF) were not interviewed. Although this group of people are undeniably important to the effective implementation of IFRSs, it is not easy to interview this group in Bangladesh. The researcher contacted those leaders several times but they were not interested in participating in the study. In addition, during the period of this research, Bangladesh experienced some trade union turbulence, making it even more difficult to set up interviews with this group. The researcher decided to use other sources of information instead, such as documentary analyses. Hence, the activities of these individuals and groups towards influencing IFRSs implementation remain unknown in this research (see section 8.4) and the theoretical framework in this study limits the generalisation of the findings, in particular at the organisational field level.

Fourthly, the state's accountability to its citizens has not been implicitly examined in this study. The findings of the three propositions may offer insight as to whether the state is accountable to its citizens in Bangladesh in terms of accounting change. Nevertheless, the World Bank's Governance Indicators [1996-2010], interviewees' comments on the quality (or lack of it) of investor protection laws and stakeholders' participation/non-participation in the standard setting process all illustrate why the state is not accountable to its citizens in Bangladesh.

Finally, with respect to documentary analyses, some limitations were observed (see section 5.5). For instance, part of the some of the enforcement notices are illegible, some of the notices were not available on the website, the releases contain repeated information on the same enforcement actions (Bremser *et al.*, 1991; Feroz *et al.*, 1991; Campbell & Parker, 1992; Files, 2012), the bandwidth of the SEC website is very low, no full record of enforcement documents was available (i.e. data related to thirteen years ago were not available), there was a tendency to frequently cancel meetings with the researcher, and dealing with the lack of co-ordination among various departments in the SEC and collecting data in a developing country like Bangladesh from state institutions (such as the SEC) is generally time consuming. Further, the study follows a subjective analysis of the SEC enforcement releases because the material does not lend itself to quantitative analysis. Nonetheless, this limitation is mitigated by the fact that a substantial number of enforcement releases are analysed.

9.4 Avenues for future research

Several suggestions can be made as to possible avenues for further research which arise from this study's focus and findings.

Firstly, in accounting literature, different researchers have applied a Weberian view in different ways. Future research could be conducted on the Weberian perspective of accounting change in broader terms. This theory could help a researcher to understand how and why some states are more successful than others in relation to the outcomes of their accounting change, and in particular, in terms of their implementation of IFRSs.

Secondly, this study focuses upon theory of the role of the state. According to the findings of this study, agency theory is one possible theory which might explain

effective implementation of IFRSs. Therefore, for future research, researchers may gain more insight by utilising agency theory in their studies.

Thirdly, this study does not include interviews with industry leaders due to the limitations mentioned in Chapter Five and in section 9.3. For future research, it would be interesting to study the perspectives of industry leaders and trade unions towards IFRSs implementation. This kind of further research may consider how best to proxy these particular groups (if the groups remain reluctant to participate in the research) to explain the theoretical framework involved in the study. It would also be interesting to compare these groups across various developing countries.

Fourthly, this study does not focus on social values or beliefs to explain cultural values; instead, [i] training opportunities in the accounting profession and [ii] corruption are discussed. Cultural theory, as proposed by Hofstede (1980), Hofstede *et al.* (2010) and Gray (1988), is not discussed in detail in this research because cultural theory is seen as the opposite of the Weberian view of the state (see sections 2.5.3 and 7.1). For future research, it would be interesting to study social values or beliefs and their effects on accounting change using Hofstede's or Gray's model. The findings in this study are discussed in the reflection section in the context of South Asian culture (comparing India, Pakistan and Bangladesh) using Hofstede's (2010) scores, the World Bank Governance Index (2010) and La Porta *et al.* (1998)'s scores.

Fifthly, future research could be conducted which defines corruption as an institutional factor in the implementation of IFRSs in developing countries.

Finally, it is suggested that the theoretical perspectives, interviews and the documentary analyses embraced within this broader study could be replicated in studies of another developing country, or for a group of developing countries, in order to determine and compare the outcomes of accounting change, and in particular the different levels of effectiveness seen in the implementation of IFRSs.

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2. Bangladesh Bank Guidelines for Merger/Amalgamation of Banks/Financial Institutions
3. Bangladesh Bank Order, 1972, President's Order No. 127 of 1972
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4. Bangladesh Bank Prudential Regulations for Banks, 2007
5. Bangladesh Bank, BRPD Circular No.14, 25 June 2003
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6. Bank Company (Amendment) Act No. 13, 1993 (<http://www.cgap.org/gm/document-1.9.45688/Bank%20Companies%20%28Amendment%29%20Act%2013%20of%201993.pdf>)
7. Bank Regulation and Policy Division Circular No. 14, 2007
8. Bank Regulation and Policy Division Circular No. 5, 2006
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10. Banking Companies (Amendment) Act, 2003
11. Banking Companies Act No. 14, 1991 (<http://www.cgap.org/gm/document-1.9.45687/Bank%20Companies%20Act%20No%2014%20of%201991.pdf>)
12. Corporate Governance (CG) Guidelines (to comply or explain) in 2006
(<http://www.secdb.org/Order%20relating%20to%20Corporate%20Governance%20Guidelines-9%20Jan06.pdf>)
13. Dhaka Stock Exchange listing Rules 1998 (http://www.dsebd.org/pdf/listing_reg.pdf)
14. Financial Reporting Ordinance 2008
15. Income-tax Ordinance, 1984 (No. XXXVI of 1984) (<http://www.nbr-bd.org/f3.pdf>)
16. Listing Regulations of the Chittagong Stock Exchange Limited (<http://www.cse.com.bd/listing-regulation.php>)
17. Microcredit Regulatory Act, 2006 (http://mra.gov.bd/images/mra_files/mra_act_2006_english.pdf)
18. Money Laundering Prevention Act No. 7, 2002 (<http://www.oecd.org/dataoecd/15/0/46812516.pdf>)
19. Presidential Order No. 2 of 1973 (http://bdlaws.minlaw.gov.bd/pdf_part.php?id=442)
20. President's Order No. 76 of 1972 (http://bdlaws.minlaw.gov.bd/print_sections_all.php?id=370)
21. Section 2CC of the Securities and Exchange Ordinance, 1969 (XVII of 1969)
(<http://www.secdb.org/LawBook2007/F-01.pdf>)
22. Section 34 (1) of the Securities and Exchange Ordinance, 1969 (XVII of 1969)
(http://bdlaws.minlaw.gov.bd/print_sections_all.php?id=355)
23. The Chartered Accountants Bye-laws 1973

24. The Companies Act 1994 [Bengali version available at:
(http://www.businesslaws.boi.gov.bd/components/com_eregistry/attach/28.%20The%20Companies%20Act,1994%20Bangla.pdf)
25. The Companies Act No. 18, 1994
(http://www.vakilno1.com/saarclaw/bangladesh/companies_act.htm)
26. The Cost and Management Accountants (Amendment) Act, 1990 (Act No. XXXIX of 1990)
27. The Cost and Management Accountants Ordinance (1977)
(http://bdlaws.minlaw.gov.bd/pdf/558_.pdf)
28. The Insurance Ordinance 2008, No. 47 (Repealed the prior Insurance Act 1938)
29. The Securities and Exchange Act 1993 (<http://www.sai.uni-heidelberg.de/workgroups/bdlaw/1993-a15.htm>)
30. The Securities and Exchange Rules, 1987 (<http://www.sec bd.org/LawBook2007/F-02.pdf>)

Relevant Regulations regarding court cases in Bangladesh:

1. Article 94(1), 94(2), 101, 103, 103(1) & 106, Constitution of Bangladesh, 1972;
2. Civil Courts Act 1887, Sec. 8, 11, 21(4) & 23;
3. Code of Criminal Procedure 1898, Sec. 4(2)(b), 6(3), 9, 9(3), 10, 12 (1), 17(1), 32(a), 32(b) & 32(c);
4. Code of Criminal Procedure 1898, Sub sec. 15 & 19;
5. Financial Loan Court Act 1990, Sec. 4;
6. Public Demands Recovery Act 1913;
7. Special Powers Act 1974, Sec. 28(b);
8. The Bangladesh Comptroller and Auditor-General Order, 1972 (P.O. No. 15 of 1972);
9. The Bangladesh Election Commission Order, 1972 (P.O. No. 25 of 1972);
10. The Bangladesh Public Service Commission Order 1972 (P.O. No. 34 of 1972);
11. The Bangladesh Transaction of Government Business Order, 1972 (P.O. No. 58 of 1972);
12. The Constituent Assembly of Bangladesh Order, 1972 (P.O. No. 22 of 1972);
13. The High Court of Bangladesh Order, 1972 (P.O. No. 5 of 1972);
14. The Provisional Constitution of Bangladesh Order, 1972.

Law Reports in Bangladesh:

1. 1973, Vol. 25, Dhaka Law Reports;
2. 1979, Vol. 31, Dhaka Law Reports;
3. 1983, Vol. 35, Dhaka Law Reports;
4. 1988, Vol. 40, Dhaka Law Reports;
5. 1991, Vol. 43, Dhaka Law Reports;
6. 1998, Vol. 50, Dhaka Law Reports;
7. 2003, Vol. 55, Dhaka Law Reports;
8. 2008, Vol. 60, Dhaka Law Reports;
9. 2009, Vol. 61, Dhaka Law Reports;
10. 2010, Vol. 62, Dhaka Law Reports.

Appendices

Appendix 2-1: Sampled journals from the Academic Journal Quality Guide (Version 4, 17 November 2010)

Abacus
Accounting and Business Research
Accounting and Finance
Accounting Education
Accounting Forum
Accounting Historians Journal
Accounting History
Accounting Horizons
Accounting in Europe
Accounting, Auditing & Accountability Journal
Accounting, Business and Financial History
Accounting, Organizations and Society
Advances in International Accounting
Auditing: A Journal of Practice and Theory
Behavioral Research in Accounting
British Tax Review
Contemporary Accounting Research
Critical Perspectives on Accounting
European Accounting Review
Financial Accountability and Management
Intelligent Systems in Accounting, Finance and Management
International Journal of Accounting Auditing and Performance Evaluation (IJAPE)
International Journal of Accounting Information Systems
International Journal of Auditing
Issues in Accounting Education
Journal of Accounting and Economics
Journal of Accounting and Organizational Change
Journal of Accounting and Public Policy
Journal of Accounting Education
Journal of Accounting Literature
Journal of Accounting Research
Journal of Accounting, Auditing and Finance
Journal of Applied Accounting Research
Journal of Business Finance and Accounting
Journal of International Accounting Research
Journal of International Accounting, Auditing and Taxation
Journal of International Financial Management & Accounting
Journal of Management Accounting Research (AAA)
Management Accounting Research
Managerial Auditing Journal
Qualitative Research in Accounting and Management
Review of Accounting Studies
The Accounting Review
The British Accounting Review
The International Journal of Accounting

Appendix 2-2: Articles in relation to role of the state and accounting change from Google scholar

Accounting Perspectives/Perspectives Comptables
Australian Journal of Management
Economia Aziendale
European Sociological Review
Journal of Financial Economics
Journal of Management and Governance
Journal of Modern African Studies
Research in Accounting Regulation
Review of International Political Economy
The British Journal of Sociology
The Journal of Accountancy

Appendix 2-3: Combined articles in relation to role of the state and accounting change from ABS and Google Scholar

Abacus
Accounting and Business Research
Accounting Horizons
<i>Accounting Perspectives/Perspectives Comptables*</i>
Accounting, Auditing & Accountability Journal
Accounting, Organizations and Society
<i>Australian Journal of Management</i>
Critical Perspectives on Accounting
<i>Economia Aziendale</i>
European Accounting Review
<i>European Sociological Review</i>
Financial Accountability and Management
Journal of Accounting and Public Policy
Journal of Accounting Literature
<i>Journal of Financial Economics</i>
Journal of International Financial Management & Accounting
<i>Journal of Management and Governance</i>
<i>Journal of Modern African Studies</i>
<i>Management Accounting Research</i>
<i>Research in Accounting Regulation</i>
<i>Review of International Political Economy</i>
The Accounting Review
The British Accounting Review
<i>The British Journal of Sociology</i>
The International Journal of Accounting Education and Research (Retitled, <i>The International Journal of Accounting</i> , in 1989)
<i>The Journal of Accountancy</i>

Note: The journals in italics indicate articles from Google Scholar.

Appendix 2-4(a): Papers related to the role of the state in relation to regulatory frameworks, politico-institutional factors and cultural issues and accounting change

Author(s)	Article	Theory	Drivers of Accounting Change			
			R	P-I	C	E Pr
Radebaugh (1975)	Environmental factors influencing the development of accounting objectives, standards and practices in Peru	Theory of culture on <i>secrecy and transparency</i>	R	--	C	E Pr
Watts (1977)	Corporate financial statements: A product of the market and political processes	- Agency theory - Economic regulation theory - Public choice theory	R	P-I	--	--
Hoogvelt & Tinker (1978)	The role of colonial and post-colonial states in imperialism – a case-study of the Sierra Leone development company	State theory	--	P	--	--
Solomons (1978)	The politicization of accounting	No theory	--	P	--	--
Burchell <i>et al.</i> (1980)	The roles of accounting in organizations and society	- Organisation theory - Institutional theory	R	P	C	--
Tinker (1980)	Towards a political economy of accounting: An empirical illustration of the Cambridge controversies	- Classical political economy theory - Neo-classical economics theory	R	P	--	--
Lowe <i>et al.</i> (1983)	Simple theories for complex processes: Accounting policy and the market for myopia	Positive accounting theory	R	P	C	--
Belkaoui (1983)	Economic, political, and civil indicators and reporting and disclosure adequacy: empirical investigation	No theory	R	P	C	--
Tinker (1984)	Theories of the state and the state of accounting: Economic reductionism political Voluntarism in accounting regulation theory	State theory	R	P	--	--
Sutton (1984)	Lobbying of accounting standard-setting bodies in the UK and the USA: A Downsian analysis	No Theory [Cost-benefit framework of the Downsian voting model on lobbying]	R	P	--	--
McKinnon & Harrison (1985)	Cultural influence on corporate and governmental involvement in accounting policy determination in Japan	No theory	--	P	C	--
Streeck & Schmitter (1985)	Community, market, state - and associations?: The prospective contribution of interest governance to social order	- State theory - Organisation theory	R	P	--	--
Miller (1986)	Accounting for Progress - National Accounting and Planning in France: a review essay	No theory	--	P-I	C	--
Harrison & McKinnon (1986)	Culture and Accounting Change: A New Perspective on Corporate Reporting Regulation and Accounting Policy Formulation	- Diffusion of innovation theory - Theory of culture	R	--	C	--
Puxty <i>et al.</i>	Modes of Regulation in	Theory of regulation	R	--	--	--

Author(s)	Article	Theory	Drivers of Accounting Change			
			R	P-I	C	O
(1987)	Advanced Capitalism: Locating Accountancy in Four Countries					
Armstrong (1987)	The Rise of Accounting Controls in British Capitalist Enterprises	Economics theory (Functions of capital)	R	--	--	Ca Pr
Walker (1987)	Australia's ASRB: A Case Study of Political Activity and Regulatory Capture	Regulatory capture theory	R	P-I	--	--
Sunder (1988)	Political economy of accounting standards	Review of Economics theory	R	P		Ca
Giroux (1989)	Political Interests and Governmental Accounting Disclosure	Public choice theory (median voter model & the bureaucratic model)	--	P	--	--
Baber (1990)	Toward a framework for evaluating the role of accounting and auditing in political markets: The influence of political competition	Political competition theory	--	P	--	--
Cooke & Wallace (1990)	Financial Disclosure Regulation and Its Environment: A Review and Further Analysis	- The environmental determinism theory - Agency theory - Macro sociological theory of environmental dependency	R	P	C	E Pn Eg
Miller (1990)	On the interrelations between accounting the state	State theory	R	P	--	--
Jonsson (1991)	Role making for accounting while the state is watching	- <i>Cultural</i> theory - Communicative theory - Role of the state	R	P	C	E
Young (1991)	Interest group politics and the licensing of public accountants	No theory	R	P	C	--
Pushkin & Pariser (1991)	Political and Economic forces shaping regulatory accounting for troubled debt restructuring	Positive accounting theory	R	P	C	--
Rose (1991)	Governing by numbers: Figuring out democracy	Macroeconomic theory (Democracy)	R	P	--	--
Rose & Miller (1992)[2010]	Political Power beyond the State: Problematics of Government	- Social theory - Theories of power - Role of the state	--	P	--	--
Cheng (1992)	An Empirical Analysis of Theories on Factors Influencing State Government Accounting Disclosure	- Positive accounting theory - Interest-group theory (Agency theory)	--	P-I	--	--
Walker (1992)	<i>Interactions Between Government and the Profession in the Regulation of Financial Reporting: The Australian Experience</i>	<i>No theory</i>	--	<i>P</i>	--	<i>E</i>
Napier & Noke (1992)	<i>Accounting and the law: An Historical Overview of an Uneasy Relationship</i>	<i>Positive accounting theory</i>	R	--	C	--
Stiglitz (1993)	<i>The Role of the State in Financial Markets</i>	<i>No theory</i>	R	P	--	--
Zeff (1993)	The Politics of Accounting Standards	No theory	R	P	--	--
Walker &	A critical assessment of the	No theory	R	P	--	--

Author(s)	Article	Theory	Drivers of Accounting Change			
			R	P-I	C	O
Robinson (1993)	literature on political activity and accounting regulation					
Miller (1994)	<i>Accounting as social and institutional practice: an introduction</i>	- Institutional theory - Political economy	--	P-I	--	--
Boross et al. (1995)	Pressures and conflicts in moving towards harmonization of accounting practice: the Hungarian experience	No theory	R	P	C	--
Krzywda et al. (1995)	A theory of European accounting development applied to accounting change in contemporary Poland	State theory (Max Weberian concept)	R	P	--	--
Zeff (1995)	A perspective on the U.S. public/private-sector approach to the regulation of financial reporting	No theory	R	P	--	--
Zarzeski (1996)	Spontaneous harmonization effects of culture and market forces on accounting disclosure practices	- Theory of culture - Resource dependency theory	--	--	C	Ca
Saudagaran & Diga (1997)	Accounting Regulation in ASEAN: A Choice between the Global and Regional Paradigms of Harmonization	No theory	R	P	--	E
Saudagaran & Diga (1998)	<i>Post Colonial Accountancy Regulation in ASEAN: Accounting Ideology in an International Context</i>	No theory	R	P	--	--
Nobes (1998)	Towards a General Model of the Reasons for International Differences in Financial Reporting	- Theory of culture - Positive accounting theory	R	P-I	C	Ca La
Roberts & Kurtenbach (1998)	State regulation and professional accounting education reforms: an empirical test of regulatory capture theory	- Theories of economic regulation - Capture theory - Predatory capture theory	R	P	--	E
Klumpes (1998)	<i>Competition Among Pressure Groups for Political Influence over the Determination of Accounting Standards</i>	- Agency theory - Economic theory of regulation	R	--	--	--
Ryan et al. (1999)	Constituent participation in the Australian Public Sector Accounting Standard-setting process: the case of ED 55	No theory	R	P-I	--	--
McLeay et al. (2000)	Constituent lobbying and its impact on the development of financial reporting regulations: evidence from Germany	No theory	R	P	--	--
Stoddart (2000)	Political influences in changes to setting Australian Accounting Standards	No theory	R	P	--	--
Uddin & Hopper (2001)	A Bangladesh soap opera: Privatisation, accounting, and regimes of control in a less developed country	Labour process theory	R	P	--	Pr

Author(s)	Article	Theory	Drivers of Accounting Change			
			R	P-I	C	O
Brown & Tarca (2001)	Politics, Processes and the Future of Australian Accounting Standards	Interest group theory	R	P	--	--
Zeff (2002)	Political Lobbying on Proposed Standards: A Challenge to the IASB	No theory	--	P	--	--
Faccio (2002)	<i>Politically-connected Firms: Can They Squeeze the State?</i>	No theory	--	P	--	--
Caramanis (2002)	The interplay between professional groups, the state and supranational agents: Pax Americana in the age of 'globalisation'	State theory	R	P	--	--
Sunder (2002)	Regulatory competition among accounting standards within and across international boundaries	No theory	R	--	--	--
Xiao <i>et al.</i> (2004)	Political influence and coexistence of a uniform accounting system and accounting standards: Recent developments in China	No theory	R	P	C	Ca Pn
Ordelheide (2004)	<i>The Politics of Accounting: A Framework</i>	No theory	--	P	C	--
Sunder (2005)	Minding our manners: Accounting as social norm	Theory of culture	R	--	C	--
Leuz & Oberholzer-Gee (2006)	Political Relationships, Global Financing, and Corporate Transparency: Evidence from Indonesia	No theory	R	P	--	--
Cooper & Robson (2006)	Accounting, professions and regulation: Locating the sites of professionalization	- Public choice theory - Theory of hegemony - Actor network theory	R	P	--	Pr E
Ball (2006)	International Financial Reporting Standards (IFRS): pros and cons for investors	No theory	R	P	--	--
Zeghal & Mhedhbi (2006)	An analysis of the factors affecting the adoption of international accounting standards by developing countries	No theory	R	P	C	Eg E Pn Ca
Zeff (2006)	<i>Political lobbying on Accounting Standards - National and International experience</i>	No theory	R	P	--	--
Perry & Nölke (2006)	The political economy of International Accounting Standards	No theory	--	P	--	--
Napier (2006)	Accounts of change: 30 years of historical accounting research	- Labour process theory - Positive accounting theory - Institutional theory Review - Theory of accounting change	R	P	C	'
Constable & Kuasirikun (2007)	Accounting for the nation-state in mid nineteenth-century Thailand	State theory	--	P	C	--
Ezzamel <i>et</i>	Political ideology and	Capitalist accounting	R	P	--	--

Author(s)	Article	Theory	Drivers of Accounting Change			
			R	P-I	C	O
<i>al.</i> (2007)	accounting regulation in China	theory				
Zeff (2007)	Some obstacles to global financial reporting comparability and convergence at a high level of quality	No theory	R	P	C	Au La
Ramanna (2008)	The implications of fair-value accounting: Evidence from the political economy of goodwill accounting	Theory of regulation	R	P	--	Mn
Leuz & Wysocki (2008)	<i>Economic Consequences of Financial Reporting and Disclosure Regulation: A Review and Suggestions for Future Research</i>	- Theory of disclosure regulation - Institutional Economics - Agency theory	R	P	--	--
Nobes & Zeff (2008)	Auditors' Affirmations of Compliance with IFRS around the World: An Exploratory Study	No theory	R	P	--	--
Königsgruber (2010)	A Political Economy of Accounting Standard Setting	No theory	--	P	--	--
Sunder (2010)	Adverse effects of uniform written reporting standards on accounting practice, education, and research	Agency theory	R	--	C	Pn E
Zülch & Hoffmann (2010)	<i>Lobbying on Accounting Standard Setting in a Parliamentary Environment – A Qualitative Approach</i>	No theory	R	P	--	--
Jones (2010)	Sources of power and infrastructural conditions in medieval governmental accounting	Social theory of Michael Mann (Power framework)	R	R	C	--
Moran (2010)	The political economy of regulation: does it have any lessons for accounting research?	- State theory - Political theory	R	P-I	C	--
Alexander & Servalli (2010)	<i>The State and/of Accounting Regulation</i>	State theory	R	P	C	--
Wagenhofer (2011)	Towards a theory of accounting regulation: A discussion of the politics of disclosure regulation along the economic cycle	- Theory of accounting regulation	R	P-I	--	--
Kurunmaki et al. (2011)	<i>Accounting within and beyond the state</i>	- Institutional Theory - Structuration Theory - Role of the state	--	P-I	--	--
Liguori & Steccolini (2012)	Accounting change: explaining the outcomes, interpreting the process	- New-institutional Theory - Archetype Theory - Role of the state	R	--	C	--
Norton (2012)	Judicial interpretation of the will of the state: A Hegelian perspective in the context of taxation	- Critical accounting theory - Social Contract Theory - Role of the state	R	P	--	--
Oehr & Zimmermann (2012)	Accounting and the Welfare-state: The Missing Link	- State theory - Neo-institutional theory	R	P	--	--
	Total 79 articles		62	68 ^{*a}	27	

Notes: *R* = Accounting Regulatory Frameworks; *P-I* = Politico-institutional factors; *P* = Politics; *C* = Cultural factors; *O* = Other country specific factors [*E* = Accounting Education; *Pn* = Accounting Profession; *Ca* = Capital Markets; *Pr* = Privatisation; *Eg* = Economic growth; *Mn* = Manipulation of Accounting; *Au* = Auditing; *La* = Language]

* The italics indicate working papers, book chapters and a research report are also included

*^a: 58 papers are based on Politics and 10 papers are based on Politico-institutional factors, [58+10 = 68].

Summary of Articles: (i) Total 79 articles; (ii) 15 are based on the theory of the role of the state [Hoogvelt & Tinker (1978); Tinker (1984); Streeck & Schmitter (1985); Miller (1990); Jonsson (1991); Rose & Miller (1992)[2010]; Krzywda et al. (1995); Caramanis (2002); Constable & Kuasirikun (2007); Moran (2010); Alexander & Servalli (2010); Kurunmaki et al. (2011); Liguori & Steccolini (2012); Norton (2012); Oehr & Zimmermann (2012)]; (iii) 34 Other theories; and (iv) 30 No theories.

Appendix 2-4(b): Theory & Non-theory based papers in relation to Developing vs. Developed countries

Theory based papers	
Developing country	Developed country
<ul style="list-style-type: none"> • Ezzamel <i>et al.</i> (2007): China • Constable & Kuasirikun (2007): Thailand • Uddin & Hopper (2001): Bangladesh • Krzywda <i>et al.</i> (1995): Poland • Hoogvelt & Tinker (1978): Sierra Leone • Radebaugh (1975): Peru 	<ul style="list-style-type: none"> • Liguori & Steccolini (2012): Italy • Norton (2012): The UK & the USA • Alexander & Servalli (2010): The EU & the IASB • Moran (2010): The USA & the UK • Jones (2010): Medieval country • Sunder (2010): The USA & the EU • Oehr & Zimmermann (2012): Germany, Canada & the UK • Leuz & Wysocki (2008): The USA • Ramanna (2008): The USA • Cooper & Robson (2006): The UK • Sunder (2005): The USA • Caramanis (2002): Greece • Brown & Tarca (2001): Australia • Klumpes (1998): Australia • Roberts & Kurtenbach (1998): The USA • Zarzeski (1996): France, Germany, Hong Kong, Japan, Norway, the UK & the USA • Napier & Noke (1992): The UK & New Zealand • Cheng (1992): The USA • Rose & Miller (1992)[2010]: The UK & the USA • Jonsson (1991): Sweden • Rose (1991): The USA • Pushkin & Pariser (1991): The USA • Miller (1990): France • Giroux (1989): The USA • Sunder (1988): The USA • Walker (1987): Australia • Armstrong (1987): The UK • Puxty <i>et al.</i> (1987): Germany, the UK, Sweden & the USA • Harrison & McKinnon (1986): Japan • Lowe <i>et al.</i> (1983): the UK & the USA • Tinker (1980): The UK
<p>Both developed & developing countries:</p> <ul style="list-style-type: none"> • Nobes (1998) • Cooke & Wallace (1990) <p>General Theory: (Theory based only)</p> <ul style="list-style-type: none"> • Kurunmaki <i>et al.</i> (2011) • Wagenhofer (2011) • Napier (2006) 	

<ul style="list-style-type: none"> • Miller (1994) • Baber (1990) • <i>Streeck & Schmitter (1985)</i> • <i>Tinker (1984)</i> • Burchell <i>et al.</i> (1980) • Watts (1977) 	
Non-theory based papers	
Developing country	Developed country
<ul style="list-style-type: none"> • Leuz & Oberholzer-Gee (2006): Indonesia • Zeghal & Mhedhbi (2006) • Xiao <i>et al.</i> (2004): China • Saudagaran & Diga (1998): ASEAN , Malaysia, Philippines, Indonesia, Thailand & Singapore [except Singapore all are developing countries] • Saudagaran & Diga (1997): ASEAN , Malaysia, Philippines, Indonesia, Thailand & Singapore [except Singapore all are developing countries] • Boross <i>et al.</i> (1995): Hungary 	<ul style="list-style-type: none"> • Zülch & Hoffmann (2010): Germany • Königgruber (2010): The EU & the USA • Perry & Nölke (2006): The EU & the USA • Zeff (2006): The USA, the UK, Canada & Sweden • Zeff (2002): The USA, the UK, & Australia • Sunder (2002): The USA • Stoddart (2000): Australia • McLeay <i>et al.</i> (2000): Germany • Ryan <i>et al.</i> (1999): Australia • Zeff (1995): The USA • Zeff (1993): The USA • Walker (1992): Australia • Young (1991): The USA • Miller (1986): France • McKinnon & Harrison (1985): Japan • Sutton (1984): The UK & the USA • Solomons (1978): The USA
<p>Both developed and developing countries:</p> <ul style="list-style-type: none"> • Nobes & Zeff (2008) • Zeff (2007) • Ball (2006) • Ordheide (2004) • Faccio (2002) • Walker & Robinson (1993) • Belkaoui (1983) 	

Note: The italics indicate papers relating to the theory of the role of the state.

Appendix 4-1: Copyright permission from the World Bank

Permission Manager
The World Bank
1818 H Street NW
Washington DC 20433
USA

06/20/2012

Dear Permission Manager,

I am preparing my PhD thesis and I would like to include the data of World Bank's Governance Indicators of Bangladesh [1996-2010]. I will have cited as World Bank (2010).

I would like your permission to include the data of World Bank's Governance Indicators of Bangladesh [1996-2010]. I understand that you control the right to these data. I would be grateful if you could grant permission for their use.

I am seeking non-exclusive world rights and will reproduce the data as part of my complete text for distribution.

Kind regards,

Mohammad Nurunnabi
PhD Candidate in Accounting
Business School
The University of Edinburgh

I (we) grant permission for the use of the data as set forth above.

Authorized Signature:



Name: Veronika Andrlova

Title: Rights and Permission Assistant

Date: 6/20/2012

Email: vandrlova@worldbank.org

Company: The World Bank

Address: 1818 H Street NW, Washington DC 20433, USA

Appendix 4-2: Copyright permission from Geert Hofstede B.V.

Date: Fri, 29 Jun 2012 10:27:29 +0200 [29/06/2012 09:27:29 BST]
From: Rights Geert Hofstede <rights@geerthofstede.nl>
To: M.Nurunnabi@sms.ed.ac.uk
Reply-To: rights@geerthofstede.nl
Subject: re: permission letter to use Hofstede et al. (2010)'s data

Dear Mohammad,

Thank you very much for specifying how you intend to use the Hofstede model in your research. It is therefore with pleasure that I grant permission to do so.
As few studies are known to me based on data from India, Pakistan and Bangladesh, we would be most pleased to receive a copy of your study. Would that be possible?
In that case, could you send a hard copy to the address below, to the attention of Professor Hofstede?

Thank you very much and good luck with your thesis.

With kind regards,
Geert Hofstede B.V.

Loes Cornelissen
Rights Manager
Den Bruijl 15
6881 AN Velp

The Netherlands

Van: Mohammad NURUNNABI <M.Nurunnabi@sms.ed.ac.uk>
verzonden: donderdag 21 juni 2012 12:46
Aan: rights@geerthofstede.nl
Onderwerp: re: permission letter to use Hofstede et al. (2010)'s data

Dear Manager

I am using cultural scores of India, Pakistan and Bangladesh from Hofstede et al. (2010). Source: Hofstede, G., Hofstede, G.J. and Minkov, M. (2010). Cultures and Organizations: Software of the Mind. 3rd Edition. New York: McGraw-Hil

Kind regards

--

Mohammad Nurunnabi
PhD Candidate in Accounting
Business School
The University of Edinburgh

--

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Appendix 4-3: Copyright permission from the University of Chicago Press

University of Chicago Press

Permissions Department
 1427 East 60th Street
 Chicago, IL 60637
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Permission Grant

Mohammad Nurunnabi
 Business School
 Univ of Edinburgh
 29 Buccleuch Place
 Edinburgh, EH8 9JS
 UNITED KINGDOM

Date: June 20, 2012
 Grant Number: 106260
 Request Date: 06/20/2012
 Reference Number: 0049536725

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0049536725	1652	La Porta, et al., JOURNAL POLITICAL ECONOMY "Law and Finance" 106:6 (1998), pp. 1113-1155 -- excerpts, "Enforcement Data of India & Pakistan"	\$0.00
Order Total:			\$0.00
Handling:			\$0.00
Tax:			\$0.00
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a thesis prepared for a PhD degree at the Univ of Edinburgh

Approved By: _____, Perry Cartwright, Rights & Permissions

Appendix 5-1: An e-mail communication for conducting interviews

Date: Thu, 15 Apr 2010 03:53:41 -0700 [15/04/10 11:53:41 AM BST]

From: Nasim Anwar <nasim66anwar@yahoo.com>

Reply-To: Mohammad NURUNNABI <M.Nurunnabi@sms.ed.ac.uk>

Subject: Re: Interview on IFRSs implementation in Bangladesh

Thanks for your mail. Please contact me when you are in Bangladesh. I will try my level best to help you so that you can complete your work in Bangladesh successfully.

Best Regard

Nasim Anwar FCA

Sent from my iPhone

On 14-Apr-2010, at 12:52 AM, Mohammad NURUNNABI <M.Nurunnabi@sms.ed.ac.uk> wrote:

Dear Sir:

I am engaged in preparing my Doctoral Thesis entitled 'The implementation of IFRSs in a developing country: the Case of Bangladesh'. I am really interested in your experience of implementing IFRSs.

I would very much appreciate a discussion with you. I am sending the attached interview questions which are prepared under the supervision of Pauline Weetman, Professor of Accounting, University of Edinburgh Business School, United Kingdom. Accordingly, I would be grateful if you would allow me to conduct an interview lasting around an hour. I will be in Bangladesh from 3 June 2010 to 30 August 2010. May I request you to let me know a suitable time and date for the interview by 20 May 2010?

All the discussion in the interview will be treated as strictly confidential and no individuals or organisations will be identified in my thesis or any subsequent research papers.

Yours sincerely,

Mohammad Nurunnabi
PhD Candidate in Accounting
University of Edinburgh
8 Buccleuch Place,
Edinburgh, EH8 9LW
United Kingdom
Tel: +44 (0) 131 650 8334
Mob: +44 (0) 796 179 2893
E-mail: M.Nurunnabi@sms.ed.ac.uk

--

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< Preparers and Professionals.doc >

Appendix 5-2: A letter of introduction for conducting interviews

UNIVERSITY OF EDINBURGH
Business School

January 2010

Re: Support for doctoral student interview on IFRSs implementation in Bangladesh.

Dear Sir/Madam

This is to confirm that Mr. Mohammad Nurunnabi is a PhD student in Accounting at the University of Edinburgh under my supervision. Currently he is studying towards his PhD in the area of IFRSs implementation in Developing Countries. His doctoral thesis is entitled "The implementation of International Financial Reporting Standards (IFRSs) in Developing Countries: The Case of Bangladesh".

Mr. Nurunnabi will be in Bangladesh for the period from the end of May 2010 to 30 August 2010. It would be very helpful for his research if Mr Nurunnabi could conduct an interview with you. Accordingly, I would be grateful if you would allow him to conduct an interview lasting around an hour. It would also be helpful if he were allowed access to library material such as annual reports. May I request you to let him know a suitable time and date for the interview by 20 May 2010 at his university email address M.Nurunnabi@sms.ed.ac.uk?

It is normal university practice that all the discussion in the interview will be treated as strictly confidential and no individuals or organizations will be identified in his thesis or any subsequent research papers.

Your co-operation will be very much appreciated and I thank you in advance for your kind participation. Should you have any questions, please do not hesitate to contact me directly by email: Pauline.Weetman@ed.ac.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Pauline Weetman'.

Professor Pauline Weetman

Accounting and Finance Group
University of Edinburgh Business School
Email: Pauline.Weetman@ed.ac.uk

<http://webdb.ucs.ed.ac.uk/management/msm/research/clusters/membership.cfm?grpid=2>

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50 George Square
Edinburgh, EH8 9JY
Scotland

t +44 (0)131 650 3900
f +44 (0)131 668 3053

www.business-school.ed.ac.uk

Appendix 5-3: Semi-structured interview schedule

Interviewee Type: _____
Interview date: _____
Time: _____
Name of the interviewee: _____
Company: _____
Job Title: _____
Work Experience (in Years): _____
Qualification: _____
Date of Qualification: _____

Interview preamble:

This interview is a part of doctoral research that explores the implementation of IFRSs in Bangladesh. You have been invited to participate in this study based on your involvement in the policy making/accounts preparing/using/researching of accounting arenas in Bangladesh.

All responses to this interview are absolutely confidential and results will be presented in an anonymous form.

With your permission, I would like to record the interview to ensure that I do not miss any important points. I will make the transcript available if you wish. (Yes/No)

Would you like me to acknowledge your support in my thesis? (Yes/No)

Do you have any questions before we commence?

Interview Questions:

Background information: The definition of ‘implementation’ regarding my research is: The actual observed outcomes of introducing and monitoring the standards. These outcomes will include the action of the government, SEC, ICAB, ICMAB, DSE, Bangladesh Bank

Drivers of Accounting Change	Policy Makers	Preparers/Professionals	Academics	Users
[A] Accounting Regulatory Frameworks (RQ-1)	1. How would you describe the accounting regulatory frameworks in relation to the existing laws for investor protection, standard setting process and enforcement issues in Bangladesh? 2. Who really regulates accounting issues in the country today?	1. How would you describe the accounting regulatory frameworks in relation to the existing laws for investor protection, standard setting process and enforcement issues in Bangladesh? 2. Who really regulates accounting issues in the country today?	1. How would you describe the accounting regulatory frameworks in relation to the existing laws for investor protection, standard setting process and enforcement issues in Bangladesh? 2. Who really regulates accounting issues in the country today?	1. How would you describe the accounting regulatory frameworks in relation to the existing laws for investor protection, standard setting process and enforcement issues in Bangladesh? 2. Who really regulates accounting issues in the country today?
[B] Politico-Institutional Factors (RQ-1)	3. Is there any higher/lower level of political pressure (e.g. government intervention, donor agencies’ pressure and political lobbying) to implement or not implement IFRSs? 4. Do you feel the institutional and professional bodies can work together to better implement IFRSs?	3. Is there any higher/lower level of political pressure (e.g. government intervention, donor agencies’ pressure and political lobbying) to implement or not implement IFRSs? 4. Do you feel the institutional and professional bodies can work together to better implement IFRSs?	3. Is there any higher/lower level of political pressure (e.g. government intervention, donor agencies’ pressure and political lobbying) to implement or not implement IFRSs? 4. Do you feel the institutional and professional bodies can work together to better implement IFRSs?	3. Is there any higher/lower level of political pressure (e.g. government intervention, donor agencies’ pressure and political lobbying) to implement or not implement IFRSs? 4. Do you feel the institutional and professional bodies can work together to better implement IFRSs?
[C] Cultural Factors (e.g. Training opportunities in the accounting profession & Corruption)	5. Do you feel that the current syllabus of the professional accountancy qualification is suitable to implement IFRSs effectively? 5(a) Will the IFRSs be included in the universities' curricula?	5. Do you feel that the current syllabus of the professional accountancy qualification is suitable to implement IFRSs effectively? 5 (a) Should the IFRSs be included in the universities'	5. Do you feel that the current syllabus of the professional accountancy qualification is suitable to implement IFRSs effectively? 5(a) Should the IFRSs be included in the universities' curricula?	5. Do you feel that the current syllabus of the professional accountancy qualification is suitable to implement IFRSs effectively? 5(a) Do you know whether the IFRSs will be included in the universities'

Drivers of Accounting Change	Policy Makers	Preparers/Professionals	Academics	Users
(RQ-2a)	<p>6. What kind of training and development you are offering them (the preparers and professionals) to cope with IFRSs?</p> <p>7. How would you regard corruption as an issue in implementing IFRSs effectively?</p>	<p>curricula?</p> <p>6. What are the training and development you attained to cope with IFRSs?</p> <p>7. How would you regard corruption as an issue in implementing IFRSs effectively?</p>	<p>5(b) Is there any lack of research in this sector?</p> <p>6. What do you think about what kind of training and development they (the preparers & professionals) needed to cope with IFRSs?</p> <p>7. How would you regard corruption as an issue in implementing IFRSs effectively?</p>	<p>curricula?</p> <p>6. Would you feel that the preparers and professionals need training and development to cope with IFRSs?</p> <p>7. How would you regard corruption as an issue in implementing IFRSs effectively?</p>
[C] Other Country Specific Factors (RQ-2b)	8. What are the main problems of effective implementation of IFRSs in Bangladesh?	8. What are the main problems of effective implementation of IFRSs in Bangladesh?	8. What are the main problems of effective implementation of IFRSs in Bangladesh?	8. What are the main problems of effective implementation of IFRSs in Bangladesh?
	9. Are there any other comments you would like to make regarding the implementation of IFRSs?	9. Are there any other comments you would like to make regarding the implementation of IFRSs?	9. Are there any other comments you would like to make regarding the implementation of IFRSs?	9. Are there any other comments you would like to make regarding the implementation of IFRSs?

Appendix 5-4: Detailed summary of the interviewees [The 1st round]

Category	Code	Company/Organisation	Work Experience	Highest Qualification	Date & Time of Interviews		Recorded/ Not recorded ¹²⁵
					Date	Time	
A. Policy makers	PM1	ICAB (The Institute of Chartered Accountants of Bangladesh)	26 years	PhD	12/06/10	9:30-10:43	Not recorded
	PM2	ICAB (The Institute of Chartered Accountants of Bangladesh)	10 years	ACA	14/06/10	11:23-12:39	Recorded
	PM3	ICMAB (The Institute of Cost & Management Accountants of Bangladesh)	30 years	FCMA	23/06/10	15:00-16:00	Recorded
	PM4	SEC (The Securities & Exchange Commission of Bangladesh)	11 years	MBA	24/06/10	14:30-15:20	Not recorded
	PM5	World Bank	14 years	FCA	30/06/10	16:00-17:12	Not recorded
	PM6	Bangladesh Bank [The Central Bank]	40 years	PhD	16/06/10	12:00-13:10	Recorded
	PM7	Ministry of Finance	16 years	MA	01/07/10	9:00-10:20	Not recorded
B. Preparers & professionals	AP1	Big 4 Accountancy Firm in Bangladesh	32 years	ACA	04/07/10	9:00-10:00	Not recorded
	AP2	A Pharmaceutical company	24 years	ICMA (Part)	05/07/10	9:00-9:55	Recorded
	AP3	Big 4 Accountancy Firm in Bangladesh	9 years	ACA	06/07/10	14:00-15:15	Not recorded
	AP4	Small Accountancy Firm	10 years	ACA	11/07/10	12:00-13:10	Recorded
	AP5	Bank	10 years	M.Com.	14/07/10	9:00-10:15	Not recorded
	AP6	An Engineering company	8 years 2 months	MBA	17/07/10	10:00-11:30	Not recorded
	AP7	Bank	15 years	M.Com	18/07/10	11:00-12:15	Recorded
	AP8	Small Accountancy Firm	5 years	ACA	19/07/10	9:00-10:17	Not recorded
	AP9	Small Accountancy Firm	20 years	FCA	21/07/10	15:00-16:20	Recorded
	AP10	Multinational company	11 years	ACMA	22/07/10	10:00-10:49	Recorded
	AP11	A Pharmaceutical company	7 years	ACA	27/07/10	16:00-16:53	Not recorded
	AP12	Big 4 Accountancy Firm in Bangladesh	15 years	FCMA, FCA	29/07/10	13:00-14:15	Not recorded

¹²⁵ 13 interviewees declined to record the interviews.

Category	Code	Company/Organisation	Work Experience	Highest Qualification	Date & Time of Interviews		Recorded/ Not recorded ¹²⁵
					Date	Time	
C. Users	US1	Bank	10 years	MBA	02/08/10	10:45-11:38	Recorded
	US2	Stock Broker and Central Depository Bangladesh Limited (CDBL) participatory	9 years	MA	05/08/10	9:00-9:47	Not recorded
	US3	Financial Institution and Central Depository Bangladesh Limited (CDBL) participatory	8 years 7 months	MBA	08/08/10	9:00-10:11	Recorded
	US4	Bank	10 years	CMA(Part)	09/08/10	13:00-14:02	Recorded
	US5	Credit Rating Agency of Bangladesh	5 years 10 months	MBA	12/08/10	11:00-11:52	Not recorded
	US6	Bank	18 years	M.Com	13/08/10	15:00-16:07	Recorded
D. Academics & Researchers	AR1	A Private University, Bangladesh	21 years	PhD	16/08/10	9:00-10:12	Recorded
	AR2	A Public University, Bangladesh	10 years	MBA	19/08/10	13:15-14:27	Recorded

Appendix 5-5: Interview guide of the study

<p><i>Introduction</i></p> <ul style="list-style-type: none"> • Welcome to the interviewee for participating this research. • The introduction and the general purposes of the topic are discussed for few minutes. • I explain the use of recording equipment to the interviewee. • I also address the issue of ethical guidelines, (e.g. anonymity & confidentiality). • Finally, I read a protocol summary to the interviewee. <p><i>Interview</i></p> <p>After the introduction the questions relevant to the topics are asked to the interviewees. They are given some opportunities to provide some examples relevant to the questions which may bring forth their opinions that they have been waiting to share knowing.</p> <p><i>Closing remarks</i></p> <p>That is all the questions I have and thank you very much for participating in this research.</p>
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Appendix 5-6: The 2nd Round Interview Questions

Drivers of Accounting Change	PM, AP, AR and US
[A] Accounting Regulatory Frameworks (RQ-1)	1(a). How would you describe the accounting regulatory process in Bangladesh? 1(b). How would you describe the accounting standard setting process in Bangladesh? 2. How effective is the enforcement mechanism in implementing IFRSs?
[B] Politico-Institutional Factors (RQ-1)	3. How do you regard the political pressure to implement or not implement IFRSs? 4. How important is the institutional co-operation to implement IFRSs effectively?
[C] Cultural factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption) [RQ-2(a)]	5. How effective are accounting education and training opportunities in implementing IFRSs? 6. How does corruption affect effective IFRSs implementation?
[C] Other Country Specific Factors [RQ-2(b)]	7. What are the main problems in the effective implementation of IFRSs?

Appendix 5-7: Research ethics guidelines of the University of Edinburgh Business School

University of Edinburgh Business School
Level 1 and 2¹ Research Ethics Applications

Name of Student: Mohammad Nurunnabi

Title of Proposal: The role of the state in implementing IFRSs in a developing country: the case of Bangladesh

Please provide a brief outline of the research aims and the proposed methodology, highlighting any anticipated ethical issues (on separate sheet if necessary):


The purpose of this study is to examine what factors have been affecting the implementation of IFRSs in Bangladesh from 1998 to 2010. The study seeks to answer these specific research questions: (1) What is the relative impact of accounting regulatory frameworks and politico-institutional factors on the implementation of IFRSs in Bangladesh?; 2(a): How do (i) training opportunities in the accounting profession and (ii) the state of corruption, as outcomes of culture in Bangladesh, affect the implementation of IFRSs?; 2(b): What other country specific factors are affecting implementation of IFRSs?; (3) How does a study of implementing IFRSs help to build an understanding of a theory of the role of the state in accounting change in a developing country such as Bangladesh?

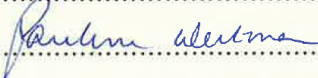
This study adopts a mixed methodology in which interviews over two years (2010-2011) are conducted and documentary analyses of IFRSs-related enforcement documents (1998-2010) are evaluated to identify the possible obstacles for implementing IFRSs in Bangladesh.

I have read the *Business School Research Ethics Policy* and agree to abide by it.
In the case of human subjects in research: (delete as necessary)

Participants will be told about the objectives of the study.	Yes/No
Any hazards will be explained to them.	Yes/No
Participants will be informed they are participating of their own free will and consent.	Yes/No
They will be informed that they are free to withdraw at any point should they wish to.	Yes/No
Information will be held in confidence and any information used will be used anonymously unless consent has been given otherwise	Yes/No
I confirm that this study does NOT involve children (under 18), institutionalised people; or other individuals who are vulnerable or unable to give consent.	Yes/No
I have considered the risks of physical or psychological harm to research participants (including the researchers) and how to address these	Yes/No

Please provide explanations in the case of a negative response to any of the above questions.

Student signature:  Date: 13/06/2012

Supervisor signature:  Date: 13/6/12

¹ Level one: applies to 'straightforward' non-intervention, observational research (data, observation, questionnaires)
Level two: 'straightforward' engagement with participants or participant groups (interviews, focus groups etc.)

Appendix 5-8: An example of the colour coding of semi-structured interview (Translated & transcribed)

Open Coding [Background Colour]	Axial coding [Font Colour]
Interviewee Code	Quality of investor protection laws
Accounting Regulatory Frameworks	Standard setting process
Politico-Institutional Factors	Regulator responsibility
Cultural Factors (e.g. [i] training opportunities in the accounting profession and [ii] corruption)	Enforcement of the laws
Other Country Specific Factors	Level of donor agencies' pressure
	Level of government intervention
	Level of political lobbying
	Co-operation among institutional bodies
	Professional Syllabus
	Universities Curricula
	Training and development
	Corruption
	Major problems of IFRSs implementation
	Suggestions/solutions

[Example of an Interview Extract]

Interviewee Type: Policymakers
 Interviewee Code: PM6
 Interview date: 16/06/2010
 Time and Duration: 12:00 p.m. – 1:10 p.m. (1 hour 10 minutes)
 Name of the interviewee: Dr. A
 Company/Organisation: Bangladesh Bank
 Job Title: Ex. Governor
 Work Experience (in Years): 40 years
 Qualification: PhD in Economics
 Date of Qualification: 1978

Interview preamble:

With your permission, I would like to record the interview to ensure that I do not miss any important points. I will make the transcript available if you wish. (√Yes/No)

Would you like me to acknowledge your support in my thesis? (√Yes/No)

Nurunnabi [The researcher]: Do you have any questions before we commence?

Interviewee: Yes, I have few queries. Are you considering IFRS 7 or BAS 30 in your research because it is very important?

Nurunnabi: The previous research on Bangladesh identified that the IFRSs compliance rate is very low. Therefore, in my research, I am investigating problems of IFRSs implementation. No, I am not investigating particular standards, for example IFRS 7.

Interviewee: Well, Mr. Nurunnabi, it makes sense to me now.

Interview Questions	
Accounting Regulatory Frameworks	<p>1. Nurunnabi: Who really regulates accounting issues in the country today?</p> <p>Interviewee: Strictly speaking, there is no regulatory body as such to regulate the accounting regulations' concerns. What happens is like the regulatory bodies like Bangladesh Bank and SEC who require some kind of financial statements formats which are mandatory. According to that, banks, financial institutions and other companies must submit their quality report following IFRSs and ISA audit compliance to respective regulatory bodies. However, IFRSs or BFRSs are not strictly being examined by any particular body. When it comes to the regulatory body like Bangladesh Bank, they point out that some of IFRSs or BFRSs have not been implemented but as you know [that] no particular body cares really much. But in fact, I think that [this] is one of the weaknesses. ICAB should give orientation and guidelines that whenever the Chartered Accountants audit or send their reports they should comply with it. ICAB is supposed to really look into this matter. But I don't think ICAB is also that much competent or they have the mandate to do that.</p> <p>2. Nurunnabi: How would you describe the current situation of accounting regulation in Bangladesh?</p> <p>Interviewee: [Arm..] I have already answered the question as I don't think it is very satisfactory. Because CA people are paid fees and they submit the reports to the bodies and in fact the firms are little bit obligated to the clients which they should not be. They should give a very impartial view but I have seen in my past experience as a Governor that many of the reports [by] companies, banks or financial institutions [send] Bangladesh Bank and different agencies [to] reflect their wishes and all that. So, there is impartiality and professionalism in preparing the reports [require] some models. I think [that] there are lots of scopes for improvement in the accounting regulations of Bangladesh.</p>
Politico- Institutional Factors	<p>3. Nurunnabi: Is there any higher/lower level of political pressure to implement or not implement IFRSs?</p> <p>Interviewee: Yes, you know [that] politics is a big problem. I really appreciate the initiative that the Caretaker Government [Military Government] took for Financial Reporting Ordinance 2008, but it has not been enacted as well. That was a very good attempt. I think this was initiated during the BNP Government when Mr. Saifur Rahman, Ex- finance minister, being a chartered accountant also felt the necessity for such an Act. But I think [that] he was also a little bit influenced by business people or political pressure not to do very fast. But he really felt it otherwise [that] he would not have done some preliminary work. When the caretaker Government came, it was finalised after taking the comments of the chartered accountants, comments of the business people and comments from the trade bodies. I think the Caretaker Government passed the principles but they could not implement it. In fact at that Act, the Bangladesh Bank Governor was supposed to be the Chairman of the regulatory body because [it is a] impartial body. I think after the Awami league Government came, they found it as a very sensitive and a very loaded Act because lots of people possibly do not really want to go ahead with it. But I hope [that] this political Government will implement it. If they want to modify the draft made by Caretaker Government was ok, but I think they must enact that financial reporting Act which is very important. <i>(A telephone call, interrupting)</i></p> <p>4. Nurunnabi: Do you feel the institutional and professional bodies can work together to better implement IFRSs?</p> <p>Interviewee: I think [that] there should be some kind of discussion and all that. But to implement or formulate IFRSs, you cannot please everyone. So it is not like an open ended participatory approach because trade bodies and business people will object so many things specially some of the regulatory laws. So, I think [that] if possible the ICAB, ICMAB, SEC, Bangladesh Bank, listed companies and the Government should take a lead to implement that. They can take the opinion from business people but I am doubtful whether it can be implemented because these people will give so many comments and you would not be able to implement it. My comment [would be] that they can now make a comprehensive report based on the comments received and they can incorporate and adjust. As [at] the last stage, they can discuss about the report with the stakeholders and then place it to the cabinet. But what happens is that 'the more you discuss about the matter the less you will be able to implement it'.</p>
	<p>5. Nurunnabi: Do you feel that the current syllabus of the professional accountancy qualification is suitable to implement IFRSs effectively?</p>

Interview Questions	
<p>Cultural Factors (e.g. [i] Training opportunities in the accounting profession and [ii] Corruption)</p>	<p>Interviewee: I don't think the syllabus is up to date to really implement IFRS and Basel II. I have seen many people don't know about this. I have seen some ICAB people know [about] it and write some articles but this information should be disseminated. Knowledge dissemination by seminars, workshops and more training must be needed. The ICAB should include IFRSs in their syllabus and also engage students in arranging regular seminars and workshops on IFRSs.</p> <p>5(a). Nurunnabi: Will the IFRSs be included in the universities' curricula?</p> <p>Interviewee: I think [that] IFRSs will be included in University curriculum. It should be included because when the university students are taught about the different accounting methods and all that, the general accounting principles, they should also know about the difference between those. I think [that] many people in the accounting professions even also don't know about IFRSs or BFRSs. So, they should be oriented and of course IFRS should be included. The finance, accounting, [and] banking students should know about Basel II and IFRSs.</p> <p>6. Nurunnabi: What kind of training and development you are offering them (the preparers and professionals) to cope with IFRSs?</p> <p>Interviewee: There are no training facilities in Bangladesh Bank but there have been several talks regarding IFRSs training among ICAB, SEC, Bangladesh Bank and some donor agencies. Donor agencies, in particular World Bank are providing technical assistance. I think this should be expedited. What they are doing is that they are talking and discussing but there are no practical training models. For the accountant, executives or CEOs or others like people in-charge of the finance, I think this should be immediately done. I feel [that] the regulatory bodies also should be trained.</p> <p>7. Nurunnabi: How would you regard corruption as an issue in implementing IFRSs effectively?</p> <p>Interviewee: I don't think corruption is hampering IFRSs implementation.</p>
<p>Other Country Specific Factors</p>	<p>8. Nurunnabi: What are the main problems of effective implementation of IFRSs in Bangladesh?</p> <p>Interviewee: I would say one kind of Inertia is the part of accountant, business people, lack of orientation and commitment. Business directors think [that] if IFRSs are implemented, they will be unduly controlled and checked on. But they should be made aware that this implementation satisfies the basic principles of accountability and transparency. But they believe that if the old system is working then why implement a new one. Therefore, so many problems are arising and we are not keeping updated with the world standards. So, they should be given orientation and there should be a common need. I think if it is enacted, then people will definitely take action to implement it. You know [that] the lower number of CAs are not helpful to implement IFRSs. The ICAB should be more proactive on that.</p>
	<p>9. Nurunnabi: Are there any other comments you would like to make regarding the implementation of IFRSs?</p> <p>Interviewee: The businessman, users and the government should have a common need, they should feel that it is very much needed and this is for everybody. If IFRS is followed then transparency, accountability and all kinds of transactions specially finance and business transactions will be ensured. If it is implemented then the environment, governance issues [will] also [be] improved if those are really done. So, this is important. For IFRS implementation, the auditing standard are also related, these are not addressed effectively now-a-days. In Bangladesh Bank, we have risk based auditing which is different than simple voucher auditing. In risk based auditing managers are held responsible for minimising risk of any kind of operation. So, the auditing standard also has to be examined. Chartered Accountants and professionals should also be involved in its implementation. I think [that] good professionals should also be involved in its implementation. I think [that] in Bangladesh what we should do is a kind of very close interaction of some other countries and bodies. We can follow the Pakistan, India and Malaysia for example, because they have very good regulation in their accounting system like Islamic Banking. I think interaction is very important. We the Bangladesh Bank are doing this job, but the whole country should do it and disseminate knowledge to the public.</p>

Thank you Dr. A for giving your valuable time.

Appendix 6-1: IFRSs/BFRSs¹²⁶ Related Enforcement (n=42, 41 Penalty/Fine, 1 Warning) from 1998-2010

Year	Month	Sl. ¹²⁷	Industry	Violation Type	Relevant Accounting Standard(s)	Relevant Regulations	Actions & Amount (Tk.)
2010	January	50	Cement	Non Application of Depreciation on fixed assets, True & Fair View	IAS 1, IAS 16	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [1,400,000] ¹²⁸
	January	51	Food & Allied	Going concern; Selling, Distribution & Sales Promotion; sales/turnover; falsification, True & Fair View	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [300,000]
	January	57	Food & Allied	Provision for bad & doubtful debts, unreliability of unconfirmed balance of Debtors, True & Fair View	IAS 1, IAS 39	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [1,200,000]
	January	58	Textile	Inventory, Financial expenses, Advance & deposits, Deferred expenses, Tax holiday reserve, True & Fair View	IAS 1, IAS 2, IAS 12, IAS 23	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [800,000]
	May	19	Pharmaceuticals & Chemicals	Going concern (The machineries were non-operative from 2006), Provision for bad & doubtful debts	IAS 1, IAS 39	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [1,500,000]
	May	20	Food & Allied	Most of the amounts of inventories have not been changed over the years	IAS 2, IAS 36	SEC Ordinance 1969 S. 2(g), Rule 12(2) of SEC Rule 1987	Fine [1,200,000]
	June	29	Paper & Printing	No appropriate method was followed in charging depreciation of other fixed assets	IAS 16	SEC Ordinance 1969 S. 2(g), Rule 12(2) of SEC Rule 1987	Fine [1,000,000]
	September	7	Engineering	No depreciation has been charged	IAS 16	SEC Ordinance 1969 S. 2(g), Rule 12(2) of SEC Rule 1987	Fine [1,000,000]

¹²⁶ The word IFRSs and BFRSs are interchangeably used.

¹²⁷ The Sl. is the serial number of the SEC's monthly enforcement notices.

¹²⁸ The values are given in Bangladeshi Currency, i.e. the Taka (Tk.). The exchange rate on 31.03.2012 was [Tk. 1 = £0.0083 or £1 = Tk. 119.815], source: <http://www.hmrc.gov.uk/exrate/bangladesh.htm>

Year	Month	Sl. ¹²⁷	Industry	Violation Type	Relevant Accounting Standard(s)	Relevant Regulations	Actions & Amount (Tk.)
	November	4	Food & Allied	Closing stock of the inventories does not assure the balance of inventories	IAS 1, IAS 2	SEC Ordinance 1969 S. 2(g), Rule 12(2) of SEC Rule 1987	Fine [100,000]
2009	January	14	Textile	True & Fair View & Qualified Audit Opinion	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [600,000]
	January	15	Pharmaceuticals & Chemicals	No detailed notes as prescribed by the ICAB & True & Fair View,	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [500,000]
	June	6	Textile	Financial Expenses, Non declaration of the date of AGM, True & Fair View	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [400,000]
	July	1	Textile	Accounts Receivable & Non-payment of dividend, True & Fair View	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [15,000,000]
	July	7	Food & Allied	Inventory, Deferred Liabilities, Financial Expenses, Loans from Associated Companies & Loan from other parties, True & Fair View	IAS 1, IAS 2	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [300,000]
	July	8	Food & Allied	True & Fair View, No disclosure of Income from Insurance of damaged goods	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [400,000]
	July	12	Tannery	No disclosure of amount due by directors of the company or associate concerns, True & Fair View	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [2,400,000]
	August	5	Pharmaceuticals & Chemicals	Inventory Valuation, Deferred Expenditure, Amortisation, True & Fair View	IAS 1, IAS 2	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [6,000,000]
	August	6	Textile	Inventory Valuation, Deferred Expenditure, Amortisation, Provision for Taxation, Falsification, True & Fair View	IAS 1, IAS 2	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [6,000,000]

Year	Month	Sl. ¹²⁷	Industry	Violation Type	Relevant Accounting Standard(s)	Relevant Regulations	Actions & Amount (Tk.)
	August	7	Miscellaneous	Inventory Valuation, Deferred Expenditure, Amortisation, True & Fair View	IAS 1, IAS 2	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [6,000,000]
	August	9	Jute	Taxation, Contingent Liabilities, Stock of Finished Goods, Sundry Debtors, Provident Fund, Interim Unpaid Dividend, True & Fair View	IAS 1, IAS 2, IAS 12, IAS 37	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [1,600,000]
	November	1	Pharmaceuticals & Chemicals	Creditors for expense & accruals, Creditors for finance, Custom Debenture, True & Fair View	IAS 1, IAS 37	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [400,000]
	November	11	Textile	Depreciation on revalued amount of Fixed Assets, True & Fair View	IAS 1, IAS 16	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [900,000]
	November	12	Textile	Inter Company Current Account, True & Fair View	IAS 1, IAS 24	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [600,000]
2008	April	12	Food & Allied	Old Loan, True & Fair View	IAS 1, IFRS 7	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [100,000]
	April	13	Food & Allied	Administrative Expenses, Turnover & other income, Selling & Distribution expenses, Collection from turnover & other income, payment for cost & expenses, Loan received & Loan repaid, True & Fair View	IAS 1	SEC Ordinance 1969 S. 18, Rule 13(A) of SEC Rule 1987	Fine [100,000]
	July	6	Textile	Accounts Receivables, True & Fair View	IAS 1, IFRS 7	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [1,000,000]
	September	8	Tannery	Property Plant & Equipment, True & Fair View	IAS 1, IAS 16	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [800,000]
	October	4	Insurance	Receivables, Advance Business Expenses, No accounting for deferred Taxation, IAS, True & Fair View	IAS 1, IAS 12	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [4,200,000*] Waived

Year	Month	Sl. ¹²⁷	Industry	Violation Type	Relevant Accounting Standard(s)	Relevant Regulations	Actions & Amount (Tk.)
	October	6	Food & Allied	No detailed disclosures as prescribed by the ICAB, True & Fair View	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [1,000,000]
	October	7	Paper & Printings	Fixed Asset, No Justification of Physical Inventory	IAS 2, IAS 16	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [1,000,000]
2007	March	19, 20, 21, 22, 23, 24	Miscellaneous	True & Fair View, Non disclosure of loan default & Information about selling of mortgages in Annual Report	IAS 1, IFRS 7	SEC Ordinance 1969 S. 18, Rule 12(3) of SEC Rule 1987	Fine [600,000]
	May	17, 18, 19, 20, 21, 22	Tannery	Intangible Assets, Depreciation on Factory Assets, Lease	IAS 16, IAS 17, IAS 38	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [600,000]
	May	23, 24, 25, 26	Textile	Chance of error & omission in Internal Control Procedures, cost of goods sold, Not adopting an appropriate accounting system of controlling Inventory, True & Fair View	IAS 1, IAS 2	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [400,000]
	May	27, 28, 29, 30, 31, 32, 33	Cement	Full details & locations of all individual Assets in Fixed Assets has not been shown	IAS 16	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [700,000]
	May	52, 53, 54, 55, 56, 57	Miscellaneous	Balance Sheet & Change in Equity are not prepared accordance with the IASs	IAS 34- Para 20(a) & (c)	SEC Ordinance 1969 S. 18, Rule 13(A) of SEC Rule 1987	Fine [600,000]
	July	25	Food & Allied	No stock register for auditors' verification, No provision to employees leave pay & gratuity	IAS 19, IAS 2-Para 36(a)	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [600,000]

Year	Month	Sl. ¹²⁷	Industry	Violation Type	Relevant Accounting Standard(s)	Relevant Regulations	Actions & Amount (Tk.)
	September	6	Food & Allied	Deficiency in internal control, lack of detailed record of fixed assets, biological assets, current & noncurrent assets, Presentation of Biological Assets, No double entry cash book maintained, True & Fair View	IAS 41, IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2g) of SEC Rule 1987	Fine [400,000]
	September	7	Food & Allied	ISA, Half Yearly Audited report, Balance Sheet, Income Statement, Cash flow statement, Change in Equity	IAS 34- Para 20(a), (b), (c) & (d)	SEC Ordinance 1969 S. 18, Rule 13(A) of SEC Rule 1987	Fine [800,000]
	September	8	Food & Allied	ISA, Half Yearly Audited report, Balance Sheet, Income Statement, Cash flow statement, Change in Equity	IAS 34- Para 20(a), (b), (c) & (d)	SEC Ordinance 1969 S. 18, Rule 13(A) of SEC Rule 1987	Fine [700,000]
	November	1	Miscellaneous	Depreciation, Deferred Tax	IAS 12, IAS 16	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Warning
	December	13	Food & Allied	Qualified Audit Opinion, True & Fair View	IAS 1	SEC Ordinance 1969 S. 18, Rule 12(2) of SEC Rule 1987	Fine [3,500,000]
2006	October	19, 20, 21, 22, 23, 24, 25, 26	Food & Allied	Direct & Indirect Cash Flow Method	IAS 34-para 20(a): Part ii,20(c): Part iii, schedule-sub Para 1 A(1)	SEC Ordinance 1969 S. 18, Rule 13(A) of SEC Rule 1987	Fine [800,000]

Appendix 6-2: The Companies Act 1994 regarding penalties in Bangladesh**Section 190. Copy of balance-sheet, etc. to be filed with Registrar:**

(1) After the balance sheet and profit and loss account or the income and expenditure account, as the case may be, have been laid before a company at an annual general meeting as aforesaid, there shall be filed with the Registrar, within thirty days from the date on which the balance sheet and the profit and loss accounts were so laid, or where the annual general meeting of a company for any year has not been held, there shall be filed with the Registrar within thirty days from the last day on which that meeting should have been held in accordance with the provisions of this Act three copies of the balance-sheet, and of the profit and loss account or the income and expenditure account, as the case may be signed by the managing director, managing agent, a manager or secretary of the company or if there be none of these, by a director of the company, together with three copies of all documents which are required by this Act to be annexed or attached to such balance-sheet or profit and loss account or income and expenditure account: Provided that in the case of a private company, which is not an subsidiary of a public company, no person other than a member of the company shall be entitled to inspect or to obtain copies of the profit and loss account of that company.

(2) If the annual general meeting of a company before which a balance sheet is laid as aforesaid does not adopt the balance-sheet or, if the annual general meeting of a company for any year has not been held, a statement of that fact and of the reasons there for shall be annexed to the balance-sheet and to the copies thereof required to be filed with the Registrar.

(3) If a company makes default in complying with the requirements of this section, it shall be liable *to a fine not exceeding one hundred taka for every day* during which the default continues, and every officer of the company who knowingly and wilfully authorises or permits the default shall be liable to the like penalty.

Statement to be published by Banking and certain other companies:**Section 192. Certain companies to publish statement in schedule:**

(1) Every company being a limited Banking company or an insurance company for a deposit, provident or benefit society shall, before, it commences business, and also on the first Monday in February and the First Monday in August in every year during which it carries on business make a statement herein after referred to as the said statement in the form as in Schedule XII, or as near thereto as circumstances will admit.

(2) If a company makes default in complying with the requirements of this section, it *shall be liable to a fine not exceeding one hundred taka for every day* during which the default continues; and, also every officer of the company who knowingly and wilfully authorises or permits the default shall be liable to the like penalty.

Section 332. Penalty for falsification of book.--In any director, manager, officer or contributory of any company being wound up destroys, mutilates, alters or falsifies or fraudulently secretes any books papers or securities or makes or is privy to the making of any false or fraudulent entry in any register book of account or document belonging to the company with intent to defraud or deceive any person, he *shall be liable to imprisonment for a term which may extend to seven years, and shall also be liable to fine.*

Section 334. Penalty for false evidence.-- If any person, upon any examination authorised under this Act, or in any affidavit, deposing or solemn affirmation, in or about the winding up of any company under this Act, or otherwise in or about any matter arising under this Act intentionally give false evidence, he *shall be liable to imprisonment for a term which may extend to seven years, and shall also be liable to fine.*

Section 397. Penalty for false statement. -- Whoever in any return, report, certificate balance-sheet or other documents, required by or for the purposes of any of the provisions of this Act, wilfully makes a statement false in any material particular, knowing it to be false, *shall be punishable with imprisonment of either description for a term which may extend to five years, and shall also be liable to fine.*

Appendix 6-3: The SEC Act 1993 regarding penalties in Bangladesh**Section 19. Cognizance.-**

- (1) No Court other than a *Session Court* shall take cognizance of any offence under this Act.
- (2) No offence under this Act shall be taken cognizance of except on a *complaint in writing made by the Commission or any person authorised by the Commission.*

Section 20. Offences by companies.- If the person contravening any of the provisions of this Act is a company, *the owner, director, manager, secretary or any other officer or agent of the company shall be deemed guilty* of the contravention of the provision, unless he proves that the contravention was committed without his knowledge or that he exercised all due diligence to prevent the contravention.

Section 21. Appeal.-

- (1) Any person aggrieved by an order passed by any member or officer in accordance with this Act, the rules or regulations may, within such period as may be specified by regulation, prefer an appeal to the Commission against such order and the decision of the Commission there upon shall be final.
- (2) No appeal filed after the expiration of the specified period shall be acceptable, but *if the appellant satisfies the Commission to the effect that there existed reasonable grounds for the appeal not to have been filed within the specified period, the Commission may accept* an appeal filed after the expiration of the specified period.
- (3) An appeal under this section shall be made in such form, and shall be accompanied by such fee, as may be specified by regulation and shall be filed together with a copy of the order against which it has been filed.
- (4) Every appeal shall be decided on in such manner as may be specified by regulation; and no appeal shall be decided on without giving reasonable opportunity for hearing to the appellant.
- (5) The Commission may, at its *own instigation or in the light of any application, reconsider any matter already decided upon and in this case the decision of the Commission shall be final.*

Appendix 6-4: Comparison of perceptions of interviewees based on Q1 to Q4 [1st Round Interviews, n=27]

Code	Accounting Regulation		Politico-Institutional		Work Experience (years)	Qualification
	Q1	Q2	Q3	Q4		
PM1	- (Need regulation)	ICAB & SEC	Yes (PD)	Yes (Need co-operation)	26 years	PhD
PM2	- (Enforcement)	ICAB, SEC & BB	Yes (PG)	Yes (Need co-operation)	10 years	ACA
PM3	- (Need regulation)	ICAB, ICMAB & MOC	Yes (PG)	Yes (Need co-operation)	30 years	FCMA
PM4	- (Need regulation)	ICAB, MOF	No (PG)	Yes (Need co-operation)	11 years	MBA
PM5	- (Enforcement)	ICAB, ICMAB & SEC	Yes (PG)	Yes (Need co-operation)	14 years	FCA
PM6	- (Need regulation)	ICAB, SEC & BB	Yes (PG)	Yes (Need co-operation)	40 years	PhD
PM7	+ (Satisfactory)	ICAB	Yes (PD) & No (PG)	Yes (Need co-operation)	16 years	MA
AP1	- (Need regulation)	ICAB, SEC & BB	Yes (PD) & IP (PG)	Yes (Need co-operation)	32 years	ACA
AP2	+ (Satisfactory)	ICAB	Yes (PD) & Yes (PG)	Yes (Need co-operation)	24 years	ICMA (Part)
AP3	- (Standard setting)	ICAB	No comment	Yes (Need co-operation)	9 years	ACA
AP4	- (Enforcement)	ICAB	No comment	Yes (Need co-operation)	10 years	ACA
AP5	- (Need regulation)	ICAB & ICMAB	IP (PG)	Yes (Need co-operation)	10 years	M.Com.
AP6	- (Standard setting)	ICAB & DSE	No comment	Yes (Need co-operation)	8 years 2 months	MBA
AP7	- (Enforcement)	ICAB & BB	No comment	Yes (Need co-operation)	15 years	M.Com
AP8	- (Enforcement)	ICAB	No comment	Yes (Need co-operation)	5 years	ACA
AP9	+ (Satisfactory)	ICAB, SEC	No comment	Yes (Need co-operation)	20 years	FCA

Code	Accounting Regulation		Politico-Institutional		Work Experience (years)	Qualification
	Q1	Q2	Q3	Q4		
AP10	- (Standard setting)	ICAB, SEC	No comment	Yes (Need co-operation)	11 years	ACMA
AP11	- (Enforcement)	ICAB	No comment	Yes (Need co-operation)	7 years	ACA
AP12	- (Enforcement)	ICAB	IP (PG)	Yes (Need co-operation)	15 years	FCMA, FCA
US1	- (Need regulation)	ICAB & ICMAB	No comment	Yes (Need co-operation)	10 years	MBA
US2	- (Enforcement)	ICAB	Yes (PG)	Yes (Need co-operation)	9 years	MA
US3	- (Need regulation)	ICAB	Yes (PG)	Yes (Need co-operation)	8 years 7 months	MBA
US4	- (Need regulation)	ICAB	No comment	Yes (Need co-operation)	10 years	CMA (Part)
US5	- (Enforcement)	ICAB & SEC	Yes (PG)	Yes (Need co-operation)	5 years 10 months	MBA
US6	- (Enforcement)	SEC	No comment	Yes (Need co-operation)	18 years	M.Com
AR1	- (Standard setting)	ICAB & SEC	Yes (PD)	Yes (Need co-operation)	21 years	PhD
AR2	- (Enforcement)	ICAB & SEC	No comment	Yes (Need co-operation)	10 years	MBA

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*: Academics & Researchers; Work Experience & Qualifications of the interviewees

- Q1: ‘-’ means a negative (non-satisfactory) perception of accounting regulation (e.g. need for high quality investor protection regulations, standard setting and enforcement); ‘+’ means a positive (satisfactory) perception of accounting regulation;
- Q2: *ICAB*: The Institute of Chartered Accountants of Bangladesh; *SEC*: The Securities and Exchange Commission of Bangladesh; *ICMAB*: The Institute of Cost and Management Accountants of Bangladesh; *DSE*: the Dhaka Stock Exchange; *BB*: the Bangladesh Bank; *MOC*: the Ministry of Commerce; & *MOF*: the Ministry of Finance;
- Q3: *Yes (PD)*: political pressure from donor agencies; *Yes (PG)*: political lobbying and the government intervention; *No (PG)*: No politics (i.e. no political pressure) by the government; *IP (PG)*: Indirect politics by the government; and *No comment*: no comment on politics;
- Q4: ‘*Yes (Need co-operation)*’: co-operation among institutional bodies is essential to implement IFRSs.

Appendix 6-5: Comparison of perceptions of interviewees based on Q1 to Q4 [2nd Round Interviews, n=12]

Code	Accounting Regulation			Politico-Institutional		Work Experience (years)	Qualifications
	Q1(a)	Q1(b)	Q2	Q3	Q4		
PM1	- Need regulation	+ Standard setting	- Enforcement	Yes (PG)	Yes (Need co-operation)	26 years	PhD
PM2	- Need regulation	+ Standard setting	- Enforcement	Yes (PG)	Yes (Need co-operation)	10 years	ACA
PM4	+ Need regulation	- Standard setting	+ Enforcement	Yes (PG)	Yes (Need co-operation)	11 years	MBA
PM5	- Need regulation	- Standard setting	- Enforcement	Yes (PG)	Yes (Need co-operation)	14 years	FCA
AP5	- Need regulation	- Standard setting	- Enforcement	Yes (PG)	Yes (Need co-operation)	10 years	M.Com.
AP6	- Need regulation	- Standard setting	- Enforcement	No comment	Yes (Need co-operation)	8 years 2 months	MBA
AP10	- Need regulation	- Standard setting	- Enforcement	No comment	Yes (Need co-operation)	11 years	ACMA
AP12	- Need regulation	- Standard setting	- Enforcement	No comment	Yes (Need co-operation)	15 years	FCMA, FCA
US4	- Need regulation	- Standard setting	- Enforcement	Yes (PG)	Yes (Need co-operation)	10 years	CMA (Part)
US5	- Need regulation	- Standard setting	- Enforcement	Yes (PG)	Yes (Need co-operation)	5 years 10 months	MBA
AR1	- Need regulation	- Standard setting	-Enforcement	Yes (PG)	Yes (Need co-operation)	21 years	PhD
AR2	- Need regulation	- Standard setting	-Enforcement	Yes (PG)	Yes (Need co-operation)	10 years	MBA

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*: Academics & Researchers; Work Experience & Qualifications of the interviewees.

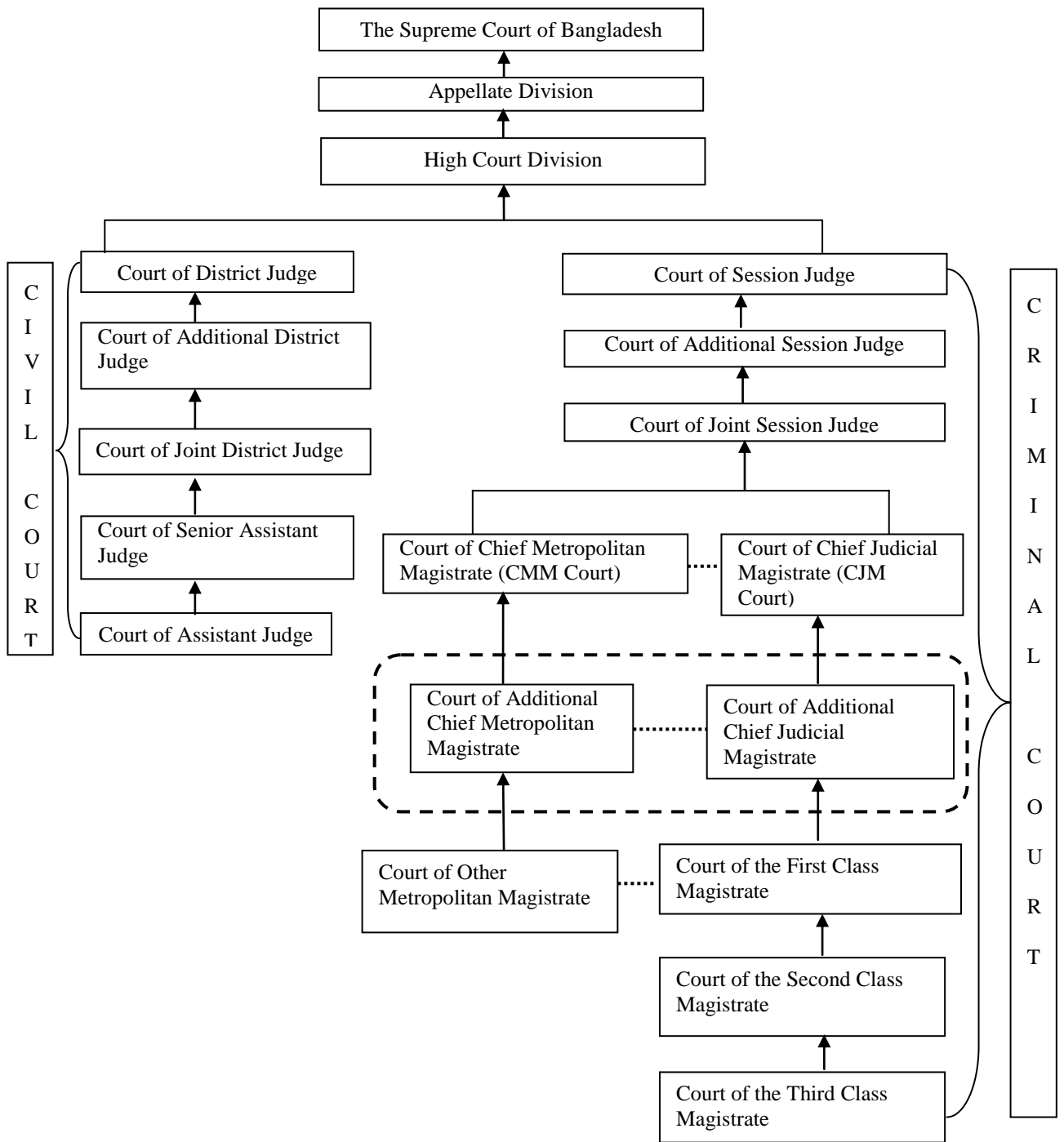
- Q1(a): ‘- *Need regulation*’: non-satisfactory perception of accounting regulation and therefore need for high quality investor protection regulations; ‘+ *Need regulation*’: satisfactory perception of accounting regulation and therefore no need to introduce more regulations;
- Q1(b): ‘- *Standard setting*’: non-satisfactory perception of the standard setting process; ‘+ *Standard setting*’: satisfactory perception of the standard setting process;
- Q2: ‘- (*Enforcement*)’: non-satisfactory perception of enforcement; ‘+ (*Enforcement*)’: satisfactory perception of enforcement;
- Q3: *Yes (PG)*: political lobbying and the government intervention; *No comment*: no comment on politics;
- Q4: ‘*Yes (Need co-operation)*’: co-operation among institutional bodies is essential to implement IFRSs.

Appendix 7-1: Enforcement Actions Comparison, by Year (1998-2010)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Total enforcement actions	239	172	176	281	326	135	62	57	29	24	10	77	59
Violation type													
Price Sensitive Information (PSI) related violations	29	8	16	42	11	4	1	1	0	2	4	0	0
Non co-operation with SEC appointed auditors	50	60	68	58	45	37	14	3	5	1	2	13	0
Non/delayed submission of half yearly/interim financial statements	4	2	0	11	25	0	0	0	0	0	0	0	0
Non/delayed submission of yearly audited financial statements	4	8	5	11	22	21	15	2	4	1	0	0	0
Non submission of capital & shareholding position	0	1	0	7	40	0	0	0	0	0	0	0	0
Non holding/delay of AGM	36	12	19	22	27	12	2	1	0	5	0	10	7
Non submission of audio visual recording of AGM	0	10	0	0	0	0	0	0	0	0	0	0	0
Trading related violations by securities companies	1	0	0	12	17	5	6	1	1	3	0	8	27
Violation related to corporate governance guidelines	24	0	12	0	12	1	5	41	10	5	0	2	2
Non/delayed payment of dividend to the shareholder	11	0	0	0	0	0	0	0	0	0	0	0	0
Non Compliance of SEC's Rules/Laws/ notifications/Ordinance	15	15	8	23	1	0	0	0	0	0	0	0	0
Violation relating to auditors qualification	3	0	0	0	8	0	0	0	0	0	0	0	0
Non compliance with IFRSs	9	14	7	11	1	0	0	0	0	0	0	0	0
Retention of auditors for more than 3 consecutive years	1	0	6	0	15	18	0	0	0	0	0	0	0
Non/delayed payment of Beneficiary Owners' (BO) A/C Maintenance Fee	0	3	0	0	0	3	0	0	0	0	0	0	0
Violation of depository (CDBL) regulations by its members	0	0	1	3	0	0	0	0	0	0	0	0	0
Cancellation of irrevocable declaration for buy/sell of shares	0	0	0	1	0	4	0	0	4	0	0	0	0
IPO related violations	0	0	0	16	11	2	0	3	0	0	1	0	0
Non-payment of interest & principal against debenture	0	0	0	4	0	0	0	0	0	0	0	0	0
Falsification/Misrepresentation/Failure to present 'True & Fair View'	0	0	0	0	15	0	0	0	0	0	0	0	0
Failure to audit by SEC recommended partnership firms	0	0	0	0	22	0	0	1	0	0	0	0	0

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Failure to provide explanation of SEC enquiry	14	20	13	20	17	3	3	2	1	2		44	23
Non-payment of auditors remuneration	20	8	11	15	14	4	1	1	0	2	3	0	0
Others	18	11	10	25	23	21	15	1	4	3	0	0	0
<i>By report type</i>													
Annual report	53	60	68	58	45	49	24	3	5	1	2	13	0
Interim report	22	8	16	42	11	4	1	1	0	2	4	0	0
<i>Type of Enforcement Action(s)</i>													
Warning	135	71	106	110	194	75	42	47	4	13	3	63	50
Waiver/Exemption from imposed penalty	11	11	9	22	13	2	3	1	0	0	0	0	0
Upholding the imposed penalty/Rejection of appeal	24	7	3	0	10	0	1	1	7	0	0	0	0
Penalty/Fine	62	63	53	128	88	56	14	3	17	6	7	14	9
Payment of penalty by instalments	0	1	0	12	7	0	0	0	0	0	0	0	0
Disposal of alleged matter	7	3	1	5	3	0	0	0	0	0	0	0	0
Registration/License cancellation/suspension of trading facilities	0	2	2	0	1	1	2	2	1	5	0	0	0
Others	0	14	2	4	10	1	0	3	0	0	0	0	0

Appendix 7-2: Court Structure in Bangladesh



Appendix 7-3: Functions of the various court(s) in Bangladesh

- (a) **The Supreme Court of Bangladesh:** After the independence of Bangladesh in 1971, Bangladesh adopts its constitution in 1972. The constitution states that the Supreme Court is the highest court of Bangladesh. The Supreme Court of Bangladesh is divided into two divisions namely the Appellate Division and High Court Division (Article 94(1) & 94(2), Constitution of Bangladesh, 1972. The Constitution of Bangladesh 1972 effects from the 16th December, 1972. According to Panday & Mollah (2011), there have been 13 amendments to date and the latest amendment is made in 1996.
- (1) *High Court Division:* Panday & Mollah (2011, p. 16) state that “*The High Court Division has original, appellate and other jurisdictions and powers as are conferred on it by the constitution or any other law*” (Article 101, 103(1), 106). It has also a special original jurisdiction. According to Article 102, this jurisdiction is authorised to enforce fundamental rights of the citizens and issue orders (e.g. writs of prohibition). Further, there are two sources of power in High Court Division: (a) *Ordinary or general jurisdiction* in which the main sources of ordinary law jurisdiction are the Codes of Civil and Criminal Procedure; and (b) *Constitutional jurisdiction* in which the ordinary jurisdictions are original jurisdiction, appellate jurisdiction, revisional jurisdiction & reference jurisdiction (Halim, 2008).
- (2) *Appellate Division:* The Appellate Division of the Supreme Court has no original jurisdiction. The source of jurisdiction of the Appellate Division is similar to the in High Court Division. There are two sources (1) the constitution & (2) ordinary law (Akkas, 2004). According to Article 103, the appellate jurisdiction of the Appellate Division applies only against the judgment, decree, order or sentence of the High Court Division.
- (b) **Civil Court:** There are two types of subordinate courts in Bangladesh- Civil and Criminal. The civil court system is created under the Civil Courts Act 1887. The act provides for five tiers of civil courts in a district which are:
- (1) *Court of the District Judge:* This is the principal court at the district level. It is also named as appellate court with very limited original jurisdiction. It deals the cases relating to probate and letters of administration. In the appellate jurisdiction, a District Judge hears and determines appeals against all judgments or orders of Senior Assistant Judges and Joint District Judges (Sec. 8 & 11, Civil Court Act 1887).
- (2) *Court of Additional District Judge:* This court’s jurisdiction is similar to the District Judges’ except that ‘they cannot receive appeals from any inferior courts (Panday & Mollah, 2011, p. 21). The Additional District Judge exercises the same power as the District Judge.
- (3) *Court of Joint District Judge:* This Court exercises both original and appellate jurisdiction. This court has jurisdiction to try those cases if the value exceeds Tk. 400,000 (£4,000). According to Sec. 21(4), Civil Court Act 1887, the Joint District Judge can hear and determine appeals against judgments or orders of Senior Assistant Judges.
- (4) *Court of Senior Assistant Judge:* This court has original jurisdiction of a claim the value of which does not exceed Tk. 400,000 (£4,000). According to Sec. 23, Civil Court Act 1887, the District Judge may withdraw any proceeding from a court below and may either dispose or transfer them to the Assistant Judge’s Court (Mollah, 2008; Laskar, 2007).
- (5) *Court of Assistant Judge:* The Court of Assistant Judge is the base of hierarchy of subordinate civil judiciary (Panday & Mollah, 2011). All civil servants are filed in the Court of Assistant Judge unless barred by the pecuniary jurisdiction of the Court of Assistant Judge is limited to Tk. 200,000 (£2,000) (Akkas, 2004; Mollah, 2008). According to Sec. 23, Civil Court Act 1887, the appeal from this court lies to the Court of District Judge.
- (c) **Criminal Court:** The legal basis of the criminal court is the Code of Criminal Procedure 1898. The subordinate courts of criminal jurisdiction are mainly classified as Court of Sessions and Court of Magistrates.
- (1) *Court of Sessions:* There are three tiers of judges in the court of Sessions: Sessions Judge, Additional Sessions Judge and Joint Sessions Judge (Sec. 4(2)(b), Code of Criminal Procedure 1898). Court of Session Judges deals with severe criminal offences (Sec. 9 & 10). Session Judge and Additional Session Judge hold same powers (e.g. may impose any penalty including death penalty), while Joint Session Judge enjoys less power (e.g. may pass any sentence except death

penalty) (Sec. 9(3)). The Court of Sessions for a metropolitan area is known as the Metropolitan Court of Session.

(2) *Court of Magistrates:* There are four types of Magistrates: Chief Metropolitan Magistrate or Chief Judicial Magistrate, First Class Magistrate, Second Class Magistrate and Third Class Magistrate. Such classification of magistrates is made on the basis of powers and functions. The Additional Chief Metropolitan Magistrate or Additional Chief Judicial Magistrate are not separate courts and part of the Chief Metropolitan Magistrate (Sec. 6(3)) and Chief Judicial Magistrate and exercise the same power of sentence as that of the Chief Metropolitan Magistrate and Chief Judicial Magistrate (Sec. 17(1)). The Chief Metropolitan Magistrate and First Class Magistrate are in metropolitan areas and Chief Judicial Magistrate in other areas (Sec. 12(1)). The First Class Magistrate impose sentences of imprisonment not exceeding five years or fine not exceeding Tk. 10,000 (£100); The Second Class Magistrate impose imprisonment not exceeding three years or fine not exceeding Tk. 5,000 (£50); and The Third Class Magistrate impose imprisonment not exceeding two years or fine not exceeding Tk. 2,000 (£20) as enumerated in sec. 32(a), 32(b) & 32(c) and Sub sec. 15 & 19.

(d) **General Certificate Court (GCC)/Other Courts:** This court is for the SEC ordinance violations related cases. If the SEC identifies any violations then they issue show-cause cum-hearing. If the SEC is satisfied in the hearing no further actions against the companies, otherwise the SEC imposes penalty. To recover penalty/revenue (Public Demands Recovery Act 1913) the SEC stands with the decision of the officer of general certificate court. If the company goes against the GCC's decisions of paying penalty, they can appeal to the district judge court. It is then distributed to different courts. The other courts include Money Loan Courts, Bankruptcy Courts, Income Tax Tribunals, Administrative Tribunals, Family Court., Election Tribunals etc. to deal with relevant matters.

Appendix 7-4: Comparison of the perceptions of interviewees based on Q5 to Q9 [The 1st round interviews, n=27]

Code	[i] Training Opportunities in the Accounting Profession and [ii] Corruption				Other Factors & Comments	Work Experience (years)	Qualifications
	Q5	Q5(a)	Q6	Q7			
PM1	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Provide training	Corruption is not important factor	CS	26 years	PhD
PM2	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Provide training	Corruption is not important factor	LR, FP	10 years	ACA
PM3	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption is not important factor	LIC, PD	30 years	FCMA
PM4	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption is not important factor	CS	11 years	MBA
PM5	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (GB)	LQA, LIC, LR	14 years	FCA
PM6	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption is not important factor	LQA, LIC	40 years	PhD
PM7	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption is not important factor	CS	16 years	MA
AP1	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Attend training	Corruption (GB)	LQA, LIC, CS	32 years	ACA

Code	[i] Training Opportunities in the Accounting Profession and [ii] Corruption				Other Factors & Comments	Work Experience (years)	Qualifications
	Q5	Q5(a)	Q6	Q7	Q8 & 9		
AP2	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (AF & PB)	LQA	24 years	ICMA (Part)
AP3	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (Companies)	LQA	9 years	ACA
AP4	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (GB)	LQA	10 years	ACA
AP5	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (AF & PB)	LQA, LIC	10 years	M.Com .
AP6	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (AF & PB)	LQA	8 years 2 months	MBA
AP7	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (GB)	LQA	15 years	M.Com
AP8	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (GB)	CS	5 years	ACA
AP9	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (Companies)	CS	20 years	FCA
AP10	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Attend training	Corruption (AF & PB)	LQA, LIC	11 years	ACMA
AP11	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	No training	Corruption (AF & PB)	LQA	7 years	ACA
AP12	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Attend training	Corruption (GB)	LIC, CS	15 years	FCMA, FCA
US1	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (AF & PB)	LQA, LIC	10 years	MBA
US2	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (Companies)	LQA	9 years	MA
US3	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (GB)	CS	8 years 7 months	MBA
US4	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (GB)	LQA, LIC	10 years	CMA (Part)
US5	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (Companies)	LQA, LIC, CS	5 years 10 months	MBA

Code	[i] Training Opportunities in the Accounting Profession and [ii] Corruption				Other Factors & Comments	Work Experience (years)	Qualifications
	Q5	Q5(a)	Q6	Q7	Q8 & 9		
US6	+ (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (Companies)	LQA, CS	18 years	M.Com
AR1	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (GB)	LQA, LIC, CS, LR, PD, FP	21 years	PhD
AR2	- (Professional syllabus)	Yes (Need IFRSs in University syllabus)	Training is essential	Corruption (GB)	LQA, LIC, LR, PD, FP	10 years	MBA

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*: Academics & Researchers. Work Experience and Qualifications of the interviewees:

Q5: '+ (*Professional syllabus*)': current professional syllabus is suitable for IFRSs implementation; & '- (*Professional syllabus*)': current professional syllabus is not suitable for IFRSs implementation;

Q5(a): *Yes (Need IFRSs in University syllabus)*: University syllabus should include IFRSs contents to implement IFRSs;

Q6: *PM*: Provide training/no training; *AP*: Attend training/ no training; *US* & *AR*: Training is essential; Q7: *Corruption (GB)*: Corruption by governmental body; *Corruption (AF & PB)*: corruption by Audit firms & professional bodies; & *Corruption (Companies)*: Corruption by companies; Q8 & Q9: CS: Culture of secrecy; *LQA*: Lack of qualified accountants; *LIC*: Lack of interest in IFRSs by managers of some companies; *LR*: Lack of research; *PD*: Public sector dominance; *FP*: Family based private sector.

Appendix 7-5: Comparison of the perceptions of interviewees based on Q5 to Q7 [The 2nd round interviews, n=12]

Code	[i] Training Opportunities in the Accounting Profession and [ii] Corruption		Other Factors	Work Experience (years)	Qualifications
	Q5	Q6	Q7		
PM1	- (Professional syllabus & university syllabus)	Corruption is not important factor	LQA, CS, CBS	26 years	PhD
PM2	- (Professional syllabus & university syllabus)	Corruption is not important factor	LQA, LIC, CBS	10 years	ACA
PM4	- (Professional syllabus & university syllabus)	Corruption is not important factor	CS, CBS	11 years	MBA
PM5	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CS, CBS	14 years	FCA
AP5	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CBS	10 years	M.Com.
AP6	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CBS	8 years 2 months	MBA
AP10	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CS	11 years	ACMA
AP12	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CS, CBS	15 years	FCMA, FCA
US4	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC,	10 years	CMA (Part)
US5	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CS	5 years 10 months	MBA
AR1	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CS	21 years	PhD
AR2	- (Professional syllabus & university syllabus)	Corruption (GB)	LQA, LIC, CS	10 years	MBA

Notes: Code (Interviewee): *PM*: Policy makers; *AP*: Preparers & Professionals; *US*: Users; & *AR*: Academics & Researchers. Work Experience and Qualifications of the interviewees:

Q5: '- (Professional syllabus & university syllabus)': current professional syllabus & university syllabus should be updated to implement IFRSs;

Q6: *Corruption (GB)*: Corruption by governmental body;

Q7: *CS*: Culture of secrecy; *LQA*: Lack of qualified accountants; *LIC*: Lack of interest in IFRSs by managers of some companies; *CBS*: Cost-benefit for small companies.

Appendix 8-1: Violations of the SEC rules (Bengali version)**1. Depreciation [Warning, 4,0000 -1,400,000] related violations [n=7]****(a) Company Name: A Ltd.**

Violations:

যেহেতু, Securities and Exchange Rules, 1987 এর rule 12 অনুযায়ী ইস্যুয়ার জুন ৩০, ২০০৭ ইং তারিখে সমাপ্ত বৎসরের জন্য প্রস্তুতকৃত আর্থিক বিবরণী ইস্যু করেছে যা মেসার্স জহির আহমেদ এন্ড কোং, চার্টার্ড একাউন্ট্যান্টস্ (বিধিবদ্ধ নিরীক্ষক), কর্তৃক নিরীক্ষিত হয়েছে এবং উক্ত নিরীক্ষা প্রতিষ্ঠান, নিরীক্ষা সংক্রান্ত কার্যাদি সম্পাদন পূর্বক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদন ইস্যু করেছে; যেহেতু, আলোচ্য নিরীক্ষা প্রতিবেদনে, অন্যান্যের মধ্যে, কমিশন কর্তৃক পরিলক্ষিত হয় যে, ইস্যুয়ার জুন ৩০, ২০০৭ ইং তারিখে সমাপ্ত বৎসরের জন্য স্থায়ী সম্পদ (fixed assets) এর উপর অবচয় (depreciation) ধার্য করেনি এবং এর মাধ্যমে ইস্যুয়ার কর্তৃক উক্ত আর্থিক বৎসরে ক্ষতির (loss) পরিমান কম দেখানো হয়েছে; যেহেতু, উপরোক্ত বিষয়ের ফলশ্রুতিতে দেখা যায় যে, জুন ৩০, ২০০৭ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন

(b) Company Name: B Ltd.

Violations:

যেহেতু, উক্ত আর্থিক প্রতিবেদনের উপর নিরীক্ষক এর উপরোক্ত অভিমত ছাড়াও কমিশনের, অন্যান্যের মধ্যে, নিম্নোক্ত পর্যবেক্ষণ রয়েছে:

“a. It appears from Note no. 4.02: (a) Property, Assets and Depreciation that no appropriate method was followed in charging depreciation of other fixed assets, depreciation of all fixed assets was charged on a lump sum basis without following appropriate rate and depreciation was charged neither on written down value nor straight line method also appropriate rate was not followed in changing the annual depreciation rates.

b. It also appears from Note no. 13: Custom Debenture of Tk. 10,137,888.00 that the balance of custom debenture has been brought forward from last year and provision for interest payable on custom debenture has not been made in the accounts.

c. It further appears form Note no. 16: Temporary Loan of Tk. 21,887,681.00 that temporary loan amount is not supported with the board of directors’ approval and not supported with valid documentary evidences, as such the auditors could not ascertain the genuineness of obtaining temporary loan by the company.

d. It further appears from Note no. 22: Others that Managing Director & Director received Tk. 230,000.00 as remuneration although the tenure of the managing director is not approved by the board in line with the Memorandum and Articles of Association and Note no. 23: Other Observations and Comments that (a) the management produced a list of Fixed Assets and Inventory related papers/documents and inform that the company physically verified the fixed assets and closing stock although in absence of logistics support, the auditors could not conduct physical inventory, (b) during the course of audit, the auditors observed that the company did not maintain any fixed assets register, (c) during the course of audit, the auditors observed the company did not maintain Debtors and Creditors ledger properly and should maintain related party ledger properly and (d) during the course of audit, the auditors observed that there are some lapses and lacunas in maintaining the cash book and ledger book and should maintain those books properly with perfection.” বর্ণিত অবস্থায় প্রতীয়মান হয় যে, ইস্যুয়ারের ডিসেম্বর ৩১, ২০০৮ সমাপ্ত বৎসরের নিরীক্ষিত আর্থিক বিবরণীতে আর্থিক অবস্থার সঠিক ও সত্য তথ্য প্রতিফলিত হয়নি, যা কমিশনের নিকট ভুল তথ্য প্রদান করা হয়েছে বলে গণ্য হয়েছে।

যেহেতু, উপরোক্ত বিষয়সমূহের উপর ব্যাখ্যা প্রদানের জন্য কমিশন কর্তৃক প্রদত্ত পত্র নং SEC/CFD/8:1/99/502 তারিখ জুন ১৬, ২০০৯ ইং এর জবাবে ইস্যুয়ার কর্তৃক প্রদত্ত পত্র নং নাই তারিখ জুন ২৯, ২০০৯ ইং এর মাধ্যমে যে ব্যাখ্যা প্রদান করা হয় তা কমিশনের নিকট গ্রহণযোগ্য বলে বিবেচিত হয়নি; যেহেতু, উপরোক্ত বিষয়সমূহের ফলশ্রুতিতে দেখা যায় যে, ইস্যুয়ার ডিসেম্বর ৩১, ২০০৮ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণী IAS অনুযায়ী প্রস্তুত করতে ব্যর্থ হয়েছে বিধায় উক্ত আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন

(c) Company Name: C Ltd.

Violations:

যেহেতু, আলোচ্য নিরীক্ষা প্রতিবেদনে, অন্যান্যের মধ্যে, কমিশনের observations নিম্নরূপ:

“On examination of audited financial statements of the issuer for the year ended on June 30, 2009 the Commission observed, among others, the following on the said financial statements:

i) In the Balance Sheet of the said financial statements, NAV has been shown Tk.118.60 per share. But as per our observation the NAV is Tk.75.34 per share, which arises as under:

Share Capital Tk. 132,000,000

Tax Holiday Reserve	34,057,703
Retained Earnings	(9,505,965)
	156,551,738
<u>Less: Deferred Expenses (57,103,194)</u>	
Total NAV	99,448,544
Total No. of shares	1,320,000
NAV per share	Tk.75.34

ii) In the Balance Sheet, Deferred Expenses have shown Tk.45,886,219 and Tk.57,103,194 for the years ended on June 30, 2008 and 2009 respectively, but there is no explanation/notes regarding the creation and increase of said expenses for the year ended on June 30, 2008 and 2009 respectively.

iii) The Statement of Changes in Equity for the year ended on June 30, 2009 has not been prepared on the basis of the Statement of Changes in Equity for the year ended on June 30, 2008; because the balance of negative Retained Earnings for the year ended on June 30, 2008 has not been considered in preparing the Statement of Changes in Equity for the year ended on June 30, 2009. As a result the balance shown in the Statement of Changes in Equity for the year ended on June 30, 2009 and the figure reported as shareholders equity in the Balance Sheet has been overstated.

iv) It has been mentioned in the note No.2.3 of the said financial statements that no depreciation has been charged during the year due to suspended of its production activities since 2006. But as per the requirement of Bangladesh Accounting Standards the issuer should have to charge the required depreciation.” বর্ণিত অবস্থায় প্রতীয়মান হয় যে, ইস্যুয়ারের জুন ৩০, ২০০৯ সমাপ্ত বৎসরের নিরীক্ষিত আর্থিক বিবরণীতে আর্থিক অবস্থার সঠিক ও সত্য তথ্য প্রতিফলিত হয়নি, যা কমিশনের নিকট ভুল তথ্য প্রদান করা হয়েছে বলে গণ্য হয়েছে। যেহেতু, উপরোক্ত বিষয়সমূহের উপর ব্যাখ্যা প্রদানের জন্য কমিশন কর্তৃক প্রদত্ত পত্র নং SEC/CFD/3:19/99/571 তারিখ নভেম্বর ০৪, ২০০৯ ইং এর জবাবে ইস্যুয়ার কর্তৃক প্রদত্ত পত্র নং নাই তারিখ নভেম্বর ১২, ২০০৯ ইং ইং এর মাধ্যমে যে ব্যাখ্যা প্রদান করা হয় তা কমিশনের নিকট গ্রহণযোগ্য বলে বিবেচিত হয়নি; যেহেতু, উপরোক্ত বিষয়সমূহের ফলশ্রুতিতে দেখা যায় যে, ইস্যুয়ার জুন ৩০, ২০০৯ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণী IAS অনুযায়ী প্রস্তুত করতে ব্যর্থ হয়েছে বিধায় উক্ত আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন

(d) Company Name: D Ltd.

Violations:

যেহেতু, Securities and Exchange Rules, 1987 এর rule 12 অনুযায়ী ইস্যুয়ার জুন ৩০, ২০০৭ ইং তারিখে সমাপ্ত বৎসরের জন্য প্রস্তুতকৃত আর্থিক বিবরণী ইস্যু করেছে যা মেসার্স জহির আহমেদ হক এন্ড কোং, চার্টার্ড একাউন্ট্যান্টস (বিধিবদ্ধ নিরীক্ষক) কর্তৃক নিরীক্ষিত হয়েছে এবং উক্ত নিরীক্ষা প্রতিষ্ঠান, নিরীক্ষা সংক্রান্ত কার্যাদি সম্পাদন পূর্বক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদন ইস্যু করেছে: যেহেতু, উক্ত নিরীক্ষিত আর্থিক বিবরণীর নোট নং ০৩ ও ০৭ হতে পরিলক্ষিত হয় যে, ইস্যুয়ার ১৯৯৪-৯৫ অর্থ বৎসর হতে ২৯,৬৬,২৯,৬৮৯.০০ (উনত্রিশ কোটি ছিষটি লক্ষ উনত্রিশ হাজার ছয়শত উননব্বই) টাকার পুনর্মূল্যায়িত স্থায়ী সম্পত্তি (revalued amount of fixed assets) উপর কোনরূপ অবচয় ধার্য করেনি এবং এ ব্যাপারে ইস্যুয়ার কোন গ্রহণযোগ্য ব্যাখ্যা কমিশনের নির্দেশ মোতাবেক প্রদান করতে পারেনি; যেহেতু, উপরোক্ত বিষয়ের ফলশ্রুতিতে দেখা যায় যে, ইস্যুয়ার, জুন ৩০, ২০০৭ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণী ওঅবা অনুযায়ী প্রস্তুত করতে ব্যর্থ হওয়ায় উক্ত আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য জঁষবং এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন

(e) Company Name: E Ltd.

Violations:

যেহেতু, আলোচ্য নিরীক্ষক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদনে, অন্যান্যের মধ্যে, নিম্নোক্ত অভিমত ব্যক্ত করেছে: “Financial Expenses: During the year, the company settled the case with BSB through mutual agreement and the company has to pay Tk. 143,000,000 over a period of 7 years in place of Tk. 95,700,000 and accordingly excess amount of Tk. 47,300,000 has been booked in the respective fixed assets. The company and the National Bank have gone into litigation to mitigate their respective grievances. The company filed a money suit against NBL for the realisation of Tk. 315 crore (Approx.) as compensation.” যেহেতু, অডিটরের উপরোক্ত অভিমত ছাড়াও উক্ত আর্থিক বিবরণীতে কমিশন কর্তৃক নিম্নলিখিত অসংগতি পরিলক্ষিত হয়:

“Reference Note No.-2: Recognition of property, plant & Equipment and Depreciation: Cost of property, plant & Equipment represents cost of acquisition or construction and include purchase price and other directly attributable cost of bringing the assets to working conditions for its intended use, but do not include any capitalised borrowing cost.” যেহেতু, উপরোক্ত অভিমতসমূহের ফলশ্রুতিতে দেখা যায় যে, ইস্যুয়ার সেপ্টেম্বর ৩০, ২০০৬ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণী IAS অনুযায়ী প্রস্তুত করতে ব্যর্থ হয়েছে বিধায় উক্ত আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন

(f) Company Name: F Ltd.

Violations:

যেহেতু, আলোচ্য নিরীক্ষক নিরীক্ষা সংক্রান্ত কার্যাদি সম্পাদন পূর্বক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদন জুন ১৫, ২০০৬ ইং তারিখে ইস্যু করেছে যাহাতে, অন্যান্যের মধ্যে, নিলোক্ত অভিমত ব্যক্ত করার ফলে দেখা যায় যে, ইস্যুয়ার ডিসেম্বর ৩১, ২০০৫ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণী IAS অনুযায়ী প্রস্তুত করতে ব্যর্থ হয়েছে বিধায় উক্ত আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে তথা উক্তরূপ কর্মকাণ্ড আলোচ্য Ordinance এর section 18 লংঘনেরও সামিল:-

- “1. Three fourth of Bank Interest amounting to Tk. 1,98,55,492.00 has been deferred and shown as “Intangible Assets” and one fourth of interest amounting to Tk. 66,18,497.00 has been charged to Profit & Loss Account as per decision of Board in its 143rd meeting held on 5th June 2004. This decision does not conform to accounting principles and as per Bangladesh Accounting Standard (BAS 23);
2. Depreciation on factory assets, such as, Factory Building, Plant & Machinery and other factory assets have not been charged for the year under audit;
3. Lease rental for IDLC machines for Tk. 432,420.00 only has been recognised as expenses whereas lease agreement discloses yearly installments with rental amount of Tk. 20, 29,690.00 which was not accounted as per BAS-17 Leases;
4. Year wise tax provision as well as assessment position could not be made available to us. As such actual tax liability could not be worked out”

(g) Company Name: G Ltd.

Violations:

Whereas, as required by rule 12 of the Securities and Exchange Rules, 1987, the issuer submitted the audited financial statements for the year ended on August 31, 2006 to the Commission and others concerned; Whereas, it appeared from the said audited financial statements that the auditors have made, among others, the following observations/qualified opinion on the financial statements:

- “1. The company did not provide depreciation for Tk. 53,295,203 including for the period of Tk. 6,178,001 in respect of unit-4 which was in operation throughout the year. Depreciation remains unprovided in respect of other units although there was partial operation in unit-1 during the year under review (Note-9.01).
2. The company did not compute deferred taxation.
3. Depreciation on value increased by revaluation was not charged.”

Whereas, as regard to Unit 1 & 2, the issuer company mentioned that depreciation remained unprovided because capacity utilisation of the said Units was only 1.09% and as there was no operation of those Units for the half year ended February 28, 2007, depreciation for the said half year was also not provided by the company;

Whereas, as a result of the above, the audited financial statements of the issuer for the years ended on August 31, 2006 do not portray true and fair view of the financial position which tantamount to furnishing of incorrect information to SEC; and Whereas, furnishing of incorrect audited financial statements for the year ended on August 31, 2006 is a clear contravention of section 18 of the Securities and Exchange Ordinance, 1969, read with sub-rule (2) of rule 12 of the Securities and Exchange Rules, 1987, which appeared to be deliberate attracting appropriate provisions of the Securities and Exchange Ordinance, 1969.

2. Qualified Audit Opinion and True & Fair View [600,000-3,500,000] [n=2]**(a) Company Name: H Ltd.**

Violations:

যেহেতু, Securities and Exchange Rules, 1987 এর rule 12 অনুযায়ী ইস্যুয়ার জুন 30, 2007 তারিখে সমাপ্ত বৎসরের জন্য প্রস্তুতকৃত আর্থিক বিবরণী ইস্যু করেছে যা মেসার্স এ. ওহাব এন্ড কোং, চার্টার্ড একাউন্ট্যান্টস্ (বিধিবদ্ধ নিরীক্ষক) কর্তৃক নিরীক্ষিত হয়েছে এবং উক্ত নিরীক্ষা প্রতিষ্ঠান, নিরীক্ষা সংক্রান্ত কার্যাদি সম্পাদন পূর্বক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদন ইস্যু করেছে; যেহেতু, আলোচ্য নিরীক্ষক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদনে, অন্যান্যের মধ্যে, কতিপয় অভিমতসমূহ (qualified opinion) ব্যক্ত করেছে যার ফলশ্রুতিতে দেখা যায় যে, জুন ৩০, ২০০৭ তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন;

(b) Company Name: I Ltd.

Violations:

যেহেতু, rule 12 of the Securities and Exchange Rules, 1987, অনুযায়ী ইস্যুয়ার জুন 30, 2003 ইং তারিখে সমাপ্ত বৎসরের জন্য প্রস্তুতকৃত আর্থিক বিবরণী ইস্যু করেছে যা মেসার্স এম. এ. মালেক সিদ্দিকী ওয়ালি এন্ড কোং, চার্টার্ড একাউন্ট্যান্টস (বিধিবদ্ধ নিরীক্ষক) কর্তৃক নিরীক্ষিত হয়েছে; যেহেতু, আলোচ্য নিরীক্ষক নিরীক্ষা সংক্রান্ত ২১২ . কার্যাদি সম্পাদন পূর্বক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদনে কতিপয় শর্তাধীন অভিমত (qualified opinion) ব্যক্ত করেছে যার ফলশ্রুতিতে দেখা যায় যে, ইস্যুয়ার জুন ৩০, ২০০৩ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণী IAS অনুযায়ী প্রস্তুত করতে ব্যর্থ হয়েছে বিধায় উক্ত আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা true and fair হিসাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন;

3. Disclosures as prescribed by the ICAB [500,000-10,00,000] [n=2]**(a) Company Name: J Ltd.**

Violations:

যেহেতু, Securities and Exchange Rules, 1987 এর rule 12 অনুযায়ী ইস্যুয়ার জুন ৩০, ২০০৭ তারিখে সমাপ্ত বৎসরের জন্য প্রস্তুতকৃত আর্থিক বিবরণী ইস্যু করেছে যা মেসার্স এম. আহমেদ এন্ড কোং, চার্টার্ড একাউন্ট্যান্টস (বিধিবদ্ধ নিরীক্ষক) কর্তৃক নিরীক্ষিত হয়েছে এবং উক্ত নিরীক্ষা প্রতিষ্ঠান, নিরীক্ষা সংক্রান্ত ২১২ . কার্যাদি সম্পাদন পূর্বক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদন ইস্যু করেছে; যেহেতু, আলোচ্য নিরীক্ষা প্রতিবেদনে, অন্যান্যের মধ্যে, কতিপয় নোটস (Notes) এর প্রতি কমিশনের দৃষ্টি আকর্ষিত হয়েছে, যার ফলশ্রুতিতে দেখা যায় যে, জুন ৩০, ২০০৭ তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন;

(b) Company Name: I Ltd.

Violations:

যেহেতু, আলোচ্য নিরীক্ষক এতদসংশ্লিষ্ট নিরীক্ষা প্রতিবেদনে, অন্যান্যের মধ্যে, নিম্নোক্ত অভিমতসমূহ ব্যক্ত করেছে: “Management of the company has filed a case against Mr. X, Ex. Chairman of the said company at Kishorganj Sadar Thana (Case#1116 dated 14.12. 2004) and he was expelled from the Directorship & Chairmanship of the company in the Board Meeting Dated 4th November 2004 for harmful activities at Kishorganj project site and the progress of the case was not known. We observe that management has no control on Kishorganj project site, production, stock and sales. The management estimated that stock of Tk. 8,345,000.00 (Note 9) was taken by Mr. X, Ex-Chairman of the company (who was in charge of the project). The management failed to produce details of the said stock as well as documentary evidence. Balance confirmation by Mr. X has not been received by us. In our opinion, the financial statements do not give a true and fair view of the state of affairs of the company as of 30th June, 2006 and of the result of the operations and its cash flows for the year then ended.” যেহেতু, উপরোক্ত অভিমতসমূহের ফলশ্রুতিতে দেখা যায় যে, ইস্যুয়ার জুন, ২০০৬ ইং তারিখে সমাপ্ত বৎসরের আর্থিক বিবরণী IAS অনুযায়ী প্রস্তুত করতে ব্যর্থ হয়েছে বিধায় উক্ত আর্থিক বিবরণীতে ইস্যুয়ারের বাস্তব অবস্থা সঠিক ও স্বচ্ছ (true and fair) ভাবে প্রতিফলিত হয়নি তথা উক্তরূপ কর্মকাণ্ডের মাধ্যমে ইস্যুয়ার আলোচ্য Rules এর সংশ্লিষ্ট বিধান লংঘন করেছে, যা আলোচ্য Ordinance এর section 18 এর সুস্পষ্ট লংঘন;

4. Half yearly Audited Report [700,000-800,000] [n=2]**(a) Company Name: K Ltd.**

Violations:

যেহেতু, উক্ত অর্ধ-বার্ষিক আর্থিক বিবরণী হতে প্রতীয়মান হয় যে, ইস্যুয়ার Para 20(a) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী তুলনামূলক উদ্বর্তপত্র (Balance Sheet); Para (b) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী তুলনামূলক আয় বিবরণী (Income Statement); Para (d) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী তুলনামূলক নগদ প্রবাহ বিবরণী (Cash Flow Statement) এবং Para (c) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী ইকুইটি পরিবর্তন (Changes in Equity) সংক্রান্ত 212 . বিবরণী উপস্থাপনে ব্যর্থ হয়েছে; যেহেতু, আলোচ্য নগদ প্রবাহ বিবরণী (Cash Flow Statement) তে ২২,৬২৭,৩০৬.০০ টাকা ঋণ পরিশোধ খাতে দেখানো সত্ত্বেও জুন ৩০, ২০০৬ এবং ডিসেম্বর ৩১, ২০০৬ এ সমাপ্ত হিসাব বিবরণীতে ‘Loan Fund’ এবং ‘Cash Credit and Overdraft’ খাতে সমপরিমাণ অর্থ দেখানো হয়েছে এবং উক্ত সময়কালে কোম্পানী বন্ধ থাকা সত্ত্বেও ‘Factory Overhead’ খাতে ১৬,৫৩৫,৩০৩.০০ টাকা দেখানো হয়েছে

(b) Company Name: L Ltd.

Violations:

যেহেতু, rule 13 of the Securities and Exchange Rules, 1987, as amended, states, “Every issuer shall, within one month of close of the first half-year, transmit to the stock exchange in which its securities are listed, to the security holders and to the Commission half-yearly financial statements which shall be prepared in the same manner and form as the annual financial statements.”; যেহেতু, rule 13A of the Securities and Exchange Rules, 1987, as amended, states, “Forms prescribed for the purpose of preparing the financial statements and the audit report may be adapted or amended, if deemed necessary, for compliance with the International Accounting Standards (IAS) and International Standards of Auditing (ISA).”; যেহেতু, আলোচ্য ইস্যুয়ার পত্র সূত্র নং এমপিআইএল/মেঃঅঃ/৭৮৬/০৭/০৭৯ তারিখ জানুয়ারী ২৮, ২০০৭ ইং এর মাধ্যমে ডিসেম্বর ৩১, ২০০৬ ইং তারিখে সমাপ্ত অর্ধ-বার্ষিক আর্থিক বিবরণী কমিশনের নিকট দাখিল করে; যেহেতু, উক্ত অর্ধ-বার্ষিক আর্থিক বিবরণী হতে প্রতীয়মান হয় যে, ইস্যুয়ার Para 20(a) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী তুলনামূলক উদ্বর্তপত্র (Balance Sheet); Para (b) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী তুলনামূলক আয় বিবরণী (Income Statement); Para (d) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী তুলনামূলক নগদ প্রবাহ বিবরণী (Cash Flow Statement) এবং Para(c) of Bangladesh Accounting Standards (BAS-34) অনুযায়ী ইকুইটি পরিবর্তন (Changes in Equity) সংক্রান্ত ২১২ . বিবরণী উপস্থাপন বার্থ হতে; যেহেতু, আলোচ্য নগদ প্রবাহ বিবরণী (Cash Flow Statement) তে ১০,০৬৭,৭৬০.০০ টাকা ‘Bank overdraft’ খাতে দেখানো সত্ত্বেও জুন ৩০, ২০০৬ এবং ডিসেম্বর ৩১, ২০০৬ এ সমাপ্ত হিসাব বিবরণীতে ‘Cash Credit and Overdraft’ খাতে মাত্র ৮৯,৭০১.০০ টাকা বৃদ্ধি হিসাবে দেখানো হয়েছে; যেহেতু, ডিসেম্বর ৩১, ২০০৬ এ সমাপ্ত নগদ প্রবাহ বিবরণী (Cash Flow Statement) অনুযায়ী closing cash and bank balance খাতে ৪,২৯৪,৯৮৩.০০ টাকা দেখানো হয়েছিল, কিন্তু আলোচ্য কোম্পানী উক্ত খাতে মাত্র ১৩,৮৩৫.০০ টাকা দেখিয়েছে; যেহেতু, ইস্যুয়ারের উপরোক্ত ব্যর্থতার জন্য কমিশন পত্র সূত্র নং SEC/CFD/2:41/2001/3028 তারিখ ফেব্রুয়ারী ১৫, ২০০৭ ইং এর মাধ্যমে উক্ত অর্ধ-বার্ষিক আর্থিক বিবরণী পুনর্বিদ্যস্ত (revised) করে কমিশনের নিকট দাখিল করার জন্য অনুরোধ করা হয়; যেহেতু, আলোচ্য ইস্যুয়ার পত্র তারিখ মার্চ ১৭, ২০০৭ ইং এর মাধ্যমে ডিসেম্বর ৩১, ২০০৬ ইং তারিখে সমাপ্ত পুনর্বিদ্যস্ত (revised) অর্ধ-বার্ষিক আর্থিক বিবরণী কমিশনের নিকট দাখিল করে যাতে ইস্যুয়ারের একই ধরনের ব্যর্থতা পরিলক্ষিত হয় যা ইচ্ছাকৃত বলে প্রতীয়মান হয়েছে;

Appendix 8-2: Depreciation related violations by companies (n=7)

Company	Violations (Detailed) ¹²⁹	Fine Paid or Not Paid
(a) A Ltd.	<p>Whereas, as per section 2 (g) of the Securities and Exchange Ordinance, 1969 (ORDINANCE No. XVII OF 1969) A Ltd. is an issuer (herein after referred to as issuer);</p> <p>Whereas, required by rule 12 of the Securities and Exchange Rules, 1987, the issuer has prepared ‘Financial Statements’ for the year ended June 30, 2007 which has been audited by M/S A & Co, Chartered Accountants (registered auditor). Whereas, it appeared from the said audited financial statements, it has been observed by the commission among others, that the issuer has not charged depreciation on fixed assets for the year ended June 30, 2007 and the issuer has shown lower loss in the ‘Financial Statements’ for the year. After observing the above mentioned facts, it is very clear that the Income Statement for the year ended June 30, 2007 does not reflect a ‘True and Fair View’ and hence, the issuer has clearly violated section 18 of the above said Ordinance.</p>	<p>Case: A Ltd. vs. SEC, General Certificate Court GCC No. 289/2010 GCC No. 46/2011.</p> <p>Pending</p>
(b) B Ltd.	<p>On examination of audited financial statements of the issuer for the year ended December 31, 2008, the Commission observed, among others, the following on the said financial statements:</p> <p>“a. It appears from Note no. 4.02: (a) Property, Assets and Depreciation that no appropriate method was followed in charging depreciation of other fixed assets, depreciation of all fixed assets was charged on a lump sum basis without following appropriate rate and depreciation was charged neither on written down value nor straight line method also appropriate rate was not followed in changing the annual depreciation rates.</p> <p>b. It also appears from Note no. 13: Custom Debenture of Tk. 10,137,888.00 that the balance of custom debenture has been brought forward from last year and provision for interest payable on custom debenture has not been made in the accounts.</p> <p>c. It further appears from Note no. 16: Temporary Loan of Tk. 21,887,681.00 that temporary loan amount is not supported with the board of directors’ approval and not supported with valid documentary evidences, as such the auditors could not ascertain the genuineness of obtaining temporary loan by the company.</p> <p>d. It further appears from Note no. 22: Others that Managing Director & Director received Tk. 230,000.00 as remuneration although the tenure of the managing director is not approved by the board in line with the Memorandum and Articles of Association and Note no. 23: Other Observations and Comments that (a) the management produced a list of Fixed Assets and Inventory related papers/documents and inform that the company physically verified the fixed assets and closing stock although in absence of logistics support, the auditors could not conduct physical inventory, (b) during the course of audit, the auditors observed that the company did not maintain any fixed assets register, (c) during the course of audit, the auditors observed the company did not maintain Debtors and Creditors ledger properly and should maintain related party ledger properly and (d) during the course of audit, the auditors observed that there are some lapses and lacunas in maintaining the cash book and ledger book and should maintain those books properly with perfection.”</p> <p>Whereas, in view of the all above, the commission believes that the ‘Financial Statements’ issued by the issuer for the year ended December 31, 2008 has not reflected a ‘True and Fair’ view, which is considered as wrong information given to the commission. The commission has sent a letter to the issuer (reference no. SEC/CFD/8:1/99/502, dated June 16, 2009) requiring clear explanation of the above mentioned issues. In response, the issuer submitted their explanations to the Commission vide letter, dated June 29, 2009. However, the commission</p>	<p>Case: B Ltd. vs. SEC, General Certificate Court GCC No. [?]* / 2011</p> <p>* The case has recently been filed in the GCC Court and no number has yet been assigned.</p> <p>Pending</p>

¹²⁹ The details of the violations were translated from Bengali. See Appendix 8-1 for Bengali version.

Company	Violations (Detailed) ¹²⁹	Fine Paid or Not Paid																
	<p>did not consider their explanations because the issuer has failed to provide the 'Financial Statements' in accordance with IASs for the year ended December 31, 2008. Therefore, the issuer has clearly violated section 18 of the above said Ordinance.</p>																	
(c) C Ltd.	<p>Whereas, it appeared from the said audited financial statements for the year ended June 30, 2009, the commission, among others, has made the following observations:</p> <p>i) In the Balance Sheet of the said financial statements, NAV has been shown Tk.118.60 per share. But as per our observation the NAV is Tk.75.34 per share, which arises as under:</p> <table border="0" data-bbox="250 443 698 689"> <tr> <td>Share Capital Tk.</td> <td>132,000,000</td> </tr> <tr> <td>Tax Holiday Reserve</td> <td>34,057,703</td> </tr> <tr> <td><u>Retained Earnings</u></td> <td><u>(9,505,965)</u></td> </tr> <tr> <td></td> <td>156,551,738</td> </tr> <tr> <td><u>Less: Deferred Expenses</u></td> <td><u>(57,103,194)</u></td> </tr> <tr> <td>Total NAV</td> <td>99,448,544</td> </tr> <tr> <td>Total No. of shares</td> <td>1,320,000</td> </tr> <tr> <td>NAV per share</td> <td>Tk.75.34</td> </tr> </table> <p>ii) In the Balance Sheet, Deferred Expenses have shown Tk.45,886,219 and Tk.57,103,194 for the years ended on June 30, 2008 and 2009 respectively, but there is no explanation/notes regarding the creation and increase of said expenses for the year ended on June 30, 2008 and 2009 respectively.</p> <p>iii) The Statement of Changes in Equity for the year ended on June 30, 2009 has not been prepared on the basis of the Statement of Changes in Equity for the year ended on June 30, 2008; because the balance of negative Retained Earnings for the year ended on June 30, 2008 has not been considered in preparing the Statement of Changes in Equity for the year ended on June 30, 2009. As a result the balance shown in the Statement of Changes in Equity for the year ended on June 30, 2009 and the figure reported as shareholders equity in the Balance Sheet has been overstated.</p> <p>iv) It has been mentioned in the note No.2.3 of the said financial statements that no depreciation has been charged during the year due to suspended of its production activities since 2006. But as per the requirement of Bangladesh Accounting Standards the issuer should have to charge the required depreciation.”</p> <p>Whereas, in view of the all above, the commission believes that the 'Financial Statements' issued by the issuer for the year ended June 30, 2009 do not reflect a 'True and Fair' view. From the commission's point of view, the issuer has provided wrong information. The commission has sent a letter to the issuer (reference no. SEC/CFD/3:19/99/571, dated November 04, 2009) requiring clear explanation of the above mentioned issues. In response, the issuer submitted their explanations to the Commission vide letter, dated November 12, 2009 to the commission. The commission decided not accept the issuer's explanations. Since the issuer has failed to provide 'Financial Statements' for the year ended June 30, 2009 in accordance with IAS, the issuer has clearly violated section 18 of the above said ordinance.</p>	Share Capital Tk.	132,000,000	Tax Holiday Reserve	34,057,703	<u>Retained Earnings</u>	<u>(9,505,965)</u>		156,551,738	<u>Less: Deferred Expenses</u>	<u>(57,103,194)</u>	Total NAV	99,448,544	Total No. of shares	1,320,000	NAV per share	Tk.75.34	<p><i>No information has been provided by SEC</i></p>
Share Capital Tk.	132,000,000																	
Tax Holiday Reserve	34,057,703																	
<u>Retained Earnings</u>	<u>(9,505,965)</u>																	
	156,551,738																	
<u>Less: Deferred Expenses</u>	<u>(57,103,194)</u>																	
Total NAV	99,448,544																	
Total No. of shares	1,320,000																	
NAV per share	Tk.75.34																	

Company	Violations (Detailed) ¹²⁹	Fine Paid or Not Paid
(d) D Ltd.	<p>Whereas, required by rule 12 of the Securities and Exchange Rules, 1987, the issuer has prepared ‘Financial Statements’ for the year ended June 30, 2007 which has been audited by M/S B & Co, Chartered Accountants (registered auditor).</p> <p>Whereas, it appeared from the said audited financial statements that the auditors have made, among others, it has been observed by the commission that in Note no. 03 & 07 of the audited ‘Financial Statements’, the issuer has not charged any depreciation on its revalued amount of fixed assets Tk. 296,629,689.00 since 1994-95. The issuer failed to provide clear explanations on this to the commission. The commission decided that the issuer has clearly failed to provide the ‘Financial Statements’ for the year ended June 30, 2007 in accordance with IAS and therefore a clear violation of section 18 of the above mentioned Ordinance.</p>	<p>Case: D Ltd. vs. SEC, General Certificate Court GCC No. 166/2010</p> <p>Pending</p>
(e) E Ltd.	<p>Whereas, it appeared from the said audited financial statements for the year ended September 30, 2006, the commission, among others, has made the following observations:</p> <p>“Financial Expenses: During the year, the company settled the case with BSB through mutual agreement and the company has to pay Tk. 143,000,000 over a period of 7 years in place of Tk. 95,700,000 and accordingly excess amount of Tk. 47,300,000 has been booked in the respective fixed assets. The company and the National Bank have gone into litigation to mitigate their respective grievances. The company filed a money suit against NBL for the realisation of Tk. 315 crores¹³⁰ (Approx) as compensation.” The commission also observed the following inconsistencies in the issuer’s financial statements:</p> <p>“Reference Note No.-2: Recognition of property, plant & Equipment and Depreciation: Cost of property, plant & equipment represent the cost of acquisition or construction and include purchase price and other directly attributable cost of bringing the assets to working conditions for its intended use, but do not include any capitalised borrowing cost.”</p> <p>Whereas, it appeared from the said audited financial statements that the issuer failed to provide the ‘Financial Statements’ for the year ended September 30, 2006 in accordance with IAS. The financial statements does not reflect a ‘true and fair view’ and hence it is a clear violation of section 18 of the above mentioned Ordinance.</p>	<p>Case: E Ltd. vs. SEC, General Certificate Court GCC No. 217/2009 GCC No. 258/2009 GCC No. 318/2009</p> <p>Pending</p>
(f) F Ltd.	<p>Whereas, it appeared from the said audited financial statements that the issuer failed to provide the ‘Financial Statements’ for the year ended December 31, 2005 and therefore the ‘Financial Statements’ have failed to reflect a ‘true and fair view’. The issuer has clearly violated section 18 of the above said Ordinance.</p> <p>“1. Three fourth of Bank Interest amounting to Tk. 1,98,55,492.00 has been deferred and shown as “Intangible Assets”, and one fourth of interest amounting to Tk. 66,18,497.00 has been charged to Profit & Loss Account as per decision of Board in its 143rd meeting held on 5th June 2004. This decision does not conform to accounting principles as per the Bangladesh Accounting Standard (BAS 23);</p> <ol style="list-style-type: none"> 1. Depreciation on factory assets, such as, Factory Building, Plant & Machinery and other factory assets have not been charged for the year under audit; 2. Lease rental for IDLC machines for Tk. 432,420.00 only has been recognised as expenses whereas lease agreement discloses yearly 	<p>No information has been provided by SEC.</p>

¹³⁰ 100 crores = 1 billion, so here, 315 crores is equivalent to 3.15 billion.

Company	Violations (Detailed) ¹²⁹	Fine Paid or Not Paid
	instalments with rental amount of Tk. 20, 29,690.00 which was not accounted as per BAS-17 Leases; 3. Year wise tax provision as well as assessment position could not be made available to us. As such actual tax liability could not be worked out”.	
(g) G Ltd.	<p>Whereas, as required by rule 12 of the Securities and Exchange Rules, 1987, the issuer submitted the audited financial statements for the year ended August 31, 2006 to the Commission and others concerned;</p> <p>Whereas, it appeared from the said audited financial statements that the auditors have made, among others, the following observations/qualified opinion on the financial statements:</p> <p>“1. The company did not provide depreciation for Tk. 53,295,203 including for the period of Tk. 6,178,001 in respect of unit-4 which was in operation throughout the year. Depreciation remains unprovided in respect of other units although there was partial operation in unit-1 during the year under review (Note-9.01).</p> <p>2. The company did not compute deferred taxation.</p> <p>3. Depreciation on value increased by revaluation was not charged.”</p> <p>Whereas, as regard to Unit 1 & 2, the issuer company mentioned that depreciation remained unprovided because capacity utilisation of the said Units was only 1.09% and as there was no operation of those Units for the half year ended February 28, 2007, depreciation for the said half year was also not provided by the company;</p> <p>Whereas, as a result of the above, the audited financial statements of the issuer for the years ended on August 31, 2006 do not portray a true and fair view of the financial position which is tantamount to the furnishing of incorrect information to SEC;</p> <p>Whereas, furnishing of incorrect audited financial statements for the year ended on August 31, 2006 is a clear contravention of section 18 of the Securities and Exchange Ordinance, 1969, read with sub-rule (2) of rule 12 of the Securities and Exchange Rules, 1987, which appeared to be deliberate attracting appropriate provisions of the Securities and Exchange Ordinance, 1969.</p>	<p>Not Applicable since no fine was imposed</p> <p>Since the company has been warned, no fine or penalty has been imposed.</p>

Appendix 8-3: Qualified Audit Opinion related violations by companies (n=2)

Company	Violations (Detailed)	Fine Paid or Not Paid
(a) H Ltd.	Whereas, as required by rule 12 of the Securities and Exchange Rules, 1987, the issuer submitted the financial statements which has been audited by M/S C & Co, Chartered Accountants (registered auditor) for the year ended June 30, 2007; On examination of audited financial statements, among others, the auditor has provided qualified opinion . But the ‘Financial Statements’ for the year ended June 30, 2007 do not reflect a ‘True and Fair View’ and therefore the issuer clearly violates section 18 of the Ordinance.	No information has been provided by the SEC
(b) I Ltd.	Whereas, as required by rule 12 of the Securities and Exchange Rules, 1987, the issuer submitted the financial statements which have been audited by M/S D & Co, Chartered Accountants (registered auditor) for the year ended June 30, 2003; On examination of audited financial statements, among others, the auditor has provided qualified opinion . But the ‘Financial Statements’ for the year ended June 30, 2003 have not been prepared in accordance with IAS and do not reflect a ‘True and Fair View’ and hence the issuer clearly violates section 18 of the above said Ordinance.	No information has been provided by SEC

Appendix 8-4: Non-disclosure of the ICAB’s requirement by companies (n=2)

Company	Violations (Detailed)	Fine Paid or Not Paid
(a) J Ltd.	Whereas, as required by rule 12 of the Securities and Exchange Rules, 1987, the issuer submitted the financial statements which has been audited by M/S E & Co, Chartered Accountants (registered auditor) for the year ended June 30, 2007; On examination of audited financial statements, among others, the auditor has provided some ‘ Notes of Financial Statements ’ for the year ended June 30, 2007 which are not prepared in accordance with IAS and as prescribed by the ICAB. Therefore, the ‘Financial Statements’ of the issuer do not reflect a ‘True and Fair View’ and the issuer clearly violates section 18 of the above said Ordinance.	Case: J Ltd. vs. SEC, General Certificate Court, GCC No. 85/2010 GCC No. 155/2010 Pending
(b) I Ltd.	On examination of audited financial statements of the issuer, the Commission observed, among others, the following on the said financial statements: “Management of the company has filed a case against Mr. X, Ex. Chairman of the said company at Kishorganj Sadar Thana (Case#1116 dated 14.12. 2004) and he was expelled from the Directorship & Chairmanship of the company in the Board Meeting Dated 4th November 2004 for harmful activities at Kishorganj project site and the progress of the case was not known. We observe that management has no control over the Kishorganj project site, production, stock and sales. The management estimated that stock of Tk. 8,345,000.00 (Note 9) was taken by Mr. X, Ex-Chairman of the company (who was in charge of the project). The management failed to produce details of the said stock as well as documentary evidence. Balance confirmation by Mr. X has not been received by us. In our opinion, the financial statements do not give a true and fair view of the state of affairs of the company as of 30th June, 2006 and of the result of the operations and its cash flows for the year then ended”. Whereas, in view of the above facts, the commission believes that the audited ‘ Financial Statements ’ for the year ended June 30, 2006 is not prepared in accordance with IAS and notes as prescribed by the ICAB. Hence, the financial statements do not reflect a ‘True and Fair’ view. Whereas, the aforesaid activities are tantamount to non-compliance of securities law, deliberate and clear contravention of the above mentioned Rule. The said violation attracts penal provision of section 18.	<i>No information has been provided by SEC</i>

Appendix 8-5: Half-yearly Audited report related violations by companies (n=2)

Company	Violations (Detailed)	Fine Paid or Not Paid
(a) K Ltd.	On examination of audited financial statements of the issuer, the Commission observed, among others, the following on the said financial statements: The issuer has failed to provide half yearly ‘Financial Statements’ in accordance with BAS ¹³¹ : ‘Balance Sheet’ as per Para 20(a) of Bangladesh Accounting Standards (BAS-34); ‘Income Statement’ as per Para 20(b) of Bangladesh Accounting Standards (BAS-34); ‘Cash Flow Statement’ as per Para(d) of Bangladesh Accounting Standards (BAS- 34) and ‘Changes in Equity’ as per Para(c) of Bangladesh Accounting Standards (BAS-34); Whereas, in the Cash Flow Statement, the loan repayment is Tk. 22,627,306.00 even though in the Financial Statement as of June 30, 2006 and December 31, 2006 the same amount of money is shown in the ‘Loan Fund’ and ‘Cash Credit and Overdraft’. Despite the company was closed during that time, , a ‘Factory Overhead’ was shown, of Tk. 16,535,303.00.	Case: K Ltd. vs. SEC, Supreme Court of Bangladesh (High Court Division) Writ Petition (WP) No. 4495/2008 Stay Order Pending

¹³¹ BAS (Bangladesh Accounting Standard) refers to IFRSs.

Company	Violations (Detailed)	Fine Paid or Not Paid
(b) L Ltd.	<p>As, rule 13 of the Securities and Exchange Rules, 1987, as amended, states, “Every issuer shall, within one month of close of the first half-year, transmit to the stock exchange in which its securities are listed, to the security holders and to the Commission half-yearly financial statements which shall be prepared in the same manner and form as the annual financial statements.”; As, rule 13A of the Securities and Exchange Rules, 1987, as amended, states, “Forms prescribed for the purpose of preparing the financial statements and the audit report may be adapted or amended, if deemed necessary, for compliance with the International Accounting Standards (IAS) and International Standards of Auditing (ISA).”; The issuer has submitted its half yearly Financial Statements to the Commission, reference no. MPIL/MA/786/07/079, dated January 28, 2007;</p> <p>On examination of the statements, the commission, among others, observes that the issuer has failed to prepare half yearly statements in accordance with BAS: ‘Balance Sheet’ as per Para 20(a) of Bangladesh Accounting Standards (BAS-34); ‘Income Statement’ as per Para 20(b) of Bangladesh Accounting Standards (BAS-34); ‘Cash Flow Statement’ as per Para(d) of Bangladesh Accounting Standards (BAS- 34) and ‘Changes in Equity’ as per Para(c) of Bangladesh Accounting Standards (BAS-34); In the Cash Flow Statement, the issuer has shown Tk. 10,067,760.00 as ‘Bank Overdraft’ even though in the Financial Statement as of June 30, 2006 and December 31, 2006, the issuer has shown an increase of Tk. 89,701.00 as ‘Cash Credit and Overdraft’. The issuer also shows closing cash and bank balance of TK. Tk. 4,294,983.00 in the Cash Flow Statement, but it should be Tk, 13,835.00. Whereas, the aforesaid activities are tantamount to non-compliance of securities law, the commission asks the issuer (reference: SEC/CFD/ 2:41/2001/3028, dated February 15, 2007) to submit the revised half yearly financial statements to the commission. The issuer submitted the revised half yearly financial statements for the period ended December 31, 2006 (vide letter, dated March 17, 2007). On examining the statements and the issuer’s explanations, the commission observes that the issuer fails to rectify the above mentioned inconsistencies. The said violation clearly attracts the penal provision of section 18 of the SEC Ordinance, 1969.</p>	<p><i>No information has been provided by SEC</i></p>