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Roadmap for accountancy profession in Bangladesh

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ACCOUNTANCY is a critical component of the infrastructure for a market economy. No economically sound activity would be possible without accountancy. Beyond the information it provides on the financial position and profitability of operations, it is the foundation of countries' fiscal systems and it plays a key role in corporate governance. Accountancy is relied on when enforcing prudential management requirements for banks, insurance companies, securities dealers, and other market participants. As a result, the accountancy sector is among the most regulated in the world's advanced economies in terms of its liabilities towards to the society. Appropriate accountancy can ensure accountability for finances, fairness, and performances and prescribe way to guarantee good governance by institutionalising a powerful accountability structure that holds every public and private sector official answerable for his or her actions as public or corporate official.

However, no detailed manpower forecast for Chartered Accountants yet exists in Bangladesh, though the second five-year plan says that financial administration should be given a high priority (para 20.44). The two-year plan (1978-80) set a target for the number of Chartered Accountants for the plan period, which was envisaged as 3,200 persons (table 11.6, p: 246). In India the ratio of Chartered Accountants to overall population is 1: 23,333. Applying this as a standard for Bangladesh, Parry, 1990 estimated a figure that entail an increase of more than 4,000 Chartered Accountants. It obviously needs reassessment after the introduction of the market economy. Currently, Bangladesh has more than 800 CAs, comparative figures of South Asian neighbours are Pakistan more than 3000, Sri Lanka over 2700 and Nepal 270. In terms of the current size of Bangladesh economy following the growth of banking, insurance, industry and other service sectors, the needed number of qualified accountants can be estimated more than 12000 in terms of the size of economy.

Among the four nationalised commercial banks, two do not have any professional accountant. In other two, professional accountants are not responsible for the accounting department. The position of listed and other Public Companies are worse. Among more than 90 banks and insurance companies only 10-15 employ professionals accountants. Out of 52 SoEs only 14 have accounting professional and others do not. In the 250 listed companies, only 30 employed qualified accounts and the rest do not. The government of Bangladesh in managing a budget over Taka 67,000 crores do not employ any professional accountants. Above facts reveal the magnitude of the need for more professional accountants in our country. Therefore, there is the urgent need for working

out an action plan to increase the number of qualified accountants.

Evidences support that accountancy profession in Bangladesh was transplanted through British Colonial Power. To provide reliable financial information to British investors the British auditors came in this part of the world. At the time of its formation in 1972, there were 78 members of the accounting profession which has grown to 760 in July 2005, out of which 270 are in practice and the reminder 440 employed in different organisations. Out of the total number only seven are female. There were 25 practicing Chartered Accountants firms in 1972 which grew to 178 in 2003 and 226 members from them are allowed to train articled students. Only nine firms were found to employ qualified assistants. There are 16 firms with foreign qualified partners and who are members of UK Institutes. Beyond affiliation with Big Four International firms another six practicing firms of Bangladesh have formal links with the foreign auditor firms. In most cases, the firms having partners qualified from foreign institutes and having links with foreign audit firms become auditors of multinational companies in Bangladesh. Audit firms in Bangladesh are very small. Out of 178 firms 119 are proprietorship and 59 are partnership. In the 59 partnership firms three have partners between 5-7, 4 firms have 3-5 partners and the rest have two partners each. Auditor firms for the nationalised sector are not selected on consideration of the size of firm. So a small number of big firms get audit and related accounting work from the nationalised sector. It is said that the quality of work also depends on the size of the firm, qualification and training of the partners in practice.

Currently, two distinguished chartered accountants are serving as Cabinet members in Bangladesh. One served as Deputy Prime Minister and another state minister for Finance in an earlier government (1979-81). Six are serving at the World Bank and Asian Development Bank, 44 have qualified from foreign Institutes and some of them are CEOs in different business houses.

The common confusion, particularly in the eye of layman, is to see the auditors as responsible for the accounts. The users of accounts in Bangladesh sometimes confuse this view. The directors of the entity are statutorily responsible for the accounts, which is also not clear to the users of accounting reports in Bangladesh. The auditor's responsibility begins and ends with his expression of an opinion on the audit report. Thus the audit report is the formal communication about the accounts between the auditors of the enterprise and the persons to whom they report to either shareholders, or the government, whosoever is appropriate. This concept has yet to work properly in Bangladesh. It is alleged that many people sitting in the regulatory Ministry of Commerce and officials of C&AG are more interested to become members of ICAB and ICMAB without appearing in the examinations. In few cases they were reportedly successful.

Public sector enterprises (PSE) have proved surprisingly disappointing as providers of accounts (Howladar and Parry, 1984). One would have normally expected the public sector to set an example to the private sector, but in Bangladesh this is clearly not so. Having said this, it must be stated that public enterprises generally produce their published accounts on request. In other cases, however, the accounts are only produced after much persuasion. In a number of cases, and despite the requirements of the legislation creating the enterprises, accounts simply do not exist. In other cases, the Annual Reports of the enterprises are prepared which do not contain accounts. One cannot imagine how the World Bank and IMF is continuing their financing even after seeing the unreliable and un-reconciled figures of those PSEs. Appointment of auditors by PSEs in Bangladesh is done mostly by the concerned ministry, for example, Board of Bangladesh Bank, Nationalised Commercial Banks and DFIs, PDB etc are not allowed to appoint their auditors rather this is done by the concerned ministry.

In the recent time, the IMF has come up with a pre- condition for loan sanction in a considerable number of countries including Bangladesh that accounting, auditing and financial reporting of central bank must be in line with those IAS and ISA guidelines. By

contrast, the loan covenant of WB funded projects in Bangladesh does not include a mandatory requirement of IAS and ISA compliance in the ongoing 27 projects jointly financed by the Government of Bangladesh. In these projects there exists serious irregularities in financial control and compliance to Public Sector IAS and ISAs but the resident office of WB goes for low cost audit rather than quality, which raises serious questions about transparency and accountability in operation of those projects. It is not clear whether the local or foreign staff is involved in this gray area in the WB. The most pitiable condition is on the audit fee of the both PSE, Private Sector Companies including those of WB finance projects. In Bangladesh, the audit fee of the PSEs were fixed during Pakistan time and continued with slight increase where inflation has gone up to an astronomical figure. The audit fee of PSEs, banks and financial institutions, and listed companies are so low that it cannot be compared with that in India and Pakistan. For Example, audit fees of the Central bank of Pakistan is Rs 3.0 million while the fee of to Central Bank of Bangladesh is Tk 0.19 million (2002) to 2 local audit firms. The Reserve Bank of India pays Rs 4.5 million while the nationalised commercial banks in Bangladesh pay less than Tk 0.4 million for auditing portfolios of more than Tk 50 billion to 15 billion. Audit fee of Bangladesh Power Development Board is less than Tk 0.3 million to audit a balance sheet of more than Tk 26 billion and the Rural Electrification Board Tk 0.152 million for auditing a balance sheet of more than Tk 7.0 billion; T & T Board Tk .017 million for balance sheet of Tk 5.0 billion. Interestingly BTTB has discontinued their private sector audit since 1997 and virtually no financial statement is prepared is issued by them. The GoB representatives sitting at the Board of PSEs do not allow increasing the audit fees that frustrates the auditors in carrying out the quality audit. The annual audit fees of private commercial banks are less than Tk 0.1 million when the monthly salaries of Managing Director of these banks are reported to be Tk 1.2 million.

The ICAB has recently changed its syllabus in line with IFAC requirements and introduced Foundation Course (FC) and allowed exemption from the FC for the students with excellent academic record in public examinations. It has opened chartered accountancy education to students from O-A Level stream. Considering the changes in the field of accounting and auditing ICAB revised its by-laws and adopted stringent clauses in terms of conduct and mis-conduct of its members relating to discipline.

The British rule for 190 years and the Pakistani rule for 24 years had helped transplantation of British accounting without any significant modification or change in Bangladesh. Bangladesh also is now shifting to US system following inflow of US led donor funds, FDI, and formation of USA modelled SEC requiring listed securities to follow IAS. The IAS is taking shape in Bangladesh in terms of measurement, recognition, reporting and disclosures of accounting information in compliance to US modelled SEC requirements. The Institute of Chartered Accountants of Bangladesh has been positively responding to the development challenges by accepting the improvements in the professional field. Since its formation in 1972, the ICAB has been heading towards internationalism by entering into regional and international forums like South Asian Federation of Accountants (SAFA), Confederation of Accountants in Asia and Pacific (CAP A) and International Federation of Accountants (IFAC). The ICAB, which is the second most junior professional accounting body within the SAARC region, has so far adopted more than 30 IASs and over 27 ISAs. It has established Quality Assurance Board to monitor and supervise the implementation of these Standards including those of Companies Act 1994, SEC, Banking Companies Act, Financial Institution Act and prudential requirements required by the Central Bank. ICAB allows special exemption of its course for the members of ICMAB and graduates from some specific universities. This is a significant development in foreign loan affliction syndrome economy of Bangladesh compared to India, Pakistan, Nepal, and Myanmar where the index of adopting IAS and ISA are low. The country rating of adopting IAS reveals a better picture for Bangladesh (67) compared to more organised economy of Argentina (45), Egypt (24), Turkey (51), Venezuela (40), EU member Portugal (31), Peru (38) and Austria (54).

Bangladesh has been rated as number one Corrupt Country for the last five consecutive years and there is every possibility of

retaining this title for successive term(s). The imperatives for the development of accounting skill are enormous for establishing transparency and accountability within the government of Bangladesh and also in the private sector. The accounting professionals urgently need to sharpen the in diversified skill and increase the number of members to take a positive role for smooth sequencing of reform measures carried out under the free market system. The WTO agreement on the service sector shall open a daunting challenge and enormous opportunity for the professional accountants with the opening of cross boarder financial services. Harmonisation of methods of accounting and financial reporting including that of regulatory requirements are essential for cross boarder listing of the companies of Bangladesh. The capital starve Bangladesh should emphasise on developing universally recognised knowledge-based skills in its accounting professionals. Reporting requirement of SEC, Companies Act of 1994, Banking Companies Act of 1991, and Financial Institution Act of 1993 have significantly improved in the recent time compared to that of our neighbouring Pakistan and India. After two decades of military rule and in the absence of public accountability, corruption to deeply entrenched in the vein of administrative system of the country-under the public sector accounting profession played its role in economic management under intimidations. Under the Parliamentary system the situation should improve.

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