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Ph.D. Dissertation on

*Financial Disclosure in Developing Countries with Special Reference
to Bangladesh*

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by

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Supervisors

Professor Dr. Ignace DE BEELDE & Professor Dr. E. De Lembre

Dedicated to my parents
Late Sultan Ahmed and Mrs. Asma Khatoun

Preface and Acknowledgement

In the age of information and communication technology it is the demand of time that information should be flown properly so that users can get it without any delay or distortion. Because full efficiency in any economy in general and in any organization in particular can be achieved if other things go ahead well through the adequate flow of necessary information. This claims the transparency of information at corporate level. Good corporate governance is a widely accepted concept at any corporate level whereas good governance as a whole at national level is known as the combination of all the corporate governances al different levels of a nation. Transparency in information, as a result, plays a vital role in fixing accountability to judge the effectiveness of any organization.

Financial reporting is an outcome of activities performed by any economic entity during a particular period of time. This includes not only the financial activities but also disclosure of different non-financial information as well as the contribution made by the concerned entities to the national interests. However, there are proponents and opponents on the extent of financial disclosures and they have their own arguments. But one point is rather outdebated that financial information should be considered sensitive and hence should be disclosed properly. Because, the usual separation of owners and managers at corporate level may create confusion, distrust, overlapping, and conflicts between these two vital groups if both the parties do not have real information on the performance of the entity. On the other hand, other audiences also have their own purpose for obtaining information about the total performance of the said entity.

There are different rules, principles, norms, standards, and conventions in information transformation by the firms at different places with differences in nature and goal of the

company in any country. These differences are more visible across countries. This triggers the point of harmonization in financial reporting. There are different bodies working on harmonization in transparency in information at national and international levels with a view to make easier to evaluate the entities by the participants in the globalizing financial world. However, the efforts to harmonize the information are more widely seen in developed countries as compared to developing countries. It has been commonly stated that companies in developed countries are pursuing legal (statutory / mandatory) as well as voluntary disclosures whereas companies in developing countries are hardly trying for mandatory disclosures. But still it is not possible to conclude that even companies in developed countries are fully pursuing transparency in information. So, from the viewpoint of developing countries, the development of transparency in information is an on going process even to meet the minimum level of disclosure.

The purpose of preparing the thesis is to take part in the development process of financial disclosure as a whole but with a particular emphasis on developing countries located in the region of South Asia. Within South Asia, Bangladesh has been taken as a country of reference. I will be pleased if this effort can contribute to the development of information disclosures at any national and international arenas in general and at any level of an organization in particular at home and abroad.

Doing a doctorate program is the third phase of my study in Belgium which was started in 1997. I obtained an academic degree in 'Development Policy' and a Masters degree in Global Management and Development from the University of Antwerp (RUCA) in the year 1998 and 1999 respectively with the scholarship provided by the Government of Belgium through Belgium Development Cooperation Department (ABOS). From the time of doing these programs, I felt that I should take the chance of doing a PhD in Belgium

by utilizing very nice educational environment prevailing here. I talked to Professor Dr. R. Renard of the University of Antwerp (RUCA-IDPM) and he kindly consented to work as my supervisor for the doctoral program at the University of Antwerp (UFSIA), Belgium. After accomplishing the said program, and with a kind advice of Professor Renard, I contacted Professor Dr. Ignace De Beelde of the University of Ghent (RUG), Belgium who kindly introduced me with Professor Dr. Erik De Lembre of the Department of Accounting and Information in the University of Ghent (RUG). I express my heartiest gratitude to him but I must confess that his supervision deserves a substantial credit of my works. I must remember this personality forever.

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List of Abbreviations

- AAA - American Accounting Association
- AICPA - The American Institute of Certified Public Accountants
- APNA - Accounting Policies and Notes to Accounts
- AAOs - Audit and Accounts Officers
- AG - Auditing Guidelines
- AGM - Annual General Meeting
- APB - Accounting Principles Board
- ASRB - Accounting Standards Review Board
- BS - Balance Sheet
- BASs – Bangladesh Accounting Standards
- BOD – Board of Directors
- BSAs – Bangladesh Standards of Auditing
- CAOs - Chief Accounting Officers
- C&AG - Comptroller & Auditor General's
- CP - Company Profile
- CF - Cash Flow
- DTD – Document Type Definition
- DR - Directors' Report
- EC - European Commission
- EDGAR – Electronic Data Gathering, Analysis, and Retrieval
- EU - European Union
- FASB – Financial Accounting Standards Board

FDI - Foreign direct investment

FEE - The Federation of European Accountants

GOB - Government of Bangladesh

GAAP - Generally Accepted Accounting Principles

GDP – Gross Domestic Product

GNP - Gross National Products

GR - Graphical Presentation

HS -Highlights Statement

HTML- Hyper-Text Markup Language

IAS – International Accounting Standard

IASC – International Accounting Standards Committee

IAPC – International Auditing Practices Committee

ICT - Information and Communication Technology

ICAB - The Institute of Chartered Accountants of Bangladesh

ISAs – International Standards of Auditing

ICAI - Institute of Chartered Accountants of India

ICMAB - The Institute of Cost and Management Accountants of Bangladesh

ICASL - Institute of Chartered Accountants of Sri Lanka

IPSAS - International Public Sector Accounting Standard

ISAR – International Standards of Accounting Reporting

IS- Income Statement

IFAC – International Federation of Accountants

IFRSs - International Financial Reporting Standards

IFRIC - International Financial Reporting Interpretations Committee
IOSCO – The International Organization of Securities Commissions
MNC – Multinational Corporation
NFPEs - Nonfinancial Public Enterprises
OI - Other Information
ODI –Overall Disclosure Index
PO – Presidential Order
PSC - Public Sector Committee
SAS - Subordinate Accounts Service
SAARC – South Asian Association for Regional Cooperation
SAFA - South Asian Federation of Accountants
SEC – Securities and Exchange Commission
SIC - Standing Interpretations Committee
SGML – Standard Generalized Mark-up Language
TNCs - Transnational Corporations
UNCTAD – United Nations Conference on Trade and Development
VA -Value Addition
WTO - World Trade Organization
W3C – World Wide Web Consortium
XBRL - Extensible Business Reporting Language
XML - Extensible Markup Language

CHAPTER-1
INTRODUCTION, RATIONALE, RESEARCH QUESTIONS
AND AN OVERVIEW OF BANGLADESH AND THE REGION OF SOUTH ASIA

1.1 Introduction

Information is related to various theories such as stakeholder theory (Choi, 1973), agency theory (Piot, 2005, and Stulz 2005), legitimacy theory (Deegan, 2002 and Tsang, 1998), and political economy theory (Choi, 1973). Referring to the development economics based on developing countries' perspectives Gillis, Perkins, Romer and Snodgrass (1996) state that an effective government, a group of people and firms / enterprises are the three important components of economic development and growth of a nation or of a country. Information dissemination is an important and effective tool of coordinating all those groups to bring them together. Beuselinck (2005) clearly evidences quoting other relevant theories linked to economic functions that financial reporting quality is prime to the well-functioning of the economy. Financial reporting is a vital part of business management too. Petty's (2000) research finds that annual reports are highly useful source of data, because managers of companies commonly signal what is important through the reporting mechanism. There are changes in financial reporting everywhere. Beattie (2000) confirms that recent influential reports by major organizations have suggested that a variety of new information types be reported, in particular forward-looking, non-financial and soft information. Not only business communities but also academics, regulatory bodies, governments, and other stakeholders are also putting their efforts for standardization of financial reports as the lack of uniform standards creates information barriers for the international investment community. Unfamiliar foreign accounting principles and lack of disclosure can prevent investors from diversifying their portfolio internationally in an optimal manner (Doupnik and Salter, 1993). Beck and Rahman (2006) find that more accurate and transparent financial statements can help reduce information asymmetries between borrowers and lenders. Financial statements that give an accurate picture of a firm's financial situation reduce screening and monitoring costs for financial institutions and increase the efficiency of resource allocation. Cross-country comparisons have shown a positive association of more transparent and comprehensive accounting standards with higher levels of financial development (Levine, Loayza and Beck, 2000 and La Porta et al., 1997). Similarly,

transparent and more informative financial statements lower information costs for investors and can foster stock market development and liquidity (Levine, 2003).

Importantly, the fundamental nature of modern business entities is characterized by the agency relationship between management and shareholders, multiple stock exchange listing corporate securities, free flow of capital together with increased globalization of corporate activities (Hasan, Rahman, Rahman, and Talukdar, 2001). It has been stated that the competitive environment in the last decade has had a dramatic effect in reshaping companies and industry. Globalizing markets, instantaneous communication, travel at the speed of sound, political realignments, changing demographics, technological innovations, etc. have changed the competitive position of countries too (Ramaswamy, 2005) and hence there is a changed environment of economic entities in different aspects of doing and sustaining business. Gebhardt (2000) states that accounting information plays a crucial role in the process as accounting reports are vital means of internal communication between managers and employees from national backgrounds in the globalizing companies. As a result, there are research works on different components of business environment. Considering financial reporting mechanism as one of the important components of the market environment in the developed part of the world, there are research works on this aspect covering importance of disclosure, harmonization of accounting and disclosure in the World arena, frameworks of financial reporting and disclosure, finding different variables for disclosure, relationship between mandatory and voluntary disclosure, different consequences of more disclosure, legal and mandatory disclosure system as a condition of creating an environment congenial for doing business, the national culture for disclosure, and also the costs and risks of more disclosures. But Baydoun and Willett (1995) state that the accounting and disclosure systems used in developing countries may be irrelevant to their needs because they originate in Western countries with different cultural values.

An improved understanding of disclosure behavior may throw new light on established areas of interest. In macro level, a better understanding of business information and disclosure systems helps to explain geographic investment and employment patterns and to provide early warning systems for economic and social changes. At the same time, it is also true that corporate information obfuscation happens in various ways mainly through unintentional or deliberate “disconnection”, namely disclosures involving (i) excessive segmentation leading to information overload and confusion; (ii) fragmentation, i.e. uncoordinated segmentation (i.e. segmentation without an evaluative

framework) leading to a lack of cross sectional and longitudinal comparability; (iii) the use of performance measures which are linked to corporate segments in inaccurate or misleading ways; (iv) inappropriate or excessive aggregation and consolidation; (v) linguistic obfuscation (Krumme,2004).

But the disclosure issues have become more important even in the developed world on the aftermath of the fall of Enron – the energy giant -- which is commonly known as the Enron Scandal of accounting and audit failures. Wee (2002) states “*that sorry record has cast double on a once honored profession. Auditors have always been in the uncomfortable position of having to judge the financial integrity of the companies that pay them*”. As the situations prevailing in the developing countries are more fragile as compared to developed world, this issue claims more emphasis in this part of the world. As far as the Asian region is concerned, Asian Development Bank (2004) states that most assessments of corporate governance in Asia point to inter-locking relationships between financial intermediaries and non-financial corporations, family-dominated corporate ownership structures, lack of transparency, the weakness of disclosure rules, and the ineffectiveness of regulatory framework. Within Asia, South Asia is even more vulnerable as the business legal infrastructures are less developed in terms of other developing Asian countries. But there are similarities found in different vital areas in these countries. These aspects include the heredity from the past from the viewpoint of rules of laws; the geographical locations of these countries are close to each other, cultural harmony, the nature of formation and running of business, etc. With the expectation of bringing more cooperation among these countries in various fields, the South Asian Association for Regional Cooperation (SAARC) was formed. But there is a lack of harmony in different specific aspects among the Member countries, such as, in establishing trusts between and among countries due to political indecisions, proper cooperation, volatilities in financial markets, and so on. On the other hand, respective governments of these countries are providing different types of incentives for attracting foreign direct investment to fill in the gap in capital formation which is essentially important for national / macro economic development. They are also looking for domestic generation of savings. All these facts indicate that they are intended to frame a domestic capital market congenial for local and foreign investors. To achieve the target, transparency is treated as vital factor, along with others, that may be achieved by ensuring full disclosures of financial along with non-financial information of the

participating entities in both formal and informal capital markets in particular and economy in general.

This chapter is designed in the way that first we shall see the rationale of such a study followed by the main research question and some sub-research questions to have an acceptable scenario of main research question. There are two sub-sections to provide information about Bangladesh and the region of South Asia. At the end there will be an overview of the full Thesis chapter by chapter.

1.2 Rational of the Study

Gray et al. (1995) show that investors demand information to assess the timing and uncertainty of current and future cash flows so that they may value firms and make other investment decisions such as choosing a portfolio of securities. Firms satisfy this demand in part by supplying accounting information, thereby enabling them to raise capital on the best available terms. Ball (2004) expresses that an efficient financial reporting and disclosure system is crucial to a country's development of economically efficient public corporations and public securities markets, as well as the development of the economy. But information limitation and asymmetries are a fact of life and sometimes agents in corporate governance (i.e. the controlling shareholders and management) may have strong incentives to exploit them unethically. Also, information and its use are costly and not all agents can afford them. Moreover, specialization of human activities is such that a world with symmetric information is not attainable, nor would it be economically efficient (which is not to deny, however, that at least in principle more information is always better than less). Indeed, a market economy is essentially based on the need of each individual in society to rely on the specialized knowledge of others as an efficient way to increase her welfare (Bossonte, 1999).

One effective way of dissemination of firm-specific information is the financial reporting – commonly known as disclosure. Indeed, it is the last phase of accounting cycle that provides the information on financial activities during any particular time frame. However, disclosures carry more meaning than merely information on financial activities. The fact is that the accounting infrastructure permits firms to measure and communicate, both within and outside. It facilitates planning and decision-making, and it allows enterprises to fulfill their accountability obligations (Elliott, 1998). As the accounting procedures are completed by the controlling shareholders with the assistance of regular management or accounting staffs, it became necessary to verify the authenticity of the information provided by the management. As a result, later on, auditing practice added to

accounting. Auditing, as we know it today, developed in the 19th century as a way of adding additional reliability to accounting reports for the benefit of absentee owners. They needed to make sure that the managers on the spot were not ripping the owners off (Ibid).

Most of the developing countries are looking for foreign direct investment (FDI) for filling the gap between domestic saving and investment. Dollar (2003) states that a country's institutions, policies, and regulations play integral roles in encouraging foreign investment. Taking China as a country of reference he mentions that China's good investment environment brought firms into the country, and these firms have integrated China with the world. Khan (2006) demonstrates in the expert meeting on Capacity Building in the area of FDI statistics in December (2005) on data compilation analysis and policy formulation in developing countries that five criteria are important for attracting FDI. These are reliability, comparability, usefulness, comprehensiveness and timeliness to assess the quality of information.

Whereas the nature of modern corporate economy calls for harmonization of accounting and reporting procedures in the one hand, it is also opposed by the business conservatisms arguing that any tightening of disclosure requirements reduces a jurisdiction's competitiveness by increasing the cost of 'doing business' and information available to competitors in other, less regulated jurisdictions. Other opponents of harmonization stress the uniqueness of economic, political, social and cultural environments arguing that imported standards do not fit a country's information needs (Krumme,2004).

But the recent events (such as Enron) have put pressure to rethink the process and extent of disclosure even in the USA. This is surprising in the sense that once USA was compared with Asia as "unlike the Asians in particular, Americans know more or less what is being done with their money. Accounting systems in the United States strive for clear corporate information. No other country's financial system reflects such a willingness to bring financial problems to the surface" (Zuckerman, 1986). After the flameout of Enron, Byrnes, McNamee, Brady, Lavelle and Palmeri (2002) have blamed the whole accounting industry in the following way:

"The accounting industry, which largely regulates itself, has steadfastly resisted change, even in the face of repeated audit failures and scandals. That's about to change. The size and scope of the Enron disaster is simply

too huge to ignore. Eight congressional committees are investigating or planning hearings on the matter, and legislation is already in the works to force firms to abandon consulting to audit clients or face much stiffer legal liability. Even after the flameout of Enron, the Big Five accounting firms have yet to acknowledge the need for fundamental change to their independence rules.”

On the other hand, the proponents of financial disclosure are interested to come forward with many arguments favoring ‘full-disclosure’. Firstly, the globalization of capital markets is an irreversible process, and there are many potential benefits to be gained from mutually recognized and respected international accounting standards for disclosure. Secondly, common standards on accounting and reporting cut the costs of doing business across borders by reducing the need for supplementary information. Thirdly, they make information more comparable, thereby enhancing evaluation and analysis by users of financial statements and reducing user costs. Finally, users become more confident of the information they are provided, and presumably this reduced uncertainty promotes an efficient allocation of resources and reduced capital costs.

Comparability, which has always been one of the driving forces of U.S. accounting standards, has become the focus of cross-border financial reporting. Comparability assumes there is a common measuring yardstick by which to distinguish similarities and differences that informed users can rely upon in making decisions about providing resources, that companies can rely upon to conclude whether they have properly prepared financial statements, and that securities regulators can rely upon to adequately detect potential misinformation in a timely manner.

Harmonization and standards on disclosure also help maintain the credibility of financial reporting to the public and increase the efficiency of auditing that information. By providing mutually accepted financial information and thereby opening access to various capital markets, multinational enterprises can reap the benefits of greater visibility, greater liquidity, better share prices, lower costs of capital, and better access to investors.

There is a symbiotic relationship between accounting standards and capital markets. Domestic accounting standards play an important role in domestic capital markets. As capital markets become increasingly internationalized, domestic priorities may clash with international pressures (Leisenring, 1998).

Bangladesh is a pioneering country of South Asian Association for Regional Cooperation (SAARC), which was formed, in the last decade to promote cooperation between the South Asian Countries. Despite various political obstacles, the economists predict that SAARC might be a strong economic regional bloc with around 1.25 billion people. To harmonize the accounting and reporting procedures, a regional body was formed, known as South Asian Federation of Accountants (SAFA). Although SAFA should be considered to be an effective body to make (a) the linkage between corporate financial reporting and public image and users' needs, and (b) harmonization of accounting reporting framework, practices, compliance and applications of International Accounting Standards (IASs) amongst various SAFA countries, skepticism has been found in its effectiveness. As a result, an empirical study is considered to be necessary to identify and understand the requirements for applications of some sets of reporting standards in South Asian countries and the related potential benefits. In this regard, we have taken Bangladesh as a case of study. Because, Bangladesh has been performing structural adjustments under the joint auspicious of the World Bank and British Technical Assistance. Moreover, 'privatization-move' has got a momentum in Bangladesh as the Government of Bangladesh has adopted the policy of market economy. In recent times, quite a large number of nationalized industries have been privatized and many more are on the list. A number of foreign investors have been attracted by the recent privatization move of the Government. Steps have been taken to attract foreign investors.

Importantly, the Government of Bangladesh (GOB) has recently taken a decision to adopt international accounting standards (IASs) and Mir and Rahaman (2005) evaluate the decision by using a variety of archival data and interviews with key actors, including preparers and users of annual reports, members of the Securities and Exchange Commission, and members of the professional accounting bodies: ICAB and ICMAB. They find that institutional legitimisation is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies. Such pressure results from not only the need to provide credibility to foreign investors but also the need for

strong accountability arrangements with lending/donor agencies. However, the perceived undemocratic nature of the adoption process appears to be creating and enhancing conflict among various constituencies, resulting in very low compliance with these standards. A recent World Bank report noted in 2003 that *“the accounting and auditing practices in Bangladesh suffer from institutional weaknesses in regulation, compliance, and enforcement of standards and rules.”*

Further, there seems little confidence in the financial reports issued by companies with no or perverse price effects of such announcements (ADB, 2004).

Under such circumstances, users are interested to find reliable and transparent corporate financial reports for their investment decisions. All these notions justify an in-depth study on transparent financial information to help design an appropriate financial reporting practice in Bangladesh.

1.3 Research Question(s) of the Study and Linkages of Different Chapters

The research will be carried out on the basis of one main research question (RQ) and some sub-research questions (SRQs). The main research question (RQ) is:

“What is the extent of disclosures of firms¹ in Bangladesh?”

The RQ will be judged on the basis of the following SRQs:

¹ It should be worth to mention that in Bangladesh (also in Indian sub-continent) there are different types of firms namely: single ownership, partnership, joint stock companies and government enterprises. There are multinational companies working in Bangladesh and also Joint Ventures.

Single Ownership Business: The owner is one and he is responsible for managing the business. It is less regulated but the liability of the owner is unlimited – to meet the business liabilities the owner’s personal assets are attached.

Partnership: more than one owner but not more than 20. In case of Banking the maximum number of owners is 10. The partnership is formed by a deed and governed by the Partnership Act 1932. The owners bear unlimited liabilities for the business, e.g. in case of insolvency of any partner, other partner(s) are liable to bear the business liabilities.

Joint Stock Companies: Formed under the Companies Act 1913 or Companies Act 1994, there are two types – (i) public limited companies that have at least 7 shareholders (maximum is determined by the number of shares) and have the right to be listed on the stock exchange and can sell shares to the general public and (ii) private limited companies- that can not sell shares to the general public and the maximum number of share holders is 50. Liabilities of the owners are limited to the share capital.

Government Enterprises: Owned and managed by the Government of Bangladesh (GOB). For similar type of enterprises GOB created “Corporation” that manages all the similar type of enterprises. For instance, all the Jute Mills located in different areas are controlled and managed by the Bangladesh Jute Mills Corporation (BJMC). Enterprises under a corporation are commonly known as **subsidiaries**.

Multinationals: Foreign owned Enterprises have their own production and distribution plants but mainly controlled by the parents. These enterprises enjoy ‘soft laws’. **Joint Ventures** are those that have 50:50 ownership by the local and foreign entrepreneurs.

- SRQ –1:** What is the meaning and extent of financial disclosures? What is the importance of disclosure? How can disclosure be measured? This is related with available literatures, publications, research works, and so on. This is examined in Chapters-1 & 2.
- SRQ – 2:** What are the legal and institutional arrangements of disclosure in Bangladesh? This is addressed in Chapter-3.
- SQR – 3:** What is the overall disclosure environment in Bangladesh? Is it good enough or not? If not, what are the possible causes of poor disclosure environment? This is evaluated in Chapter-4.
- SRQ – 4:** What is the situation of corporate disclosure in the capital market in Bangladesh? This is examined in Chapter-5.

1.3.1 Links Between and Among the Chapters

It should be noted here that there is a link among the different chapters divided to address the SRQs. Firstly, we should know about the meaning and extent of financial disclosure along with its importance for a national financial market. The meaning and importance of financial disclosure have already been discussed in this chapter. In the second chapter, I shall try to find out the works done so far in different parts of the world – both developed and developing – to justify the relevance of information disclosure in SAARC Member States (a short description about SAARC is provided later on in this chapter) with special reference to Bangladesh. In this chapter I will find out the way of measuring the extent of disclosure for firms doing business in Bangladesh. It is obviously important that a country's financial disclosure is shaped by the legal and institutional arrangements of that particular country. The third chapter is designed to have a critical look at the legal and institutional arrangements from the view point of SAARC Member States in general and from the view point of Bangladesh in particular. The fourth chapter is designed for an empirical study on Bangladesh taking all types of firms together to have a concluding remarks whether or not the participants are able to get adequate, timely, fair and true information about the different firms on the one hand. On the other hand, an attempt will also be taken to know the causes behind the poor disclosure environment, if so. If the disclosure level to be found satisfactory, necessary recommendations will be provided to upgrade the existing environment to make it sustainable. As it is true that

a country's legal and institutional arrangements are reflected by the extent of compliances of listed companies of Bangladesh. There are determinants in finding the compliances and the influencing factors on listed companies. The fifth chapter finds out those determinants. Taking all the chapters together, I will be able to reach to find out the extent of disclosure of market. The last chapter (chapter-6) provides with conclusion, recommendations and avenues for further research.

1.4 An Introduction to Bangladesh and Its Historical Background

Bangladesh, officially the **People's Republic of Bangladesh** (Bengali: **Gonoprojatontri Bangladesh**), is a country in South Asia. It is bordered by India on all sides except for a small border with Myanmar to the far southeast and by the Bay of Bengal to the south. Together with the Indian state of West Bengal, it makes up the ethno-linguistic region of Bengal. The name *Bangladesh* means "Country of Bengal" in the official Bengali language.

The borders of the region that constitutes present day Bangladesh (the national flag and the map of Bangladesh along with its major cities is shown in the next page) were established in the 1947 Partition of India when the region became the eastern wing of newly formed Pakistan. The pairing, based on their common religion (Islam), proved geographically awkward since an expanse of foreign Indian territory, 1 600 km (1 000 mi) wide, separated the two wings. Subjected to political and linguistic discrimination as well as economic neglect at the hands of West Pakistan, the Bengalis of East Pakistan declared independence in 1971.



After a civil war, with help from India and the USSR, Bangladesh was born. In spite of its liberation narrative, Bangladesh's development has since been marred by political turmoil, with fourteen different heads of government and at least four military coups. Bangladesh is among the most densely populated countries in the world. The population is generally poor and living in rural conditions. Geographically the country straddles the fertile Ganges-Brahmaputra Delta and is subject to annual monsoon floods and cyclones. The government is a secular parliamentary democracy which has been suspended under emergency law since January 2007. Bangladesh is a member of the Commonwealth of Nations, SAARC, BIMSTEC, the OIC and the D-8.

A Brief Historical Background of Bangladesh

Remnants of civilisation in the greater Bengal region date back four thousand years, Bharadwaj (2003) Xinhua (2006) when the region was settled by Dravidian, Tibeto-Burman, and Austro-Asiatic peoples. The exact origin of the word "Bangla" or "Bengal" is unknown, though it is believed to be derived from *Bang*, the Dravidian-speaking tribe that settled in the area around the year 1000 BCE (Heitzman and Worden, 1989).

After the arrival of Indo-Aryans, the kingdom of Gangaridai was formed from at least the seventh century BCE, which later united with Bihar under the Magadha and Maurya

Empires. Bengal was later part of the Gupta Empire from the third to the sixth centuries CE. Following its collapse, a dynamic Bengali named Shashanka founded an impressive yet short-lived kingdom. After a period of anarchy, the Buddhist Pala dynasty ruled the region for four hundred years, followed by a shorter reign of the Hindu Sena dynasty. Islam was introduced to Bengal in the twelfth century by Sufi missionaries, and subsequent Muslim conquests helped spread Islam throughout the region (Eaton 1996). Bakhtiar Khilji, a Turkish general, defeated Lakshman Sen of the Sena dynasty and conquered large parts of Bengal. The region was ruled by dynasties of Sultans and feudal lords for the next few hundred years. By the sixteenth century, the Mughal Empire controlled Bengal, and Dhaka became an important provincial centre of Mughal administration.

European traders arrived late in the fifteenth century, and their influence grew until the British East India Company gained control of Bengal following the Battle of Plassey in 1757 (Baxter, 1997). The bloody rebellion of 1857, known as the Sepoy Mutiny, resulted in transfer of authority to the crown, with a British viceroy running the administration (Ibid). During colonial rule, famine racked the Indian subcontinent many times, including the Great Bengal famine of 1943 that claimed 3 million lives (Sen,1973).

Between 1905 and 1911, an abortive attempt was made to divide the province of Bengal into two zones, with Dhaka being the capital of the eastern zone (Baxter,1997). When India was partitioned in 1947, Bengal was partitioned along religious lines, with the western part going to India and the eastern part joining Pakistan as a province called East Bengal (later renamed East Pakistan), with its capital at Dhaka (Collins and Lapierre,1986). In 1950, land reform was accomplished in East Bengal with the abolishment of the feudal zamindari system(Baxter,1997). However, despite the economic and demographic weight of the east, Pakistan's government and military were largely dominated by the upper classes from the west. The Bengali Language Movement of 1952 was the first sign of friction between the two wings of Pakistan (Ibid). Dissatisfaction with the central government over economic and cultural issues continued to rise through the next decade, during which the Awami League emerged as the political voice of the Bengali-speaking population. It agitated for autonomy in the 1960s, and in 1966, its president Sheikh Mujibur Rahman was jailed; he was released in 1969 after an unprecedented popular uprising.

In 1970, a massive cyclone devastated the coast of East Pakistan, and the central government responded poorly. The Bengali population's anger was compounded when Sheikh Mujibur Rahman, whose Awami League won a majority in Parliament in the 1970 elections (Ibid), was blocked from taking office. After staging compromise talks with Mujib, President Yahya Khan arrested him on the night of March 25, 1971, and launched Operation Searchlight (Salik, 1978), a sustained military assault on East Pakistan. Yahya's methods were extremely bloody, and the violence of the war resulted in many civilian deaths (Gendercide Watch, 1971). Chief targets included intellectuals and Hindus, and about ten million refugees fled to neighbouring India (LaPorte, p. 103). Estimates of those massacred range from three hundred thousand to 3 million (.VirtualBangladesh.com.)

Most of the Awami League leaders fled and set up a government-in-exile in Calcutta, India. The Bangladesh Liberation War lasted for nine months. The guerrilla Mukti Bahini and Bengali regulars eventually received support from the Indian Armed Forces in December 1971. Under the command of Lt. General J.S. Arora, the Indian Army achieved a decisive victory over Pakistan on 16 December, 1971, taking over 90,000 prisoners of war (Burke, 1973) in the Indo-Pakistani War of 1971.

After its independence, Bangladesh became a parliamentary democracy, with Mujib as the Prime Minister. In the 1973 parliamentary elections, the Awami League gained an absolute majority. A nationwide famine occurred during 1973 and 1974 (Sen, 1973), and in early 1975, Mujib initiated a one-party socialist rule with his newly formed BAKSAL. On August 15, 1975, Mujib and his family were assassinated by mid-level military officers (Mascarenhas, 1986).

A series of bloody coups and counter-coups in the following three months culminated in the ascent to power of General Ziaur Rahman, who reinstated multi-party politics and founded the Bangladesh Nationalist Party (BNP). Zia's rule ended when he was assassinated in 1981 by elements of the military (Mascarenhas, 1986). Bangladesh's next major ruler was General Hossain Mohammad Ershad, who gained power in a bloodless coup in 1982 and ruled until 1990, when he was forced to resign under western donor pressure in a major shift in international policy after the end of communism when anti-communist dictators were no longer felt necessary. Since then, Bangladesh has reverted to a parliamentary democracy. Zia's widow, Khaleda Zia, led

the Bangladesh Nationalist Party to parliamentary victory at the general election in 1991 and became the first female Prime Minister in Bangladesh's history. However, the Awami League, headed by Sheikh Hasina, one of Mujib's surviving daughters, clinched power at the next election in 1996 but lost to the Bangladesh Nationalist Party again in 2001. Bangladesh enjoys the distinction of having two female politicians leading national politics.

In January of 2007, following widespread violence, a caretaker government was appointed to administer the next general election. The country had suffered from extensive corruption BBC News (2005) disorder and political violence. The new caretaker government has made it a priority to root out corruption from all levels of government. To this end, many notable politicians and officials, along with large numbers of lesser officials and party members, have been arrested on corruption charges. The caretaker government claims to be paving the way for free and fair elections to be held before the end of 2008.

1.5 The Government and Legal System

The president, while chief of state, holds a largely ceremonial post; the real power is held by the prime minister, who is head of government. The president is elected by the legislature (Parliament) every 5 years. The president's circumscribed powers are substantially expanded during the tenure of a caretaker government. (Under the 13th Amendment, which Parliament passed in March 1996, a caretaker government assumes power temporarily to oversee general elections after dissolution of the Parliament.) In the caretaker government, the president has control over the Ministry of Defense, the authority to declare a state of emergency, and the power to dismiss the Chief Adviser and other members of the caretaker government. Once elections have been held and a new government and Parliament are in place, the president's powers and position revert to their largely ceremonial role. The Chief Adviser and other advisers to the caretaker government must be appointed within 15 days from the day the current Parliament expires.

The prime minister is appointed by the president. The prime minister must be a Member of Parliament (MP) whom the president feels commands the confidence of the majority of other MPs. The cabinet is composed of ministers selected by the prime minister and

appointed by the president. At least 90% of the ministers must be MPs. The other 10% may be non-MP experts or "technocrats" who are not otherwise disqualified from being elected MPs. According to the constitution, the president can dissolve Parliament upon the written request of the prime minister.

The legislature is a unicameral, 300-seat body. All of its members are elected by universal suffrage at least every five years. Parliament amended the constitution in May 2004, making a provision for adding 45 seats reserved for women and to be distributed among political parties in proportion to their numerical strength in Parliament.

Bangladesh's judiciary is a civil court system based on the British model; the highest court of appeal is the appellate court of the Supreme Court. At the local government level, the country is divided into divisions, districts, subdistricts, unions, and villages. Local officials are elected at the union level and selected at the village level. All larger administrative units are run by members of the civil service.

1.6 The Economy, Accounting and Reporting Environment in Bangladesh

There is a general consensus that in order to generate accelerated economic growth Bangladesh will need to ensure radical structural shift favouring the industrial sector (a short description of the economy of Bangladesh is given in the Box-2.

Box-2

Economy at a Glance

Fiscal year: July 1 to June 30.

Annual GDP growth rate (FY 2006): 6.7%; (FY 2007 estimated): 6.5%.

GDP: \$62.02 billion.

Per capita GDP (2006): \$456.

Inflation (December 2006): 6.77%.

Exchange rate: FY 2003: U.S \$1=Taka 57.90; FY 2006: U.S \$1=Taka 69.43; FY 2007 (January): U.S \$1=Taka 69.69.

Annual budget (FY 2007): \$10 billion.

Natural resources: Natural gas, fertile soil, water.

Agriculture (21.8% of GDP): Products--rice, jute, tea, sugar, wheat. Land--cultivable area cropped at rate of 180% in 2004; 176% in 1997; largely subsistence farming dependent on monsoon rainfall, but growing commercial farming and increasing use of irrigation.

Industry (Manufacturing; 17% of GDP): Types--garments and knitwear, jute goods, frozen fish and seafood, textiles, fertilizer, sugar, tea, leather, ship-breaking for scrap, pharmaceuticals, ceramic tableware, newsprint.

Trade (FY 2006): *Total imports* (FY 2006)--\$14.74 billion: capital goods, food grains, petroleum, textiles, chemicals, vegetable oils. Growth rate over previous fiscal year: 12.17%. *Total exports* (FY 2006)--\$10.52 billion: garments and knitwear, frozen fish, jute and jute goods, leather and leather products, tea, urea fertilizer, ceramic tableware. Growth rate over previous fiscal year: 21.63%. *Exports to U.S.* (FY 2006)--\$3 billion. *Imports from U.S.* (FY 2006)--\$300 million.

Source: Bangladesh - Wikipedia, the free encyclopedia.htm

The Industrial Policy 1999 sets a target contribution of 25 per cent of GDP coming from the manufacturing sector, as also a target of 20 per cent of employment to be created in this sector. As is known, the erstwhile policy emphasis on public sector-led, import-substituting industrialisation in Bangladesh has now given way to a market-oriented, private sector-led export-oriented industrialisation strategy. In the context of the limited resource base of Bangladesh, the constraints of the domestic market, the pressure from a growing labour force in search of gainful employment and also in view of the emerging opportunities in the global market, the task of designing an industrial strategy capable of adequately addressing the emerging challenges, both domestic and global, have become one of paramount importance for future development of Bangladesh. The importance of industrial development as an engine of Bangladesh's economic growth is also reinforced by a growing realisation that the development of a particular sector, one of the mainstays of the country's economy, critically hinges on its backward and forward linkage with the industrial sector.

Industrial development of Bangladesh, during the post-independence period, both in terms of its growth rate as well as the structural changes, has been rather modest (CDP, 2001). This is not to say that there had been any shortage of industrial policies: Industrial Policy of 1973, the New Industrial Policy of 1982 (NIP-1982), the Revised Industrial Policy of 1986 (RIP-1986), followed by a number of other policies, with the latest being the Industrial Policy of 1999, have all attempted to revamp the sector with a view to create a strong manufacturing base in the economy. In spite of these efforts, between 1973-1974 and 1999-2000 manufacturing GDP has increased at a modest annual compound rate of only 3.8 per cent. As a result, the sector's contribution to GDP has been delimited to about 11 per cent during the entire period (15 per cent according to revised estimates under the new system of national accounting). To be fair, the 1990s saw some upturn in the sector's performance: according to new estimates, the annual compound rate of manufacturing growth between 1988/89 and 1994/95 was estimated to be nearly 8.2 per cent, with some decline in the second-half of the 1990s when the growth rate came down to 5.5 per cent.² However, the growth rate and the attendant intra-industry structural changes were not robust enough in a way that could make the

² The fall in growth rate to the level of 3.2 per cent in 1999 due mainly to flood 1998 has contributed to this deceleration in growth rate.

industrial sector play the role of an *engine of growth* to service the needs of an economy geared towards a *take-off*.³

A disaggregated picture of the performance of the industrial sector⁴ provides some useful insights. Within the industrial sector, it is the large industry that has come to play an increasingly important role in recent years. Thus, a point to note here is that, in terms of value addition, the share of large industry has gone up from 51 per cent to 67 per cent between 1973/74 and 1999/00 (71.8 per cent according to new estimates). The annual compound growth rates for large industry were 8.4 per cent and 5.5 per cent during the first and second half of the 1990s respectively; the corresponding figures for the small-scale industry were 7.7 per cent and 5.5 per cent.⁵ Of some concern is the deceleration in the growth rates for both large and small-scale industries over the last couple of years⁶ (Statistical Year Book, 2002).

The performance of the small and cottage industry sector calls for special attention because of its labour-intensive character, its focus on catering to the demand of low and medium income consumers and its capacity for import substitution. Amongst the small-scale industries, production of electric apparatus, plastic toys, miscellaneous metal wears, tin plate and readymade wear has registered robust performance in recent years. To be sure, this sub sector has also been particularly vulnerable to natural disasters and other production snags compared to medium and large-scale industries.

Performance of the industrial sector has also suffered owing to only a modest rise in labour productivity, which has failed to match the rise in real wages, and also as a result of the marginal decline in capital use efficiency as manifested in the change in the *incremental capital value added ratio* (ICVR) from 3.2 during 1990/91-1994/95 to 3.8 during 1995/96-1999/00.

³ This does not compare favorably with some of the neighboring countries such as Thailand that has seen the contribution of its industrial sector to GDP register a rise from 22 per cent to 32 per cent between 1980 and 1998.

⁴ *Industry* is broadly defined in the Industrial Policy 1999 to include manufacturing industry which includes all production, processing and assembling activities as well as repairing and reconditioning of processed goods, and also service industry which includes service oriented activities which involve significant use of equipment or fixed assets.

⁵ "Large Industry" is defined in the new Industrial Policy 1999 to include all industrial enterprises having 100 or more workers and/or having a fixed capital of over Taka 300 million. Medium industry covers enterprises employing between 50 and 99 workers and/or with a fixed capital investment between Taka 100 million and Taka 300 million. "Small Industry" means enterprises having fewer than 50 workers excluding the cottage units and/or with a fixed capital investment of less than Taka 100 million. "Cottage Industry" covers household-based units operated mainly with family labor.

⁶ There has, however, been some encouraging upturn during the first three quarters of FY2001.

The pace of liberalisation and the changing trade regime, failure to raise efficiency and competitive strength, under-development of capital market, lack of timely access to loan, compounded by corruption and bad governance have contributed to a situation where the performance of both industrial as well as the financial sectors had been seriously undermined.

Setting up of the *Privatisation Board* in 1993 and enactment of Privatisation Law in July 2000 were attempts by successive governments to unburden the public sector of losing State Owned Enterprises (SOEs). However, during 1993-1995 the Board had been able to privatise only 12 mills with a total value of Tk. 1869 million; during 1996-2000, 8 more enterprises valued at Tk. 83 million have been privatised; sale process for 2 more units have been initiated; letter of intent has been issued for 8 other mills; shares of 6 multinational and national companies have been offloaded; in case of 4 public limited companies Government of Bangladesh (GOB) has delivered its share to Investment Corporation of Bangladesh (ICB). Over the recent past, GOB has handed over 9 textiles mills to the workers, employees and management of the concerned mills as a new form of privatisation. However, the pace of privatisation remains modest, indicated by the fact that losses suffered by the PME's declined only at a rate of 4 per cent per annum between 1990/91 and 1999/00.

Trade and investment regimes in Bangladesh had traditionally been designed to service the inward looking, import-substituting growth strategy which informed the development agenda of the country in the 1970s. Tentative steps to deregulate, decontrol and liberalise the Bangladesh economy were first initiated in the early 1980s. The first concerted effort at reforming the erstwhile import-substituting trade and investment regime was undertaken in the early 1980s with the introduction of the New Industrial Policy of 1982. The NIP-82 was adopted with an objective, *inter alia*, to encourage greater participation of the private sector in the industrialisation of the country. The policy called for important changes in the investment and trade policies pursued by the country since the post-independence period. This phase of reform covering the period between 1981/82 to 1985/86 witnessed a number of important initiatives towards liberalisation of the economy, including a shift from the *positive* list of import control to a *negative* list, reduction in the number of commodities imports of which were banned, expansion of

export performance benefits, introduction of duty drawback facilities to stimulate the export sector, and setting up of institutions to stimulate export-oriented activities. The second phase was initiated in 1986 to coincide with the Revised Industrial Policy (RIP, 1986) and covered the period between 1986/87 and 1990/91. This phase saw removal of a large part of the quantitative restrictions (QRs) on imports. The number of QRs came down from 478 to 239 between 1985/86 and 1991/92. A substantial reduction in the anti-export bias was achieved through rationalisation of tariffs, reduction in the number of tariff slabs and introduction of a system of concessions and incentives for export-oriented activities which included zero-tariff access to imported inputs, subsidisation of export credit and special incentives for economic activities in export processing zones (EPZs). The third phase initiated in 1991-92, was the most intensive of these phases, both in terms of the depth of the reforms undertaken, as well as their coverage. The third phase was the most comprehensive compared to the reforms of the earlier two phases. The third phase, in effect, coincided with the structural adjustment programme (SAP) that was being implemented in about the same period. The SAP envisaged important and deep reforms in the fiscal, financial and institutional policies that were in place in Bangladesh. This phase of reform went a long way in instituting a set of reforms which created a policy environment that was conducive to export promotion and capable of substantially reducing the existing anti-export bias in the economy.

As a result of the reforms average nominal tariff rates in Bangladesh came down from 89 per cent to 17 per cent between 1991/1992 to 1999/2000. For manufacturing imports, the corresponding import-weighted tariff rates were brought down from 51.8 per cent to 15.9 per cent over the matched period. The reforms helped reduce the difference between the statutory levels of protection and the observed levels. The multiple rate sales tax, which had an inherent import discriminating bias was replaced by a flat value added tax (VAT)⁷ which was imposed on both imports and domestically produced goods. Regulatory duties and surcharges on imports were replaced by a supplementary excise duty, which is a trade-neutral consumption tax.

Mobilising adequate funds for industrialisation continues to remain a key area of concern especially in view of the relatively low domestic and national savings rates and in the

⁷ The VAT was fixed at a flat rate of 15% from the very beginning when it was introduced on July 1, 1991.

context of a banking sector burdened with bad and doubtful loans and the negligible flow of Foreign Direct Investment (FDI) coming forward to invest in the country's industrial sector. Consequently, fund shortage and high cost of capital have seriously undermined industrial investment in the country. The commercial banks have not been able to replace the Development Finance Institutions (DFIs), and investment companies that came into existence have not been successful in realising their statutory objectives and tended to operate as quasi-commercial banks. The stock market has also not been able to overcome the boom and bust experienced in 1996. The pace of liberalisation and the changing trade regime, failure to raise efficiency and competitive strength, underdevelopment of capital market, lack of timely access to loan, compounded by corruption and bad governance have contributed to a situation where the performance of both industrial as well as the financial sectors had been seriously undermined.

In Bangladesh, until 1994 the financial reporting was based on the old Companies Act, 1913 which was amended in 1936. The Companies Act 1913 was in force in the then British India and was designed by the British Government to meet the limited needs at that time. Since then due to increasing pressure for controlling of economic activities by the corporate sectors, financial accounting as a subject has developed in different dimensions, and specifically significant improvement took place in the area of financial disclosure (Ahmed, 1982). To keep pace, the Government of India enacted a new Companies Act 1956, which was amended once in 1974 and again in 1977. The British Government also amended the Companies Act five times in 1948, in 1967, in 1976, in 1980 and in 1981. The Government of Bangladesh also enacted Companies Act 1994 that replaced Companies Act 1913. In the same way the Government of Bangladesh enacted separate Acts for the formation, controlling and management of banking sector in 1991. Prior to that time, the banks were controlled by the Companies Act 1913. An extensive and comprehensive comparison between the old Companies Act 1913 and prevailing Companies Act 1994 might give a comparative picture and the benefits from Companies Act 1994. However, we may expect that the prevailing Act was prepared to meet the demand of age and it might contribute to the financial accounting and reporting for all entities - public, private and multinationals.

There are recommendations from different corners in Bangladesh for the effective financial reporting in Bangladesh. Khalily (2005) recommends the consolidated financial reporting for the group of companies. He also stresses to revise the Companies Act 1994

in the light of the corporate governance issue to protect the rights of minority shareholders and to prepare the financial reporting in the line with international financial reporting standard. It is recommended in the Conference (2005) that insider trading is a very complicated issue in the corporate sector that can be prevented by the SEC of Bangladesh if it can take actions against fictitious beneficiary owners' accounts by setting code for corporate governance.

1.7 A Brief Overview on South Asian Association of Regional Cooperation (SAARC)

The **South Asian Association for Regional Cooperation (SAARC⁸)** is an economic and political organization of eight countries in Southern Asia. In terms of population, its sphere of influence is the largest of any regional organization: almost 1.5 billion people, the combined population of its member states. It was established on December 8, 1985 by India, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan. In April 2007, at the Association's 14th summit, Afghanistan became its eighth member⁹.

In the late 1970s, Bangladesh's president Ziaur Rahman proposed the creation of a trade bloc consisting of South Asian countries. The Bangladeshi proposal was accepted by India, Pakistan and Sri Lanka during a meeting held in Colombo in 1981. In August 1983, the leaders adopted the Declaration on South Asian Regional Cooperation during a summit which was held in New Delhi. The seven South Asian countries, which also included Nepal, Maldives and Bhutan, agreed on five areas of cooperation:

- Agriculture and Rural Development
- Telecommunications, Science, Technology and Meteorology
- Health and Population Activities
- Transport
- Human Resource Development

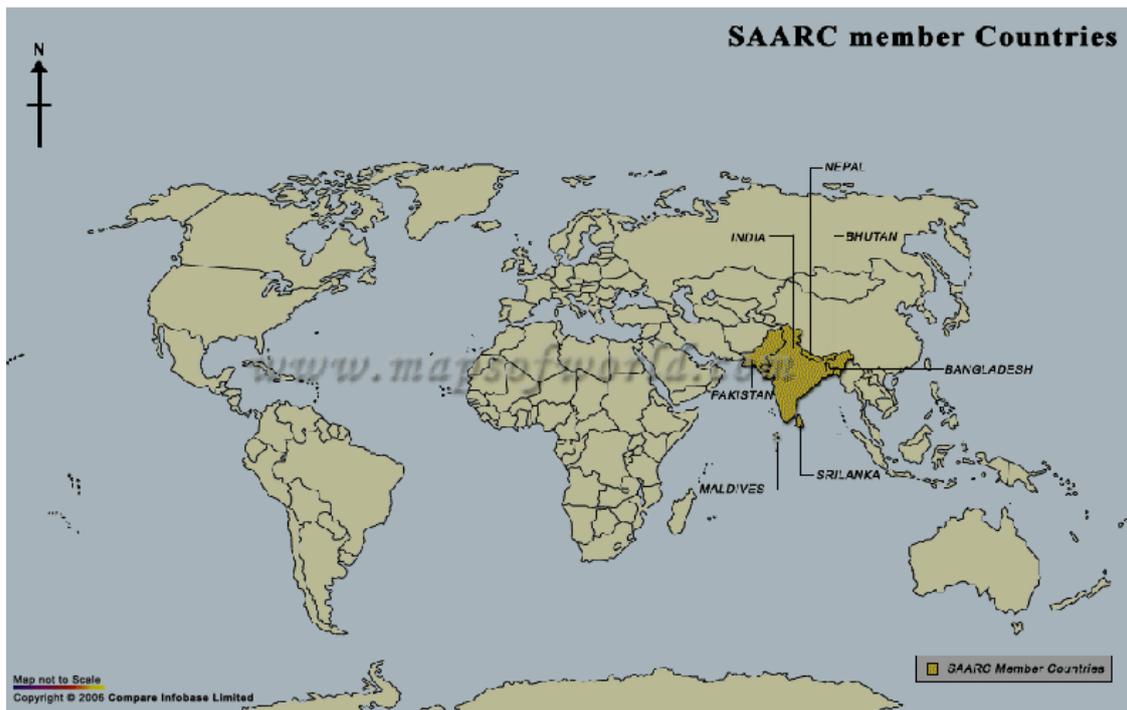
Afghanistan was added to the regional grouping at the behest of India on November 13, 2005, and became a member on April 3, 2007. With the addition of Afghanistan, the total number of member states were raised to eight (8). In April 2006, the United States of

⁸ The information contains in this section has been gathered from SAARC Information Center.

⁹ For a better understanding regarding the location of SAARC a Map has been provided in the next page.

America and South Korea made formal requests to be granted observer status. The European Union has also indicated interest in being given observer status, and made a formal request for the same to the SAARC Council of Ministers meeting in July 2006. On August 2, 2006 the foreign

Box-3: The Map of the SAARC Region



Map of the SAARC Region

ministers of the SAARC countries agreed in principle to grant observer status to the US, South Korea and the European Union. On 4 March 2007, Iran requested observer status.

Over the years, the SAARC members have expressed their unwillingness on signing a free trade agreement. Though India has several trade pacts with Maldives, Nepal, Bhutan and Sri Lanka, similar trade agreements with Pakistan and Bangladesh have been stalled due to political and economic concerns on both sides. In 1993, SAARC countries signed an agreement to gradually lower tariffs within the region, in Dhaka. Nine years later, at the 12th SAARC Summit at Islamabad, SAARC countries devised the South Asia Free Trade Agreement which created a framework for the establishment of a free trade area covering 1.4 billion people. This agreement went into force on July 1,

2006. Under this agreement, SAARC members will bring their duties down to 20 per cent by 2007.

Future membership

- The People's Republic of China has shown its interest in joining SAARC. While Pakistan and Bangladesh support China's candidature, India is more reluctant about the prospect of Chinese membership, while Bhutan does not even have diplomatic relations with China. However, during the 2005 Dhaka summit, India agreed on granting observer status to the PRC along with Japan . During the 14th summit, Nepal announced its support for the membership of China. Pakistan, Bangladesh, and Nepal gave strong support for the membership of China.
- The Islamic Republic of Iran, a state with borders to two SAARC members, has traditionally enjoyed strong cultural, economic and political relationship with Afghanistan, India and Pakistan and has expressed its desire to become a member of the South Asian organization. On 22 February 2005, the Foreign Minister of Iran, Kamal Kharrazi, indicated Iran's interest in joining SAARC by saying that his country could provide the region with "East-West connectivity". However, due to the on-going row over Iran's nuclear facilities, it seems unlikely that Iran would be accepted as a member. On 3 March 2007, Iran asked to join the SAARC as an observer. SAARC Secretary-General Lyonpo Chenkyab Dorji responded by saying that Iran's request for observer status would be taken up during a meeting of ministers of foreign affairs of SAARC member countries in the 3 April summit in New Delhi.
- The Russian Federation intends to become an observer as well, and is supported by India.
- Union of Myanmar has also expressed an interest in joining as an observer.

1.8 Overview of the studies

1.8.1 Chapter-2: A Survey of Literature and Methodologies Followed

General framework

This chapter provides an overview of the literatures on financial disclosures. This is a theoretical chapter to find out the different issues of disclosures going on in the world. This is mainly based on previous studies done in developed and developing countries. The study consists of several sections. First section provides an introduction to the chapter, second section finds out the associated literatures with different disclosure levels for both developed and developing countries' perspectives with a critical evaluation in choosing the variables to measures the extent of disclosures of firms from the view point of users' and companies perceptions on disclosures. The relevant research works done on the issue on Bangladesh have been critically examined. An overview of methodologies followed in the Thesis has been very briefly given before conclusion although in each chapter methodologies followed have been elaborated. The last section provides with a conclusion.

Findings

The study reveals that financial disclosure is important for the overall development of an economy. The issues prevailing in the world on disclosures are harmonization of accounting and disclosure in World arena, frameworks of financial reporting and disclosure, finding different variables for disclosure, relationship between mandatory and voluntary disclosure, different consequences of more disclosure, legal and mandatory disclosure system as a condition of creating an environment, the national culture for disclosure, and also the costs and risks of more disclosures. Whereas developed countries are concerned about the voluntary disclosures, developing countries' main issue is the mandatory disclosure. However, researchers are found using disclosure index to find out the extent of disclosure and they are providing regression models for better and precise understanding of disclosure of a particular country or a market.

1.8.2 Chapter-3: Legal and Institutional Arrangements of Financial Disclosure in South Asia with Special Reference to Bangladesh

General framework

The objective of this chapter is to evaluate the legal and institutional arrangements of financial disclosure in South Asian countries with special reference to Bangladesh. To fulfill this objective we shall try to see the scenario of legal and institutional arrangement of financial disclosure prevailing around South Asia in general and Bangladesh in particular. In each step, we shall try to make an evaluation and suggestive remarks on every aspect. However, this chapter is a descriptive one but contains valuable insights of legal, institutional and professional arrangements and evaluation by different bodies, research works, and the personal experiences of the researcher and information gathered from different experts in the field of accounting in Bangladesh.

Findings

The findings of the study are that there are so many laws for forming and controlling the business firms in Bangladesh. But most of the laws are based on the British laws. Not only that the culture of implementation of laws in Bangladesh are praiseworthy, but also there are some specific reasons for such a situation, namely, users are not organized, there is a fear of criticism and more competition if more information are disclosed, the minimalist policy, legacy of the past, purposive reporting, and lack of professionalism.

1.8.3 Chapter-4: An Empirical Study on Transparency in Financial Reporting in South Asia with Special Reference to Bangladesh

General Framework

The study is done to see the real scenario of financial reporting in Bangladesh. In accomplishing the task I have tried to make a comparison of the reporting environments of South Asian countries under SAFA since these countries are trying to harmonize the financial reporting environment in the region. However, the study is mainly devoted to find out the reporting environment of Bangladesh. UNCTAD guidelines for different

categories of firms are applied in evaluating the same. Then I have tried to find out the causes of poor disclosure in Bangladesh by field level research.

Samples and methods of analysis

40 from each category of firms have been taken as samples for applying the UNCTAD guidelines and in total 120 samples have been selected for three different categories of firms in Bangladesh. These include big listed firms, non-listed and government enterprise and owner-managed small businesses. Descriptive evaluation for each level of firms is provided where different reports, research works, etc. are consulted. To evaluate the reporting environment in Bangladesh UNCTAD guidelines have been applied without any bias. The statistical packages for scientific evaluation like SPSS and Excel have been applied. The means and t-values of different categories of firms have been found to draw an inference of the whole financial reporting environment of Bangladesh. On the other hand, to find out the causes of poor disclosure in Bangladesh, a total of 50 respondents have been selected and Kendall Coefficient of Concordance (W) have been applied to rank the causes of poor disclosure and to test the association of different causes found.

Findings

The results reveal that level I category firms disclose more information as compared to other categories of firms. This is consistent with other studies done in different places in the world. The t-test results of all categories of firms taken together prove that there is no association of disclosures of different types of firms. There are loopholes in financial disclosure for public and owner-managed firms. There are no set rules followed for those firms. There are so many laws in Bangladesh but the culture of implementation of laws has been found very less. This is supported by the field level research done and ranked as per 'W'.

1.8.3 Chapter-5: Mandatory Disclosure by the Listed Companies in Bangladesh

General framework

The disclosure of financial information in corporate annual reports and their determinants has attracted considerable attention in the West, but, there has been much less concern in developing countries despite the fact that all the developing countries need to prepare themselves for enduring the wave of globalization. The aim of this paper is to examine

critically the extent of mandatory financial disclosures by the listed companies in Bangladesh in their annual reports.

Samples and methods of analysis

All 287 companies listed on Dhaka and Chittagong Stock Exchanges of Bangladesh were included in the study. Different legal aspects of Bangladesh have been considered to include the items needed for evaluation of disclosure of listed companies. An unweighted overall disclosure index (ODI) has been prepared that has been treated as a dependent variable. As usual null and alternative hypotheses have also been drawn to find out whether there is any association between ODI and some corporate attributes - larger company size, asset size, profitability, number of stockholders, earning per share, multiple listing, ownership structure, market category, multinationality, year of listing, etc.

Findings

The overall disclosure level in Bangladesh is still below average (37.60%) that indicates unsatisfactory level of disclosure. Necessary measures should be taken, indeed, to ensure the compliance of mandatory disclosure. However, there has been found a gradual development in the sense that in Aktharuddin's study (2005) it was found as 29.33%. The study supports the relationship between ODI and some corporate attributes that include company size, multiple listing status, year of incorporation, having a good position in the market category done by the stock exchanges, etc. However, having ownership by the foreign investors is not related to ODI which is counter-intuitive.

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CHAPTER-2

A REVIEW OF LITERATURE AND OVERVIEW OF METHODOLOGIES

2.1 Introduction

The review of disclosure studies encompasses a large number of papers addressing the issue of financial disclosure from various angles and with varied degrees of emphasis on different aspects (Karim and Hossain, 1996). Because the present reality is that there is an increasing trend of globalization and the main players in the process are the economic entities - companies, firms, enterprises, etc. They have local and worldwide audiences such as investors, shareholders, lenders, financial institutions, academics, researchers, security analysts, and the society as a whole - commonly known as stakeholders. As a result, it is inevitable that there is a requirement of disclosure of a whole range of information in the published financial reports, notes, circulars, and the like of an economic entity. To fulfill this requirement, there is a pressure from different quarters for more understandable, comprehensive and credible disclosures of financial and non-financial information of a company or of an entity. Various accounting scholars, practitioners and institutions have undertaken different studies on many issues surrounding the disclosure of accounting information and determination of professionalism in the accounting profession. Available literature will be reviewed to see what constitutes the body of empirical research on financial disclosure of economic entities – companies, enterprises, firms, etc. - and professionalism and what tells us about the current level of corporate disclosure and particularly, the nature and extent of disclosure adequacy in the developing countries like Bangladesh. Besides, alternative research methods on this aspect will be examined and outcomes of these methods will also be evaluated. Moreover, a critical review of methods applied in disclosure quality and users' perception studies will also be provided.

2.2 Relevant Literatures on Measuring the Extent of Different Disclosure Levels

2.2.1 Introduction

This section is designed to show a review of literature available on disclosure of information in financial reports of various types of economic entities. The approach used is aiming at determining the extent to which specific items of information are disclosed by those entities and the present issues of research in financial reporting. Both

developed and developing countries' perspectives have been taken into consideration while searching for disclosure of information of business entities.

There are different studies on financial disclosure around the world covering the importance of disclosure. Levine (1997), LaPorta, Lopez-de-Silanes, Shleifer, and Vishny (1996), declaration of the Asia-Pacific Economic Cooperation – (1998) (APEC), Phasukavanich (1998), APEC leaders' statement 2002 (2002), White (2002), He, Morck and Yeung (2003), Schumpeter (1942), DeFeo (2002), Bailey, Li, Mao, and Zhong (2003), Karim, Islam and Chowdhury (1998), Akhtaruddin (2005) and many others clearly demonstrate the importance of financial disclosure for the benefits of market, business entities, and the whole economy of a particular nation. Srinivasan (2005) states that financial reporting failure will have reputational costs.

2.2.2 Critical Review of Literature from Developed Countries' Perspective

There are other research works done in the recent past on various issues of accounting and financial disclosure. These include harmonization of accounting in World arena, frameworks of financial reporting and disclosure, finding determinants of disclosure, relationship between mandatory and voluntary disclosure, different consequences of more disclosure, corporate environmental disclosure, disclosure of corporate social responsibilities, audit failure, audit pricing, audit concentration, and so on. For example, Taplin (2006) stresses the international harmonization of accounting for comparability of disclosed information by the economic entities. This work enables researchers in International Accounting Harmony to carefully consider and put into practice more appropriate measures of harmony than simplistic H, I and C indices. Loftus and Purcell (2006) show that substantial progress has been made in the development of reporting models and frameworks. This is also related to the harmonization of cross country of reporting. Tagesson, Mikael, Mattias and Marcus (2005) show that there is a significant connection between extent of internationalisation and attitude towards the implementation of the IASB's standards for harmonization. On the other hand, Zahn (2005) investigates the association between three organizational (firm size, economic performance and listing status) and five national (legal system, equity market size, economic development, cultural values and the political and civil system) factors and the amount of disclosure on a key information technology (IT) problem (Y2K). It further indicates that the amount of Y2K disclosure amongst the sample population varied

across national boundaries. Multiple regression results suggests a statistically significant association between several firm- (organizational size and listing status) and national-level (legal system, size of the equity market, level of economic development, cultural dimension of power distance and the political and civil system) factors. Smith (2005) finds by univariate and multivariate analyses that firm size and shareholder dispersion are significant for disclosure. Ismail and Chandler (2005) find that listed companies' disclosures fulfill all the mandatory financial statements but the extent of narrative disclosure varies. But generally companies appear to provide a minimum level of disclosure. His correlation study suggests that the extent of disclosure is positively associated with the leverage of a company. No significant association was evidenced between the extent of disclosure and profitability and growth of a company. Peursem and Kitty (2005) indicate further research on the qualitative studies to explore the effects of gender, regulatory differences, age of audit division and experience as the components of transparency and disclosure of proper information. Frost, Gordon and Hayes (2006) examine associations between measures of stock exchange disclosure and market development at 50 of the member stock exchanges of the World Federation of Exchanges. They find strong support for the hypothesis that the strength of the disclosure system (disclosure rules, monitoring, and enforcement) is positively associated with market development, after controlling for legal system, legal protection of investors, market size, and several other potentially relevant explanatory variables.

The legal and mandatory disclosure system is important everywhere. It binds the people to comply with the rules. There are studies in this aspect too. Mescher (2005) demonstrates the directors' legal obligation to ensure that their company keeps proper financial records enabling the preparation of financial statements. Her work states that although this is the basis of relationship between directors and accountants, due to the perceived flexibility of some of the accounting standards monitoring the accountants may be problematic. Einhorn (2005) mentions the crucial role that firms' mandatory disclosures play in determining their voluntary disclosure strategies. He also shows how a firm's propensity for providing voluntary disclosures relates to various features of the mandatory disclosure environment and disclosure regulation. Nelson and Majella (2005) show that managers of firms appear to be treating mandatory requirements as voluntary, possibly due to the low levels of enforcement of the accounting standards. Admati and Pfleiderer (2000) show that (i) a convexity in the value of disclosure can lead to a

discontinuity in the disclosure policy; (ii) the Nash equilibrium of a voluntary disclosure game is often socially inefficient; (iii) regulation that requires a minimal precision level sometimes but not always improves welfare; (iii) the same is true for subsidies that change the perceived cost of disclosures; and (iv) neither regulation method dominates the other.

There are some other dimensions of studies regarding disclosure. For example, Autrey's (2006) work explains one matter of disclosure in the sense that financial disclosure are read by the labor markets, that is, the potential employer. She states that what researchers are now discovering is that increasing levels of mandatory disclosure have unforeseen consequences on executive performance and may work against the interests of employers. Shin (2006) mentions that disclosures resolve uncertainty, but the increased information flow also raises the risks during the disclosure period.

Needless to mention that there is a lot of literature available worldwide on various issues of disclosure, especially in the developed countries. Table-1 shown in the Appendix-1 provides a short description of some research works on disclosure in developed countries in the past up to 1993. The reason of summarizing those studies is that this Table-1 can show an overview of research works that are valuable and interesting but bears less acceptability at present to the researchers in the developed part of the World. The main reason of such a segmentation is that this may reduce the volume of literatures but the reader can have an at-a-glance past literatures.

2.2.3 Critical Review of Literatures on Developing Countries' Perspective

However, only a few studies have examined the level of quality of corporate reporting in the developing countries. This section provides a brief review of these studies.

Singhvi (1967 & 1968) made the first scientific research works bringing third world companies' annual reports in preparing an index where he included 45 Indian companies in his overall sample of 200 annual reports to study corporate disclosure in India and the USA. An index of disclosure comprising 38 major information items was developed to measure the extent of disclosure by companies in both countries. The US part of the study was reported in the previous section under Singhvi (1967 and 1971). He examined the impact of corporate attributes of size, management origin, profitability, and number of stockholders to explain the level of disclosure. In another study by Singhvi (1968), it was

reported that companies with adequate disclosure were likely to be small in size (measured by total assets and number of stockholders) less profitability (measured by rate of return and earnings margin) and managed by Indians. Singh and Gupta (1977) replicated the method followed by Singhvi (1967 & 1968) to test the influence of factors such as industry sector, affiliation with multinational enterprise and stock exchange listing on the extent of disclosure, measured by a disclosure index. Singh (1983) examined the extent of 'public interest reporting' in annual reports of Indian companies in the same line of preparing a weighted index of 35 items. His findings suggest that an association between corporate size, profitability and the extent of disclosure while age and industry were not significant in majority of the studies. Chow and Wong-Boren (1987) examined the impact of three corporate attributes on the level of voluntary disclosure by Mexican corporations. The disclosure levels were determined using both weighted and unweighted indexes. The variables used to analyze disclosure were firm size (measured by market value of equity plus book value of debt), financial leverage (measured by the book value of assets net of depreciation divided by total assets). They found that the level of voluntary corporate disclosure increased with firm size but not with financial leverage or 'assets in place'. Benjamin et al (1990) examined the association between a company's non-compliance with disclosure requirements in Hong Kong and three company characteristics. In the sample of 76 quoted companies, he found that large and small firms have less non-compliance than medium-sized firms. No significant association between industry, auditor size and non-compliance was found in 10 broad assets of disclosure although 44% of all departures occurred in one sector. In the likely manner Khandewal and Agrawal (1991) carried out a study on 17 public enterprises in India using a 32 item index and found that disclosure levels were not significantly different between years but that they varied significantly across companies, Abayo and Roberts (1993) studied Tanzania, Wallace (1987) examined the extent of disclosure by Nigerian companies, Pradhan (1990) examined the disclosure of 23 items in the annual reports of 102 Indian companies with weighted index, etc. Most of the studies tried to construct indices known as Overall Disclosure Index (ODI), Statutory Disclosure Index (SDI), Mandatory Disclosure Index (MDI), etc. There are literatures found on the selection of items in constructing indices. Wallace (1987) uses weighted and unweighted items for constructing ODIs, whereas Ahmed and Nicholls (1994), Akhtaruddin (2005) favor unweighted items for the same. Different literatures are also found regarding problems in constructing indices. Firstly, the usefulness of an item of information to a

person depends largely on the purpose for which he or she is seeking and will be using the information. This may be termed 'user-specific factors' that determine the relevance of a particular item of information to particular users. The factors include the user's profession, category, purpose of using the information and the degree of sophistication. Studies examining users' information needs (Baker and Haslem, 1973; Choi, 1973b and 1973c, Belkaoui et. al., 1977; Chenhall and Juchanu, 1977; Anderson, 1981) have revealed that different groups of users perceive the importance of various information items differently from each other. Even within the same group of users, say, private investors, the perceived importance of various information items differ depending on the professional and academic background of the users concerned (Karim, 1995). The second problem is the use of weighted and unweighted indices. An unweighted disclosure index assumes each item to be equally important and this assumption leads to the potentially dangerous assumption of the interchangeability of information items. This problem arises in the way that one item is more important for one firm which may be less important for another firm. As a result, the first firm discloses that item whereas the second firm does not disclose the same item and may be penalized by not getting a score for not disclosing the same. In the same way the weighted items also have the same problems in the sense that the weights are assigned on the basis of the subjective perception of the users or the researcher(s). It is true that all items are not equally important, therefore, not equally desirable and so, researchers sometimes prefers a weighted index to an unweighted one. The problem is that there is a possibility of trying to compare likes with unlikes, i.e., comparing things that are not comparable as such. One interesting example is an attempt to say that one apple is an equivalent banana that is equivalent to, say, three peaches. A weighted index will award 4 points for disclosing four very important information to one company and will award 4 points to another company for disclosing four unimportant pieces of information. Statistically, the levels of disclosure of the two companies are the same, although the implications of the information disclosed by the two companies are totally different. But still most of the cases researchers are used to use unweighted items. The arguments of such an effort are given in next chapters when I will use unweighted items for preparing indices. There are also some critical studies in preparing index of disclosure. For example, Wallace (1990) criticized 'index of disclosure' for capturing only those items of information disclosed in financial reports and failing to take into account other 'intrinsic issues' such as the level of accounting education and the extent of professionalism in accounting.

However, there are few problems in using disclosure index as the basic research instrument for determining the levels of disclosure. First, as Marston and Shrives (1991) suggested, “the usefulness of the disclosure index as a measure of disclosure is ... critically dependent on the selection of items to be concluded in the index”. So far, there is no universal list of information items that could be used by all researchers in measuring the disclosure levels. As pointed out by Cooke and Wallace (1989), at present there is no theory of financial reporting for the international capital market operators. However, a review of literature suggests that the number of items included in various disclosure indices generally range from 10 (Benjamin et.al, 1990) to 413 (Karim, 1995). It shows that researchers used their respective indices. This suggests that the concept of adequate disclosure varies across researchers. Usually two broad categories of items are included. They are mandatory disclosure and voluntary disclosure. Mandatory disclosure varies from country to country and even industry to industry within the same country and so on, studies covering more than one country face a mismatch in selecting mandatory disclosures. The main problems facing a researcher in selecting the items to be included relate to the relevance of the item to company management and the relevance to users.

Some researchers (Wallace, 1988; Cooke 1989a, 1989b and 1992) have dealt with this problem of relevance of adjusting their disclosure index for each company. The procedure employed was the computation of ratio of the number of items appearing in the annual reports of a company to the number of items relevant to the company. Operationally, the disclosure index of a company A, for example, is the number of items disclosed by A divided by the number of items company A should have disclosed or in the words of some researchers, the number of items expected in company A's annual report. This procedure, however, contains some serious flaws. One of the problems is the introduction of an element of judgment in deciding the number of items relevant to a particular company. For some items, establishing relevance is fairly straight forward and can be done objectively, but for many subtle items, the process of establishing relevance is far from a straight forward decision and may, at times, be misleading. For those items it is not possible to decide whether a case of non-disclosure is a failure to disclose or not a relevant disclosure. This led Parry (1989) and Parry and Groves (1990) to drop few items of Shinghvi Index while constructing his own index. For the sake of argument, even if it is possible to establish relevance objectively, a second problem arises with

such procedure. That is, the measurement instrument becomes unique to each annual report resulting in the loss of comparative across companies and limiting the applicability of statistical tools of multivariate analysis.

There has been found a growing tendency of building of linear and / or multiple regression models for testing the contribution of explanatory variables in ODIs. Different studies take different types of explanatory variables with varied arguments. These include asset size, sales, number of shareholders, multinational relationship, rate of return, liquidity, type of management, and type of business, accounting education, accounting profession, accounting in government departments, ownership, and the presence of qualified accountant(s) on disclosure, total debt as the leverage measure, qualification of the principal accounting officer and the size of the company's auditor, etc.

2.2.4 Critical Review of Literatures on Disclosure from Bangladesh Perspective

As regard Bangladesh, the first study on disclosure is done by Parry (1989) and Parry and Groves (1990) by constructing an index adjusting the Singhvi and Desai (1971) index. A few items were dropped and few added from Singhvi and Desai (Ibid), thereby creating the Parry index. They basically attempted to explore the potential linkage between accounting and economic development. In doing so they covered issues of accounting education, accounting profession, accounting in government departments, in addition to the quality of published accounts in Bangladesh.

Karim (1995) provides a critical evaluation of Parry's research approach and cites some important points to consider that include the sample size, the sectoral distribution of samples, the variables taken to evaluate the disclosure, the qualities of auditors and audit firms, etc. Simultaneously, Alam (1989) analyses the annual reports of 62 non-financial companies in Bangladesh and found that the sample companies failed to observe the minimum requirements in Bangladesh. Ahmed and Nicholls (1984, 1994) carried out two studies. The first one examined empirically the association between company characteristics and disclosure compliance using multiple regression models and the second one examined the impact of selected company characteristics on compliance with mandatory disclosure requirements in Bangladesh. There are some critical observations too for these two studies. The samples taken, the variables applied, the sectors evaluated, and the periods of studies, etc. have limitations as compared to

present context. However, undoubtedly, these studies show the direction and gateway for present researchers.

Karim (1995) also attempted to examine empirically the association between a number of corporate attributes and levels of disclosure in corporate annual reports in Bangladesh. Karim's (1995) study largely replicated the approach followed by Wallace (1987) in Bangladesh context and expanded part of the work done by Parry & Groves and Ahmed & Nicholls.

The perceived importance of selected lists of information items to six categories of Bangladeshi users is also examined which measured the extent of disclosure of the sample companies. For the purpose of the study, disclosure was operationally defined as the appearance of an item in the annual reports surveyed. A total of 161 company annual reports for the year ended between June, 1991 and December, 1991 were collected and extent of disclosure measured by using a disclosure index comprising the 113 items of information. In the weighted index, the mean perception scores attached by the users to the items of information were used as weights. The annual reports were awarded a score equivalent to the weight of the item in the index and zero if the item was not disclosed. In addition, Singhvi and Parry indexes were also calculated.

The disclosure index used in his study contains both mandatory and voluntary disclosure, but since the sample comprises of various categories – quoted, unquoted, financial, non-financial, public enterprises and private sector companies, governed by different regulatory bodies and Acts, it was not possible to construct a uniform set of mandatory disclosure items that applies to all companies under study. For example, the disclosure and reporting requirements of the Banking Companies Act, 1991 and Insurance Act, 1938 are applicable to banks and insurance companies respectively, the Securities and Exchange Rules, 1987 applicable to listed companies, the Nationalization Orders 1972 and 1973 applicable to public enterprises only. Therefore, there are different sets of mandatory disclosure requirements for different categories of companies. However, after a search into the statutory requirements of all the Acts and Ordinances, it was found that 22 items in the disclosure index are mandatory for all the companies in the sample excluding 15 out of 20 unlisted public enterprises to whom the Companies Act, 1913 does not apply. The remaining 91 items are a mix of voluntary and

mandatory whereby some items are mandatory to one group of companies and voluntary to the others.

It was observed that companies do not comply with the disclosure requirements set by the regulatory bodies and Acts in Bangladesh. Parry (1989), Parry and Groves (1990), and Ahmed and Nicholls (1994), also found that the rate of compliance with mandatory disclosure requirements in Bangladesh is low. Ahmed and Nicholls (1994) reported that only four of the 63 companies studied earned statutory disclosure scores of more than 90 percent and that the index of 37 companies (58.7% of the sample) was between 60% and 80%. They commented that the results imply that none of the compliance in Bangladesh disclosed all mandatory disclosure requirements were not complied with by the sample companies. On an unweighted index, the mean mandatory disclosure score is 16.03 with a standard deviation of 1.92. The minimum and maximum being 8 and 20 respectively. This descriptive statistics show that, on an average, 27% of the mandatory items of information were not disclosed by the companies.

The association between the extent of disclosure and various corporate characteristics was examined using multiple linear regression models. It was found that corporate size, profitability, active trading in the stock exchange, employment of qualified accountant(s), size and international link of company's auditor, and multinational subsidiary are all significantly associated with the extent of disclosure. Leverage, language of annual report, date of year end were not found to have any significant impact on disclosure. In some of the models government ownership and the number of languages used in preparing the annual reports was found significant. The results were consistent with some previous studies while they contradict with the findings of some other studies.

There are some other research works done in the recent past in the context of Bangladesh that include corporate social disclosure (CSR) in Bangladesh by Imam (2000) and Belal (2001), Jacobs and Kemp (2002) find why small traders do not do accounting in Bangladesh, Imam, Ahmed and Khan (2001) examine that audit delay of the listed companies is an important issue in explaining market imperfection in Bangladesh.

Finally, it is to be borne in mind that in spite of all the limitations pointed out in the above discussion, disclosure indices can provide useful tools for measuring disclosure adequacy. It has served as a vulnerable research instrument to researchers in accounting and for a controlled sample of companies many of the problems discussed above do not arise, especially, if the results obtained from the disclosure index are complemented by qualitative analysis (Karim, 1995).

It is to be noted that there is no research work done so far in Bangladesh that provides whole range of market from different perspectives like the legal and institutional aspects, the application of any acceptable model for judging the full range of financial reporting and disclosure environment by different types of economic entities, the real life disclosure environment, and the mandatory disclosure level by the listed companies taking all the companies in the research frame, etc. This dissertation covers all those dimensions for drawing a concrete conclusion on the financial reporting environment of Bangladesh.

2.3 Overview of Methodologies

This section provides an overview of methodologies followed for the whole Thesis. It should be worth to mention that in each of the subsequent chapters, methodologies followed for that particular chapter(s) have been discussed. However, this section gives a precise overview of methodologies used in the Thesis.

General Overview

Keeping in mind that the Thesis will be able to contribute to the on-going efforts of economic development by creating a trustworthy environment for investors and for other audiences, the Thesis evaluates the financial disclosure of firms in Bangladesh. However, to accomplish this I have used the references of disclosure in the developed part of the world along with developing part. Moreover, particularly, the disclosure of South Asian Association for Regional Cooperation (SAARC) countries under South Asian Federation of Accountants (SAFA) has been taken as is the regional recognized body of accounting and reporting harmonization. This means that SAFA's activities have not been evaluated but in evaluating the financial disclosure environment of Bangladesh, sometimes, regional environment (especially South Asia under SAFA) has been considered. To achieve the main and sub-objectives mentioned above, the following methodologies have been followed:

- A. To know about the economy of information and its role in developing a market-based economy, a short description is provided by going through available literatures in this context. This is shown in the beginning of the Chapter-1.
- B. A review of literature has been conducted to find out the various research works done worldwide related to the objectives mentioned in Chapter-1. This is shown in different sections in this chapter. The main reason of such a survey is to see the different ways used in evaluating accounting and financial reporting of firms working in different parts of the World so that we can proceed to find out the ways needed to evaluate the disclosure of firms working in Bangladesh. To accomplish the task, the following procedures were followed:
- i. Different articles published in various national and international journals have been consulted;
 - ii. Various research books at international standards have also been consulted;
 - iii. Different monographs of different bodies have also been gone through;
 - iv. Published and unpublished doctoral dissertations in different universities have been read;
 - v. Reports prepared by various organizations have also been taken into consideration and read;
 - vi. A comprehensive library work has been performed. Internet facilities have also been used to find out the different reports, research articles, and speeches available in the internet;

Specific Overview

Chapter-3

- A. With a view of going inside of financial reporting and disclosures, Bangladesh has been taken as a country of representation, as mentioned earlier. The following measures have been taken for an empirical study on financial reporting and disclosures on Bangladesh:
- i. Various legal and institutional aspects prevailing in Bangladesh regarding financial disclosures of different public limited companies, private limited companies, government enterprises, multinational companies, and owner-managed small firms have been taken into account. However, emphasis was given to public,

private and multinational corporations. Among others, the following legal and institutional aspects have been taken into consideration:

Legal Aspects:

- a. Companies Act 1913 and 1994;
- b. Securities and Exchange Commission Rules 1987 and amendments;
- c. Stock Exchange Law
- d. Income Tax Ordinance 1984;
- e. Banking Companies Act 1991;
- f. Insurance Companies Act

Institutional Aspects:

- g. Ministries involved;
- h. Institute of Chartered Accountants of Bangladesh (ICAB);
- i. Institute of Cost and Management Accountants of Bangladesh (ICMAB);
- j. Others.

In the next chapter (Chapter-3) the reporting environment of Bangladesh in terms of legal and institutional arrangements is shown and all the components that shape the legal and institutional arrangements are evaluated. In doing so, previous related works done have been consulted. However, some evolutionary remarks are also given from my side based on my observations during my visits of different business entities while I kept notes on conducting interviews.

- ii. To know about what is actually happening in the real world, primary data and information have been collected from officials working at samples and non-samples companies, stock exchanges, security and exchange office, concerned ministries, etc. In this process, some experts and researchers, academics, fellow members of ICAB and ICMAB have also been included. A structured questionnaire was distributed to them and firstly, requested them to fill in the same (the structured questionnaire is given in the Appendix-2 in Chapter-4. Later on, the researcher also visited some of them personally and talked to them directly. A personal diary has been kept always to keep notes

on different issues during visiting and talking to them. Since the researcher committed to them not to disclose the names, their affiliation, ranks, etc. of the respective respondents, their identities have been kept confidential. Although a structured questionnaire was distributed, important points have been obtained from informal talks.

- iii. On the basis of secondary information and data collected from different reports, a comparison has been shown among the countries in the South Asia who are the members of South Asian Association for Regional Cooperation (SAARC) and hence who are the members of South Asian Federation of Accountants (SAFA) covering different aspects of financial reporting in the those countries.

Chapter-4, 5 and 6

- B. As it is found in the review of literature that there has been tendency calculating Overall Disclosure Index (ODI) to measure, statistically, the extent of disclosure by taking different variables without giving any special weight to any variable, I have also calculated the 'proportion of disclosure'¹ for Bangladeshi firms taking UNCTAD suggested variables for different categories of firms working in Bangladesh. This is done in Chapter-4 for whole market by UNCTAD variables for different categories of firms and in Chapter-5 ODIs have been calculated for all the listed companies for the mandatory disclosure in Bangladesh by taking into account different legal provisions of different related Acts of Bangladesh. From different categories of companies such as government entities, public limited companies, private limited companies, multinationals and owner-managed small firms sample elements have been selected for the study (a detailed description of selecting sample elements is given in Chapter-4). The variables suggested by UNCTAD for measuring the extent of disclosure for the developing countries have also been used in these samples. The selection of firms was done in an unbiased way and purposively. After purposive selection, a random selection was done from each group. In Chapter-5 all the listed companies have been taken into account for preparing ODIs for each of the companies taking 313

¹ The proportion of disclosure means the disclosure of different items in the financial reports by different categories of firms as required by the UNCTAD to measure the extent of disclosure. This is done by the percentages of disclosed items as compared to the items required by the UNCTAD. One-Sample 't' test has been carried out to measure the consistency of disclosure by same type of firms.

variables considering provisions of different laws for fulfilling obligations. Later on a correlation matrix has been prepared to show the correlation among different corporate attributes. At the end a regression model has been developed.

- C. Later on, some computer based statistical packages, such as SPSS, Excel, etc. have been used to speed up the results and hence the research works. Non-parametric statistical test (known as Kendall Coefficient of Concordance (W) was carried out to obtain the decisive results on finding the causes of poor disclosure in Bangladesh in Chapter-4.
- D. On the basis of different findings, observation, data, and analysis, a conclusion is given in the each chapter. This includes a brief but overall conclusion of that particular chapter.
- E. Eventually, in Chapter-6 the conclusion for the whole Thesis along with some remedial and suggestive measures and policy implication have been provided thereon.

2.4 Conclusion

This chapter provides an introduction to bring about the importance of corporate disclosure in a changed business environment in the age of globalization, as the main driving forces of globalization are the different types of corporations. It then reviews the research works done on different aspects of disclosure of information by the different economic entities. Later on, it has been tried to see how a disclosure index – weighted or unweighted – is constructed by various researchers with a view to measure the extent of disclosure in developed and developing countries. The literature reveals that there are different dimension of research works on financial disclosures. These include importance of disclosure, harmonization of accounting and disclosure in World arena, frameworks of financial reporting and disclosure, finding different variables for disclosure, relationship between mandatory and voluntary disclosure, different consequences of more disclosure, legal and mandatory disclosure system as a condition of creating an environment, the national culture for disclosure, and also the costs and risks of more disclosures. As the intension of this study is to see the disclosure environment of developing countries, particularly Bangladesh, some literatures have been critically evaluated. Although there are some studies on financial disclosure in developing countries, but there is a shortage of research works on the disclosure

environment of Bangladesh. Recently, Karim et al (1998 and 2005) and Aktharuddin (2005) accomplish two works that should be considered good contribution to this field; still these also have some important limitations. The literature also reveals that most of the research works has been done by taking several variables – quantitative and or qualitative in nature. However, different hypotheses were made and tested by using different statistical tools like 't' and 'R'. Researchers have been increasingly using regression analysis to accomplish their research works on information disclosure. The main purpose of such a review of literature from the developed countries' perspective is to see how the corporations in developed countries use their disclosure techniques to be trustworthy to the different types of audiences. Besides, by such a review, it is also possible to choose different variables to make the study more meaningful. In section 2.2.3, the extent and position of corporate disclosure in developing countries have been critically reviewed. The reason for such a review on developing countries perspective is that Bangladesh and other Member countries of South Asian Association for Regional Cooperation (SAARC) countries are in this group. As a result, from this review we can see the general problems faced by the developing countries as a whole and Bangladesh as a particular case. However, one important finding is that developed countries prefer to examine the determinants of voluntary items whereas studies in developing countries are still examining company characteristics that influence the degree of compliance to statutory requirements.

Importantly, from the critical evaluation of different models and variables used in financial reporting in developed and developing countries it is found that with the attainment of higher standards of financial reporting coupled with the development of more competitive and sensitive stock markets in the developed countries, most companies comply with mandatory requirements along with voluntary disclosure. Whereas information technology based dissemination of financial information is a voluntary task of companies in developed countries, most companies in developing countries are reluctant to accomplish the same. Almost every study of the quality of accounting and management information systems in developing countries has confirmed the correlation between the level of economic development and accounting and reporting development (UNCTAD, 1996 Review, 1998). As a result, it is said that if the financial management system is primitive, there can be no effective resource allocation or project management. But in developing countries, government and regulatory

agencies are still not so successful in making sure that even big quoted companies comply with all the mandatory disclosure requirements let alone voluntary disclosure. Moreover, a very few research works done on this issue where none of the works covers all the aspects of financial disclosure in Bangladesh.

The methodologies used in the whole Thesis have been given before concluding this chapter. It should be worth to mention that the detailed of the methodologies used in different chapters have been given in that particular chapter to help the readers to have a quick look at the methodologies used. The methodologies include application of explanatory evaluation considering various sources, use of UNCTAD variables for measuring extent of disclosure by different types of firms in the developing countries, evaluation of opinion survey, preparation of Overall Disclosure Indices for all the listed companies on the stock exchanges in Bangladesh and the use of statistical tools.

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Appendix-1

Table-1: Summary of the Research Works on Financial Disclosure in Developed Countries until 1993

Researchers and Years	Short Description	Remarks & Results
Cerf (1961)	<p>Thirty-one items were selected on the basis of a study of the investment decision process, review of relevant literature, interviews with the security analysts, and an examination of analysts' reports. The items were classified into four categories according to their relative importance and were given weights ranging from 1 to 4. The annual reports of 527 US corporations were examined against the index which provided a disclosure score for each of the companies under consideration. In the same research statistical analysis were carried out to find out the possible link between the extent of disclosure and various corporate characteristics, e.g., asset size, number of shareholders, listing status, and profitability as measured by the rate of return. He found that the 50 highest (lowest) scoring firms had, on an average, larger (smaller) asset size than the whole sample. It was revealed in the research that companies listed with the New York Stock Exchange disclosed more information than companies listed with regional stock exchanges.</p>	<p>No evidences were found that supports that profitability significantly explained disclosure levels.</p>
Singhvi (1967)	<p>Used disclosure index to investigate the disclosure of information to shareholders through annual reports in the USA and in India. This research was based on</p>	<p>Disclosure quality was significantly associated with asset size, number of shareholders, rate of return, earnings margin, security</p>

	shareholders' annual reports of 100 companies listed in the New York Stock Exchange (NYSE), 55 Over-the-Counter (OTC) companies, and 45 companies listed in the Bombay Stock Exchange. Here he modified the Cerf index and assigned the same weights to the items of information. Certain corporate characteristics associated with the quality of financial disclosure were then examined.	price fluctuations, listing status and Certified Public Accountant (CPA) firm. The results show that US companies which were small, unlisted, audited by a small CPA firm, and less profitable, were more likely to disclose inadequate information in their annual reports.
Buzby (1972 & 1974)	The disclosure of financial and non-financial information of 88 small and medium sized companies using a disclosure index comprising 39 items.	The results indicated that the extent of disclosure was positively associated with company size measured by assets but not affected by listing status.
Choi (1973a, 1973b and 1974)	The impact of entering into the Eurobond market on disclosure levels of 18 matched pair of companies from 11 countries. He compared disclosure changes before and after a firm's entering into market using a disclosure index of 36 items.	He found that firms significantly improved their disclosure levels upon entry into the European capital market.
Barrett (1975, 1976 and 1977)	Examination two dimensions of the financial reporting practices of large firms in seven countries: (i) changes in the average disclosure levels over a period of ten years from 1963 to 1972 and (ii) the comprehensiveness of firms' financial statements across countries.	Findings reveal that British and American firms show significantly higher annual report disclosure than any of the other five countries of the study.
Stanga (1976)	Replicated Buzby's methods to examine if corporate size as measured by sales and industry type influenced disclosure.	Finding was that size was not significant in explaining disclosure variability while industry type was.
Belkaoui and	They tested six distinct hypotheses to	Finding was that two size

Kahl (1978)	examine the association between various company characteristics and disclosure.	variables, liquidity, and profitability and capitalization ratio were found to have a negative association with disclosure.
Spero (1979)	Used a comprehensive list of information items to assess the extent and causes of voluntary disclosure of information in annual reports of 60 quoted companies in three countries	It was found that companies were consistent in their disclosure policies, i.e., the companies under the research study disclosed more important items also disclosed less important items and vice-versa
Firth (1979)	The task was an examination of the possible link between the level of corporate disclosure and three firm-specific characteristics, e.g., the size of the company, listing status and the audit firm	The results also showed a positive association between size and disclosure levels
Firth (1980)	Theme was whether British firms increased their disclosure level upon entry to the capital market.	Result was that that smaller-sized companies (with market capitalization of under £50 million) increased their disclosure levels significantly when issuing new equity or rights while no such relationship was found for larger firms.
Kahl and Belkaoui (1981)	Investigation of the extent of disclosure by banks located in 18 countries.	The results showed that the degree of disclosure was relatively different among the countries covered, with US banks leading the list.
McNally, Eng, and Hasseldine	examined the quality of discretionary disclosure practices and their possible association with corporate characteristics in	The results showed that the level of actual disclosure by the companies was much lower than

(1982)	New Zealand.	the professional external users perceived and that there was a considerable variation across the 41 items in the degree of non-disclosure. Rank order of correlation showed that a significant relationship between company size and disclosure but no association was found between disclosure and rate of return, or between disclosure and growth. Kruskal-Wallis One Way ANOVA did not show any significant difference in disclosure across industry sectors and across clients of 'Big-Eight' and non-Big-Eight audit firms.
Cooke (1989a & 1989b)	Examined corporate disclosure in 90 Swedish companies both listed and unlisted.	There was a high correlation between quotation status and disclosure levels. Multiple regression analysis revealed that size and listing status were important in determining the extent of disclosure.
Cooke (1992)	Examined the impact of size, stock market listing, and industry type on levels of Japanese corporate disclosure	The results showed that disclosure increases with size, manufacturing companies disclose more information than non-manufacturing ones, and companies with multiple listings disclose more than companies only listed on Tokyo Stock Exchange.

Cooke (1993)	Measured the extent of overall disclosure in corporate annual reports in Japan and introduced unlisted corporations into the sample in order to establish the impact of listing status on disclosure.	No difference was found in the extent of disclosure between Commercial Code (CC) accounts and the Securities and Exchange Law (SEL) accounts. There was also no difference in disclosure between unlisted and multiple listed companies and no difference in disclosure between domestically listed and multiple listed companies.
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CHAPTER – 3

LEGAL AND INSTITUTIONAL ARRANGEMENTS OF FINANCIAL DISCLOSURE IN SOUTH ASIA WITH SPECIAL REFERENCE TO BANGLADESH

3.1 Introduction

Disclosure and transparency affect both a company's operations and its performance as an investment. Operationally, rigorous disclosure and transparency systems enable management and the board of directors to allocate resources rationally and to run the business in accordance with strategic plans. In this respect, disclosure and transparency to managers and directors influence the company's ability to generate cash flows, its *intrinsic* value. From an investment perspective, full, accurate and timely disclosure of information permits the market to determine what this intrinsic value is. Effective disclosure and transparency also help set investors' level of confidence that intrinsic value is not being siphoned off or wasted by managers or insiders. The intrinsic value of cash flows, combined with investors' confidence in their ability to enjoy these cash flows, determines a company's *extrinsic*, or market value. A similar relationship obtains at the macroeconomic level. Good systemic disclosure generates confidence in market integrity. As a result, capital flowing to equity and debt markets will fully and fairly reflect the underlying value of the national economy. Consequently, disclosure and transparency not only affect individual companies' performance and market valuation, but greatly influence a national economy's ability to attract domestic and foreign investment (OECD, 2003). This contributes the company to the creation and establishment of corporate governance - one of the most important issues in the corporate management – whereas defined broadly, “corporate governance” refers to the private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (“corporate insiders”) on one hand, and those who invest resources in corporations, on the other. Investors can include suppliers of equity finance (shareholders), suppliers of debt finance (creditors), suppliers of relatively firm-specific human capital (employees) and suppliers of other tangible and intangible assets that corporations may use to operate and grow (Ibid).

Whereas Mir and Rahaman (2005) state that the institutional legitimation is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor / lending institutions on the Bangladeshi Government and professional accounting bodies, Solaiman (2001) stresses on the legal aspects for protecting investors from any unfair practices in the market. The objective of this chapter is to evaluate both - the legal and institutional - arrangements of financial disclosure in South Asian countries with special reference to Bangladesh. To fulfill this objective we shall try to see the scenario of legal and institutional arrangement of financial disclosure prevailing around South Asia in general and Bangladesh in particular. In each step, we shall try to make an evaluation and suggestive remarks on every aspect. However, this chapter is a descriptive one but contains valuable insights of legal, institutional and professional arrangements and evaluation by different bodies, research works, and the personal experiences of the researcher and information gathered from different experts in the field of accounting in Bangladesh.

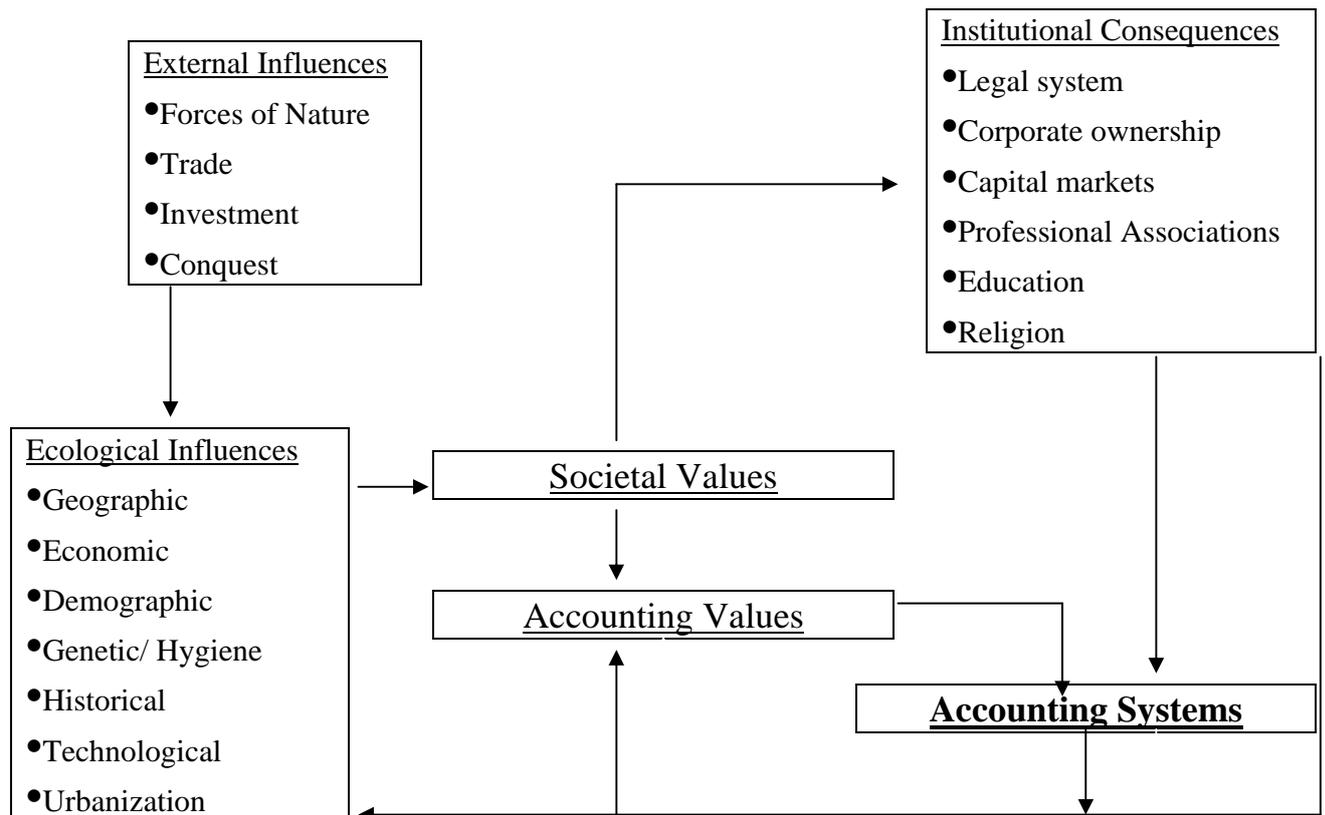
3.2 Rationale of the Study

The World Bank (2004), Commonwealth Association for Corporate Governance [CACG], (1999), La Porta et al, (2000), OECD (2003, 2004), Shleifer and Vishny, (1997); Moerland (1995), Beck et. al, (2000), Bhagwati (1993), Patibandla (1998) (1997), Levine (1997), La Porta et al, (2000); Henry, 2000; Stultz, (1999), Thomadakis (2002), and Oman, (2001) all are in the opinion that legal and institutional arrangements for financial disclosure are important for different purposes like gaining investors' confidence, to make the market efficient, for creating a good corporate governance system, for protecting minority interest, for creating an investment friendly environment, to cope the national market and economy with the challenges of globalization and so on. The accounting evolution has also happened for fulfilling different needs of economic entities at different times. In this regard, Islam (1985) expresses very naively that the evolution of accounting information is because of a need of the society in its economic development. Drawing historical events of economic development of various countries in Europe during 1500-1700 A.D., he also states that the accounting information acted both as an instrument for the ordering of economic data and in the role that it played in transforming medieval man's attitude toward economic life. It may be more than coincidence that those countries that experienced the greatest economic progress at this time were the countries in which double entry bookkeeping was first accepted and information obtained from bookkeeping was utilized. Even long time ago Weber (1919-1920) stated that accounting information

was essential for an enterprise to pursue rational economic action. In a critical appreciation of Weber, Hecter (1932) developed evidence revealing that the countries that experienced the greatest economic growth were those in which the art of bookkeeping made its greatest progress simultaneously by providing information to the planners. Rational plans for extensive future operations can only be possible at micro and macro levels if the planners know exactly how a business has stood at any given time period. From the historical economic development in England, Islam (1985) points out that the country was backward in its economic development as compared to its neighbors in the 16th Century while by the close of 18th Century, the same country experienced tremendous economic growth when it started using information obtained from double entry accounting system.

The historical development leading to promulgation of accounting and auditing standards in the developed countries of the West shows that the standards came into existence on the wake of public criticism against the auditors for the information disseminated by the enterprises which was not up to the level. As a result, the society and the government demanded on the profession for standardization of accounting principles and practices (Azizuddin, 1985). Different limitations of accounting coupled with the growing complexities of commerce and industry and failure of company and corporate frauds in some developed countries made an urgent demand on the accounting profession for standardization of principles and practices. These eventually led the accountancy bodies of these countries to develop their national standards. The following Figure-1 shows the International Pressure developed by Gray (2002)

Figure-1
International Pressures for Accounting Change (Gray's Model)



Source: Radebaugh and Gray (2002).

There are studies on different aspects of disclosure such as the objectives of disclosure, the qualitative aspects of financial reporting, the users and their needs, etc. For instance, studies done and reports published by Hetamsaria (2005), FASB (2005), Alam (1991), IFC, IPSAS 1 (2000), Phillips et. al. (2002), Basu (2002), Newson and Deegan (2002), and Rimmel (2004) focus the objectives of financial reporting and disclosure. On the other hand, researches conducted by Islam, (1993), Srinivasan (2004), Chatterjee (2004), Harding (1998), Bosak (2002). Ahmed (1982), Kieso and Weygandt (1977), and Alam

(1991) and the reports published by the Public Sector Committee (PSC), IFAC (2000), the Accounting Principles Board of the American Institute of Certified Public Accountants (1994), the Canadian Institute of Chartered Accountants Research Study, etc. identify the different users of financial reporting. Again, The IFAC (2004), The FSAB (2005), The IFAC (2001), Barrett (2004), Singleton and Globerman (2002), Chaua and Gray (2002), Rahim (2003), Azizuddin (1985), and Archambault & Archambault (2003) discuss about the qualitative characteristics of financial reporting in different parts of the World as well as in Bangladesh. Ahmed and Yusuf (2005) work on corporate governance in Bangladesh and identify some problems in implementing corporate governance. The article is a theoretical one and provides some scattered concepts on it where no scientific evaluation was done. But there is lack of a study that covers the whole institutional and legal aspects of financial reporting in Bangladesh. This study is an endeavour to fill the gap.

3.3.1 (South) Asian Perspective of Financial Disclosure

There are similarities and dissimilarities exist in different aspects within Asian countries. Prominent features of the Asian business landscape include the predominance of family-run firms, the informal nature of stakeholder relations and the legal and economic diversity of the region (OECD, 2003). Claessens, Djankov and Lang (1999) state that approximately two-thirds of listed companies, and substantially all private companies in Asia, are family-run. The informal nature of Asian stakeholder/company interaction can produce real and lasting benefits for stakeholders that equal or exceed those offered through more formalistic approaches based on “rights”. At the same time, trends towards more globalized markets and greater minority shareholder activism are leading to evolutionary changes in business relationships, as well as to debate about recasting informal interests as formal rights enjoying formal protection mechanisms (OECD, 2003).

Economically, the sweep of Asian economies includes a few with relatively high per capita income, as well as several that continue to face all the challenges of development. Similarly, there is a broad spectrum of infrastructural development: capital, human and social. But, change and improvement have been rapid, and it is not uncommon to find some countries that only a few years ago suffered from significant infrastructural constraints now assembling or producing some of the world’s most technically advanced goods. Finally, the Asian business landscape comprises considerable legal diversity. With

respect to legal traditions, Hong Kong China, India, Pakistan and Malaysia, for example, have common law frameworks. Thailand and the Philippines have frameworks based on French civil law, while China, Chinese Taipei and South Korea draw upon German civil law traditions. State ownership of enterprises remains strong, particularly in China and India, where aspects of stakeholder relations may draw upon or reflect elements of socialist law. Overlaying these legal traditions in many countries are behavioral norms arising from various cultural and religious traditions.

As far as financial disclosure of the South Asian Federation of Accountants (SAFA) Member Countries is concerned, initially member countries adopted the framework of setting objectives for financial reporting by the economic entities in the region. Particularly, the following reporting objectives are set by SAFA:

Setting a Code of Ethics (2004) for public interests:

- A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.
- The public interest is considered to be the collective well-being of the community of people and institutions the professional accountant serves, including clients, lenders, governments, employers, employees, investors, the business and financial community and others who rely on the work of professional accountants.
- This Code sets out the professional accountant's ethical responsibilities to act in the public interest.

SAFA is now heading towards harmonization of financial reporting process that will help in creating an effective South Asian Preferential Trade Area (SAPTA) and South Asian Free Trade Area (SAFTA) with a view to expand trade within the region that requires cross border investment. In order to create a favorable environment for such investment flows a draft Regional Agreement on Promotion and Protection of Investment is presently under consideration. With the same objective in mind, an Agreement on Avoidance of Double Taxation is also being studied. In order to provide further impetus to intra-regional trade flows work has already commenced in parallel on some critical trade facilitation measures such as the harmonization of standards, quality control and measurement; and simplification of customs procedures and documentation (Rahim, 2003). To find out the

qualitative characteristics of financial reporting in SAFA Member States, some reports such as OECD report on corporate governance (2003), SAFA hand books, ICAB reports, ICMAB reports, etc. have been consulted along with an old research work by Azizuddin (1985). Based on those documents, I have tried to draw a conclusion on this aspect which is as follows:

- (a) Historically it has been found that the Institutes of SAFA member countries had no national standards of their own at the time of promulgation of International Accounting Standards by IASC and Auditing Guidelines by IFAC.
- (b) The accounting standards have been adopted by the respective Institutes except Institute of Chartered Accountants of India (ICAI) without involvement of interest groups, accounts personnel and users in the standard setting process thus making their acceptance a difficult proposition.
- (c) None of the accountancy Institutes of the SAFA member countries has any authority to promulgate any standard. They recognize an approach of consultation, consensus and compromise with the interest groups for implementation of the reporting standards.
- (d) The proper professionalism in the field of accountancy has yet to be developed in the member countries.
- (e) The ethical issues are not adequately developed in the people involved in reporting in the member countries.
- (f) The accountability of preparing and certifying exaggerated or dressed financial reports are not properly set and implemented.
- (g) The adaptation of modern techniques, such as the use of information technology to exploit cost competitive advantages, is not adopted in the study curriculum of the accountancy Institutes of the region.
- (h) Excepting the Institute of Chartered Accountants of Sri Lanka (ICASL), the accountancy Institutes of Bangladesh, India and Pakistan have yet to issue any definitive statement of Auditing – the main base of transparent financial reporting. The Auditing Guidelines (AG) issued by Institute of Chartered Accountants of Bangladesh (ICAB) and Statements of Auditing Practice (SAPs) issued by ICAI are based on International Auditing Guidelines.

The South Asian situation in terms of financial disclosure and transparency can better be understood by judging the conditions of practice of corporate governance (OECD, 2003).

OECD (2003) has conducted an intensive roundtable discussion on the aspects of corporate governance in Asia. Table-1 prepared on the basis of OECD information shown in the Appendix-1 gives a clear idea on the practice of corporate governance in SAARC region. This clearly shows that SAFA as an organization is still lagging far behind in financial reporting to ensure the transparency with a view of protecting investors as compared to developed nations.

3.3.2 The application and effectiveness of IASs in SAFA (SAARC) countries

South Asian Federation of Accountants (SAFA) is the recognized organization in the frame of the South Asian Association for Regional Cooperation (SAARC). Established in the first meeting of the heads of the Accounting bodies of the South Asian Region, at New Delhi, India, on August 22, 1984, SAFA has the broad objectives of the development of a coordinated accountancy profession in the region. However, it has sub-objectives too such as (i) to coordinate and guide efforts to evolve technical, ethical and educational guidelines within the region; (ii) to work towards international recognition of qualifications of accountancy bodies of the region; (iii) to provide opportunities for consultation such as the holding of conferences of accountants within the region to enable members of the accountancy profession to discuss and interchange ideas and to inform themselves of developments in accounting and related matters; (iv) to encourage and assist the development of national accountancy organization within the region; and (v) to arrange exchange programs for students and teachers so as to expand training opportunities.

Since its formation in 1984 SAFA has made rapid strides in accomplishing the objectives of harmonization of the profession and fostering brotherhood among the SAARC Countries. Undertaking a number of research projects of common interest, holding of seminars, workshops and conferences in different countries of SAARC region under SAFA banner over the years helped in exchange of wealth of knowledge among the member bodies and coming closer to each other in the matter of professional interest have been done so far. Its membership is open to accountancy bodies in the South Asian region. At present the Institutes of Chartered Accountants and / or the Institutes of Cost and Management Accountants in Bangladesh, India, Pakistan and Sri Lanka are the members of SAFA. SAFA was granted the status of SAARC Recognized Body in May 1997 as one

of its seven recognized bodies (a list of members has been attached in Table-2 in the Appendices).

As a part of the efforts to develop the standards of Accounting or Reporting in line with International Accounting / Reporting Standards and requirements of the corporate law of the land, SAFA has started holding a regional competition for best published Corporate Accounts in the SAARC Countries. This has evoked tremendous response from the well-known corporate bodies of the region and infused a spirit of competition in them for improving the reporting standards that ensures the transparency in the corporate sectors.

In the wake of the globalization of Trade in Goods or Services under WTO agreement SAFA has set up a Committee for working out a strategy for mutual recognition and cross border practice of Accounting Profession both within SAFA and non-SAFA Countries. The Committee has been working vigorously to finalize its report in the light of the IFAC guidelines and awaiting the report of the working party on professional services under GATT relative to the discipline on Domestic Regulations on Accounting.

The following Table-1 shows a brief position in terms development of financial reporting of those Member countries of SAFA that are also the Members of SAARC.

Table –1: Country Position in Implementing IASs

Countries	Criteria to judge the effectiveness of the use of IASs		
	IAFC Membership	Stock Exchange	Accounting Policies
Bangladesh	Yes	All companies listed on the Chittagong Stock Exchange and the Dhaka Stock Exchange must follow International Accounting Standards.	<p>The Institute of Chartered Accountants of Bangladesh (ICAB) has a program to adopt IAS as Bangladesh Accounting Standards. In April 2001, the ICAB had adopted 23 IASs (of which 19 are currently effective) out of total 40 IASs (of which 36 are currently effective).</p> <p>The Bangladesh Securities and Exchange Commission requires issuers of listed securities to prepare financial statements in accordance with the requirements laid down in the Regulation and the International Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh.</p> <p>The Bangladesh SECVs Public Issue Rules, 1998, require that the financial statements included in a prospectus or offering document be prepared in accordance with IAS.</p>

LEGAL AND INSTITUTIONAL ARRANGEMENTS OF FINANCIAL DISCLOSURE

India	Yes	<p>Use of IASs and IFRSs is not permitted for domestic listed companies.</p> <p>(The IAS Plus, 2005)</p>	<p>Financial reporting requirements for companies incorporated in India are set out in the Companies Act. An amendment to that Act that took effect 31 October 1998 requires compliance with accounting standards established by a new National Advisory Committee on Accounting Standards (NAC). Members of NAC are nominated by the Institute of Chartered Accountants of India (ICAI), the Institute of Cost and works Accountants of India, the Institute of Company Secretaries of India, the central Government, the Reserve Bank of India, the Comptroller and Auditor-General of India, the SEBI, and others. Accounting standards specified by ICAI shall take precedence until NAC is established. Thereafter, accounting standards in India will be prescribed by the central government in consultation with the NAC.</p> <p>In 1977, the ICAI created an Accounting Standards Board which publishes accounting standards. The ASB's policy is to take IAS into consideration in developing its standards. Most of those standards conform in all material respects to IAS; those on R&D, foreign exchange, borrowing costs, banks, and business combinations do not.</p>
Nepal	No	Not available	The Institute of Chartered Accountants of Nepal Act, 1996, makes the use of International Accounting Standards mandatory in Nepal.
Pakistan	Yes	<p>Karachi Stock Exchange requires that all companies must follow IASC Standards as well as comply with reporting requirements of the Companies Ordinance of 1984, the Banking Ordinance of 1964, and the Insurance Act of 1935.</p> <p>Lahore Stock Exchange allows both domestic and foreign companies to file financial statements using IASC Standards or U.K. GAAP.</p>	<p>The Institute of Chartered Accountants of Pakistan (ICAP) reviews all International Accounting Standards (IAS) and intimates to the Securities and Exchange Commission of Pakistan (SECP) to issue notification. The IAS becomes part of company law and becomes applicable to all listed companies only. Other companies are encouraged to apply them.</p> <p>The ICAP has also issued Technical Releases and Selected Opinions, which are further interpretations of IAS on the basis of local specific circumstances.</p> <p>Specialized regulations have been established for banks and insurance companies.</p>

Sri Lanka	Yes	Companies listed on the Colombo Stock Exchange must submit financial statements under Sri Lanka GAAP	<p>The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, requires all specified business enterprises -- including listed companies -- to prepare and present financial statements in accordance with Sri Lanka Accounting Standards.</p> <p>The Act empowers the Institute of Chartered Accountants of Sri Lanka to adopt suitable accounting standards from time to time and to publish them in the Gazette to have legal effect. The standards are developed by the Accounting Standards Committee of the Institute and are largely derived from IASs. However, the Institute has framed two national standards to deal with issues not covered under IASs, namely finance companies and plantation accounting. Accounting standards relating to banks must have the concurrence of the Banking Supervision Department of the Central Bank.</p> <p>All IASB exposure drafts are examined by the Accounting Standards Committee, and comments are forwarded to IASB. IASs undergo due review process by the Committee before they are formally adopted by the Council of the Institute.</p> <p>The Accounting Standards Committee consists of 12 members, including representatives of accountancy bodies, regulatory bodies, and user groups.</p> <p>Under the Act, an independent body called the Sri Lanka Accounting and Auditing Standards Monitoring Board has been set up to monitor compliance with the accounting standards by all specified business enterprises. The Board has 13 members, including representatives of accountancy bodies, academics, capital market regulators, and industry and commerce.</p>
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Source: Prepared by the author on the basis of information obtained from IASB, 2003.

Upon consulting the Acts of the SAFA Member States for controlling and monitoring the activities of companies and / firms, especially business companies / firms, the following summary may be drawn to have an idea about the financial disclosures in different countries:

1. SAFA is relatively a new organization as compared to other international bodies involved in promoting accounting and reporting practices.
2. All the Acts are obtained from their colonial power (s). As a result, there are similarities seen in shapes, designs, different provisions, and nature of contents of the corporate disclosures practices.
3. All the Member States of SAARC are not the Member States of SAFA which indicates that SAFA has to do a lot more to achieve its objectives in SAARC

region. To make it more effective, it should try to include Bhutan, the Maldives and Nepal as its Members.

4. Even a Member of IAFC is yet to be a Member of SAFA (Nepal). Moreover, it is yet to set a harmony between its Member States to follow a similar pattern of accounting and disclosures.
5. A comparative legal framework of the Financial Reporting in SAFA countries shows the following similarities in Member States:
 - i. All the Companies Acts in SAFA require the preparation and presentation of directors' reports, annual accounts, and auditors' report in the annual reports of the respective companies,
 - ii. That the existing Companies Acts in SAFA Members require that financial reports must include a Balance Sheet and a Profit and Loss Account of every company along with the necessary notes or schedules to make the reports clear. Besides, the Pakistan Ordinance requires an additional statement of changes in the financial position of all the quoted companies.
 - iii. The Acts in Pakistan and India set a time limit for six months for presentation of annual reports to the shareholder upon completion of Balance Sheet whereas the time limit is nine months as per Bangladesh and Sri Lanka Act(s).
 - iv. All laws require the main heads and sub-heads for assets and liabilities for comprehensive reporting of the same.
 - v. Bangladesh and India Acts prescribe the forms of Balance Sheets – the former horizontal and later vertical whereas Pakistan and Sri Lanka do not prescribe any form but the contents to be included in the Balance Sheet.
 - vi. None of the Act(s) provide any form of Profit and Loss Account but the contents of the same to be included. All the Member countries are tended for

comprehensive disclosures if do not contradict with the privacy policies of the respective companies.

- vii. The Profit and Loss Account under all the Acts should provide a 'true and fair view' of the profit and loss of the company for the respective financial year(s).
 - viii. Pakistan and Bangladesh Acts require disclosure of significant accounting policies, preferably in one place, and changes in accounting policies that has material effect in the current year or in any subsequent year(s) together with the changes and material effects of changes in financial position of the company concerned.
 - ix. All the Acts except Sri Lanka require disclosures of capacity and its utilization. These Acts allow relegation of details of items in the financial statements to notes, schedules or statements; and rounding off figures in the financial statements to the nearest thousand or hundred.
 - x. All Acts require the immediate preceding year's financial figures side by side of the current year's figures.
 - xi. All the Acts of the Member countries of SAFA require disclosures of the state of the company's affairs, proposed dividend and proposed transfer to and from reserves, in the director's report.
 - xii. Bangladesh and Sri Lanka Acts require the particulars of directors' involvements and interests in any contract or proposed contract with the company that must be included in the reporting.
 - xiii. Bangladesh and Pakistan Acts provides a format of auditors' reports. All Acts, however, provide the contents of auditors' report.
6. On the other hand, there are some specificities of respective country's law regarding financial reporting. As we shall discuss in the next section, elaborately, the legal provisions of Bangladesh Companies Act 1994, the following Table-2

provides a short comparative specificities of provisions with regard to the disclosures of financial information of firms of Member countries of SAFA :

Table – 2

Shows the Special Provisions of SAFA Members for Reporting Except Bangladesh

India	Pakistan	Sri Lanka	Bangladesh
a. Foreign Exchange Earnings and outgoings; b. Particulars of employees' expenditures; c. Loan from related parties; d. Research and development; e. Technology absorption, adaptation and innovation; f. Export drives; g. Benefits expected from unexecuted contracts; h. Provisions for auditors' opinion on system, procedures, policies, and commercial prudence of certain transactions.	a. Movements in surplus of revaluation of fixed assets; b. Exchange gain or loss on assets; c. Details with regard to long-term investments; d. Particulars of shares options e. Investment of deferred liability accumulations; f. Security against liabilities or change on assets; g. Defects in title of the property or assets; h. Unavailed credit facilities other than trade credits; i. Particulars of donation where any director or his spouse has interest in the donee; j. Amount of estimates whenever made; k. Profit and loss from hedge, forwards, futures, badia or similar transactions; l. Segmental results; and m. Manufacturing, trading and operating results. n. Particulars of shareholdings; o. Particulars of holding company; p. Auditors' opinion about the purpose of expenditures incurred q. Whether business conducted, investments made and expenditure incurred were in accordance with the objects of the company; r. Whether Zakat ¹ was deducted by the company and deposited in the 'central zakat fund' maintained by the government.	a. Movements in provisions; b. Directors' interest in any contract of the company; c. Any items in the profit and loss account affected by any change in the basis of accounting; d. Auditors' comments on the director's interests in any contract with the company that they may consider necessary.	a. Provisions for keeping books of accounts for recording all received and expended. b. Directors' report to the shareholders, time for holding annual general meeting, etc. c. Provisions for accounts and statements to be prepared for auditing, e.g. balance sheet and profit and loss statement / income and expenditure, etc. d. Penalty for directors in default. e. Contents of the directors' report in any material changes of the company's position. f. Contents of the directors' report regarding the auditor's observations, etc. g. Format and content of the balance sheet. h. Punishment in complying. i. Submission of the audited accounts to the Registrar of the Joint Stock Companies j. Powers and duties of auditors

Source: Prepared by the author on the basis of information obtained from different sources such as, ICAB publication, UNCTAD publication, etc.

¹ This is a system under Muslim Law. Under this system, each Muslim needs to donate to the poor members of the society 1/5 part of his savings each year. This is one of the five mandatory activities.

The above Table-2 reveals that SAFA Member States have different country specific provision in terms of financial disclosure. Pakistan and Bangladesh are found little bit more detail in provisions as compared to India and Sri Lanka. One interesting point is that all the Member States emphasis the role of auditors reports regarding financial disclosure and the Directors' reports of the Annual Reports of the reporting entities. The reason behind such emphasis might be that stakeholders have more confidence on them. This indicates the role of both the parties in disseminating true and fair view of the reporting entities. It is expected that India should play a vital role in detailing out the provisions so that other countries may follow India. But Indian efforts in this regard are found less.

On the other hand, Appendix-1 shows some interesting points regarding creation and practices of corporate governance. One common development is that most of the Member States of SAFA are trying to create and practice corporate governance. Almost all the Member States, of whom information is available, are found practicing common items of company information to be disclosed in the annual reports namely (a) General information on the company, (b) Audited annual accounts (c) Personal details of company's directors (d) Directors' report on past and future operations (e) Financial status of the company (f) Consolidated financial reports and (g) Information on Corporate Governance. The same trend is also true for convening of shareholder meetings. But different countries follow different rules regarding voting of the shareholders. However, there is common practice in appointing Board of Directors by the voting of the shareholders. The same is true for (b) Removal of directors, (c) Appointments and removal of auditors, (d) Authorizing share capital, (e) Issuing share capital, (f) Disappointment of pre-emption rights, (g) Amendments to company articles or status, (h) Remuneration of board of directors, (i) Major corporate transactions (acquisition, disposal, mergers and takeovers), (j) Transactions with related parties, and (k) Changes to company business or objectives. But there are differences found in practicing corporate governance in SAARC Member States in different components of employees' rights, creditors' rights, powers of the board, formation of Board Committee, directors' qualification, independent directors and directors' liability, self-dealing transactions and remuneration of board members, etc. The potential researchers may undertake a project to study, elaborately, the corporate governance systems of the SAFA Member States in terms of harmonizing, problems and potential benefits of the same.

But so far there is no intensive and comprehensive evaluation done by the SAFA regarding the information disclosure in any of the Member States. It is yet to develop any standard to follow by the Member States.

3.4 Scenario of Accounting and Disclosure Practices in Bangladesh Vis-à-vis SAARC and Developed Countries

The crises in East Asia and elsewhere have pushed corporate governance to the top of the reform agenda in many countries. A corporate governance framework includes *inter alia* the laws and institutional arrangements for making company directors and managers accountable to shareholders while meeting the company's financial and legal obligations to other stakeholders. This framework is intended to protect shareholders and creditors from misuse of their funds by company directors and officers.

Financial reporting and disclosures are mainly treated in Bangladesh as a function of legal requirements. That is, companies must have to show due respects of existing laws in accomplishing the task of disclosures. On the other hand, various standards, norms or conventions are also followed in accounting and disclosure practices of any company in any country. Standards are various rules or laws – mandatory requirements, conventions or norms, practices or yardsticks set by different national and international bodies with a view to harmonize various accounting and disclosure procedures in different organizations. Kholer (1972) defines standard as “a desired attainable objective, a performance goal, a model, established by custom, common consent, scientific, professional or governmental bodies, administrative action or law, after extensive observation, experimentation, research, testing or planning, and after compromise”. In Bangladesh, the accounts and statements of different entities are published as per the rules, norms or guidance which are sometimes treated as mandatory (required by laws) while some are optional in nature (voluntary). However, legal provisions are not static across countries but within the country. As a result, these provisions differ from country to country and hence, the extent of disclosures also substantially varies from one country to another. In Bangladesh the prevailing laws relating to the accounting, reporting, and disclosures are as follows:

- i. The Companies Act, 1994 that replaces the Companies Act 1913.
- ii. The Security Act, 1920 (Act No. X of 1920) – An Act to consolidate and amend the law relating to Government securities.

- iii. The Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) – An Ordinance to provide for the protection of investors, and dealing in securities.
- iv. The Securities and Exchange Commission Act, 1993 (Act No. XV of 1993) – An Act to establish Securities and Exchange Commission.
- v. The Securities and Exchange Rules, 1987 (No. S.R.O. 237L \ 87) – the rules in exercise of powers conferred by section 33 of the Securities and Exchange Ordinance, 1969 and in suppression of all rules and orders made in this behalf.
- vi. Dhaka Stock Exchange Automated Trading Regulations, 1999 (Notification No.DSE/459/99) – in exercise of the powers conferred by the section 34 of the Securities and Exchange Ordinance, 1969 approval of the Securities and Exchange Commission.
- vii. Dhaka Stock Exchange Investors' Protection Fund Regulation, 1999 (for the protection of the investors of a defaulting member of the Dhaka Stock Exchange Ltd (DSE) -- in exercise of the powers conferred by the section 34 of the Securities and Exchange Ordinance, 1969 approval of the Securities and Exchange Commission.
- viii. The Margin Rules, 1999 (No. SEC/Section-5/98-542/141) -- in exercise of the powers conferred by the section 33 of the Securities and Exchange Ordinance, 1969 approval of the Securities and Exchange Commission.
- ix. Settlement of Stock Exchange Transactions, 1998 (No. DSE-343/97/910) -- in exercise of the powers conferred by the section 34 (1) of the Securities and Exchange Ordinance, 1969, Dhaka Stock Exchange makes, with the prior approval of the Securities and Exchange Commission.
- x. Depository Act, 1999 (Act VI of 1999) – Act for the controlling of Depository.
- xi. Securities and Exchange Commission (Controlling of Speculative Business) Rules (S.R.O. No. 949-Act/95) – in exercise of the powers conferred by section 25 of the Securities and Exchange Commission Act, 1993.
- xii. Securities and Exchange Commission (Meeting) Rules (No. S.R.O. 50-Act/94) – in exercise of the powers conferred by section 25 of the Securities and Exchange Commission Act, 1993.
- xiii. The Insurance Act, 1938.
- xiv. The Banking Companies Act 1991 that replaces the Banking Companies Act 1962.

xv. The Income Tax Ordinance, 1984 that replaces Income Tax Act 1922.

Some provisions relating to accounting and disclosures are extracted and put in the Appendix-2 and Appendix-3 for detail information. Companies listed in different stock exchanges are to follow the Securities and Exchange Rules and provisions along with the mandatory requirements stated in the Companies Act, 1994. Besides, the Government of Bangladesh (GOB), from time to time, may order various government, semi-government, public or private limited companies, international corporations, autonomous bodies, etc. to act as per the orders for accounting and disclosure practices. Moreover, some International Accounting Standards (IASs) are also applied in Bangladesh. The Institute of Chartered Accountants of Bangladesh (ICAB), which became a member of International Accounting Standard Committee (IASC) in 1977, has been trying to adopt and implement the standards set by IASC. The main task of ICAB was limited in publishing various standards in its journal without any comment until 1983. In 1983, ICAB circulated the first Accounting Standards to its member inviting comments on them with a view to eventual adaptation. In the same way, as another member of the IASC, the Institute of Cost and Management Accountants of Bangladesh (ICMAB) also works for the improvement of costing, management, accounting and disclosures in Bangladesh. These two institutes – ICAB and the ICMAB – have the following obligations in terms of development of accounting and reporting of financial information of the different companies (Sharma, 1993):

- a. to support the standards promulgated by the IASC.
- b. to use their best endeavors.
- c. to ensure that published financial statements comply with these standards.
- d. to ensure that the auditors satisfy themselves that the financial statements comply with these standards or if the financial statements do not comply with these standards then the fact of non-compliance is disclosed in the financial statements, that in the event of non-disclosure reference to non-compliance is made in the audit report.
- e. to ensure that, as soon as practicable, appropriate action is taken in respect of auditors whose audit reports do not meet the requirements above.
- f. to seek to secure similar general acceptance and observance of these standards internationally.

The Council of the ICAB adopted some International Accounting Standards effective from 1 July 1984 as Bangladesh Accounting Standards (BASs). The following Table (Table-3) shows the different International Accounting Standards (IASs) / IFRSs adopted as its own standards known as BASs:

Table-3

Current (as on 28 March 2007) Status of
Bangladesh Accounting Standards(BASs) based on IASs/IFRSs

BAS NO.	BAS TITLE	BAS Effective Date	REMARKS
01	Presentation of Financial Statements	01 July 1999	Originally adopted on 1 July 1984. Subsequently amended. IAS 1 (Revised 2003) not yet considered by ICAB.
02	Inventories	01 January 1999	Originally adopted on 1 January 1986. Subsequently amended. IAS 2 (Revised 2003) not yet considered by ICAB.
07	Cash Flow Statements	01 January 1994	Originally adopted on 1 January 1986. Subsequently amended.
08	Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies	01 January 1995	Originally adopted on 1 January 1991. Subsequently amended. IAS 8 (Revised 2003) not yet considered by ICAB.
10	Events after the Balance Sheet Date	01 January 1995	Originally adopted on 1 January 1990. Subsequently amended.
11	Construction Contracts	01 January 1999	Originally adopted on 1 January 1990. Subsequently amended.
12	Income Taxes	01 January 1998	Originally adopted on 1 January 1990. Subsequently amended.
14	Segment Reporting	01 January 2004	Adopted on 27 July 2003.
16	Property, Plant and Equipment	01 January 1995	Originally adopted on 1 January 1985. Subsequently amended. IAS 16 (Revised 2003) not yet considered by ICAB.
17	Leases	01 January 2004	Originally adopted on 18 November 2003. IAS 17 (Revised 2003) not yet considered by ICAB.
18	Revenue	01 January 1995	Originally adopted on 1 January 1985. Subsequently amended.
19	Employee Benefit	01 January 2004	Adopted on 27 July 2003. IAS 19 (Revised 2004) not yet considered by ICAB.
20	Accounting for Government Grants and Disclosure of Government Assistance *	01 January 1999	Adopted on 8 November 1998.
21	The effects of Changes in Foreign Exchange Rates	01 January 1995	Originally adopted on 1 January 1990. Subsequently amended. IAS 21 (Revised 2003) not yet considered by ICAB.
22	Business Combinations	01 January 2004	Originally adopted on 1 January 2004. IAS 22 has been superseded by IFRS3.
23	Borrowing Costs	01 January 1995	Originally adopted on 1 January 1990. Subsequently amended.
24	Related Party Disclosures	01 January 2004	Originally adopted on 27 July 2003. IAS 24 (Revised 2003) not yet considered by ICAB.
25	Accounting for Investments	01 January 1999	IAS 25 has been superseded by IAS 39 and IAS 40.

LEGAL AND INSTITUTIONAL ARRANGEMENTS OF FINANCIAL DISCLOSURE

BAS NO.	BAS TITLE	BAS Effective Date	REMARKS
(BAS)			Not withdrawn/superseded by ICAB.
26	Accounting and Reporting by Retirement Benefit Plans	01 January 2004	Adopted on 27 July 2003.
27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	01 January 1999	Adopted on 27 December 1998. IAS 27 (Revised 2003) not yet considered by ICAB.
28	Accounting for Investments in Associates	01 January 2005	Adopted on 1 January 2005. (Note –2c). IAS 28 (Revised 2003) not yet considered by ICAB.
29	Financial Reporting in Hyperinflationary Economics	Not yet Adopted	Not yet Adopted
30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions *	01 January 1999	Adopted on 27 January 1998.
31	Financial Reporting of Interests in Joint Venture	01 January 2004	Adopted on 27 December 2003. IAS 31 (Revised 2003) not yet considered by ICAB.
32	Financial Instruments: Disclosure and Presentation	Not yet Adopted	Under review by ICAB
33	Earnings Per Share	01 January 1999	Adopted on 27 December 1998. IAS 33 (Revised 2003) not yet considered by ICAB.
34	Interim Financial Reporting	01 January 1999	Adopted on 27 December 1998.
35	Discontinuing Operations	01 January 2005	Adopted on 18 April 2004. IAS 35 has been superseded by IFRS 5.
36	Impairment of Assets	01 January 2004	Adopted on 27 December 2003. IAS 36 (Revised 2004) not yet considered by ICAB.
37	Provisions, Contingent Liabilities and Contingent Assets	01 January 2004	Adopted on 27 December 2003.
38	Intangible Assets	01 January 2005	Adopted on 18 April 2004. IAS 38 (Revised 2004) not yet considered by ICAB.
39	Financial Instruments: Recognition and Measurement	Not yet adopted	Under review by ICAB
40	Investment Property	01 January 2005	Adopted on 18 April 2004. IAS 40 (Revised 2003) not yet considered by ICAB.
41	Agriculture	Not yet adopted	Under review by ICAB

IFRS	Title	Adoption Status of ICAB
IFRS-1	Adoption of International financial Reporting Standard	Under review by ICAB
IFRS-2	Share Based payment	Under review by ICAB
IFRS-3	Business Combination	Adopted by ICAB on 15 December 2005 and will be effective from 01 January 2007.
IFRS-4	Insurance Contracts	Under review by ICAB
IFRS-5	Non-Current Assets held for sale and Discontinued operations	Adopted by ICAB on 15 December 2005 and will be effective from 01 January 2007.
IFRS-6	Explanation for and Evaluation of Mineral Resources	Under review by ICAB
IFRS-7	Financial Instruments : Disclosures	Not yet Adopted

Sources: ICAB Education & Training Page.htm , 2007

On the other hand, ICAB adopted several International Standards of Auditing (ISAs) as Bangladesh Standards of Auditing (BSAs). The following Table-1a shows the current status of the same.

Table-3a

Bangladesh Standards on Auditing (BSAs)
Current Status of Adoption of ISAs (as on 28 March 2007)

ISA	Present Title	Time of Latest Publication	Adoption Status
120	Framework of International Standards on Auditing		Adopted
200	Objective and General Principles Governing and Audit of Financial Statements	October 1991	Adopted latest version as BSA 200
210	Terms of Audit Engagements	January 1995	Adopted latest version as BSA 210
220	Quality Control for Audit Work	July 1994	Adopted latest version as BSA 220
230	Documentation	January 1982	Adopted original version
240	The Auditors' Responsibility to Consider Fraud and Error in an Audit of Financial Statements		Adopted
250	Consideration of laws and regulations in an Audit of Financial Statements	July 1993	Adopted
260	Communications of Audit Matters with those Charged with Governance		Adopted
300	Planning	February 1981	Adopted original version
310	Knowledge of the Business	December 1992	Adopted latest version as BSA 310
315	Understanding the Entity and Environment and Assessing the Risks of Material Misstatement		Adopted
320	Audit Materiality	October 1985	Adopted latest version as BSA 320
330	The Auditor's Procedures in Response to Assessed Risks		Adopted
400	Risk Assessment and Internal Control	October 1991	Adopted original version
401	Auditing in a Computer Information Systems Environment	February 1984	Adopted original version
402	Audit Considerations Relating to Entities Using Service Organization		Adopted

ISA	Present Title	Time of Latest Publication	Adoption Status
500R	Audit Evidence	January 1982	Adopted latest version as BSA 500
501	Audit Evidence-Additional Considerations for Specific Items		Adopted
505	External Confirmations		Adopted
510	Initial Engagements-Opening Balances	July 1990	Adopted
520	Analytical Procedures		Adopted latest version as BSA 520
530	Audit Sampling and other Selective Testing Procedures	February 1985	Adopted latest version as BSA 530
540	Audit of Accounting Estimates	October 1987	Adopted latest version as BSA 540
545	Auditing Fair Value Measurements and Disclosures		Adopted
550	Related Parties	October 1984	Adopted
560	Subsequent Events	October 1991	Adopted
570	Going Concern	June 1986	Adopted latest version as BSA 570
580	Management Representations	October 1985	Adopted
600	Using the work of Another Auditor	July 1982	Adopted original version
610	Considering the work of Internal Auditing	July 1981	Adopted original version
620	Using the work of an Expert	February 1985	Adopted latest version as BSA 620
700	The Auditor's Report on Financial Statements	October 1983	Adopted latest version as BSA 700
710	Comparatives		Adopted
720	Other Information in Documents Containing Audited Financial Statements	February 1984	Adopted latest version as BSA 720
800	The Auditor's Report on Special Purpose Audit Engagements	October 1986	Adopted

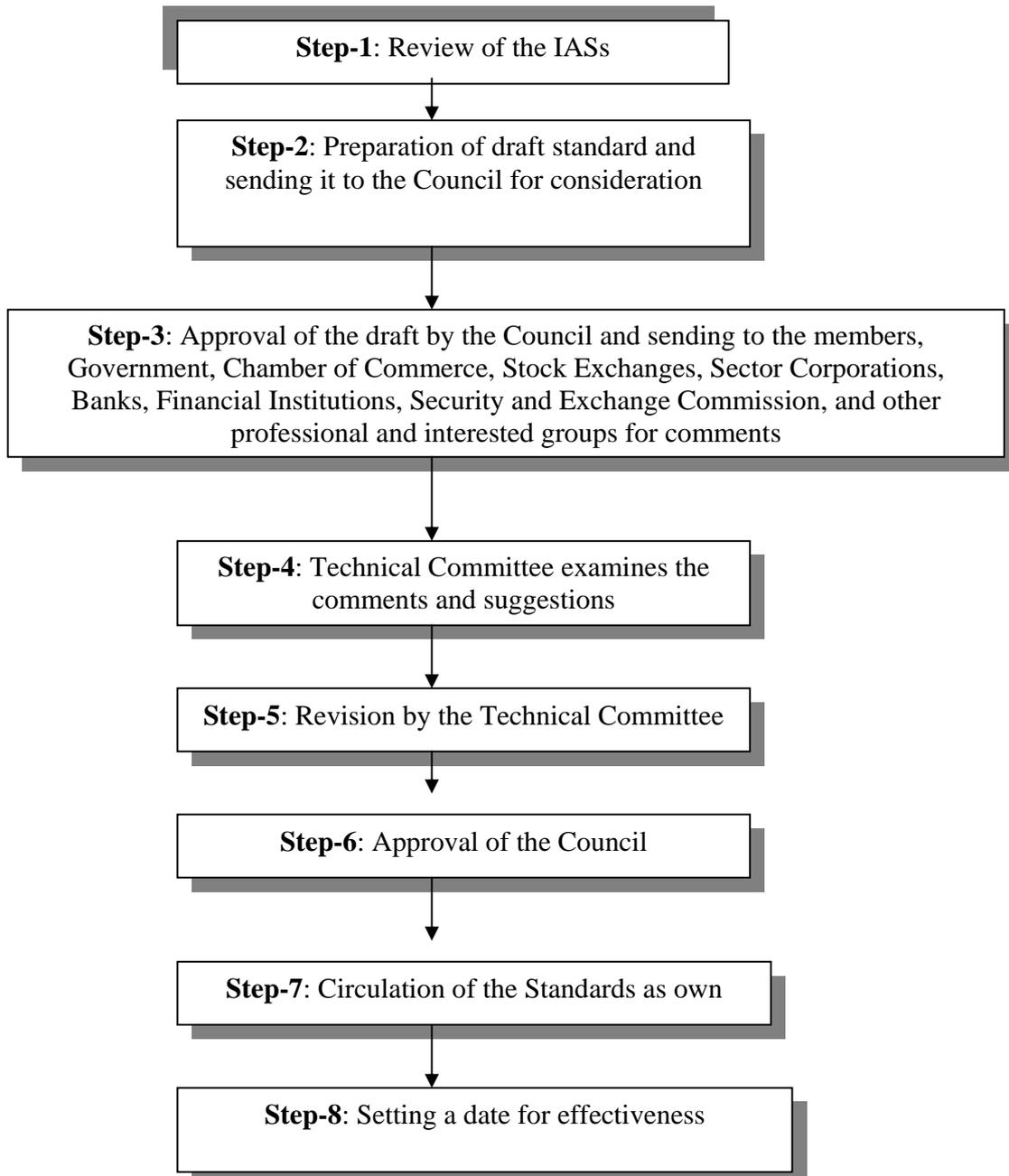
Source: ICAB publication, 2007

The main outstanding IASs up to 2002 were those relating to segment reporting, leases, employee benefits, business combinations, retirement benefits, investments in association and joint ventures, and contingent liabilities (World Bank Report 2002). But Table-3 reveals that there is a gradual development in adopting IASs and now the outstanding IASs up to 2002 have been adopted by 2007. Moreover, ICAB is moving forward for adopting and implementing IRFSs. On the other hand, whereas upto 2000 out of 36 International Standards of Auditing (ISAs), only 22 were issued (World

Bank, 2000b) by 2007 out of 36 International Standards of Auditing (ISAs), 35 ISAs have been issued as Bangladesh Standards of Auditing (BSAs) as revealed by the Table-1a shown above.

A Technical Committee is active in each of the Institutes- ICAB and ICMA- that selects the ISAs on priority basis for adaptation as its own standards. Normally the following process is followed:

Figure-2: Shows the process of adopting IASs by the Institutes in Bangladesh



Source: Prepared by the author on the basis of information collected.

To evaluate the present legal and institutional aspects of financial reporting, we see that the 'Companies Act 1994' is now prevailing in Bangladesh. Previously, there was a continuous objection from different groups like the professionals, academics, businessmen, and the general users that the back dated Companies Act 1913 was one of the main causes of poor disclosures in Bangladesh. As a result, the 'Companies Act 1994' was enacted where we see a detailed description of every aspect of a company. The effectiveness of the Companies Act 1994 is yet to be evaluated extensively. Moreover, the Companies Act 1994 (and also the Companies Act 1913) is not applicable in case of nationalized sectors in Bangladesh as the execution was suspended by an Executive Order of the GOB.

We will see, elaborately, practical situation of disclosure later on and also in the next chapter. However, the fact is that the Companies Act 1994 should be treated as a significant step for the fulfillment of demand for effective reporting in Bangladesh. However, it should be mentioned that the development of any sector should not be an isolated part of overall development. For example, the Securities and Exchange Rules is an integral part of development of reporting system in any country. But there is no detailed guideline of SEC in Bangladesh. The development in reporting practices will go along with the development in economic conditions of a country accompanied by industrial development. Industrial and economic development of Bangladesh is not remarkable so far.

The main goal of development of reporting practices in any country is to make the report 'believable' to the users of the same or to make it 'trustworthy' or 'acceptable' that will help them while deciding on any aspects of the company. This will be achieved if a country develops economically, socially and culturally.

Within the member countries of South Asian Federation of Accountants (SAFA), the financial reporting is treated as mainly a function of law. The main goal of financial reporting in those countries is to fulfill the requirements of law. Different countries within SAFA have their own Companies Act(s) and they try to include various provisions laid down in their respective companies act(s). However, all the four SAFA countries – Bangladesh, India, Pakistan and Sri Lanka – were ruled by the British upto 1947. As a result, some common characteristics of the prevailing Companies Act(s) of those countries

have naturally been observed. This is also true for financial reporting of various companies in SAFA. It should be worth to mention that the preparation of Balance Sheet and a Statement of Income and Expenditure for any company was included in the First Limited Liability Act 1857. At that time it was optional for the companies. Later on, the Indian Companies Act 1866 made it compulsory for all the limited companies. As the origin of all the Companies Act(s) of those countries was the same, there exist some common provisions of different sections and sub-sections of the Companies Act(s) in these countries. Moreover, as SAFA countries are economically and culturally similar to each other, the inherited limitations of financial reporting of those countries are also more or less the same. But these countries are trying to up-date their Act(s) to cope with the changing business environments of these days. SAFA is actively working on various issues to bring harmony in financial reporting among its member countries. Harmonization itself in financial reporting is a long-standing process and due to various legal, bureaucratic and political differences among the member countries, the SAFA's goal of achieving its desired level is yet to achieve.

On the other hand, in the developed world various professional bodies and / or associations like the American Institute of Certified Public Accountants (AICPA), Financial Accounting Standards Board (FASB), AAA, SEC and the Institute of Chartered Accountants in England and Wales made the most significant contribution towards the development of accounting standard and practices by publishing Accounting Trends and Techniques and Survey of Published Accounts to review the disclosure pattern and reporting practices. These help the individual companies to evaluate the strength and weakness of their reporting practices compared to the national context. Side by side, the interest groups are also getting real financial and non-financial information about the companies. The developed economies have their integrated approach to make the information generally acceptable. For example, in the USA, to protect the interest of the investors and the public, companies' shares cannot be dealt with on a stock exchange unless the requirements prescribed by the Securities and Exchange Commission (SEC) in respect of the disclosure are complied with. In Australia, those companies whose shares are listed on a stock exchange are influenced by the stock exchange regulations which generally require disclosure of more information than the minimum fixed by the company law. In those economies, requirements of the Stock Exchange compel companies to disclose adequately. As a result, it is strongly believed that disclosure of the companies

will not significantly improve unless and until the stock market is properly activated (Ahmed, 1982).

Remarkably, last few years, especially during 1994-1996, have been marked by a growing momentum in favor of the use of international accounting standards (UNCTAD 1996 Review, 1998) and systems due to the pressures from different corners of users in the World ². UNCTAD (ibid) has identified four reasons of such a tendency worldwide. These are as follows:

First, many Transnational Corporations (TNCs) find it burdensome to comply with different national reporting requirements when seeking listing on a different stock exchanges.

Second, the New York Stock Exchange would like to encourage foreign companies to use IASs when seeking a listing, so that it can maintain its market position *vis-à-vis* other bourses.

Third, the International Organization of Securities Commissions (IOSCO), located in Montreal, is encouraging the International Accounting Standards Committee (ISAC), located in London, to produce a revised set of core standards which it can endorse for use by its member exchanges.

Lastly, the European Union (EU) has indicated that it would prefer to increase its contribution to the work of the IASC and to keep the use of legislative instruments to a minimum.

The USA was found reluctant in the development and acceptance of IASs earlier as the USA would like to use US GAAPs (generally accepted accounting principles). But in July 1995 the US FASB began work on a qualitative and comprehensive analysis of similarities and differences between IASs and FASB's standards, for the purpose of understanding differences between generally accepted accounting principles (GAAP) in the US and current international accounting standards (UNCTAD 1996 Review, 1998). As a result, it is hoped that some of the differences can be narrowed down in the coming days.

On the other hand, in Europe, some important developments have been found. In 1995, the most relevant development in the region was the launching of a "New Accounting

² There is an international pressure for better accounting system for ensuring better information dissemination. The Model developed by Gray as quoted in Radebaugh and Gray (2002) has already been provided in Figure-1.

Strategy” by the European Commission (EC) to fill in the gap between the present financial reporting requirements in EU and the need of international capital markets. This move was mainly determined by the fact that large European companies seeking capital on international markets are often requested to prepare a second set of consolidated accounts. This process is burdensome and costly, and besides constituting a clear competitive advantage for such companies, may generate confusion among users (UNCTAD 1996 Review, 1998). The new approach proposed by the EC will consist in enhanced collaboration between the Commission, the Member States and the various bodies dealing with accounting standard in Europe. The aim will be to keep the use of legislative instruments to a minimum and focus on consolidated accounts of large and listed companies. The Federation of European Accountants (FEE) has been very active in monitoring and advising the World Trade Organization (WTO) along with its normal services such as, it advises to the EC on accounting, auditing, taxation, company law and related areas. The outcome is that it seems that the development and implementation of high quality accounting and reporting practices have been taking place in Europe as compared to other continents.

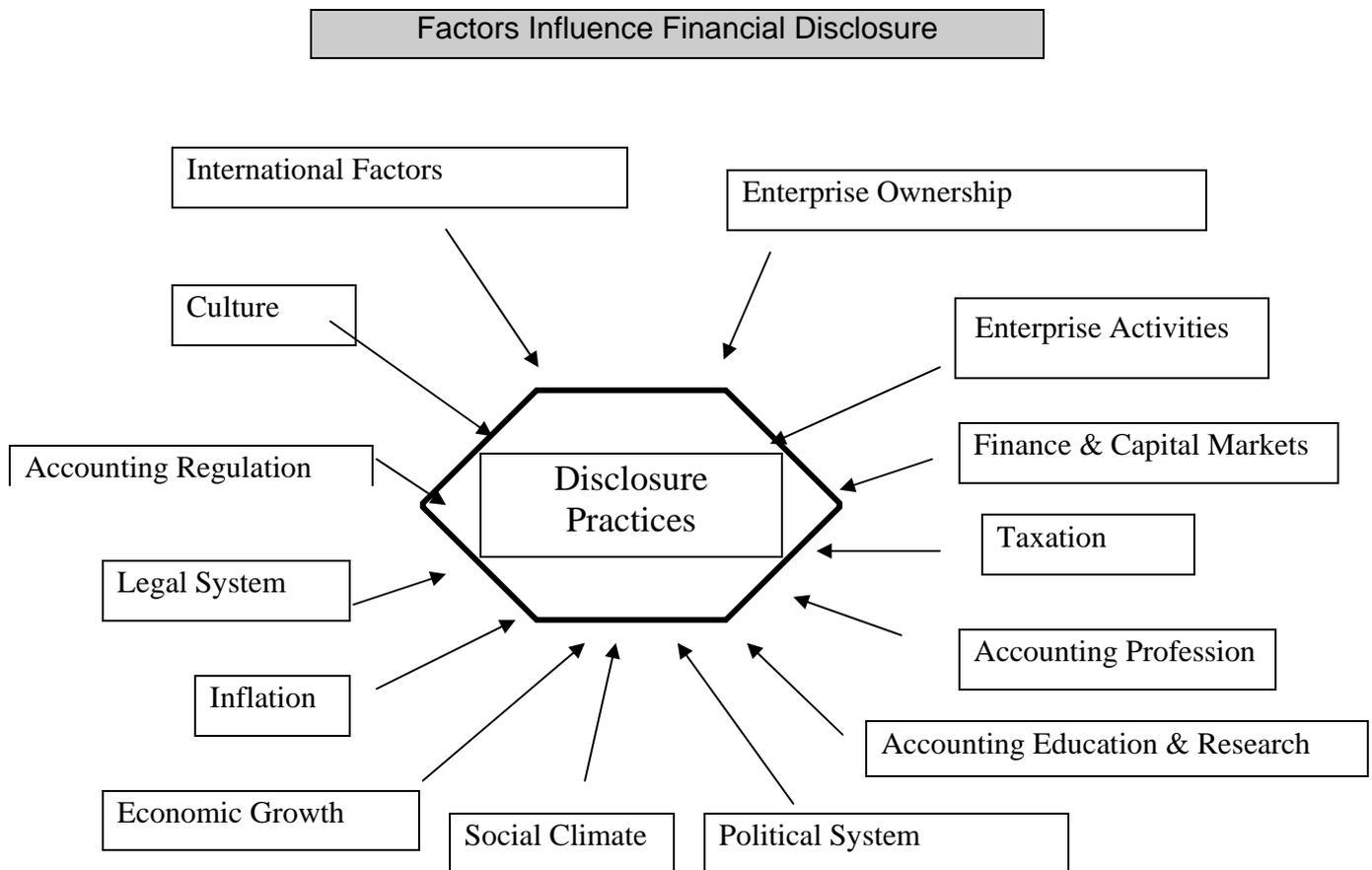
However, it should worth to note that at this stage no international organization has taken responsibility of making converted and continuous efforts to improve the implementation of international accounting standards for transparent financial reporting worldwide. It is one thing to formulate norms, rules, laws and standards and another to ensure that they are implemented. The recent experiences of the financial crises in different parts of the world have proved that the integration of a particular country’s into a global financial market, without developing a strong institutional framework in that particular country, can be detrimental not only to the national economy but also to the global economy (UNCTAD 1999 Review, 1999). Since the financial information acts as the information bridge between an economic entity and the financial market, transparent, reliable and comparable financial information disseminated by financial statements can assist market participants in taking appropriate decisions on a timely basis. Moreover, better information can ensure the transparency of the financial performance of economic entities and thus provide an early warning about micro-level problems in an economy. From this point of view it may be said that improved disclosure can help to mitigate financial crises of any country or any region in the globe. As a result, for better accounting and disclosure, it is

necessary for organized international efforts to be directed towards improving accounting and reporting of those countries that lack internationally accepted reporting practices.

The World Bank and the IMF can play a pioneering role in this regard as representatives of the Member States. At this moment these two institutions only endorse the IASs from time to time, they have not made their use as a condition for receiving any type of loans. Although these two institutions are highly interested in accountability and financial stability, there is no static mechanism in their organizational framework to receive assurance from the Member Countries that makes the use of IASs mandatory. The aim of accountability and financial stability of the World Bank and the IMF can be achieved if there is a system in place that can produce transparent, reliable and comparable financial information (Rahman, 1998).

3.5 An Evaluation of Legal and Institutional Arrangements for Disclosure in Bangladesh

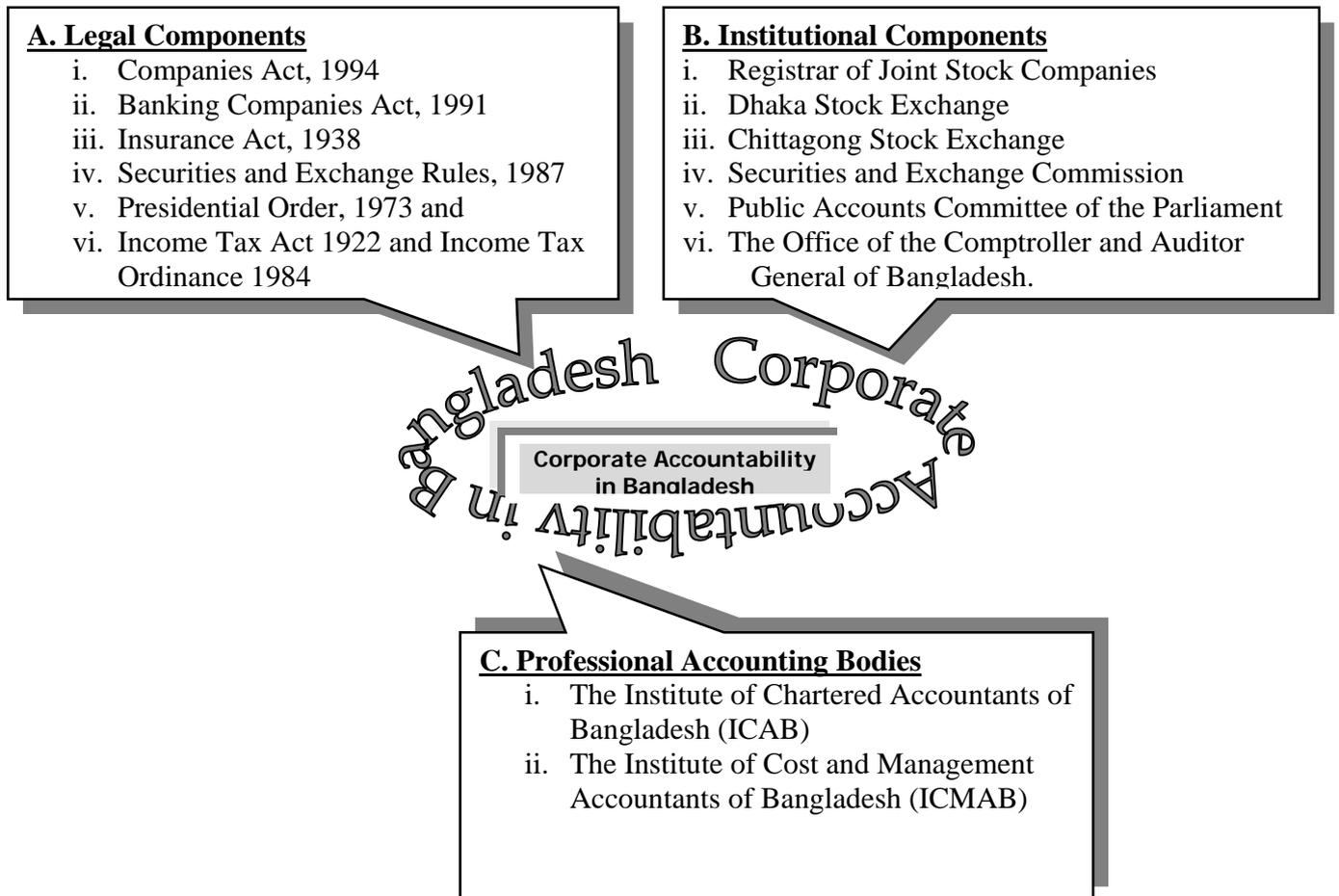
Many practitioners and researchers advocate enhanced firm disclosures (e.g., the Jenkins Committee, AICPA 1994). Internationally, both the IASC/IASB and groups such as the International Organization of Securities Commissions (IOSCO) and International Federation of Stock Exchanges (FIBV/WFE) have actively promoted greater disclosure by firms and transparency of financial information. These groups assert that there are benefits to expanded disclosures. One such alleged benefit is reduced information asymmetry (Hope, 2002). While accounting researchers have extensively explained variations in disclosure levels among firms and countries, research on the effects of differences in disclosure levels is more limited, especially in international settings (Saudagaran and Meek, 1997). However, disclosure practices in a country are a product of its environment, shaped by characteristics unique to its national environment. The environmental effects of disclosure practices in any country have been shown below in Figure-3.

Figure-3

Source: Prepared by the author on the basis of review of literature.

In Bangladesh corporate sector accountability is a function of accounting and particularly disclosure standards that form a combination of legal, institutional and professional bodies providing rules and guidelines (Parry and Khan, 1984). The following figure (Figure -4) shows the various parties involved in accountability of different economic agents in Bangladesh:

Figure – 4: Shows the Corporate Sector Accountability in Bangladesh



Source: Prepared by the author on the basis of relevant information collected.

An evaluation of each of the components of above-mentioned chart is done by the following way:

<u>A. Legal Components</u>	
i.	Companies Act, 1994
ii.	Banking Companies Act, 1991
iii.	Insurance Act, 1938
iv.	Securities and Exchange Rules, 1987
v.	Presidential Order, 1972 & 1973 and
vi.	Income Tax Act 1922 and Income Tax Ordinance 1984

Background: This is the main legal framework for companies in Bangladesh. The British Government originally adopted this Act in India on 27 March 1913 that came into force on 1 April 1914 that was modeled on the English Act 1908. The then name of the Act was Indian Companies Act 1913. With a view to provide a shape of British Companies Act 1929, Indian Companies Act 1913 was quite extensively amended in 1936. However, there were a number of occasions for amendment during this period of time. The Government of Pakistan adopted Indian Companies Act 1913 as the Pakistan Companies Act 1913 in 1949 after obtaining Independence from India in 1947. Eventually, Bangladesh also adopted the same law as its company law in 1972 soon after its Independence from Pakistan by a bloody Independence War in 1971. However, there have been repeated calls for updating the Companies Act 1913, as “the accounting provisions of the Act of 1913 were ‘seriously out of date’” (Parry and Khan, 1984). In response to that calls, the Government of Bangladesh amended the Companies Act 1913 extensively and renamed it as Companies Act 1994.

Contents of the Companies Act 1994: There are different provisions laid down in the said Act for ensuring better disclosure of financial and non-financial health of the companies, Appendix-2 shown at the end of the chapter shows the elaborate discussion of the various provisions of accounting, reporting, and auditing of the companies activities. A very short description of the different important provisions for disclosure is given below in Table-4:

Table-4

A very short description of the different important provisions for disclosure

Sections	Contents
181(1)	Provisions for keeping books of accounts for recording all received and expended.
183(1) & 183(2)	Directors' report to the shareholders, time for holding annual general meeting, etc.
183(3)	Provisions for accounts and statements to be prepared for auditing, e.g. balance sheet and profit and loss statement / income and expenditure, etc.
183(4)	Financial Year
183(5)	Penalty for directors in default
184(1)	Contents of the directors' report
184(2)	Contents of the directors' report in any material changes of the company's position.
184(3)	Contents of the directors' report regarding the auditor's observations, etc.
185	Format and content of the balance sheet
185(7)	Punishment in complying the Section 185
186	Particulars of the subsidiary companies by the holding companies
190	Submission of the audited accounts to the Registrar of the Joint Stock Companies
212 & 213	Powers and duties of auditors

Source: The Companies Act 1994.

Evaluation: Since this Act is new one, there is little research work on it regarding its effectiveness in ensuring the accountability in corporate sectors. As a result, it is not

the proper time to provide a value judgment on it. However, Ahsan (1995) tries to review the Companies Act 1994 with a view to observe the changes made there as compared to the Companies Act 1913. The study covers the different sections inserted, format of the balance sheet and the profit and loss account and a list of sections of the two Acts. However, this study does neither provide any analytical review nor any critical evaluation of the new Act. A critical analysis by Ahmed and Kabir (1995) identify some points that are missing in the new Act that include the silence of submitting interim reports, lack of basis (cash or working capital) in the preparation of statements, absence of the contents of the profit or loss account, no forecasting is required, and the level of users' sophistication, etc.

On the other hand, Karim, Islam and Chowdhury (1998) identify some critical points that are not included in the Act. These are:

- There is no provision for preparing a cash flow statement in the law, but some companies prepare it on their own initiatives.
- There is also no provision for attaching value-added statement in the law,
- Although profit and loss appropriation account shows the distribution of profit of a company, the law is silent in preparing such an account. But it is the generally accepted accounting practice in Bangladesh that most of the companies prepare the profit and loss appropriation statement or retained earnings statement
- The law does not provide with any guideline for showing an analytical detail of the company's debts and receivables, etc.
- There is a lack of strict guidelines in implementing the provisions contained in different sections and sub-sections. For example, the Act requires the holding of the Annual General Meeting of the any particular company at least once every year and within nine months (twelve months in special circumstances with the approval of the Registrar) of completion of the calendar year, there are companies that have not convened there AGMs for 10 years. But no action has yet been taken by any authority for such a violation of the provision.
- The Act has somehow failed to appreciate adequately the role of directors' report in communicating information to a majority of users who do not have accounting orientation. Although, the Act provides some provisions for disclosure in the directors' report, it does not go far enough to specify the

information that could be disclosed in the directors' report. Adelberg (1979) states that there are many information items that cannot be incorporated in the formal financial statements, which are better understood if disclosed in the directors' report.

The researcher has taken an initiative for going inside of corporate disclosure in Bangladesh. To do so, informal interviews, meetings, etc. were arranged. Moreover, at the time of conducting field level data from various companies (evaluated in the next chapter), I visited accounting and circulation departments of those organizations, talked to the lower level employees (apart from higher level officials) engaged in the preparation of accounts and also kept a note on the observations. A search on the different published and unpublished research works (such as World Bank Report 2002, SEC Report) was done to find out the real situation of disclosure in corporate sectors. Among others, the following points are important:

- a. The Companies Act prescribes minimum accountability and disclosure requirements similar to those in other Commonwealth countries. All limited companies are required to prepare annual accounts, have them audited by chartered accountants, and submit them together with the auditors' report to the Registrar of Joint Stock Companies. Companies listed on the Dhaka or Chittagong Stock Exchanges (presently numbering 287) have to meet the additional requirements of the respective Exchanges and of the Securities and Exchange Commission (SEC). Since 1997, an amendment to SEC Rules has required listed companies to comply with Bangladesh Accounting Standards (based on International Accounting Standards) and their auditors to meet Bangladesh Standards of Auditing (based on International Standards of Auditing).
- b. The position of shareholders and creditors has improved since the share market scams of 1996-1997, but they still lack reliable and timely information. Many companies fail to submit their annual returns to the Registrar or to hold their annual general meetings, and many also fail to pay out dividends despite adequate profits. Minority shareholders get little or no return on their investment. Allegations of insider trading are common. Corporate audit committees, including minority interest representation, do not exist.
- c. Responsibility for enforcement is shared among the Registrar of Joint Stock Companies, the SEC, the Stock Exchanges, the professional accounting bodies and the judiciary. The involvement of several bodies in corporate accountability

complicates enforcement and reduces overall effectiveness. Though there are encouraging signs of these various bodies working together to improve standards of corporate accountability, there are also examples of unilateral action which have not been in the overall interest.

ii. The Banking Companies Act 1991

Origin: This is the new version of the previous Banking Companies Ordinance 1962. All local and foreign banks are operated under this Act.

Legal Provision: Section-34 of the Act prescribes the requirements for the preparation of a balance sheet and a profit and loss account at the last working day of the calendar year as per the formats provided in the same Act which are to be duly audited by qualified auditors (Chartered Accountants) and submitted to the Bangladesh Bank (the central Bank of Bangladesh) and to the Registrar of the Joint Stock Companies.

Evaluation: Although Banking Companies Act 1991 is relatively a new one, there are no material changes in this Act as compared to Companies Act 1913. Moreover, one tricky point is that in Bangladesh still up to 60% of the banking sector is dominated by the nationalized banks (Karim, Islam and Chowdhury 1998) which are subject to the provisions of the Bangladesh Bank Nationalization Order 1972 that only states 'annual statements of accounts, including a profit and loss account and a balance sheet' are to be prepared. As a result, there is no legal obligation in the implementation of the provisions of Companies Act 1913 or 1994 to the nationalized enterprises on the one hand. On the other hand, there are minimal provisions in disclosure in the Banking Companies Act 1991 and Bangladesh Bank Nationalization Order 1972. But the accounting practices of the commercial banks, nationalized or private and foreign are substantially comprehensive as reported in some studies of corporate disclosure (Karim, Islam and Chowdhury 1998).

iii. The Insurance Act 1938

Origin: The Insurance Act 1938 was enacted in the then British regime is still in operation in Bangladesh. However, the Companies Act 1994 requires that even if the insurer is not a company, its accounts need to be audited.

Provisions for Disclosure: There are some provisions to ensure the disclosure of financial conditions of insurers of Bangladesh. These are:

- Section-11: Insurers need to prepare a balance sheet, a profit and loss account and revenue accounts for every class of business.

- Section-12: Insurers need to prepare accounting and financial statements such as balance sheet, profit and loss account, revenue accounts and profit and loss appropriation accounts, etc. and these statements need to be audited unless they are subject to audit under Companies Act.

Evaluation

The following points are interesting with regard to the evaluation of the provisions laid down in the Act:

- This is a very old Act; it does not have enough provisions to disclose financial health of insurers.
- There are contradictions in different provisions of the Act. For example, section 11 requires preparation of no profit and loss appropriation account on the one hand. On the other hand, section 12 requires that profit and loss appropriation account should be audited.
- After enactment of the Companies Act 1994, it is now needed to audit the accounts prepared. But there are no provisions for the qualification of auditors.
- The Act is silent on the disclosure of accounting policies including valuation of investments and does not require a directors' report. In the absence of a directors' report, there is hardly any way of obtaining qualitative information about the companies (Karim, Islam and Chowdhury 1998).

iv. The Securities and Exchange Rules 1987

Origin: In 1971, the Rules were made by the then Government of Pakistan. After the Liberation War in 1971, the Government of Bangladesh adopted the Rules along with the existing laws. Until 1987, there was no separate authority to enforce the Rules. The Government of Bangladesh created a separate authority in 1987 with this Rules that are virtually the same Rules of 1971 as far as the corporate financial reporting is concerned.

Provisions / Contents: Appendix-3 shows the details of the Securities and Exchange Commission Rules 1987 along with the formats of Auditor's Report and Half-Yearly balance sheet and profit and loss account. The following Table-5 shows the brief description of the various provisions contained in the said rules:

Table-5
Short Description of the Securities and Exchange Commission Rules, 1987

Section	Contents
Section 11	Listing of a Security on a stock exchange
Section 12	Submission of Annual Report by the Issuers, the names of the statements, the provisions for auditing, Time framed for submission-14 days, etc.
Section 13	Submission of half-yearly report by issuers to the stock exchanges on which its securities are listed.
Section 13A	Adaptation or amendment of forms - Forms prescribed for the purpose of preparing the financial statements and the audit report may be adapted or amended.
Section 14	Mode of filing or submission of return / reports, etc.:
Section 15	Risk-based capital adequacy requirements:

Source: Summarized by the author on the basis of Securities and Exchange Rules, 1987.

Evaluation: The Rules set two separate formats for balance sheet and profit and loss account. In preparing balance sheet, as per the format for the same, assets are classified in different categories. For each category of assets, other than capital work in progress, assets need to be shown in their original costs, additions made, deductions, and aggregate amount written off, or provided or retained, by way of depreciation or amortization or diminution in value. Similar to assets, detailed description is also seen in case of liabilities, and capital. Moreover, there are some other aspects of improvement made by the Securities and Exchange Rules 1987. These are:

- a. It requires the sending of the annual report to the general shareholders before fourteen days of the AGM,
- b. Audit report needs to be submitted in the form prescribed,
- c. The listed companies need to submit the half-yearly annual reports to the respective stock exchange(s),
- d. It sets the minimum criteria for companies to become members of the stock exchange(s),
- e. It provides the detailed guidelines and formats for the preparation of balance sheet, profit and loss account,
- f. In the balance sheet, each company needs to disclose the items of contingent liabilities, claims against the company not acknowledged as debts, uncalled liability on partly paid up shares, and the arrears of fixed cumulative dividends on preference shares,

- g. Requiring the disclosure of corresponding figures for the previous period for all items in the balance sheet and profit and loss account,
- h. Requiring to disclose separately by a company which has more than one unit of operation or line of business, the working results of each such unit,
- i. Requiring financial statements to include other information such as (a) capacity of the industrial unit, actual production and reasons of shortfall, if any, (b) the aggregate amounts of capital commitments outstanding, and (c) the general nature of unavailed credit facilities.

From a critique point of view, the Rules, however, have some limitations that should be considered in the policy making for creating a good financial atmosphere in the market so that economic growth can be accelerated in the long run. These are:

- i. In the Rules, there is no significant requirement to disclose accounting policies by the reporting companies;
- ii. There is no provision for profit and loss appropriation account;
- iii. There is no requirement for showing the cash flow statement;
- iv. There is no specific section requiring directors' report which is required as per the Companies Act;
- v. There is no enough provision for ensuring the application of Rules by any body;
- vi. There is no improved version of reporting by banks and insurance companies, etc.

In concluding the Rules, it can be mentioned that there should have a continuous process of upgrading the Rules so that a proper legal provisions will be available for ensuring the protection of investors' money in different securities. There should have a vision and mission of such Rules with some eventualities that are related to appropriate disclosure of financial position for stability of the market and for a long run aim of accumulation of capital for investment necessary for economic development.

v. The Nationalization Orders of 1972 & 1973

Origin: Just after the Liberation War of Bangladesh in 1971, the Government of Bangladesh nationalized all medium and big companies by issuing a Presidential Order in 1972 as part of the political agenda for a socialist pattern of economy. Some new bodies were created named "Corporations" to control over similar companies by each of those corporations, for instance, Bangladesh Jute Mills Corporation – responsible for managing and controlling all jute mills in Bangladesh. After the formation of the corporation, the applications of the Companies Act 1913 were suspended for those companies under each of the corporations.

The Government issued Ordinances for the management and controlling of these corporations.

Contents: Although there are separate Ordinances for the different corporations, the provisions for accounting and financial reporting for various corporations are almost the same.

Evaluation: Since there are very limited legal provisions in the respective Ordinances for disclosure of the companies under corporations, the companies are in fact out of strict legal bindings. Parry and Khan (1984) pointed out that there is no indication of the contents or forms of the annual accounts. There is no clear provision for the disclosure of significant accounting policies followed. There is a regular failure in submitting the annual accounts in time and there is no provision for the penalty for the same. It is also reported that a few nationalized companies have outside equity and are listed on Dhaka Stock Exchange (DSE), and hence publish separate annual reports under the Exchange Rules, 1987.

vi. Income Tax Act 1922 and Ordinance 1984

Origin: The Income Tax Act 1922 was taken as the Income Tax of Bangladesh in 1971 and it prevailed up to 1984 when the government adapted Income Tax Ordinance 1984 (Ordinance No. XXXVI of 1984) by a full revision of the Act 1922. As a result, there are significant changes in the provisions of disclosure in the new Ordinance.

Contents: The following Table-6 summarizes the various provisions for the financial disclosure of companies of different forms.

Table-6
Summary of Contents of Income Tax Ordinance 1984

Sections	Contents
10	Provisions for bad and doubtful debts
13	Empowering the National Board of Revenue to prescribe the accounting method
30(1)	Submission of Tax Return with manufacturing, trading and profit and loss account and profit and loss appropriation account with detailed notes on cost of goods sold, gross profit, administration expenses, selling expenses, distribution and other expenses, etc.
35, 43, 44,45	Method of Accounting, Computation of Total Income, Exemption, Exemption of income of an industrial undertakings,
79	Production of accounts and documents
83AA	Self-assessment for private limited companies
100	Liability of directors for unrecoverable tax of private companies
110	Information regarding payment of dividend
114	Power to inspect registers of companies

Source: Summarized by the Researcher himself on the basis of Income Tax Ordinance, 1984

Evaluation: The objective of the Ordinance is to collect revenues from the various sectors of the society. Although the Ordinance has significant influences on the financial and disclosure practices of Bangladesh, this is not primarily intended to provide guidelines for published accounts to the company. The Income Tax Authority gains reasonable power to obtain required financial information about the companies. However, normally, the authority of taxes does not disclose information obtained by them. One important point is that companies need to keep and produce information to the tax authority so that they recognize their information for the tax purposes. On the basis of that information, the tax the companies may get exemption and fiscal incentives such as tax holidays, allowable deductions, etc. This is a sort of indirect encouragement of keeping and reporting financial conditions of companies in Bangladesh. But one striking point is that there are different allegations from the entrepreneurs in Bangladesh that the tax authority is controversial body in terms of fairness in performing their jobs. There are no legal provisions for proper checking of the wealth of personnel involved in tax. As a result, companies willing for less disclosure try to ‘manage’ tax department otherwise. This happens frequently in Bangladesh.

B. Institutional Components

- vii. Registrar of Joint Stock Companies
- viii. Dhaka Stock Exchange & Chittagong Stock Exchange
- ix. Securities and Exchange Commission
- x. Public Accounts Committee of the Parliament
- xi. The Office of the Comptroller and Auditor General of Bangladesh.

The following section critically evaluates the institutional arrangements in Bangladesh for the proper disclosure of financial conditions of companies of different forms.

i. Registrar of Joint Stock Companies

The Companies Acts 1913 and 1994 provide provisions for a body named – the Registrar of Joint Stock Companies - responsible for granting registration and for looking after timely submission of accounts by the companies. As per the Companies Act every

joint stock company shall obtain registration from the Registrar and the Registrar shall keep the copy of annual report of every company including audited accounts. The followings are the observations of the researcher regarding this body:

- a. Parry and Khan (1984) gave a graphic physical and locational environment of the office of the Registrar and showed that the office was in poor condition and badly cared for,
- b. On a visit to Registrar's office it has been found that due to the reduction of the role of his office, he is a bit annoyed. The role he plays is to act as a routine license provider on the payment of a specified amount of fee and to keep the annual accounts submitted by the companies, if any.
- c. There is no system to monitor the compliances of legal obligation in the Act or rules. Moreover, there are no adequate personnel to accomplish the task of monitoring the compliances. In a conversation, the Registrar confessed that a lot of companies have failed to submit their annual accounts for years. His office sends reminders time to time but no action has yet been taken against any company for the failure to compliance the rule.
- d. But the Registrar's office has been found very active in keeping secrecy of documents kept by it. It is evident on the event that when I tried to copy some of the documents, he denied with the above ground.
- e. On the other hand, in a cross check, the some company owners informed that Registrar office is a complex place in the sense that it takes long time in processing and granting registration of the companies.
- f. The Registrar has statutory authority to penalize the companies for failure to submit annual reports. But the fine is very small which is Taka 1 per day for default. Even that these are paid only if a company voluntarily makes a late filing.
- g. In Bangladesh there are around 42,000 companies under Companies Act but most of them are private companies and hence these are exempted from the obligation of submitting their financial statements to the Registrar of the Joint Stock Companies – the official holder of all statutory reports submitted by the companies.
- h. It supplies a prescribed form to each company to submit their annual financial statements. There are about 2,400 public companies, which are obliged to submit the same. The Registrar cooperates with the SEC and has referred some defaulters to the High Court, but decisions can be reversed on appeal to the Government (Ministry of Commerce).

ii. Dhaka and Chittagong Stock Exchanges

Two stock exchanges, namely, Dhaka Stock Exchange and Chittagong Stock Exchange work as the secondary markets for trading shares and securities of the companies listed in the respective stock exchanges. There was a boom and shock in both the exchanges in 1997. Both the exchanges are still trying to regain investors' confidence since then. If any company quotes its securities, for a continuous period of three years, below 50% of their face value or it has failed to hold an annual general meeting, or if it has not declared a dividend for five years, the exchanges are empowered to delist, suspend trading or fine the said company. However, practically, they do not have necessary staff member to go much more than monitoring submission of financial statements and issue reminders and warnings. The following findings should be noted:

- a. As per the estimate by the Secretary, Dhaka Stock Exchange on December 5, 2000, around 90% of listed companies are in fact submitting their half-yearly financial statements on time.
- b. Since SEC takes the responsibility of overseeing the compliance of Companies Act, due to capacity constraint they do not examine the compliance of Companies Act and accounting standards. However, these stock exchanges examine brokers' account time to time.
- c. There is no delisting of any company since 1997. Under a recent amendment to the SEC Ordinance, the SEC can issue directions to the Exchanges to take action against defaulting companies.
- d. Recently, the automated trading systems have been launched by both the Stock Exchanges.

Because of the corrective measures taken after the shocks in both the Exchanges in 1997, the investors' are slowing and gradually moving towards Exchanges at present.

iii. Securities and Exchange Commission

Established in 1993, the main task of the SEC is to ensure proper issue of securities, protect the interest of investors by controlling and developing the capital market. But it has been found that

- a. It has minimum disclosure standards for initial public offerings. A recent amendment to the SEC Rules requires annual accounts of the listed companies to be audited within 120 days of the end of each year and filed it to the SEC within a further 14 days. Half-yearly reports are required within one month of the end of the

first half of each year. However, the SEC can allow delays of up to three months in holding annual general meetings.

- b. For the submission of audit report, SEC prescribes a form. But the professional accountants are in the opinion that this form does not cover all the legal obligations as auditors and does not comply with the international standard³.
- c. The SEC has 3 officers who are professional accountants (including the Chairman) and several part qualified or with master's degrees in commerce, finance or business administration. It has recently been taking action on alleged frauds and against defaulting companies. 12 cases of failure to comply with auditing standards have been referred to the ICAB. (One member's license to audit was suspended).

iv. Public Accounts Committee of the Parliament

This is the Committee created by the Parliament of the country as a Constitutional provision to scrutinize the annual reports or accounts submitted by the public enterprises. The Committee comprises the people's elected representatives to the Parliament. The government owned enterprises need to submit their accounts to the government and the government is required to present them before this Committee where these are evaluated. If the Committee approves the accounts, these may be published in the government gazette. There are some observations on it that are given below:

- a. The Committee has been less active due to suspension of the Parliament for around 12 years as the Martial Law was prevailing at that time. This is used as a plea for the failure of publishing the accounts.
- b. As far as the disclosure of information is concerned, the Committee does not play any role in prescribing any specific accounting procedure or imposing any additional disclosure. Mainly, the Committee scrutinizes accounts.

v. The Office of the Comptroller and Auditor General of Bangladesh

The Auditor General is mainly involved in auditing the government expenditures of various government like civil service, defence, local government, public health, and so on. He also scrutinizes the audited accounts of the public enterprises before going for publication in the official gazette. He does not provide any format or guideline for extra disclosure.

³ There is a significant difference between SEC's Form B and ISA 700 (World Bank Report, 2002).

C. Professional Accounting Bodies

- iii. The Institute of Chartered Accountants of Bangladesh (ICAB)
- iv. The Institute of Cost and Management Accountants of Bangladesh (ICMAB)

i. The Institute of Chartered Accountants of Bangladesh (ICAB)

This is the main body for overseeing the accounting and reporting situation of the country, especially for the private sector. The ICAB Technical and Research Committee is the *de facto* standard setting body in Bangladesh. However, side by side of ICAB, ICMAB has also been playing an important role in different aspects of accounting and reporting practices. The members of the ICMAB also prepare company accounts and they would like to participate in the standard setting process. The following points are important as the findings in this area:

- a. ICAB enjoys monopoly of audit services to all companies.
- b. The members of ICAB are expected to fulfill a code of ethics and to apply Bangladesh Accounting Standards (BASs) and Auditing Standards (BSAa) relating to external general-purpose financial statements.
- c. The standards and the code of ethics are applied to all the corporate entities registered in Bangladesh. According to World Bank Report (2002), there are 221 listed companies, some 2,400 unlisted public companies and about 42,000 private companies.
- d. There is no continuous process of amending the Companies Act. At the moment, 221 listed companies comply both BSA and BAS as the Securities and Exchange Rules 1987 amended for this purpose.
- e. There has been a very slow and steady in adopting various international standards by ICAB. Although it is stated by various respondents that there should have constant and worthy relationship between ICAB and ICMAB, the present situation needs to be improved for better cooperation and understandings between them.

ii. The Institute of Cost and Management of Bangladesh (ICMAB)

This Institute was established in 1973 with a view to develop and to train cost and management accountants in Bangladesh. It has limited auditing powers for cost audit as

per Companies Act 1994. However, it does not play any significant role in setting financial or accounting standards. The Institute provides training, publishes journals, and offers coaching services for helping preparation for examinations (five parts – six months each) to become a member of the same. The minimum qualification required for such examination is the bachelor degree in any field. However, the qualified members of the ICMA cannot go for professional and practical accounting or auditing firms.

3.6 Observations, Conclusion and Recommendations

Observations

As far as the quality of reporting of corporations of Bangladesh is concerned there are lots of evidences on the fact that the quality of financial reporting in both public and private sectors is not praiseworthy. Before the enactment of Companies Act 1994 there were various arguments for the poor disclosure of financial information of entities blaming the old Act (Companies Act 1913) which was prevailing in Bangladesh until 1994. While surveying the opinions of experts Ahmed (1982, p-20) found that almost all the experts were of the opinion that Companies Act 1913 was inadequate, defective and outdated which permitted concealment of material information. This type of opinion was normal in the sense that in the developed world there is a continuous process of development of Companies Act that is adequate enough to disseminate necessary information so that the people involved in using financial information are able to get enough, reliable, and timely information about the financial health of the companies. To fulfill the demand of age and to meet the pressure from different professional and regulatory bodies Bangladesh enacted Companies Act 1994 that replaced Companies Act 1913. Even that evidently Bangladesh experienced a very unforgettable shock in 1996 when the stock market in Bangladesh collapsed and participants in the stock market gained a very bitter experience. From then, it has been thought that old dated Companies Act was not the only cause of poor disclosure but there are some more causes behind such a shock. After having an in-depth analysis on various published and unpublished research works especially the OECD and the World Bank Reports (2002), etc. and after having informal talks, discussion with relevant officials, professionals, company personnel, general users, etc. we may summarize those causes in the following ways:

1. **Unorganized Users:** The users of financial statements in Bangladesh are passive, unenlightened, indifferent and unorganized. Traditionally, the majority portion of ownership of companies are held on a few powerful elites in the country and the

number of external shareholders are very few as compared to total shareholdings. These external shareholders are reluctant to attend the Annual General Meeting (AGM) and they do not, in fact, play any active role in decision making of the companies.

2. **Fear of Public Criticism and More Competition:** Sometimes, the companies are not willing to go for full disclosure due to the fear of public criticism as any event unfavorable to the companies may invite negative attitudes by the government, creditors, trade unions, lenders, etc. Moreover, full disclosure may also increase competition as the competitors will be able to know the real condition of the respective company and may start new strategies to compete the company.
3. **Minimalist Policy:** Most of the companies try to disclose information that is compulsorily required by the legal framework. That is, they do not like to disclose any additional information which are important but not legally needed.
4. **Legacy of the Past:** Every company tries to provide a nice picture of the company's financial health and tries to hide its inefficiencies. Because, traditionally and culturally, we always like to see a rosy picture of anything with a hope that we will also reach the necessary development as achieved by the developed world.
5. **Purposive Reporting:** There are so many companies, especially in the private sector, which prepare different set of financial statements for different authorities for different purposes. As per the hidden instructions of the top officials or the owners, the accounts department prepares one set of statements for the government authority like tax authority with a view to evasion or avoidance of taxes, another set of statements with a rosy picture for lending institutions like banks, and still another one for the owners to provide, to a large extent, with the real picture of the company. Sometimes, they submit distorted statements to show a bleak picture about the overall performance of the business so that loan may be delayed and finally a case may be filled for exemption. The accounts officials, in some cases, show exaggerated profits to the owners due to a fear of losing their jobs. Sometimes, some companies furnish accounts to fulfill merely a formality.
6. **Lack of Professionalism:** In Bangladesh, accounting is yet to be well treated as a profession. On the other hand, auditors enjoy a lot of discretionary in auditing and submitting the financial reports. There is no set of auditing standards by which auditors' performance can be evaluated. Comparing with the developed world's accountability of auditors, it has been stated that “ *in the developed world law suits*

are brought against auditors in case auditors fail to exercise reasonable care in the discharge of their duties, and the threat of financial loss and damage to their professional reputation creates significant pressure and anxiety in performing professional services”.

Again, as regard professionalism in terms of auditing in Bangladesh, it is seen that ICAB has been trying to develop professional code of conducts and in 1981 some of them were published in its Handbook (Members' Handbook, 1981, p-82) which are as follows: if the practicing chartered accountant,

- ▶ fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosed of which is necessary to make the financial statement not misleading;
- ▶ fails to report a material mis-statement known to him to appear in a financial statement with which he is considered in a professional capacity;
- ▶ commits grossly negligent in the conduct of his professional duties;
- ▶ fails to obtain sufficient information to warrant the expression of an opinion;
- ▶ fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

The respective auditor will be held liable for any of the above-mentioned cases and will be treated as professional misconduct.

Conclusion

The study mainly covers the legal and institutional arrangements for disclosure in Bangladesh. However, an effort has been made to have an idea about the reporting governance in (south) Asian countries under SAARC. The financial reporting environment of the region is that although there has been an on going effort to harmonize the accounting and reporting, still there are differences in preparing and presenting the financial information to the stakeholders. The South Asian Federation of Accountants (SAFA) has been formed for harmonization, but still there is a long way to go. The region inherits its financial, accounting and administrative system from its colonial power. The legal and institutional arrangements prevailing in the region indicate that no remarkable development has yet been made so far in any sector and hence the corporate reporting sector too. The regional condition is such that still there are Member countries under SAARC that are yet to be the members of SAFA. So, there is lack of political direction and decision in creating a standard reporting practice environment in the Member countries of

SAFA. Ahmed and Ali (2006) explore the possibilities of harmonization of accounting and reporting in SAARC countries on the basis of prevailing similarities in political, legal, economic, business ownership, accounting profession, culture and institutional structures in the three countries (Bangladesh, India and Pakistan) should have facilitated regional accounting harmonization for better environment for foreign investment. Since the South Asian countries are important in the context of global capital markets, this paper will help future researchers and regulatory bodies to understand more clearly the comparative current accounting and reporting regulations within the region.

Again, a general overview is also provided regarding the economy, different regulatory bodies, different laws, and the reporting environment of Bangladesh. The financial reporting environment of Bangladesh is a combination of legal, institutional, professional and guidelines provided by the international organizations. There are different bodies and different laws to make the reporting system congenial for the stakeholders. But still the whole reporting environment is characterized by unorganized users, fear of public criticism and more competition if more information is disseminated, minimalist policy is adopted, legacy of the past, purposive reporting, lack of professionalism, and so on. This indicates that there is a lack of proper reporting environment. Moreover, the country as a whole experiences a culture of minimum financial reporting. As a result, the implementation of law is less. The accounting and auditing profession in Bangladesh is also yet to be well recognized. Where there is a system of top secrecy in the government levels, the same is true in the private sector too. The controlling laws are also found outdated. The physical infrastructures of the offices of different bodies are also not adequate enough to work. There is a lack of trained personnel in the offices of various regulatory bodies.

However, recent move to harmonize and to adopt the international standards is, of course, praiseworthy.

Recommendations

Upon consulting the above-mentioned discussions I want to provide with some recommendations. These are as follows:

- Ahmed and Ali (2006) explore the possibilities of harmonization of accounting and reporting in SAARC countries on the basis of prevailing similarities in political, legal, economic, business ownership, accounting profession, culture and institutional structures in the three countries (Bangladesh, India and Pakistan)

should have facilitated regional accounting harmonization for better environment for foreign investment.

- In the above-mentioned discussion on legal and institutional shapes of reporting environment in Bangladesh we see that there are organizations, laws, bodies, etc. involved in financial reporting by the firms in Bangladesh. The effectiveness of those laws, organizations may be evaluated if we apply models developed by different independent international organizations like UNCTAD, OECD, etc. These models will show us whether or not the reporting environment as a whole in Bangladesh is satisfactory. If satisfactory, then we may look for further development and if not, it claims to find out the causes behind unsatisfactory financial reporting. This is done in the next chapter.
- On the other hand, the market in any country signals the information asymmetry to the stakeholders. The market perfection can be examined by looking at the different organizations like SEC, Stock Exchanges, regulatory bodies like ICAB and ICMAB as to what extent they are monitoring the implementation or the compliances of different laws. The way of doing so is to examine the published financial reports by the listed companies in stock exchanges. This is done in the fifth chapter of this thesis taking Bangladesh market into consideration.

However, there are some specific more recommendations based on this chapter. These are as follows:

- a. Since listed companies are directly related to capital market in Bangladesh, priority should be given to the improvement of accountability of the listed companies.
- b. The Registrar's office should be computerized taking the issue as urgent one. The present penalties of Taka 1 (Tk.1 = US\$0.015) for the default in submission of financial statements are not realistic. This should be increased to effective levels and should be strictly followed and implemented.
- c. The personnel working in the Securities and Exchange Commission should be trained up to monitor the financial and non-financial activities and reporting. This will enhance the development process of capital market in the country.
- d. There should have adequate number of trained staff in the Stock Exchanges to monitor submission of financial statements so that an evaluation can also be done independently. The Exchanges should be empowered to do so.

- e. Amendments should be done so as to make Bangladesh accounting and auditing standards mandatory on all public companies, and to set up Audit Committee in all the listed companies having adequate participation of minority shareholders.
- f. There should have a National Accounting and Auditing Standards Board with representation from users of accounts such as National Board of Revenue, Registrar of Companies, SEC, Bangladesh Bank (the Central Bank), Stock Exchanges, legal profession, Chambers of Commerce and C&AG, ICAB, ICMAB, the Universities and other stakeholders. ICAB or ICMAB may provide secretarial services to the Board. The Sri Lankan efforts in this regard may be taken as reference (see the Box-1 below).
- g. The proposed Board can create a net to bring about all other financial and non-financial organizations (such as Banks, Insurance companies, and NGOs) in the net to create a culture of good governance and effective corporate reporting in the country.

Box -1**Association of Accounting Technicians of Sri Lanka - AAT(SL)**

In 1986, an ADB report highlighted the shortage of accounting and audit personnel at middle level in both the public and private sectors and estimated that the country would need 12,000 accounting technicians by the year 2000. Thus, in 1987, the AAT (SL) was established on the initiative of the Institute of Chartered Accountants of Sri Lanka (ICASL) according to the guidelines issued by IFAC, the Confederation of Asia and Pacific Accountants, and the AAT of UK. So far, the AAT (SL) has been running as a company limited by guarantee, but it is seeking legislation to provide a sounder legal constitution. The Association has been supported by the ADB. It is run by Governing Council comprising 8 nominees of the ICASL, 2 Government nominees and 5 elected by the members. At September 2000 there were 2,714 members and over 4,000 registered students. The AAT (SL) runs training courses and its own examinations and is self-financing. Most members go on to professional-level examinations.

Source: World Bank Report (2002).

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Appendix-1

Corporate Governance Practices in SAFA Countries

I. / II. Shareholders' rights and equitable treatment

No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1.	Shareholders' Information							
1.1	What periodic information are listed companies required to provide?							
	a. Annual reports	Yes	NA	Yes	NA	NA	Yes	NA
	b. Unaudited Semi-annual Reports	Yes	NA	Yes	NA	NA	Yes	
	c. Quarterly financial statements	No	NA	Yes	NA	NA	Yes (for listed companies)	
1.2	What information must be contained in the company's annual report?							
	a. General information on the company	Yes		Yes			Yes	
	b. Audited annual accounts	Yes		Yes			Yes	
	c. Personal details of company's directors	Yes		Yes			Names and meetings attended	
	d. Directors' report on past and future operations	Yes		Yes			Yes	
	e. Financial status of the company	Yes		Yes			Yes	
	f. Consolidated financial reports	Noncompliance with existing provisions		Yes			Yes	
	g. Information on Corporate Governance	No		Yes			Yes	
2.	Shareholders' Participation							
2.1.	Convening of shareholder meetings							
	a. Time of Notice (days before meeting)	-AGM 14 days -EGM 21 days		21 days for AGM, EGM			21 days for AGM, EGM	
	b. Information contained in the notice	Agenda, items, audited accounts for AGM, intentions to propose extraordinary and special resolution		Agenda, Reports and Accounts draft resolutions, proxy forms and explanatory notes for special business			Agenda, items, statement of material facts in case of special business	

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	c. Thresholds for requesting or convening an extra ordinary shareholder meeting	10% to request directors to convene EGM		10% of the paid-off share capital carrying voting rights to request EGM			10% of the voting rights	
	d. Legal Minimum quorum requirements	5 persons for public companies (default rule)		2 persons			For listed companies, 10 persons representing 25% of voting rights, (proxies possible)	
2.2.	What kinds of voting rights may shares have?							
	a. Non-voting common	Yes		No			No	
	b. Multiple Voting rights	Yes		No			No	
	c. Removable voting rights	Yes		No			No, but subscribed but unpaid shares may lose right to vote	
2.3	Can shareholders vote?							
	a. by proxy	Yes		Yes			Yes	
	b. by email	No		Yes			No	
	c. by telephone / videoconference	No		No			No	
	d. by other means	No		No			No	
2.4	Do shareholders have the rights to vote on							
	a. Appointment of directors	Yes Ordinary resolution (>50%)		Yes Ordinary resolution (>50%)			Yes	
	b. Removal of directors	Yes Special resolution (>75% Majority)		Yes Special resolution (>50%)			Yes	
	c. Appointments and removal of auditors	Yes Ordinary resolution (>50)		Yes Ordinary resolution; special resolution for state-controlled enterprises			Yes	
	d. Authorizing share capital	Yes Special resolution (Amendment of articles)		Yes Special resolution (>75% majority)			Yes	

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	e. Issuing share capital	No (if issuance within authorised capital)		Yes			Yes	
	f. Disappointment of pre-emption rights	Yes Special resolution		Yes Special resolution (75% Majority)			Yes Special resolution	
	g. Amendments to company articles or status	Yes Special resolution (75%)		Yes Special resolution (75%)			Yes Special resolution	
	h. Remuneration of board of directors	Yes Ordinary resolution at AGM		Yes Ordinary resolution (>50%)			Yes Unless articles empower directors	
	i. Major corporate transactions (acquisition, disposal, mergers and takeovers)	Yes for sale or disposal of undertaking remitting debt due to a director (Ordinary resolution)		Yes Special resolution (75%)			Yes Special resolution	
	j. Transactions with related parties	Only direct contacts between company and director		Yes			Yes In case of investment in associated companies (Special resolution)	
	k. Changes to company business or objectives	Yes. Special resolution (75% Majority)		Yes. Special resolution (75% Majority)			Yes. Special resolution	
2.5.	How are votes counted and by whom?	Show off hands or poll, by Chairman of the meeting		Show of hands counted by Chairman. Shareholder (10% of shares or Rp.50,000) can request a poll			Show of hands, but shareholders can request a poll	
2.6	Does law provide for the disclosure of voting-agreements?	No		No			No	
2.7	How may shareholders directly nominate candidates for the board of directors?	No special procedure required		No special procedure required			Nomination submitted by candidates (No special procedure)	

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							required)	
2.8	To what extent and how does the board of directors nominate candidates for the board?	No Nomination by board of directors		Candidates nominated by board of directors			No Nomination by board of directors	
2.9	Can Shareholders place items on the shareholders' meeting agenda?	Yes, 10% of issued shares required for an EGM		Yes, if application is made by at least 100 shareholders			Yes (circulation shall be made before the meeting)	
3.	Share in the Profits of the Corporation							
3.1	Does law or regulations provide for timely payment of dividends	Dividends payable within 2 months after declaration		Dividends payable within 30 days after declaration			Dividends payable within 45 days after declaration	
3.2	Body responsible for declaring, approving and issuing dividends:	Declaration and Issue: board; Approval: shareholders		Interim dividend: board; Final dividend: shareholders			Shareholders	
4.	Corporate Control							
4.1	Thresholds for notification in case of substantial acquisition of shares:	None (rules in process of being issued)		5%			10%	
4.2	Thresholds requiring a mandatory offer for all shares at a particular price	None		15% (mandatory offer to an extra 20%)			25%	
4.3	Under which circumstances do shareholders have preemptive rights to purchase company shares?	Increase in share capital		Issuance of new shares			Issuance of new or un-issued shares	
5.	Shareholders' Redress							
5.1	How can shareholders seek redress if their rights are violated?							
	a. Derivative Action	No		Yes			Yes	
	b. Direct individual action	Yes		Yes			Yes	
	c. Class action/ Minority action	No		Yes (Company Law Board)			Yes	
5.2	Are lawyer contingency fees allowed?	No		With the permission of court			No	
5.3	Who pays the legal fees	The prevailing		The prevailing			Decided by	

	of the prevailing party?	party		party			court		
6.	Insider Trading								
6.1	Penalties attached to the offence of insider trading:								
	a. Civil liability	NP		Yes Penalty up to 3 times of the made profit			Yes Up to the amount of gain / loss avoided		
	b. Fines	Yes Up to Tk.5,000 or Tk.100 per day of breach		Determined by adjudicating officer			Up to 3 times of gain / loss avoided		
	c. Imprisonment	NP		Up to 3 years			Up to 3 years		
	d. Others	Cancellation of licenses or certificates		Restriction on exercise on profession					
6.2	Bodies or institutions tracking stock-market activity using statistical or computer-based methods:	Stock Exchanges, Electronic Trading System		Stock Exchange and Securities Exchange/ Board of India			SECP, Stock Exchanges		
No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	
7.	Related party-transactions								
7.1	Does the legal and regulatory framework provide for the disclosure of related party transactions?	Yes		Yes			Yes		
7.2	Must related party transactions be approved by the shareholders?	No, except direct contracts between companies and their directors		Yes (with exceptions)			Yes, in case of investment in associated companies		
7.3	Are related persons required to abstain from voting on the transactions?	Yes		Yes			Yes		
		III. The Role of Stakeholders							
1.	Codes of conduct								
1.1	Self-binding instruments applied by companies to protect stakeholder rights:	None		Recommendations of the Kumar Mangalam Committee Report on Corporate Governance, voluntary code of conducts			Statements of ethics and business practices required by Code of Corporate Governance		

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2.	Employees' rights							
2.1	What are the rights of employees regarding							
	a. Information on the company	No special rights (public information only)		No special rights (public information only)			No special rights (public information only)	
	b. Collective bargaining	Through registered trade unions or collective bargaining agents		Right to collective bargaining			No special right	
	c. Participation in the board of directors	None		None			None	
	d. Consultation	None		No special rights			None	
2.2	Can employees participate in the company's profits by							
	a. Share ownership	Yes, but no statutory rights		Yes			Yes, but no statutory rights	
	b. Share options	Yes, but no statutory rights		Yes			Yes, through a scheme approved by SECP	
	c. Profit sharing schemes	Yes, but no statutory rights		Yes			Yes, (Companies Participation Act)	
2.3	Who manages employees pension fund?	Trustees		Government Trustees, Regional Provident Fund Commissioner			Board of Trustees	
2.4	What priority do employees wages and benefits have in the event of insolvency?	Fourth (after administration cost, receiver's cost and government dues)		None			Second (after debts owned to government)	
No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2.5	Does employees have access to internal redress mechanisms (mediation/arbitration) in case of violation of either rights?	May be prescribed by statues or contract		Yes Trade Unions / Board of Conciliation			May be prescribed by contracts	
3.	Creditors' rights							

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3.1	Are creditors involved in governance in the context of insolvency?	No		Y/N (right to initiate process of winding-up of the company)			Y/N (courts shall have regard to wishes of creditors or contributors)	
3.2	How are creditors protected against fraudulent conveyance / insolvent trading in the context of insolvency?	Statutory prohibitions of fraudulent preferences		Any transfer done within 6 months before winding-up shall be deemed a fraudulent preference			Statutory Protection available	
3.3	How can creditors seek redress if their rights are violated?	Judicial redress		Criminal prosecution			Judicial redress	
IV. Disclosure and Transparency								
1.	Consolidated financial reporting							
1.1	Does law or regulations provide for consolidated financial reporting?	Y/N (only for holding companies)		Yes			Yes	
2.	Non-financial information							
2.1	Are companies required to disclose information on:							
	a. Corporate governance structures and practices	No		Yes (quarterly compliance / annual report)			Yes	
	b. Education and professional experience of directors and key executives	No		Yes (annual report)			No	
	c. Remuneration of directors and key executives	No		Yes (annual report)			Yes	
	d. Deviations from corporate governance codes	No		Yes (annual report)			Yes	
	e. Management discussion and analysis (MD&A)	No		Yes (annual report)			Yes (Directors' report)	
	f. Forward looking statements of the company	No		Yes (Directors' report)			Yes (Directors' report)	
3.	Audit/Accounting							
3.1	Are companies required to have their financial statements externally	Yes		Yes			Yes	

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	audited?							
3.2	How and by whom are external auditors appointed?	By shareholders at AGM		By shareholders			By shareholders at AGM	
3.3	To whom do the internal auditors report?	Depends on terms of engagement		Management			CEO, access to chair of audit committee	
No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
3.4	Which rules regulate the audit profession?	Bangladesh Chartered Accountants Order 1973 and following rules and regulations; Bylaws of the Institute of Chartered Accountants (ICAB)		Institute of Chartered Accountants of India Act 1949, Companies Act 1956			Chartered Accountants Ordinance, 1961; Chartered Accountants By-laws 1983; Companies Ordinance, 1984	
3.5	Is certification or training of auditors mandatory?	Yes		Yes			Yes	
3.6	Is there a code of ethics relating to the audit profession?	Yes		Yes			Yes	
3.7	Which authorities ensure the review, quality and independence of auditors?	Institute of Chartered Accountants (ICAB) through its committees		Institute of Chartered Accountants through Accounting Standard Rules			Institute of Chartered Accountants Pakistan (ICAP)	
3.8	Is a rotation of audit firms and auditors mandatory?	No (only for bank companies; every 3 years)		NP			Yes (every 5 years for listed companies)	
3.9	To what extent are national auditing and accounting norms materially divergent from international standards?	23 out of 41 of the IAS		NP			Conformity (IAS has become a law only by a notification of SECP)	

3.10	Which body is responsible for development of accounting standards and oversight of accountants?	Institute of Chartered Accountants of Bangladesh (ICAB) (self regulatory body)		Institute of Chartered Accountants of India (self regulatory body)			Institute of Chartered Accountants of Pakistan (self regulatory body)		
4.	Reporting Requirements								
4.1	To what extent do Stock Exchanges require								
	a. Semi-annual reporting	Yes (Financial statement)		Yes			Yes		
	b. Quarterly reporting	No		Yes			Yes		
	c. Publication of annual report	Yes (at AGM)		Yes (6 months after end of financial year and 21 days before AGM)			Yes (105 days after the end of financial year)		
	d. Immediate reporting of price-sensitive information	Yes (within ½ hour)		Yes			Yes		
No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	
4.2	What penalties are attached to the noncompliance with the above-cited prescriptions?	Tk.500.00 per day, de-listing or suspension of trading possible		Show Cause notice to The company, suspension or de-listing of trading possible			Reprimand/ De-listing by Stock Exchanges, Fine up to Rs100,000 And Rs.1,000 per day		
4.3	Is there a central registry for financial and non-financial corporate information, which is readily accessible to shareholders?	Yes (Registrar of Joint Stock Companies and Firms)		Yes (Electronic Data Information Filing and Retrieval System)			Yes (Registrar of Companies)		
4.4	To what extent new technological developments are integrated into the existing disclosure regimes?	None		Electronic Data Information Filing and Retrieval System			In Progress		
		V. The responsibilities of the board							

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1.	Members of the Board						
1.1	Prescribed Board structure (Unitary or dual)	Unitary		Unitary			Unitary
1.2	Can a dual board structure be established by the articles of association?	Yes (Option not used)		NP			No
1.3	Minimum/maximum number of board of directors for listed companies	Min. 3 Max. None		Min. 3 Max. None			Min. 7 Max. None
1.4	Does law require representation of labor unions on the board?	No		No			No
1.5	Is cumulative voting for the election of board members permitted?	Yes, if Provided for by articles of association		Yes, if Provided for by articles of association			Yes (Mandatory)
1.6	Maximum election term for members of the board:	None		None			3 years
1.7	Does the regulatory framework permit staggered election terms for board members?	No		No			No
1.8	Is there a limit to the number of boards on which an individual may serve?	No		Yes (Maximum 15)			Yes (Maximum 10)
1.9	Are companies required to disclose the attendance records of board meetings?	No		Yes			Yes
1.10	What is the minimum number of board meetings to be held per year?	4 (one every quarter)		4 (one every quarter)			4 (one every quarter)
1.11	Limitations to the appointment of nonresidents or foreigners to the board of listed companies:	None		Approval by Reserve Bank and Department Company of Affairs required			None
1.12	What are the rule and procedures for:						
	a. Nominating	Not prescribed by law		Application to be filed By candidates 14 days prior to AGM			Creditors and specified institutions may nominate directors to the Board
	b. Electing	Elected by shareholders		Elected by ordinary			Elected by shareholders

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				shareholders				
	c. Removing board members?	Extraordinary shareholder resolution (2/3 majority)		Removal by ordinary shareholder resolution			Removal by Shareholder resolution	
1.13	Does law require the separation of Chairman and CEO?	No		No			No	
No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2.	Powers of the board							
2.1	Does the board of directors decide on:							
	a. Appointment and compensation of senior Management	No, unless required by articles of association		Yes			Yes	
	b. Review and adoption of budgets and financial statements	Review of annual audited financial statements		Yes			Yes	
	c. Review and adoption of strategic plans	No, unless required by articles of association		Yes			Yes	
	d. Major transactions outside the ordinary course of business	No, unless required by articles of association		Yes			Yes	
	e. Changes to the capital structure	No, unless required by articles of association		Yes			Yes	
	f. Organization and running of shareholder meetings	No, unless required by articles of association		Yes			Yes	
	g. Process of disclosure and communications?	No, unless required by articles of association		Yes			Yes	
	h. The company's risk policy	No, unless required by articles of association		Yes			Yes	
	i. Transactions related	Yes		Yes			Yes	

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	with parties							
3.	Board Committee							
3.1	Which board committees must be established under current law or regulations?							
	a. Audit committees	No		Yes			Yes	
	b. Remuneration committees	No		Yes			No	
	c. Nomination committee	No		No			No	
	d. Other committees	None		Shareholders and Investors evance Committee			None	
4.	Directors' qualification							
4.1	May legal entities serve as directors?	No		No			No	
4.2	Prescribed minimum/maximum age for directors.	Min: None; Max: None		25-70 (for managing director)			Min: Majority Max: None	
4.3	What other requirements must members of the board fulfill?							
	a. "fit and proper test" (i.e. no criminal convictions or prior bankruptcies)	Yes		Yes			Yes	
	b. Minimum education and training	No		No			No	
	c. Professional experience	No		No			No	
4.4	Does law or regulations require continuing training for board directors?	No		No			No	
4.5	Does law or regulations provide for certification procedure of board directors?	No		No			No	
No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
4.6	Does the institutional framework provide for voluntary training possibilities for board directors?	No		No			Code of corporate governance requires Orientation Courses for the directors	
5.	Independent directors							
5.1	Does law, regulations or listing rules require the election of independent directors to the board?	No		Yes (1/3 if non-executive chairman, ½ if executive chairman)			No (recommended)	
5.2	Does the definition of "independence" exclude persons who are							
	a. Related to management (by blood or	NP		No			Yes	

LEGAL AND INSTITUTIONAL ARRANGEMENTS OF FINANCIAL DISCLOSURE

	marriage)							
	b. Related to major shareholders	NP		No			Yes	
	c. Employees of affiliated companies	NP		Yes			Yes	
	d. Representatives of companies having significant dealings with the company in question	NP		Yes			Yes	
6.	Directors' liability							
6.1	May breaches of duty by members of the board generate their individual							
	a. Civil	Yes		Yes			Yes	
	b. Administrative	No		No			No	
	c. Criminal Liability	Yes		Yes			Yes	
6.2	Does law or regulations provide for							
	a. Individual shareholder suits against the board and management	Yes		Yes			No	
	b. Class action suits against the board and management	No		Yes			Yes	
	c. Derivative suits against the board and management	No		Yes			No	
	d. Ombudsman suits on behalf of shareholders?	No		No			No	
6.3	To what extent is the board responsible or the financial statements included in the company's annual report?	Responsible for timely submission to general Meeting		Full responsibility			Full responsibility	
6.4	Do insolvent-trading laws apply to directors?	No		No specific regulations			Yes	
6.5	Is directors/officers liability insurance commonly obtained?	No		Yes (for listed companies)			No	
6.6	In what circumstances is the company prohibited from indemnifying a director?	Breach of duty, breach of trust, negligence, default		Actions outside course of employment and director's powers			In case of final judgement against the director	
7.	Remuneration of board members							
7.1	Is there a trend towards the use of stock options for directors' remuneration?	No		Yes			No	
7.2	Does law or regulations provide for the approval of executive directors'	No		Yes, for Managing Director / Manager, Fulltime Director			No	

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7.3.	Does law or regulations require directors to take a portion of their remuneration in company shares?	No		No			No	
8.	Self-dealing transactions							
No.	Items of Corporate Governance	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
8.1	Under which circumstances self-dealing transactions must be disclosed to							
	a. The board of directors	Any contract or arrangement in which a director is interested		All transactions by board members, relatives or major shareholders			All related party transactions	
	b. Shareholders	Loans, guarantees or securities to a director or a company in which a director is interested		Transactions by board members, relatives, major shareholders			Investment (including loans, advances, equity,...) in an associated company	
	c. The Stock Exchanges or Security Commission	Any contract or arrangement in which a director is interested		No specific regulations			Quarterly returns must be filed with the SECP	
8.5	Under which circumstances self-dealing transactions must be approved by							
	a. The Board of Directors	Any contract or arrangement in which a director is interested		Transactions exceeding a quantified price limit			All related party transactions	
	b. The shareholders	Loan, guarantee or security to a director or company in which a director is interested		None			Investment (including loans, advances, equity,...) in an associated company	
	c. The Stock Exchange or Securities Commission	Any contract or arrangement in which a director is interested		None			None	

Source: Prepared by the author himself on the basis of information gathered from OECD (2003)

Appendix-2**Shows the Addresses of Member Bodies of SAFA**

Country	NAME OF THE BODY	Details
Bangladesh	THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH	President: Mr. M. A. Baree, FCA Secretary: M. G. Sobhan, FCA Address Chartered Accountant Bhaban 100, Kazi Nazrul Islam Avenue Kawran Bazar, Dhaka-1215 Bangladesh. Telephone +880-2-327017, 9117521, 9112672, 9115340, 819399 Fax: +880-2-814087 Cable ICAB, Dhaka
Bangladesh	THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH	President : Rafiq Ahmed, FCMA Secretary : Mr. Ruhul Ameen, FCMA Address ICMA Bhaban, GPO Box-2629 Nilkhet, Dhaka-1205 Bangladesh Telephone +880-2-8613443,8611482,8619649 Fax +880-2-865703 Cable icmab@citechco.net
India	THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA	President : Mr. Ashok Chandak Secretary: Dr. Ashok Haldia Address The Institute of Chartered Accountants of India P.B. No. 7100, Indiaprastha Marg. New Delhi-110002, India Telephone +91-11-3370195 Fax +91-11-3379334,3379610 Email ia@icai.org. ashokhaldia@icai.org , Web http://www.icwai.org/
India	THE INSTITUTE OF COST & WORKS ACCOUNTANTS OF INDIA	President :Mr. V. V. Deodhar Secretary: Mr. Kunal Banerjee Address The Institute of Cost and Works Accountants of India 12, Sudder Street, Kolkata-7000 016 India Telephone +91-33-2441031/1034/1035 Fax +91-332440993 Email mailto:icwai@vsnl.com

		Web http://www.icwai.org/ , http://www.icwai.com/
Nepal	THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL	President : Mr. Prabhu Ram Bhandary, FCA Secretary: Mr. Purusottam Lal Shrestha Address Babar Mahal P.O. Box 5289 Katmandu Nepal. Telephone +977-1-253068, 258569, 242925 Fax +977-1-258568, 522671 E-Mail ican@csl.com.np
Pakistan	THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	President : Mr. A. Husain A. Basrai Vice President : Mr. Mujahid Eshai Vice President : Mr. Abdul Rahim Suriya Address ICAP Building Clifton Karachi 75600 Pakistan. Telephone +92-21-9251633,9251636-39
Pakistan	THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN	President : Mr. Badruddin Fakhri, FCMA Executive Director :Mr. Mutee-ur-Rehman Mirza, FCMA Address The Institute of Cost & Management Accountants of Pakistan ST-18/C, Block-6, Gulshan-e-Iqbal Karachi-75300, Pakistan. Telephone (92-021) 9243900, 9243901, 9243902, 9243904 E-mail mailto:ed@icmap.com.pk
Sri Lanka	THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI-LANKA	President : Asite Talwatte Vice-President: Indrajith Fernando Address 30 A, Malalasekera Mawatha, Colombo 07 Telephone 0094-01-500265,585451,586256 Fax 0094-01-508749 E-Mail lpicasl@vlnet.lk Web : http://www.icasrilanka.com/

Source: Different publications of SAFA.

Appendix-3

Companies Act, 1994
(Extracted from Companies Act 1994)

BALANCE SHEET, STATEMENTS, BOOKS, ETC.

181. Books to be kept by company and penalty for not keeping them:

(1) Every company shall keep proper books of account with respect to –

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company;
- (c) the assets and liabilities of the company; and
- (d) in the case of a company engaged in production, distribution, marketing, transportation, processing, manufacturing, mining, extraction and mining activities, such particulars relating to utilization of material, labor and other items of overhead cost.

(2) For the purpose of sub-section (1), proper books of account shall not be deemed to be kept with respect to the matters specified therein if there are not kept such books as are necessary to give a true and fair view of the state of the affairs of the company and explain its transactions.

(3) The books of account shall be kept at the registered office of the company and shall at all times be open to inspection by director during business hours;

Provided that all or any of the books of account may, for a period not exceeding six months, be kept at such other place in Bangladesh as the Board of Directors may decide and when the Board of Directors so decides, that the company shall within seven days of the decision; file with

(4) Where a company has a branch office, whether in or outside Bangladesh, the company shall be deemed to have complied with the provisions of sub-section (1), if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarized returns, made upto date at intervals of not more than three months, are sent by the branch office to the company at its registered office or the other place referred to in sub-section (3).

(5) The books of account of every company relating to a period of not less than twelve years immediately preceding the current year together with vouchers relevant to any entry in such books of account preserved in good order:

Provided that in the case of a company incorporated less than twelve years before the current year, the books of account for the entire period preceding the current year together with the vouchers relevant to any entry in such books of account shall be so preserved.

(6) If any of the persons referred to in sub-section (7) fails to take all reasonable steps to secure compliance by the company with the requirements of this section, or has, by his own willful act, been the cause of any default by the company thereunder, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months or with fine which may extend to five thousand take or with both.

(7) The persons referred to in sub-section (6) are the following, namely:

(a) where the company has a managing agent, managing director, executive director, general manager, such managing agent, managing director, executive director, general manager or manager and all officers but excluding the bankers, auditors and legal advisers;

(b) where such managing agent is a firm, every partner in the firm;

(c) where such managing agent is a body corporate, every director of such body corporate;

(d) where the company has neither a managing agent nor managing director nor executive director nor general manager nor manager, every director of the company.

182. Inspection of books of account, etc. of companies: (1) The books of account and other books and papers of every company shall be open to inspection during business hours by the Registrar or by such other Government officer as may be authorized by the Government in this behalf.

(2) It shall be the duty of every director or other officer of the company to produce to the person making inspection under sub-section (1), in this section referred to the inspecting person, all such books of account and other books and other papers of the company in his custody or control and to furnish him with any statement, information or explanation relating to the affairs of the company as the inspecting person may require of him within such time and at such place as he may specify.

(3) It shall also be the duty of every director and other officer of the company to give the inspecting person all assistance in connection with the inspection which the company may be reasonable expected to give.

(4) The inspecting person may, during the course of inspection –

(i) make or cause to be made copies of books of account and other books; and

(ii) place or cause to be placed any marks of identification thereon in token of the inspection having been made.

(5) Notwithstanding anything contained in any other law for the time being in force or any contract to the contrary, inspecting person shall have the same powers as are Vested in a civil court under the court of Civil Procedure, 1908 (Act V of 1908). While trying to a suit, in respect of the following matters, namely:

- (j) the discovery and production of books of account and other documents, at such place and such time as may be specified by such person;
- (ii) summoning and enforcing the attendance of persons and examining them on oath;
- (iii) inspection of any books, registers and other documents of the company at any place.

(6) Where an inspection of the books of account and other books and papers of the company has been made under this section, the inspecting person shall make a report to the Government.

(7) The inspection person under this section shall have all the powers that a Registrar has under this Act in relation to the making inquiries.

(8) If default is made in complying with the provisions of this section every officer of a company has been convicted of an offence under this section, he shall, and from the date on which he is so convicted, be deemed to have vacated his office as such and on such vacation of office he shall be disqualified for holding such office in any company for a period of five years from such date.

183. Annual balance sheet: (1) The Board of Directors of every company shall, at every annual general meeting held in pursuance of section 81⁴, lay before the company a balance sheet together with the profit and loss account or in the case of a company not trading for profit, an income and expenditure account for the period specified in sub-section (2) of this section.

(2) The said profit and loss account or the income and expenditure account shall be prepared for the following period, namely:

- (a) in the case of the first annual general meeting for the period beginning with the date of incorporation of the company and ending on a date which is within nine months preceding the date of the meeting; and
- (b) in the case of any subsequent annual meeting for the period beginning with the date of immediately after last account and ending on a date which is –
 - b. a date within nine months preceding such meeting; or
 - c. in the case of a company carrying on business or having interest outside Bangladesh, a date within twelve month preceding the date of such meeting; or
 - d. in a case where an extension of time has been granted for holding the meeting under section 81, a date within the said nine or twelve months, as the case may be, preceding the date of holding such meeting under that section

Provided that date the Registrar may, on an application being made to less before the expiry of the said nine or twelve months, extend the period by a period not exceeding three months.

(3) The Balance Sheet and the Profit and Loss Account or Income Statement shall be caused to be audited by the auditor of the company as in this Act provided, and the auditor's report shall be

⁴ Section 81 is concerned about the holding of Annual General Meeting of the Company.

attached thereto or there shall be inserted at the roof thereof a reference to the report, and, the report shall be read before the company in general meeting and shall be person to inspection by any member of the company.

(4) The period to which the account aforesaid relates is referred to in the Act as a 'financial year' and it may be less or more than a calendar year, but shall not exceed fifteen months;

Provided that it may extend to eighteen months where special permission had been granted in that behalf by the Registrar.

(5) If any person, being a director of a company, defaults in taking all reasonable to comply with the provisions of this section, then he shall, in respect of each such offence, be punishable with fine which may extend to five thousand Taka.

(6) There shall be kept at the registered office of the company a copy of the balance sheet including profit and loss account or income and expenditure, as the case may be, and the director's report fort he inspection of the members and the categories of persons as are entitled thereto for a period of at least fourteen days before the general meeting of the company.

184. Board Report: (1) There shall be attached to every balance sheet laid before a company in general meeting a report by its Board of Directors, with respect to –

- a. the state of the company's affairs;
- b. the amount, if any, which the Board proposes to carry to any reserve in such balance sheet;
- c. the amount, if any, which the Board recommends should be paid by way of dividend;
- d. material changes and commitments, if any, affecting the financial position of the company which have occurred between the end related and the date of the report.

(2) The Board's report shall, so far as is material for the appreciation of the state of company's affairs by its members, deal with any changes which have occurred during the financial year:

- a. in the nature of the company's business;
- b. in the company's subsidiaries or in the nature of the business carried out on by them; and
- c. generally in the classes of business in which the company has an interest.

(3) The Board shall also be bound to give the fullest information and explanations in its report aforesaid on every reservation, qualification and adverse remark contained in the auditor's report.

(4) The Board's report and any addendum thereto shall be signed by its Chairman if he is authorized in that behalf by the Board, and where he is not so authorized &, shall be signed by such number of director as are required to sign the balance sheet and the profit and loss account or the income and expenditure account, of the company by virtue of sub-section (1) and (2) of section 189.

(5) If any person, being a director of a company, fails to take all reasonable steps to comply with the provision of sub-section (1) to (3) or being the Chairman, signs the Board's report otherwise than in conformity with the provisions of sub-section (4), he shall, in respect of each offence, be liable to fine which may extend to five thousand Taka.

185. Form and Contents of Balance Sheet and Profit and Loss Accounts:

1. The balance sheet of a company shall contain a summary of the property and assets and of the capital and liabilities of the company giving a true and fair view of affairs as at the end of the financial year, and it shall, subject to the provisions of this section be in the form set out in Part-1 of Schedule VI, or as near thereto as circumstance admit or in such other form as may be approved by the Government either generally or in any particular case; and in preparing the balance sheet due regard shall be had, as far as may be, to the general instructions for preparation of balance sheet under the heading "Notes" at the end of the Part:

Provided that nothing contained in this sub-section shall be applied to any insurance or banking company or any other company engaged in the generation or supply of electricity or to any other class of company for which a form of balance sheet has been specified in or under the law governing such class of company.

2. Every profit and loss account of a company shall give a true and fair view of the profit and loss of the company for the financial year and shall, subject as aforesaid, comply with the requirements of Part II of Schedule XI so far as applicable thereto;

Provided that nothing contained in this sub-section shall be applied to any insurance or banking company or any other company engaged in the generation or supply of electricity or to any other class of company for which a form of balance sheet has been specified in or under the law governing such class of company.

3. The Government may, by notification in the official Gazette, exempt any class of companies from the requirements of XI if, in its opinion, it is necessary to grant the exemption in the public interest; and any such exemption may be granted either unconditionally or subject to such conditions as may be specified by the notification.

4. The Government may, on the application or with the consent of the Board of Directors of the company, by order, modify in relation to that company of the requirement of this Act as to the matters to be stated in the balance-sheet or the profit and loss account for the purpose of adopting them to the circumstances of the company;

5. The balance sheet and the profit and loss account of a company shall not be treated as not disclosing a true and fair view of the state of affairs of the company merely because of the fact that they do not disclose –

- i. in the case of an insurance company, any matters which are not required to be disclosed by the Insurance Act, 1938 (IV of 1938);
- ii. in the case of banking company, any matters which are not required to be disclosed by the Banking Companies Act, 1991. (Part XIV).
- iii. in the case of a company engaged in the generation or supply of electricity, any matters which are not required to be disclosed by the Electricity Act, 1910 (IX of 1910);
- iv. in the case of a company governed by and other law for the time being in force, any matters which are not required to be disclosed by such law;
- v. in the case of any company, any matters which are not required to be disclosed by virtue of the provisions contained in Schedule XI or by virtue of the notification issued under sub-section (3) or an order issued under sub-section (4).

6. For the purpose of this section, except where the context otherwise requires any reference to balance sheet or to profit and loss account shall include any notes hereon or documents Appendixed thereto, giving information required by this Act and allowed by this Act to be given in the form of such noted or documents.
7. If any such person as is referred to in sub-section (7) of section 181 fails to take all reasonable steps to secure compliance by company, as regards any accounts laid before the company in general meeting, with this section and with the other requirements of this Act as to in the accounts, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months or with fine which may extend to five thousand Taka or with both;
- Provided that no person shall be sentenced to imprisonment for any such offence unless it was committed willfully.

186. Balance Sheet of holding companies to include certain particulars as to its subsidiaries:

1. There shall be attached to the balance sheet of a holding company having a subsidiary or subsidiaries at the end of the financial year as at which the holding company's balance sheet is made out, the following documents in respect of such subsidiary or each such subsidiary, as the case may be –
 - a. a copy of the balance sheet of the subsidiary;
 - b. a copy of its profit and loss account;
 - c. a copy of the report of its Board of Directors;
 - d. a copy of the report of its auditors;
 - e. a statement of the holding company's interest in the subsidiary as specified in sub-section (6);
 - f. the statement referred to in sub-section (8), in any, ; and
 - g. the report referred to in sub-section (9), if any.
2. The balance sheet referred to in clause (a) of sub-section (1) shall be made out in accordance with the requirement of this Act as at the end of the financial year of the subsidiary next before the day as at which the holding company's balance sheet is made out.
3. The profit and loss account and the reports of the Board of Directors and of the auditors, referred to in clause (b), (c) and (d) of sub-section (1) shall be made out in accordance with the requirements of this Act for the financial year of the subsidiary referred to in sub-section (2).
4. The financial year aforesaid of the subsidiary shall not end on a day which the holding company's financial year ends by more than six months.
5. Where the financial year of subsidiary is shorter in duration than that of its holding company, reference to the financial year of the subsidiary in sub-sections (2), (3) and (4) shall be constructed as reference to two or more financial years of the subsidiary the duration of which, in the aggregate is not less than the duration of the holding company's financial year.
6. The statement referred to in clause (e) of sub-section (1) shall specify –
 - a. the extent of the holding company's interest in the subsidiary at the end of the financial year or at the end of the last of the financial years of the subsidiary;

- b. the net aggregate amount, so far as it concerns members of the holding company and is not dealt with in the company's accounts, of the subsidiary profits after deducting its losses or vice-versa –
 - (i) for the financial year or years of the subsidiary as aforesaid;
and
 - (ii) for the previous financial years of the subsidiary since it became the holding company's subsidiary;
 - c. the net aggregate amount of the profits of the subsidiary after deducting its losses or vice-versa –
 - (i) for the financial year or years of the subsidiary as aforesaid; and
 - (ii) for the previous financial years of the subsidiary since it became the holding company's subsidiary;
so far as those profits are dealt with, or provision is made for those losses, in the company's accounts.
7. Clauses (b) and (c) of sub-section (6) shall apply only to profits and losses of the subsidiary which may properly be treated in the holding company's accounts as revenue profits or losses; and profits or losses attributable to any other of its subsidiaries shall not, for that or any other purpose, be treated as aforesaid so far as they are profits or losses for the period before the date of or as from which the shares were acquired by the company or any of its subsidiaries, except that they may in a proper case be so treated where –
- (a) the holding company is itself be subsidiary of another body corporate; and
 - (b) the shares were acquired from that body corporate or a subsidiary of this.
8. Where the financial year or years of a subsidiary referred to in sub-section (5) do not coincide with the financial year of the holding company, a statement containing information on the following matters has also to be attached to the balance sheet of the holding company –
- (a) whether there has been any changes and, if so what change took place in the holding company's interest in the subsidiary between the end of the financial year or of the last of the financial years of the subsidiary and the end of the holding company's financial year;
 - (b) details of any material change, which have occurred between the end of the financial year or of the last of the financial years of the subsidiary and the end of the holding company's financial year in respect of –
 - i. the subsidiary's fixed assets;
 - ii. its investments;
 - iii. the moneys borrowed by it for any purpose other than that of meeting cured liabilities;
9. If, for any reason, the Board of Directors of the holding company is unable to obtain information of any of the matters requires to be specified by sub-section (7), a report in writing to that effect shall be attached to the balance sheet of the holding company.
10. The document referred to in clause (e), (f) and (g) of sub-section (1) shall be signed by the persons by whom the balance sheet of the holding company is required to be signed.
11. The Government may on the application or with the consent of the Board of Directors of the company, direct that in relation to any subsidiary, the provisions of this section shall not apply, or shall apply only to such extent as may be specified in this direction.

12. If any such person as is referred to in sub-section (7) of section 181 fails to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand Taka, or with both:

Provided that in any proceedings against any person in respect of an offence under this section, it shall be a defense to prove that a competent and reliable person was charged with the duty of seeing that the provisions of this section were complied with and that he was in a position to discharge that duty:

Provided that no person shall be sentenced to imprisonment for any such offence unless it was committed willfully.

187. This section and the sub-sections (1) and (2) of this section is related to the Financial year of holding company and subsidiary.

188. Rights of the holding company's representatives and members:

1. A holding company may, by resolution, authorize its representatives named in the resolution to inspect the books of account kept by any of its subsidiaries, and the books of account of any such subsidiary shall be open to inspection by those representatives at any time during business hours.
2. The rights conferred by section 195 upon members of a company may be exercised, in respect of any subsidiary, by such representatives of the holding company as if they alone were members of the subsidiary.

189. Authentication of balance sheet, profit and loss account, etc.

1. Same as provided by sub-section (2), every balance sheet, and every profit and loss account or income and expenditure account shall be signed on behalf of the Board of Directors –
 - i. in the case of banking company, by the manager, or managing agent, if any, and, where there are more than three directors of the company, by at least three of those directors or, where there are not more than three directors, by all the directors;
 - ii. in the case of any other company, by its managing agent, manager or secretary, if any, and by not less than two directors of the company one of whom shall be the managing director where there is one.
2. When the total number of directors of the company for the time being in Bangladesh is less than the number of directors whose signatures are required by sub-section (1), then the balance sheet and profit and loss account or the income and expenditure account shall be signed by all the directors for the time being in Bangladesh, or if there is only one director for the time being in Bangladesh, by such director but in such case, there shall be attached to the balance sheet, and the profit and loss account or the income and expenditure account a statement signed by such director or directors explaining the reason for non-compliance with the provisions of sub-section (1).
3. The balance sheet and the profit and loss account or income and expenditure account shall be approved by the Board of Directors before they are signed on behalf of the Board in accordance with the provisions of this section and before they are submitted to the auditors for their report thereon.
4. If any copy of a balance sheet or profit and loss account or income and expenditure account, which has not been signed as required by sub-section (1) and (2), is issued, circulated or published without there being Appendixed or attached hereto, as the case may be, a copy of that account, any accounts, reports or statements which, by virtue of section 186 are required to be attached to the balance sheet, the auditors, report, and the Board's report referred to in section 185 or if any default is made, in complying with other requirement of this section, the company and every office of the company who is in

default, shall be punishable with imprisonment for a term which may extend to six months or with fine which may extend to two thousand or with both.

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, managing or secretary of the company or if there be none of these, by director of the company, together with three copies of all documents which are required by this Act to be Appendixed 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, copies of the balance sheet and copies of the profit and loss account shall be filed with the Registrar separately;

Provided further that, in the case of a private company which is not a 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 therefor shall be Appendixed to the balance sheet and to the copies thereof required to be filed with the Registrar.
3. If the 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 willfully authorizes or permits the default shall be liable to the like penalty.

191. Rights of members to copies of account and report:

1. A copy of every balance sheet, including the profit and loss account, the auditors report or the income and expenditure account and every other document required by law to be Appendixed or attached, as the case may be, to the balance sheet, not less than fourteen days before the date of the meeting, be sent free of charge, to every member of the company, to every holder of debentures issued by the company, not being debentures which ex-facie are payable to the bearer thereof, to every trustee for the holders of any debentures issued by the company, whether such member, holder or trustee is or is not entitled to have notices of the general meeting of the company sent to him, and to all persons other than such members, holders or trustees being persons so entitled.

Provided that :

- a. in the case of a company not having a share capital, this sub-section shall not require the sending of a copy of the document aforesaid to a member, or holder of debentures, of the company who is not entitled to have notices of general meetings of the company sent to him;
- b. this sub-section shall not require a copy of the document aforesaid to be sent –
 - i. to a member, or holder of the debentures, of the company who is not entitled to have notices of general meetings of the company sent to him and of whose address the company is unaware;

- ii. to more than one of the joint holders of any shares or debentures none of whom is entitled to have such notices sent to him; or
 - iii. in the case of joint holders of any shares or debentures some of whom are and some of whom are not entitled to have such notes sent to them, to those who are not entitled; and
 - c. if the copies of the documents aforesaid are sent less than fourteen days before the date of the meeting, they shall notwithstanding that fact, be deemed to have been duly sent to the members entitled to vote at the meeting if they do not raise any objection to such sending.
2. Any member or holder of debentures of a company whether he is or is not entitled to have copies of the company's balance sheet sent to him, shall, on demand, be entitled to be furnished without charge, and any person from whom the company has accepted a sum of money by way of deposit shall, on demand accompanied by the payment of fee of ten Taka, be entitled to be furnished with a copy of the last balance sheet of the company and of every document required, by law to be Appendixed or attached thereto, including the profit and loss account and the auditor's report and such documents shall be delivered to him within seven days from such demand.
 3. If default is made in complying with sub-sections (1) and (2), the company, and, also every officer of the company who is in default, shall be punishable with fine which may extend to five hundred Taka.
 4. If, when a person makes a demand for a copy or any document with which he is entitled to be furnished by virtue of sub-section (2) default is made in complying with the demand within seven days after the making thereof, the company, and also every officer of the company who is in default, shall be punishable with fine which may extend to five hundred Taka, unless it is proved that the person had already made a demand for and been furnished with copy of the document; and in case of such default, the Court, apart from imposing the penalty, may also, by order, direct that the copy demanded shall forthwith be furnished to the person concerned.
 5. Sub-section (1) to (4) shall not apply in relation to a balance sheet of a private company laid before it before the commencement of this Act and in such a case the right of any person to have sent to him or to be furnished with a copy of the balance sheet, and the liability of the company in respect of a failure to satisfy that right, shall be the same as they would have been if this Act be had not been passed.

Statement to be published by Banking and certain other Companies

192. Certain companies to publish statement in schedule:

1. Every company being a limited banking company or an insurance company or 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. A copy of the said statement together with a copy of the last audited balance sheet laid before the members of the company shall be displayed and, until the display of the next following statement, kept displayed in a conspicuous place in the registered office of the company, and in every branch office or place where the business of the company is carried on.
3. Every member and every creditor of the company shall be entitled to a copy of the said statement on payment of a sum not exceeding five Taka.

4. 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 everyday during which the default continues; and, also every officer of the company who knowingly and willfully authorizes or permits the default shall be liable to the like penalty.
5. This section shall not apply to a life insurance company or provident insurance society, to which the provisions of the Insurance Act, 1938 (IV of 1938) or any other insurance law for the time being in force as to the annual statement to be made by such company or society apply with or without modifications, if the company or society complies with those provisions.

Investigation by the Registrar

193. Power if Registrar to call for Information or explanation:

1. Where the Registrar, on perusal of any document which a company is required to submit to him under the provisions of this Act, or on receipt of a written objection against an such documents from any member of the company, is of opinion that any information explanation is necessary in order that such document may afford full particulars of the matter to which it purports to relate, he may, by a written order, call on the company to furnish in writing such information or explanation or to produce such books or papers, as may be required by him within such time as he may specify in his order.
2. On the receipt of an order under sub-section (1), it shall be the duty of al persons who are or have been officer of the company to furnish such information or explanation (1) to the best of their power.
3. If such a person refuses or neglects to furnish any such information or explanation, he shall be liable to a fine not exceeding five hundred Taka in respect of each offence and the Court may, on the application of the Registrar and upon notice to the company, make an order on the company for production of such document as in its opinion may reasonably be required by the Registrar for his investigation and allow the Registrar inspection thereof on such terms and conditions as it thinks fit.
4. On receipt of such information or explanation, the Registrar may Appendix the same to the original document submitted to him and any additional document so Appendixed by the Registrar shall be subject to the like provisions as to inspection and the taking of copies as the original documents are subject.
5. If such information or explanation or additional document is not furnished within the time specified by the Court or the Registrar, or if after perusal of such information or explanation or additional document; the Registrar is of the opinion that the document in question discloses an unsatisfactory state of affairs, or that it does not disclose a full, fair, and true, statement of the matters to which it purports to relate, the Registrar may direct the company to correct the documents in the manner directed by him or may report in writing the circumstances of the case to the government.
6. If it is represented to the Registrar on materials placed before him by any member, contributory, creditor or any other person interested that the business of a company is being carried on in fraud of its members, creditors or persons dealing with the company or for a fraudulent purpose that the affairs of the company are not being managed in accordance with the provisions of this Act, he may, after giving the company an opportunity of being heard, by written order, call on the company for information or explanation on matters specified in the order or require the company to produce any document within such time as he may specify in the order and the provision of sub-section (2), (3) and (5) of this section shall apply to such order.
7. If upon investigation, the Registrar is satisfied that any representation on which he has taken action under sub-section (6) is false, frivolous or vexation, he shall disclose the identity of the information to the company.

8. The provisions of this section shall apply mutates mutandis to document which a liquidator is required to file under this Act.

194. Seizure of documents by Registrar:

1. Where, upon any information, the Registrar has reasonable ground to believe that books and papers of or relating to any company or other body, corporate or any managing agent or managing director or manager of such company or other body corporate, or any associate or such managing agent or managing director or manager may be destroyed, mutilated, falsified or secreted the Registrar may make an application to the Magistrate of the first class having jurisdiction for an order for the seizure of such books and papers.
2. After considering the application and hearing the Registrar, if necessary, the Magistrate may, be order, authorize the Registrar –
 - a. to enter, with such assistance as may be required, the place or places where such books and papers are kept;
 - b. to search that place or those places in the manner specified in the order;
 - c. to seize such books and papers as he considers necessary.
3. The Registrar shall return the books and papers seized under this section as soon as may be, and in any case not later than the thirtieth day, after such seizure, to the company, or the other body corporate, or as the case may be, to the managing agent or the associate of such managing agent or managing director or manager or any other person, form whose custody or power they were seized, and shall inform the Magistrate of such return:

Provided that Registrar may, before returning such books and papers as aforesaid, take copies of, or extracts from, them or place identification marks on them or any part thereof or ideal with them in such other manner as he considers necessary.
4. Save as otherwise provided in this section, every search or seizure made under this section shall be carried out in accordance with the provisions of the Code of Criminal Procedure, 1989 (Act V of 1898) relating to search or seizure, made under that Code.

Inspection and Audit

195. Investigation of affairs of company by Inspectors:

The Government may appoint one or more competent inspectors to investigate the affairs of any company and to report thereon in such manner as the Government may direct-

- a. in the case of a company having a share capital, on the application of members holding not less than one-tenth of the shares issued;
- b. in the case of a company not having a share capital, on the application of not less than one-fifth in number of the person on the company is register of members;
- c. in the case of any other company, on a report by the Registrar under section 193(5).

196. Application for inspection to be supported by evidence:

An application by members of a company under section 195 shall be supported by such evidence as the Government may require for the purpose of showing that the applicants have good reason for requiring the investigation; and the Government may also, before appointing an inspector, require the applicants to give security for payment of the costs of the enquiry.

197. Inspection of books and examination of officers:

Without prejudice to its powers under section 195, the Government –

- a. shall appoint one or more competent persons as inspectors to investigate the affairs of a company and to report thereon in such manner as the Government may direct, if the company, by a special resolution or, the Court, by an order, declares that the affairs of the company ought to be investigated by an inspector appointed by the Government; and
- b. may do so if, in the opinion of the Government, there are circumstances suggesting –
 - i. that the business of the company is being conducted with intent to defraud its creditors, members and any other person, or otherwise for a fraudulent or unlawful purpose, or in a manner oppressive of any of its members, or that the company was formed for any fraudulent or unlawful purpose; or
 - ii. that persons concerned in the formation of the company or the management of its affairs have in connection therewith been guilty of fraud, misfeasance or other misconduct towards the company or towards any of its members; or
 - iii. that the members of the company have not been given all the information with respect to its affairs which they might reasonable expect.

198. Firm, body corporate or association not to be appointed inspector:

No firm, body corporate or other association shall be appointed as inspector under section 195 or section 197.

199. Powers of inspectors to carry investigation into affairs of related companies or of Managing agent or associate:

- 1. If any inspector appointed under section 195 or 197 to investigate the affairs of a company thinks it necessary, for the purposes of his investigation, to investigate also the affairs of –
 - a. any other body corporate which is, or was at any relevant time the company's subsidiary or holding company's or a subsidiary of its holding company, of a holding company, of its subsidiary.
 - b. An other body corporate which is to has at ay relevant time been managed –
 - i. by any person as managing agent, or as managing director or as manager, who is, or was at the relevant time, either the managing agent or the managing director or the manager of the company; or
 - ii. by any person who is, or was at the relevant time, an associate of the managing agent; or
 - iii. by any person of whom the managing agent is, or was at the relevant time, as associate; or
 - c. any other body corporate which is, or was at any relevant time, managed by the company or whose Board of Directors comprises of nominees of the company or is accustomed to act in accordance with the direction of –
 - i. the company, or
 - ii. any of the directors of the company, or
 - iii. any company whose directorship is held by the employee of nominee of those having the control and management or the first mentioned company; or
 - d. any person, who is, or was at any relevant time, the company's managing agent, managing director or manager or an associate of such managing agent,

then the inspector shall, subject to the provision of sub-section (2), have power to investigate and shall report on the affairs of the other body corporate, the managing agent, managing director, manager or associate of the managing agent, as far as he thinks that the results of his investigating thereof are relevant to the investigation of the affairs of the first-mentioned company.

3. In the case of any body corporate or person referred to in clause (b) (ii) (iii), (c) or (d) of sub-section (1), the inspector shall not exercise his affairs without first having obtained the prior approval of the government thereto:

Provided that before according approval under this sub-section, the Government shall give the body corporate or person a reasonable opportunity to show cause as to why such approval shall not be accorded.

200. Production of documents and evidence:

1. It shall be the duty of all officers and employees and agents of the company, and where the company is or was managed by a managing agent, of all officers and employees and agent of the managing agent, and where the affairs of any other body corporate or of a managing agent or of an associate of a managing agent are investigated by virtue of section 199, of all officers and employees and agents of such body corporate, managing agent or associate, and where such managing agent or associate is or was a firm of all partners in the firm –
 - b. to preserve and to produce to the inspector or any person authorized by him in this behalf with the previous approval of the government, all books and papers of, or relating to, the company or, as the case may be, of or relating to the other body corporate, managing agent or associate which are in their custody or powers; and
 - c. otherwise to give to the inspector all assistance in connection with the investigation which they are reasonably able to give
2. The inspector may, with the previous approval of the Government, require anybody corporate other than a body corporate referred to in sub-section (1) to furnish such information, or produce such books and papers before, him or any person authorized by him in this behalf with the previous approval of the Government as he may consider necessary, if the furnishing of such information or the production of such books and papers is relevant or necessary for the purposes of his investigation.
3. The inspector may keep in his custody any books and papers produced under sub-section (1) or (2) for six months and thereafter shall return the same to the company, body corporate, firm or individual by whom or on whose behalf the books and papers are produced:

Provided that the inspector may again call for the books and papers if they are needed again:

Provided further that if certified copies of the books and papers produced under sub-section (2), are furnished to the inspector, or shall return those books and papers to the body corporate concerned.

4. An inspector may examine on oath any of the person referred to in sub-section (1) or with the previous approval of the Government, any other person, in relation to the affairs of the company, other body corporate, managing agent or associate, as the case may be, and may administer an oath accordingly and for the purpose may require any of these persons to appear before him personally.
5. If any person fails without reasonable cause or refuses –

- a. to produce to an inspector or a person authorized by him in this behalf with the previous approval of the Government any book or paper which it is his duty under sub-section (1) or (2) to produce; or
 - b. to furnish any information which it is his duty under sub-section (2) to furnish; or
 - c. to appear before the inspector personally when required to do so under sub-section (4) or to answer any question which is put to him by the inspector in pursuance of that sub-section; or
 - d. to sign the notes of any examination referred to in sub-section (6),
- he shall be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to five thousand Taka, or with both, and so also with a further fine which may extend to five hundred Taka for every day after the first during which the failure or refusal continues.
6. Notes of any examination under sub-section (4) shall be taken down in writing and shall be read over to, or by, and signed by, the person examined, and may thereafter be used in evidence against him.
 7. In this section –
 - a. the expression “officers” in relation to any company or other body corporate, includes any trustee for the debenture holders of such company or body corporate;
 - b. the expression ‘agent’ in relation to any company, other body corporate or person, and includes the bankers, and legal division of, and person employed as auditors by such company, body corporate or person; and
 - c. any reference to officers and employees, agents or partners shall be construed as a reference to past as well as present officers and other employees, agent or partners, as the case may be.

201. Seizure of documents by inspectors:

1. Where in the course of investigation under section 195 or section 197, the inspector has reasonable ground to believe that the books and papers of, or relating to, any company or other body corporate or any managing agent or managing director or manager of such company or other body corporate, or any associate of such managing agent may be distorted, mutilated, altered, falsified or secreted, the inspector may make an application to the Magistrate of the First Class having jurisdiction for an order for the seizure of such books and papers.
2. After considering the application and hearing the inspector, if necessary, the Magistrate may order the authorized inspector –
 - a. to enter, with such assistance as may be required, the place or places where such books and papers are kept;
 - b. to search that place or those places in the manner specified in the order; and
 - c. to seize books and papers he considers necessary for purposes of his investigation.
3. The inspector may keep in his custody the books and papers seized under this section for such period not later than the conclusion of the investigation as he considers necessary and thereafter shall return the same to the company or the other body corporate or, as the case may be, to the managing agent or the associate of such managing agent or the managing director or the manager or any other person from whose custody or power they were seized and shall inform the Magistrate of such return:

Provided that the inspector may, before returning such books and papers as aforesaid, place identification marks on them or any part thereof.
4. Save as otherwise provided in this section, every search or seizure made under this section shall be carried out in accordance with the provisions of the Code of Criminal Procedure, 1898 Act, (V of 1898) relating to search or seizure made under the Code.

202. Inspector's report:

1. Inspectors may, and if so directed by the Government shall, make interim reports to the Government, and on the conclusion of the investigation, shall make a final report to the Government; and any such report shall be written or printed, of the Government may direct;
2. The Government –
 - a. shall forward a copy of the final report to the company at its registered office, and also to any other body, corporate, managing agent, or associate if dealt with in the report by virtue of section 199;
 - b. may, if it thinks, fit furnish a copy thereof, on request and on payment of the prescribed fee, to any person –
 - i. who is a member of the company or other body corporate including a managing agent or associate of a managing agent where such managing agent or associate is a body corporate dealt with in the report by virtue of section 199;
 - ii. who is a partner in the firm, where such managing agent or associate is a firm;
 - iii. whose interest as a creditor of the company, other body corporate, managing agent or associate aforesaid appears to the Government to be affected;
 - c. shall, where the inspectors are appointed under clause (a) or (b) of section 195, furnish at the request of the applicants for the investigation a copy of the report of them;
 - d. shall where the inspectors are appointed under clause (a) of section 197 in pursuance of and order of the Court, furnish a copy of the report to the Court; and
 - e. may also cause the report to be published.

203. Prosecution –

1. If, from any report made under section 202 it appears to the Government that any person has, in relation to the company or in relation to any body corporate, managing agent, or association of other body corporate, managing agent, or associate of a managing agent of any person for the offence; and it shall be the duty of all officer and employees and agents of the company, body corporate, managing agent or associate, as the case may be, other than the accused in the proceedings, to give the Government all assistance in connection with the prosecution which they are reasonably able to give.
2. Sub-section (7) of the section 200 shall apply for the purpose of this section as it applies for the purpose of that section.

204. Application for winding up of a company or an order in that behalf –

If any such company or other body corporate or any such managing agent, or associate, being a body corporate, as is mentioned in section 199, is liable to be wound up under this Act, and it appears to the Government from any such report as aforesaid that it is expedient so to do by reasons of any such circumstances as are referred to in sub-clause (1) or (ii) of clause (b) of section 197, the Government may, unless the company, body corporate, managing agent or associate is already being wound up by the Court, cause to be presented to the Court by the Registrar;

- a. a petition for the winding up of the company, body corporate, managing agent, or associate on the ground that it is just and equitable that it should be wound up;
- b. an application for an order under section 233;
- c. both a petition and an application as aforesaid.

205. Proceedings for recovery of damages or property –

1. If from any report made under section 201 it appears to the Government that proceedings ought, in the public interest, to be brought by the company or anybody corporate whose affairs have been invested in pursuance of clause (a), (b) or (c) of section 199;

- a. for the recovery of damages in respect of any fraud, misfeasance or other misconduct in connection with the promotion or formation, or the management of the affairs, or such company or body corporate; or
 - b. for the necessity of any property of such company, or body corporate, which has been misapplied or wrongfully retained;
 - the Government may itself bring proceedings for such purpose in the same of such company or body corporate.
2. The Government shall indemnify such company or body corporate against any costs or expenses incurred by it in, or in connection with any proceedings brought by virtue sub-section (1), if such proceedings are found to be frivolous.

206. Expenses of investigation –

1. The expenses of and incidental to an investigation by an inspector appointed by the Government under section 195 or 197 shall be defrayed in the first instance by the Government but the following persons shall, to the extent mentioned below, be liable to reimburse the Government in respect of expenses of such investigation:
 - a. any person who is convicted on the prosecution instituted in pursuance of section 203, and who is ordered to pay damages or restore any property in the proceedings brought by virtue of section 205, may, in the same proceedings be ordered to pay the said expenses to such extent, as may be specified by the Court convicting such person, or ordering him to pay such damages or restore such property, as the case may be;
 - b.

207. Power of company to appoint inspectors –

1. A company may, by a special resolution, appoint inspectors to investigate its affairs.
2. Inspectors so appointed shall have the same powers and duties as inspectors appointed by the Government, except that, instead of reporting to the government, they shall report in such manner and to such persons as the company in general meeting may direct.
3. All persons who are or were officers of the company shall incur the penalties in case of refusal to produce any book or document required to be produced to inspectors so appointed, or to answer any questions, as they would have incurred if the inspectors had been appointed by the Government.

208. Report of the inspector to be evidence –

A copy of the report of any inspector appointed under this Act authenticated by the seal of the company whose affairs they have investigated, shall be admissible in any legal proceeding as evidence of the opinion of the inspector in relation to any matter contained in the report.

209. Saving for legal adviser and bankers –

Nothing in section 193 to 206 shall require the disclosure to the Registrar or to the Government or to any inspector appointed by the Government –

- a. by legal adviser, of any privileged communication made to him in that capacity, except as respect the name and address of his client; or
- b. by the bankers of any company, other body corporate, managing agent, or associate of the managing agent or managing director or manager referred to in the sections aforesaid, as such banker, of any information as to the affairs of any of there customers.

210. Appointment and remuneration of auditors –

1. Every company shall, at each annual general meeting (AGM) appoint an auditor or auditors to hold office from the conclusion of that meeting until the next AGM and shall within seven days of the appointment, give information thereof to every auditor or auditors.
 Provided that no person can be appointed auditor of any company unless his written consent has been obtained prior to such appointment or re-appointment.
2. Every auditor appointed under sub-section (1) shall, within thirty days of the receipt from the company of the intimation of his appointment, inform the Registrar in writing that he has been accepted, or refused to accept, the appointment.
3. At any AGM a retiring auditor, by whatsoever authority appointed, shall be reappointed, unless –
 - a. he is not qualified for re-appointment; or
 - b. he has given the company notice in writing of his unwillingness to be re-appointed; or
 - c. a resolution has been passed at that meeting appointing somebody else instead of him or providing expressly that he shall not be re-appointed;
 Provided that for the purpose of passing a resolution under clause (c), a notice thereof shall in accordance with section 211 be issued prior to the meeting, and such resolution cannot be passed except on the ground of death, incapacity or dishonesty or disqualification of the retiring vacancy.
4. if an appointment of an auditor is not made at an AGM, the government may appoint a person to fill the vacancy.
5. The company shall, within seven days of the Government power under sub-section (4) becoming exercisable, give notice of that fact to the Government; and, if a company fails to give such notice, the company, and also every officer of the company who is in default, shall be punishable with fine which may extend to one thousand Taka.
6. The first auditor or auditors of a company shall be appointed by the Board of Directors within one month of the date of Registration of the company, and the auditor or auditors so appointed shall hold office until the conclusion of the first AGM:
 Provided that –
 - a. the company may, at AGM, remove any such auditor or all or any of such auditors and appoint in his or their place any other person or persons who have been nominated for appointment by any member of the company, and or whose nomination notice has been given to the members of the company not less than fourteen days before the due date of the meeting; and
 - b. if the Board of Directors fails to exercise its power under this sub-section, the company in a general meeting, may appoint the first auditor or auditors.
8. The Board may fill any casual vacancy in the office of any auditor, but while any such vacancy continues, the remaining auditor or auditors, if any, may act;
 Provided that where such vacancy is caused by the resignation of an auditor, the vacancy shall only be filled by the company in general meeting.
9. Except as provided in the process pursuant to sub-section (7), any auditor appointed under this section may removed from office before the expiry of his term only by a special resolution of the company in the general meeting.
10. The remuneration of the auditors –

211. Provisions as to resolution for appointing or removing auditors:

1. Special notice shall be required for a resolution at an AGM appointing as auditor a person other than a retiring auditor, or providing expressly that a retiring auditor shall not be re-appointed.
2. On the receipt of such notice the company shall forthwith send a copy thereof to the retiring auditor,
3. Where such notice is given and the retiring auditor makes with respect thereto representation in writing to the company and requests their notification to members of the company, the company shall, unless the representation are received by it too late for it to do so

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- b. in any notice of the resolution given to members of the company, state the fact of the representation having been made; and
- c. send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company, and if a copy of the representation, is not sent as aforesaid because they were received too late or because of the company default, the auditor may, without prejudice to his right to be heard orally, require that the representation shall be read out at the meeting.
Provided that the copies of the representations need not be sent out and the representations need not be read out at the meeting if, on the application either of the company or of any other person who claims to be aggrieved, the court is satisfied that the rights conferred by this sub-section are being abused to secure needless publicity for defamatory matter; and the court may order the company's costs on such an application to be paid whole or in part by the auditor, notwithstanding that he is not a party to the application.
4. Sub-section (2) and (3) shall apply to a resolution to remove the first auditors or any of them under sub-section (6) of section 210 or to the removal or any auditor or auditors under sub-section (8) of that section, as they apply in relation to a resolution that a retiring auditor shall not be re-appointed.

212. Qualification and disqualification of auditors:

1. No person shall be appointed as auditor of any company unless he is a "chartered accountant" within the meaning of the Bangladesh Chartered Accountants Order, 1973 (P.O. No. 2 of 1973):

Provided that a firm whereof all the partners practicing in Bangladesh are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of company in which case any of the auditors so practicing may act in the name of the firm.

2. None of the following persons shall be qualified for appointment as auditor of a company namely –
 - a. an officer or employee of the company;
 - b. a person who is partner, or who is in the employment of an officer or employee of the company;
 - c. a person who is indebted to the company for an amount exceeding one thousand Taka, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand Taka;
 - d. a person who is a director or member of a private company, or a partner of a firm, which is the managing agent of the company;
 - e. a person who is a director, or the holder of shares exceeding five percent in nominal value of subscribed capital, of any body corporate

which is the managing agent of the company.

Provided that where any shares held by a person as nominee or trustee for any third person and in which the holder has no beneficial interest such shares shall be excluded in computing the extent of the subscribed capital for the purpose of this clause.

3. A person shall not be qualified for appointment as an auditor of a company, if –
 - a. he according to sub-section (2), is qualified for appointment as auditor of any other body corporate which is that company's subsidiary or holding company or a subsidiary of that company's holding company;
 - b. he would be disqualified for such appointment, had the said body corporate been a company.
4. If an auditor becomes subject, after his appointment to any of the disqualification's specified in sub-section (2) and (3), he shall be deemed to have vacated his office as such.

213. Powers and duties of auditors:

1. Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, whether kept at the head office or the company or elsewhere and shall be entitled to require from the officers of the company such information and explanation as the auditor may think necessary for the performance by his duties as auditor.
2. Without prejudice to the provisions of sub-section (1), the auditor shall, in particular inquire into following namely –
 - a. Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudice to the interest of the company or its members;
 - b. Where the company is not an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities, have been sold at price less than at which they were purchased by the company;
 - c. Whether loans and advances made by the company have been shown as deposits;
 - d. Whether transactions of the company which are represented merely as book-entries are prejudicial to the interests of the company;
 - e. Whether personal expenses have been charged to revenue account;
 - f. Where it is stated in the books and paper of the company that any shares have been allotted for cash, whether cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.
3. The auditor shall make a report to be presented in the AGM of the company on the accounts examined by him, and on every balance sheet and profit and loss account and on every other document declared by this Act to be part of or Appendixed to the balance sheet or profit and loss accounts which are laid before the company in general meeting during his tenure of office and the report shall state whether, in his opinion and to the best of his information and according to the explanation given to him, the said accounts give the information required by this Act in the manner so required and give a true and fair view

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- a. in the case of the balance sheet, of the state of the company's affairs as at the end of its financial year;
 - b. in the case of the profit and loss account, of the profit or loss for its financial year.
4. The auditors' report shall also state –
- a. whether he has obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purposes of his audit;
 - b. whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
 - c. whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.
5. Where any of the matters referred to in clause (a) and (b) of sub-section (3) or in clause (a), (b) and (c) of sub-section (4) are answered in the negative or with a qualification, the auditors' report shall state the reason for the answer.
6. The Government may, by general or special order, direct that in the case of such class or description of companies as may be specified in the order, the auditors' report shall also include a statement on such matters as may be specified therein.
7. The accounts of a company shall not be deemed as not having been and the auditors' report shall not state that those accounts have not been, properly drawn up on the ground merely that the company has not disclosed certain matters, of –
- a. those matters are such as the company is not required to disclose by virtue of any provision contained in this Act or any other law for the time being in force; and
 - b. those provisions are specified in the balance sheet and profit and loss account of the company.

214. Audit of accounts of branch office of company-

1. Where a company has a branch office, the accounts of that office shall, be audited by the company's auditors at their option, or whose the branch office is situated either by the company's auditor or by a person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country, if so decided by the shareholders in a general meeting.
2. Where the accounts of any branch office are audited by a person other than the company's auditor, the company's auditor -
 - a. shall be entitled to visit the branch office, if he deems it necessary to do so for the performance of his duties as auditor; and
 - b. shall have a right of access at all times to the books and accounts and vouchers of the company maintained at the branch office;

Provided that in the case of a banking company having a branch office outside Bangladesh, it shall be sufficient if the auditor is allowed access to such copies of, and extracts from the books and accounts of the branch as have been transmitted to the principal office of the company in Bangladesh.

215. Signature of the audit report, etc –

Only the person appointed as auditor of the company, or where a firm is so appointed in pursuance of the proviso to sub-section (1) of section 212, only a partner in the firm practicing in Bangladesh shall put his signature on the auditor's report, or any other document required of the company by law to be signed or authenticated by the auditor.

216. Reading and inspection of auditor's report: The auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.
217. Rights of auditor to attend general meeting: All notices of and other communication relating to any general meeting of a company which any member of the company is entitled to have sent to him shall also be forwarded to the auditor of the company, and the auditor shall be entitled to attend any general meeting and to be heard at any general meeting which he attends on any part of the business which concerns him as auditor.
218. Penalty for non-compliance by auditor with section 211 to 217: If default is made by a company in complying with any of the provisions contained in section 211 to 217, the company, and also every officer of the company who is in default, shall be punishable with fine which may be extended to one thousand Taka.
219. Penalty for non-compliance by auditor with section 213 and 215: If any auditor's report is made or any document of the company is signed or authenticated otherwise than in conformity with the requirement of section 213 and 215, the auditor concerned, and any other person, who signs the report or signs, or authenticates the document, shall if the default is willful, be punishable with fine which may extend to one thousand Taka.
- 220. Audit of certain matters by Cost and Management Accountants:**
1. Where in the opinion of the Government, it is necessary to do in relation to any company required under clause (d) of sub-section (1) of section 181 to include in its books of accounts the particular referred to therein the Government may, by order, direct that an audit of cost accounts of the company shall be conducted in such manner as may be specified in the order by an auditor who shall be a "cost and management accountant" within the meaning of the Cost and Management Accountants Ordinance, 1977 (LIII of 1977).
 2. An audit conducted by an auditor under this section shall be in addition to an audit conducted by an auditor appointed under section 210.
 3. The provision relating to audit of a company specified in this Act mutates mutandis, and so far as they are applicable, apply to an audit conducted under this 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, willfully 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-3

The Securities and Exchange Rules, 1987.

Section 11: Listing of a Security: An application for listing a security on a stock exchange shall be made by the issuer to the stock exchange in form III.

Section 12: Submission of Annual Report by the Issuers: [1]⁵ The annual report required by section 11 to be furnished by an issuer of a listed security shall include a balance sheet, profit and loss account and cash flows statement, and notes to be accounts, collectively herein after referred to as the financial statements.

[2]¹ The financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the Schedule and the International Accounting Standards⁶ as adopted by the Institute of Chartered Accountants of Bangladesh.

[3]¹ The financial statements of an issuer of a listed security shall be audited by a chartered accountant in practice within the meaning of the Bangladesh Chartered Accounts Ordinance, 1973 (P.O. 2 of 1973) in accordance with the International Standards Auditing⁷ as adopted by the Institute of Chartered Accountants of Bangladesh and the report of the auditors shall be in Form "B" Appendixed to the schedule

Further, according to the Proviso that were inserted by notification No. SEC/Section-7/SER-1987/143 dated 19 May 1999, notwithstanding anything contained in this rule, an issuer of a listed security shall also have his accounts audited by an auditor who is a Chartered Accountant appointed by the Commission, whenever such audit is required by the Commission in the public interest and the auditor so appointed shall furnish his report to the Commission in such form and within such time as the Commission may specify, provided further that the fee for such audit and all other expenses in relation thereto shall be borne by the issuer concerned.

(4) Every issuer shall furnish the annual report, together with the Balance Sheet and the Profit and Loss Account referred to in sub-section (1) to the shareholders at least fourteen days before the general meeting of the shareholders of the issuer at which the report is to be laid before them and shall simultaneously furnish a copy of such report to the stock exchange or exchanges on which its securities are listed and to the Commission⁸.

(5) Notwithstanding anything contained in sub-rule (4), the first annual report to be furnished by an issuer shall be in respect of the year of account of the issuer ending after the commencement of these rules.

(6) An issuer shall, within three months of the general meeting referred to in sub-rule (4), submit to the Commission a list of the members of the issuer stating the facts as they stood on the date of that general meeting.

(7) The list required to be submitted under sub-rule (6) shall be the list required by section 36 of the Companies Act, 1994 (XVIII of 1994) to be submitted to the Registrar of Joint Stock Companies.

(8) An annual report referred to in sub-rule (1) shall, in addition to the matters required to be included therein by the Ordinance, these rules or any other law for the time being in force include such other statements, reports, documents, information or explanation relating to its affairs as the Commission may, by order in writing, require from time to time.

⁵ Sub-rule (1), (2) and (3) were substituted by notification No. SEC/Section-7; SER-03/133 dated 22 October 1997.

⁶ International Accounting Standard refers to the accounting standards issued by the International Accounting Standards Committee.

⁷ International Standard of Auditing refers to the auditing standards issued by the International Auditing Practices Committee of the International Federation of Accountants.

⁸ The word [Commission] was substituted for the word [Government] by notification No. SEC/Section-7/SER-1987/143 dated 19 May 1999.

Section 13: Submission of half-yearly report by issuers: Every issuer shall, within one month of close of the first half-year, prepare and transmit to the stock exchanges on which its securities are listed, to its securities holders and to the Commission a balance sheet, profit and loss account and cash flows statement in Form “C” Appendixed to the schedule or as near thereto as circumstances may admit, for the half-year, whether, audited or otherwise.

Section 13A: Adaptation or amendment of forms: 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).

Section 14: Mode of filing or submission of return / reports, etc.: Any person by the Ordinance or any of these rules to furnish any document, statement, return or report to the Commission or Stock Exchange and other agencies shall furnish it, either in person or through an agent, or send it by registered post.

Section 15: Risk-based capital adequacy requirements: (1) A member shall at all times maintain a net capital balance as required under sub-rule (2) of rule 3 for the purpose of his business and the aggregate indebtedness ratio between his net capital and aggregate liabilities shall, at no time, exceed the ratio of 1:20.

(2) If a member fails to maintain the aggregate indebtedness ratio as specified in sub-rule (1), he shall forthwith cease to carry on his securities business, otherwise than for the purpose of giving effect to any agreement or arrangement entered into before such failure, and inform the Stock Exchange and the Commission about such failure.

Appendix-3 (a)

FORM B

[Rule 12(3)]

Form of the Auditor’s Report

We have examined the Appendixed Profit and Loss Account for the period from to and also the Appendixed Balance Sheet of Ltd. as atand we state that we have obtained all their formation and explanations which we required and, after due verification thereof, we report that,

- (b) in our opinion, proper books of accounts have been kept by the company as required by Companies Act 1994.
- (c) in our opinion, the Balance Sheet and the Profit and Loss Account have been drawn up
 - i. in conformity with the Companies Act, 1994 or 1913 and
 - ii. in accordance with the requirements of the Schedule to the Securities and Exchange Rules, 1987;
- (d) in our opinion and to the best of our information and according to the explanation given to us –
 - i. the Balance Sheet and Profit and Loss Account which are in agreement with the books of account exhibit a true and correct view of the state of the company’s affairs; and

- ii. the expenditure incurred was for the purpose of the company's business.

Chartered Accountant

Appendix-3(b)

FORM C
(Rule 13)
FORM OF HALF-YEARLY REPORT

Item	Current half-year (‘000 Taka)	Previous half year (‘000 Taka)	Growth (%)
..... Ltd.			
BALANCE SHEET as at			
Fixed Assets			
Long-term investment, loans and advances			
Long-term prepayment and deferred costs			
Total long-term assets			
Current assets:			
Investors			
Debtors			
Advances, Deposits and Prepayments			
Short-term investment			
Cash and bank balances			
Total current assets			
Less Current Liabilities:			
Bank loans, overdrafts and credits			
Creditors and accruals			
Total current liabilities			
Net Working Capital			
Net Assets			
Financed by:			
Current Liabilities			
Shareholders' equity:			
Share Capital			
Share premium and revenue reverses			

Capital reserves
 Retained earnings
 Total Shareholders equity
 Total long-term liabilities and equity

PROFIT AND LOSS ACCOUNT

For the half year ended

Turnover and other income

Cost and expenses:

Cost of goods sold

Administrative expenses

Selling and distribution expenses

Interest expenses

Total costs and expenses

Net Profit before income tax

Provision for income tax

Net Profit

CASH FLOWS STATEMENT

For the half-yearly ended

Cash flows from operating activities:

Collection from turnover and other income

Payment for costs and expenses

Income tax paid and or deducted

Cash-flows from investing activities:

Acquisition of fixed assets

Acquisition of long-term assets

Sale proceeds of long-term assets

Cash flows from financing activities:

Issue of shares at par / premium

Loans received

Loan repaid

Dividend paid

Net cash inflows / (outflows) for the half-year

Opening cash and bank balances

Closing cash and bank balances

Managing Director

Chief Accounting Officer

CHAPTER-4

AN EMPIRICAL STUDY ON TRANSPARENCY IN FINANCIAL REPORTING IN BANGLADESH

4.1 Conceptualizing Transparency

There is a general societal concern that organizations of all kinds—businesses, non-profits, governments, religious groups—and individuals in a position of power or public responsibility have an obligation to proactively tell the truth about what is wrong and right, about their actions and activities (Leffel, 2004). Viewed historically, the public demand for transparency has been growing since the signing of the Magna Carta in England, which was in reality, a demand for information and therefore power sharing (Ibid). Oliver (2004) defines the concept of transparency as openness in every area of business, explaining its role in the global economy that can be leveraged to give companies a competitive edge. Among the advantages are giving shareholders confidence in their company's profits; open, accessible leaders who promote loyalty and productivity; and clearly defined policies and goals that make a department run smoothly. While investigating corporate transparency, Bushman, Piotroski and Smith (2004) define transparency as the availability of firm-specific information to those outside publicly traded firms. They conceptualize corporate transparency within a country as output from a multifaceted system whose components collectively produce, gather, validate, and disseminate information. They also divided transparency into two factors. The first factor, interpreted as financial transparency, captures the intensity and timeliness of financial disclosures, and their interpretation and dissemination by analysts and the media. The second factor, interpreted as governance transparency, captures the intensity of governance disclosures used by outside investors to hold officers and directors. On the other hand, Carey and Parker (2002) view the qualitative nature of transparency in the sense that with the increased ability to provide more information comes the increased responsibility to make that information accessible and meaningful to those that will use it. They argue that the gap between the information available and users' ability to use it effectively is huge and growing. There are evidences found for making the transparency mandatory in the developed nations. For instance, New Transparency Rules were introduced on 20 January 2007 to implement the EU Transparency Directive in the UK. The Rules are contained in the Disclosure Rules

Sourcebook which has been renamed the "Disclosure and Transparency Rules". They require companies with securities admitted to trading on a regulated market to produce annual and half yearly financial reports (including financial statements, a management report and responsibility statement) and, for equity issuers only, two other interim management statements a year. The periodic financial reporting requirements apply for financial periods beginning on or after 20 January 2007 (Simmons & Simmons, 2007). In its simplest terms, transparency has three main elements: an observer; something available to be observed; and a means or method for the observation. Each of these three elements is changing substantially. Technology alters the observation method constantly. Information available to almost anyone today may have been buried yesterday (Leffel, 2004). It should be worth to mention that there are needs to understand transparency. First, organizations need to understand that transparency is a journey not a destination. No country, no company, no organization, no individual is inherently transparent. It takes hard work and commitment to achieve it. Plus some organizations confuse information overload with transparency. If the meaning and context of the information is not clear or is buried in footnotes, there is no real communication.

However, there are some organizations that consistently display a culture of openness. One example would be British Petroleum, an oil company that meets regularly with stakeholders (including environmental groups) and reports on all its global activities in amazing detail. Two organizations that are refreshingly transparent with consumers are CarMax and Progressive Insurance. CarMax displays its entire inventory on its web site, with photos and prices, and pays its sales people a flat fee on any vehicle sold. Progressive will give quotes on not only its own policies, but those of its competitors as well, even if they are lower. All three of these organizations have seen a big payoff in terms of profits and stock price; they are clear leaders in their industries. There are certainly short-term payoffs when manipulating the truth, but the long-term consequences can be devastating. It is obviously true that who are most transparent, and constantly work at it, will be the winners in the days ahead.

Increased globalization of financial and product markets has raised the interest of both market participants and regulators in the quality of financial reporting worldwide (Kothari, 2001). Market participants seek high-quality financial information because it mitigates

information asymmetry between the management of the firm and outside investors. Reduced information asymmetry has effects on the cost of capital and the volatility of security prices. These benefits motivate regulators around the world to strive for high quality accounting standards. The quality of reported financial information, however, is influenced not simply by the quality of accounting standards, but also by other institutional factors that affect the demand for and the supply of financial information. The salient institutional factors are the nature of corporate governance (diffuse shareholder model versus concentrated ownership, stakeholder model), the legal system, and the existence and enforcement of laws governing investor protection and disclosure standards (Ibid).

Because of the belief on the fact that high quality financial reporting can ensure the stability of capital markets, there is a consensus for the demand of such reporting among regulators and investors. Levitt (1998) firmly believes that the success of capital market is directly dependent on the quality of accounting and disclosure systems. Disclosure systems that are founded on high-quality standards give investors confidence in the credibility of financial reporting—and without investor's confidence, markets cannot thrive (Ibid).

4.2 The Goal of the Study

The main goal of this chapter is to evaluate financial transparency in Bangladesh by the different economic entities like the listed and non-listed public and government concerns, non-listed small and medium enterprises (SMEs) and the small firms managed and owned by a single individual. These three categories of enterprises / firms can reflect the overall reporting system in any country. However, the study, to a lesser extent, finds the reporting and hence transparency of developing countries. One way of measuring reporting and transparency could be examination of application and usefulness of international accounting standards (IASs)¹. But countries like Bangladesh are not in a

¹ Accounting standards are authoritative statements of how particular types of transaction and other events should be reflected in financial statements. Accordingly, compliance with accounting standards will normally be necessary for the fair presentation of financial statements.

Standards issued by the International Accounting Standards Board are designated "International Financial Reporting Standards" (IFRSs), while the statements of International Accounting Standards issued by the Board of the International Accounting Standards Committee (1973-2001) continue to be designated "International Accounting Standards" (IASs). The *Preface to*

position to fulfill the international requirements. One of the best alternatives is the application of guidelines developed by UNCTAD based on OECD guidance. It might be possible to draw a conclusion by applying those guidelines, on whether or not countries like Bangladesh have good reporting environment. If the reporting environment would be found inadequate the study will find out the causes behind such an environment. On the other hand, if this is found appropriate, we shall try to find out the ways of developing the environment for long term.

4.3 Review of Literature and Rationale of the Study

Businesses have been reporting financial results since the early Babylonian, Greek and Roman civilizations. While financial reporting has changed since those early times, financial and business reporting is now changing faster than ever as we have moved from the industrial age to the information age (Davis, 2001). At the present stage, financial accounting is treated as the product of corporate accounting and external reporting systems that measure and routinely disclose audited, quantitative data concerning the financial position and performance of the entities / firms. Audited balance sheets, income statements, and cash flow statements, along with supporting documents, form the foundation of the firm-specific information set available to investors and regulators. But developing and maintaining a sophisticated financial disclosure regime is not cheap (Bushman and Smith, 2002). Because it is seen that countries with highly developed securities markets devote substantial resources to producing and regulating the use of extensive accounting and disclosure rules that publicly traded firms must follow. These resources include financial as well as opportunity costs associated with deployment of highly educated human capital, including qualified accountants and auditors, lawyers, academicians, and politicians (Ibid).

International Financial Reporting Standards issued in 2002 makes it clear that IFRSs include IASs.

The Interpretations of International Accounting Standards issued by the International Financial Reporting Interpretations Committee (IFRIC) (formerly, the "Standing Interpretations Committee" (SIC)) do not have the same status as IAS, but, in accordance with IAS 1, *Presentation of Financial Statements*, paragraph 11, "financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable interpretation of the Standing Interpretations Committee". (International Accounting Standards Board, 14 January 2004).

Economic development, development in financial sector, and accounting disclosure are found positively related by King and Levine (1993), Jayaratne and Strahan (1996), Levine (1997), Demircuc-Kunt and Maksimovic (1998), Rajan and Zingales (1998), Bushman and Smith (2002), Ricol (2004) and Ward (2004) and many others. International Federation of Accountants publishes its Task Force Report (2003) stating that that investors' confidence is crucial for investments whereas greater accountability for the information, financial management and internal controls are the necessary conditions to produce trustworthy information which is positively related to confidence. Muis (2004) and Temple (2002) are also in the opinion that better accounting and financial reporting and stronger auditing are necessary for a sound business environment in any country. Glassman (2003) states that capital is the engine of any economy, and information is the oil that keeps the engine running smoothly.

While "quality" of accounting information and "transparency" of a disclosure system or accounting standards are commonly and interchangeably used, a precise definition of quality or transparency that everyone agrees on has been elusive (Kothari, 2001). Pownall and Schipper (1999) define transparency as "*standards that reveal the events, transactions, judgments, and estimates underlying the financial statements, and their implications*". Levitt (1998) defines good accounting standards as those that "produce financial statements that report events in the periods in which they occur, not before, and not after."

Ball, Kothari, and Robin (2000) and Ball, Robin, and Wu (1999) interpret transparency as a combination of the properties of timeliness and conservatism. Timeliness is the extent to which current-period financials incorporate current-period economic events, and conservatism is the greater speed with which financials reflect economic bad news than good news. The latter definition seeks to take into account management's asymmetric incentives such that its reporting of good news is not credible, but bad news reporting is credible. There are evidences around the world that the countries that have experienced long period of poor transparency and low growth rate suggest that poor transparency may have adverse affect on long term growth as well (Compos and Hilton, 1994). There are more empirical studies covering the impacts of transparency both at micro and macro levels. At the micro level for example, Myers and Majluf (1984) argue that managers will borrow rather than issue equity when they have private information about

the firm's profit. At the macro level, recent attentions have been paid to the relationship between international common lenders' behavior and poor transparency. For example, Calvo (1999), Calvo and Mendoza (1999), and Kodres and Pritsker (1998) show that costly information about international investments can produce herding and contagion effects. Zeira (1999) shows that poor transparency may lead to "informational overshooting" in the stock market.

Benefits from financial disclosure explain the demand for high quality accounting standards and disclosure systems. The theoretical literature shows that both mandated and voluntary disclosures reduce information asymmetries among informed and uninformed market participants (Diamond and Verrecchia 1991). Reduced information asymmetry lowers (the information asymmetry component of) the cost of capital by shrinking bid-ask spreads, enhancing trading volume, and diminishing stock-return volatility (Leuz and Verrecchia 2000). A link between all three of these effects and the cost of capital is developed theoretically and empirically in Stoll (1978), Glosten and Milgrom (1985), Admati and Pfleiderer (1988), and Amihud and Mendelson (1986 and 1989).

There is an emerging literature on the interplay between the effectiveness of legal systems in protecting shareholder and creditor rights and corporate finance, as well as the development of capital markets in an economy. The literature is available in Hart (1995); La Porta, Silanes, and Shleifer (1999); La Porta, Silanes, Shleifer, and Vishny (1997, 1998, 1999a, 1999b, and 2000); and Bhattacharya and Daouk (2000). Certain rights empower shareholders in that they can replace directors, and creditors have the right to repossess collateral (La Porta et al. 1998). Alternatively, a well-functioning legal system can also protect investor interests by enforcing their rights through shareholder litigation against the management and directors who are expropriating their wealth. Potential shareholders and creditors are more willing to provide external finance to firms if the legal system protects their rights than if investor protection laws and enforcement of those laws are lax. Recent evidence documents a link between investor protection and the extent of external finance and ownership patterns (Kothari, 2001).

Financial information, nevertheless, is the key source of quantitative representation of individual corporations / firms that enhances the *information environment* more generally by disciplining the unaudited disclosures of managers and supplying input into the

information processing activities. This is, in fact, a way of creating corporate governance where corporate reporting is an integral part of different components of corporate governance mechanisms². The fundamental feature of corporate reporting with a view to enhance the *information environment* is corporate transparency, defined as the widespread availability of relevant, reliable information about the periodic performance, financial position, investment opportunities, governance, value, and risk of publicly traded firms (Bushman, Piotroski, and Smith, 2001). Ball (2004), Bushman and Smith (2000), Faucault (1996), Miller and Ross (1990) and Wheeling (1996) also provide the same opinion in their research works.

The crisis of Fordism explains why the demand for information became prevalent in the late 1960's and early 1970's (Wheeling, 1996) when nation-states lost control over financial markets and Multinational Corporations (MNCs), governing became more and more distant. Governing for the liberal state became more and more dependent on bodies of experts, including the accounting profession. Accountants not only were the mechanism by which MNCs were monitored, but became the rule-makers, as standard-setting bodies began to establish rules for accounting procedures, both on the national and international level. The fall of profitability and productivity of corporations bound them to go to global markets and operations the technique of gathering information became more important to govern the subsidiaries 'at a distance'. New technology enabled decision-making to transcend time and space limitations. These conditions, along with increased competition and recession, "put a premium on 'smart' and innovative entrepreneurial", requiring well-informed decision-making. Whereas Offe (1985) and Lash and Urry (1987) argued that capitalism is a disorganized system of economy, Harvey (1990) disagrees stating that capitalism is becoming *more* organized through the increasing access to and control over accurate and up-to-date information, which is essential to centralized control over distant corporate interests. "The capacity for instantaneous response to changes in exchange rates, fashions and tastes, and moves by competitors is more essential to corporate survival than it ever was under Fordism" (Harvey, 1990, p. 159). As a result information, including accounting

²Other mechanisms include board composition, stockholdings of inside and outside directors, ownership concentration, and the structure of executive compensation (Bushman and Smith, 2002).

information, becomes a highly valued commodity (Wheeling, 1996). The demand for accounting information in this environment was unprecedented and helps explain, along with governmentality, the focus on establishing a common business language in the form of uniform accounting standards with a view to survive and growth and hence overall economic development. These circumstances in the world political economy enabled the development of international accounting standards to begin.

Although the concept 'corporate governance' is widely discussed these days, there were discussions and researches on it at the beginning of the 19th century. However, formal research on this point was done in 1932 by Berle and Means (1932) where they argued that effective control over publicly traded corporations was not being exercised by the legal owners of equity - the shareholders, but by hired, professional managers. Taking this special characteristic of companies, it is not unnatural that there are potential aspects of conflicts between the owners and managers. Objectively verifiable accounting information facilitates shareholders monitoring their rights, enables directors to enhance shareholder value by advising, ratifying, and policing managerial decisions and activities, and supplies a rich array of contractible variables for determining the financial rewards from incentives plans designed to align executives' and investors' financial interests. It is evident from Ball (2001) that timely incorporation of economic losses in the published statements increases the effectiveness of corporate governance, compensation systems, and debt agreements in motivating and monitoring managers. For example, the governance role of financial accounting information contributes directly to the economic performance by disciplining efficient management of assets in place by timely abandonment of losing projects, better project selection, and reduced expropriation of investors' wealth by managers. Subtracting the costs of quality audit and legal expenses necessary to run corporate governance from the benefits generated, simply, we can say that corporate governance can create value in the economy in general and in the firm in particular. Johnson and Shleifer (2003) recently provide arguments and evidences that countries with more investor protection have better developed financial markets and more growth. Corporate governance structures are conducive in ensuring proper and timely disclosure of firms' activities in the ways like, firstly, it ensures that minority shareholders receive reliable information about the value of firms and that a company's managers and large shareholders do not cheat them out of the value of their investments and, secondly, it motivates managers to maximize firm value instead of

pursuing personal objectives. On the other hand, corporate transparency measures fall into three categories (Bushman, et.al. 2002) namely (i) measures of the quality of corporate reporting, including the intensity, measurement principles, timeliness, and credibility (that is, audit quality) of disclosures of firms listed domestically (ii) measures of the intensity of private information acquisition, including analyst following, and the prevalence of pooled investment schemes and of insider trading activities, and (iii) measures of the quality of information dissemination, including the penetration and private versus state ownership of the media.

Both the elements stated above – the corporate governance and the corporate transparency – contribute to the development of financial markets and institutions of a country or of the world as a whole. There is a growing body of evidence that the development of country's financial sector facilitates its overall economic growth. Remarkably, Levin (1997) presents a framework where he states that a well-developed financial sector facilitates the allocation of resources by serving five functions: to mobilize saving, facilitate risk management, identify investment opportunities, monitor and discipline managers, and facilitate the exchange of goods and services by reducing information and transaction costs in an economy. By examining, explicitly, the research works on the role of a country's corporate disclosure regime in the efficient allocation of capital, Bushman and Smith (2002) find encouraging evidence of a positive relation between quality of a country's corporate disclosure regime and economic performance.

On the other hand, it is also important to consider that the early release of public information can destroy risk-sharing opportunities (Hirshleifer 1971; Marshall 1974); signaling of private information can result in over investment or other misallocations of capital (Spence 1973); more frequent reporting of information can increase moral hazard costs by increasing the scope of strategic behavior available to managers (Holmstrom and Milgrom 1987; Abreu et al. 1991; Gigler and Hemmer 1998); information release can complicate contract renegotiation and impose agency costs if parties cannot commit not to renegotiate contracts (Laffont and Tirole 1990; Demski and Frimor 1999); public release of proprietary information can distort investment behavior (Darrough 1993). Despite the clear benefits from increased disclosure, a corner solution of maximum disclosure is not observed because of potential costs of disclosure, which include direct costs, litigation costs, and proprietary costs. Disclosure of news about improved

prospects that are uncertain and unverifiable at the time of disclosure exposes a firm to potential litigation, should the eventual outcome be unfavorable. Finally, because of the proprietary nature of information, disclosure can be competitively disadvantageous. For all these reasons, an interior solution to disclosure is optimal.

Although, information and hence disclosure environment is an important component in any market, research works on it is not seen in the developing part of the world, especially in the countries like Bangladesh. Recently, two research works done by Aktharuddin (2005) and Karim (2005) on the financial disclosure in Bangladesh are found worthy but these also do not cover the whole disclosure environment in Bangladesh. To have a concluding remark on this aspect, any research should cover the different types of economic entities like listed and unlisted companies, government enterprises and small and medium enterprises / firms.

4.4 Evaluation of Disclosure in Bangladesh

From now onwards, we will be concerned about finding financial disclosure in Bangladesh in different sectors by different economic entities. To accomplish the task, three steps are taken.

In the first step we will examine the disclosure situation in different sectors, viz. the disclosure scenarios in government enterprises, multinational enterprise, and companies listed in different stock exchanges in Bangladesh. In this step, we will look at various legal and institutional arrangements, governance system, disclosure practices, various published and unpublished research works, various reports published by the World Bank, ADB, UNCTAD and opinions obtained from related personnel to have a conclusion on each of the sectors.

In the second step we will evaluate the published and unpublished reports of some sample entities with a view to find out the degree of disclosure in Bangladesh. In this section we have included non-listed private companies and the non-listed small and medium enterprises (SMEs³) and owner-managed small firms since these entities also contribute to the national economy of Bangladesh. As a result, without knowing the disclosure of those entities, it will not be wise to draw any conclusion about the overall

³ A Brief Introduction to SMEs in Bangladesh is provided in Appendix-15 along with their contribution to national economy and problems and prospects.

financial reporting and transparency of Bangladesh. Here the UNCTAD guidelines for evaluating financial disclosure have been taken as bases (a description of such guidelines is given later on). To accomplish the task, we have broadly divided all the entities into three levels as per UNCTAD guidelines. The first level (Level I⁴) includes the listed and multinational companies (hereafter LC), the second level (Level II⁵) includes non-listed big government and private companies (hereafter NLBGPC) and the third level (Level III⁶) includes smallest entities that are owner-managed (hereafter SE). We have taken published and unpublished reports of entities from different levels over the period of 1999 to 2002. The following Table-1 shows the Data Bank created for this purpose:

Table-1
Samples⁷ for Evaluation

Level	Name of the Group(s) and Description	Samples
Level I (LC)	Public limited companies and listed Including Multinationals	40
Level II (NLBGPC)	Government Entities and limited companies not listed	40
Level III (SE)	Small owner-managed Firms	40
Total		120

Note: A short description of different entities in the economy of Bangladesh is given in Appendix-13 and the contribution of SMEs to the national economy is given in Appendix-14.

All the companies taken together might provide an overall position of the disclosure environment in Bangladesh. The UNCTAD guidelines provide items to be included in the financial statements or reports to judge the transparency of each level of entities. We

⁴ *Level 1 (SE)*: Listed entities whose securities are publicly traded and those with a significant public interest should follow IFRS.

⁵ *Level 2 (NLBGPC)*: Significant commercial, industrial and business entities that issue neither public securities nor financial reports to the general public may follow a single set of requirements derived from the IFRS.

⁶ *Level 3 (LC)*: The smallest entities that are owner-managed and have few employees should follow a simple accruals-based accounting system, closely linked to cash transactions, and with a derogation for businesses to use cash accounting for a limited time when establishing their accounting systems.

⁷ A short description of population and selecting samples is provided in the next Section in this chapter.

have taken those items for evaluating the overall disclosure scenario in Bangladesh. We have used various statistical tools and packages in this step.

The third step is to search for finding the overall condition of financial disclosure in Bangladesh. If would be found up to the mark, we may go for further development. Again, if the condition would be found less satisfactory, we shall try to out the causes of less satisfactory disclosure in Bangladesh.

4.5.1 A Short Description on Population and Selecting Samples

To know the real situation of disclosure in Bangladesh, we have taken the annual reports (published and published but not widely circulated) of the level I and Level II and unpublished owner-made accounts of Level III categories of companies and of firms as per UNCTAD Guidelines. For each category of the enterprises, 40 samples have been taken and hence a total number of 120 samples have been selected. It should be worth to note how the samples have been selected. In Bangladesh there are around 40 state-owned corporations and they have 200 subsidiary enterprises. The entities are involved in key sectors of the economy (public sector market share in parentheses) –notably gas (80% generation and 100% in T&D), petroleum (100%), telecommunications (100% in urban fixed phones), fertilizer (90%), jute goods (70%), sugar (100%), urban water supply (100%), ports (100%), railway (100%), aviation and banking (56%) (Statistical Year Book, 2005). On the other hand, the data of the National Private-Sector of Enterprises in Bangladesh indicate that there are close to six million micro, small, and medium enterprises (MSMEs) in Bangladesh, excluding rickshaws (Daniels, 2003). The number of listed companies is available from both the Stock Exchanges which are around 287 as reported by the Dhaka and Chittagong Stock Exchanges in December 2006. On the other hand, 27,000 medium size enterprises (ADB, 2002) out of which around 3,000 are listed as private limited companies under Companies Act 1994 (Registrar of Joint Stock Companies, 2007). Side by side, there are 164 foreign companies enlisted in the Registrar of Joint Stock Companies and working in Bangladesh (until May, 2007). As a result, necessary care and caution have been taken at the time of selecting samples so that all types of firms are included in all the three different Levels defined by UNCTAD.

For Level I (LC) 35 samples elements are selected from the listed companies (including multinationals) of both the stock exchanges – Dhaka and Chittagong. The following Table shows the population and samples selected from different sectors, alphabetically arranged and at random processes⁸. The remaining 5 samples elements were selected considering their importance at different sectors and multinationality but these are not listed in either of the stock exchanges. These are Unilever, GlaxoSmithKline, Standard Chartered Bank, Grammen Phone and American Life Insurance.

Table-2
Shows the Distribution of Samples Listed in Stock Exchanges

No.	Name of the Sectors	Number	Samples
1.	Bank	33	04
2.	Cement	08	01
3.	Ceramic Sector	04	01
4.	Engineering	21	04
5.	Food and Allied	37	04
6.	Fuel and Power	05	01
7.	Insurance	31	02
8.	Investment	14	02
9.	IT Sector	07	01
10.	Jute	04	01
11.	Miscellaneous	13	02
12.	Paper and Printing	08	01
13.	Pharmaceuticals & Chemicals	25	02
14.	Services and Real Estate	05	01
15.	Tannery Industries	08	02
16.	Textile	42	04
17.	Treasury Bonds	22	02
TOTAL		287	35

Source: Different Bulletins of DSE and CSE

For Level II (NLBGPC), 22 samples selected from different government entities covering the entire 40 state-owned corporations except construction. The reason of exclusion of construction sector is that with repeated effort by the author, it was not possible to collect any type of financial reports from this sector. It should be worth to mention that enterprises under each corporation try to prepare reports in similar fashion. So, if the report one enterprise is taken, this may represent the other enterprises under

⁸ In case of Level I and Level II types of firms the population is tabulated in such a manner that all types of firms are included. Then alphabetic order is followed to avoid any type of biasness in drawing the samples. That has been done in the ways that first all the companies have been arranged sector-wise for Level I and Level II types. Then, for it was decided beforehand that first company should start by letter A in any particular sector, next company should start by letter Z and so on. If there would be more companies with the same letter, then a random selection was done from those companies. On the other hand, if there would be no company in any particular sector, any other letter was taken unilaterally. So, purposive, alphabetical arrangements and random sampling procedures have been followed.

that particular corporation. The selection of enterprises has been done sector-wise, alphabetically arranged and at random from the unpublished and / or published reports available. There are many enterprises under different corporations whose reports are not available in any form for years. The following Table shows the sectors, corporations, enterprises and the samples elements drawn for the application of UNCTAD variables.

Table- 3 : Shows the Government Enterprises and the Samples selected

Sectors	Corporations	Enterprises	Samples
Industry	Bangladesh Textile Mills Corporation (BTMC), Bangladesh Steel and Engineering Corporation (BSEC), Bangladesh Sugar and Food Industries Corporation (BSFIC), Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Forest Industries, Development Corporation (BFIDC), Bangladesh Jute Mills Corporation (BJMC)	86	06
Power, gas and Water	Bangladesh Oil, Gas and Mineral Resources Corporation, Bangladesh Power Development Board (BPDB), Dhaka Electric Supply Authority (DESA), Dhaka Water and Sewerage Authority (WASA), Chittagong Water and Sewerage Authority.	15	03
Transport and communication	Bangladesh Shipping Corporation (BSC), Bangladesh Inland Water Transport Corporation (BIWTC), Bangladesh Biman Corporation, Bangladesh Road Transport Corporation (BRTC), Bangladesh Railway, Chittagong Port Authority, Mongla Port Authority, Chittagong Dock Workers Management Board, Mongla Dock Workers Management Board, Bangladesh Telecommunication Regulatory Commission (BTRC), Bangladesh Land Port Authority and Jamuna Multipurpose Bridge Authority	12	03
Trade	Bangladesh Petroleum Corporation (BPC), Bangladesh Jute Corporation (BJC), Trading Corporation of Bangladesh (TCB).	26	03
Agriculture	Bangladesh Fisheries Development Corporation (BFDC), Bangladesh Agricultural Development Corporation. (BADC)	08	01
Construction	Rajdhani Unnayan Kartipakha (RAJUK), Chittagong Development Authority (CDA), Rajshahi Development Authority (RDA), Khulna Development Authority (KDA)	04	--
Service	Bangladesh Muktijoddha Kallyan Trust, Bangladesh Film Development Corporation (BFDC), Bangladesh Parjatan Corporation (BPC), Bangladesh Civil Aviation Authority, Bangladesh Small and Cottage Industries Corporation, Bangladesh Inland Water Transport Authority (BIWTC), Rural Electrification Board (REB), Bangladesh Export Processing Zone Authority (BEPZA), Bangladesh Power Loom Board, Bangladesh Sericulture Board, Bangladesh Water Development Board (BWDB), Bangladesh Tea Board and Export Promotion Bureau (EPB).	37	03
Finance	Nationalized Banks, Insurance Companies and other financial institutions.	12	03
	Total	200	22

Source: http://www.mof.gov.bd/previous_budget/economic_2003/chapter_09.pdf.

The remaining 18 samples elements have been selected from different private limited companies registered in the Registrar of the Joint Stock Companies from the Directory of the Companies of the same office. Since the types of firms are different in nature, e.g. service rendering, manufacturing, etc. necessary care and cautions have been taken to minimize the errors in taking the samples.

In case of Level III type small owner-managed firms, it was rather difficult to select the samples. In this case, I have contacted the owners of firms located in Chittagong (the second largest city of Bangladesh known as Commercial Capital City and / or the Port City) considering the financial and time constraints. However, there is less doubt in the sense that almost all the similar firms located in different cities maintain almost the same type of accounting tradition. As a result, the samples may reflect the condition of whole population in this category. Nevertheless, the study may suffer from this limitation. Again, it should also be important to note that this type of study is first one till now in Bangladesh.

4.5.2 Analysis and Findings of Disclosure Situation in Bangladesh

As far as various research works done on disclosure are concerned, there are some findings on disclosure of some Bangladeshi companies. For example, Belal and Uddin (1995) have found while evaluating the disclosed information of some selected companies that most of the companies (more than 60%) do not disclose marketing information as these information are not mandatory in nature. Another point of their finding is that corporate information is mainly financial rather than non-financial. Another study conducted by Sarma and Ahmed (1995) reveals that there have been significant trends of adopting IASs by some representative-type selected jute mills. The deviations or non-compliances are not significant. In an another empirical study on corporate attitude towards inflation accounting in Bangladesh Sarma and Ahmed (1995), again, show that despite a worldwide consensus on adopting price level adjusted accounting and disclosure, very little discussion have been taken place in Bangladesh about the impact of price level changes on accounting in Bangladesh. However, in the financial sector, especially in case of the insurance companies, almost all the leading entities prepare and disclose their financial information as required by the law (Hye and Rahman, 1995). But still there is lack of proper research works in the field of financial

disclosure in Bangladesh as it is hard to see any elaborate work done so far covering various aspects of financial disclosure and its consequences in the economy. There are some other less acceptable research works found in different scattered fields of disclosure. There is no research work done so far that provides a full scenario of financial disclosure in Bangladesh.

For finding the real conditions in the disclosure in different sectors in Bangladesh I have adopted the following strategies:

- The whole work is divided into three parts. First part consists of descriptive scenario of different sectors in Bangladesh (Section 4.5.2.1 onwards). The second part is an empirical one based on secondary data where I applied the UNCTAD guidelines for different levels of firms visible in the market (Section 4.6 in this chapter). The Third part (Section 4.7) is done based on the direction provided by Section 4.6. That part is based on primary data and information.
- To accomplish these tasks, the following general strategies are adopted:
 - The legal and institutional arrangements for disclosures in various corporate sectors such as government entities, multinationals and private enterprises are considered,
 - The different research work done are taken into account,
 - The UNCTAD Report, The World Bank Reports, The Asian Development Bank Reports, etc. are consulted,
 - Various published and unpublished reports of different organizations are consulted,
 - The author arranged visits of different entities for cross examination of the published reports and research works,
 - A note book has been kept for recording notes on observations at the time of visiting these entities,
 - The author arranged some informal sittings for knowing some quarries on the observations. That was done through a structured questionnaire at the time of collecting information on finding the causes of poor disclosure in Bangladesh that is done at the end of this chapter. A detailed description of population, samples, and the reasons of inclusion of those samples is given in section in this chapter. The persons whom opinions included in the following three sections are

Officers of Government Enterprises - 04, Accountants of Public Limited Companies – 04, Accountants of Private Limited Companies - 04, University Teachers and Researchers - 05, Stock Exchange Executive – 02, additionally, top level executives from five Multinationals – 05.

The following sub-sections show the different outcomes in terms of financial reporting and disclosure in Bangladesh:

4.5.2.1 Disclosure in Nationalized (Government) Companies / Public Enterprises in Bangladesh

There are some 200 nonfinancial public enterprises (NFPEs), grouped under 40 public corporations in Bangladesh. These are quasi-fiscal entities, legally separate from the Government, and are not included in the government budget. Together, their spending of public funds is of the order of Tk⁹ 200 billion a year (compared with Tk. 300 billion by central government). They are involved in all sectors - manufacturing, utilities, transport and communications, trade, agriculture and fisheries, construction and services. NFPEs are governed according to their respective statutes, not by company law. Legally they are autonomous bodies, but the respective ministries appoint their boards of directors and in practice NFPEs are highly regulated by their ministries. All personnel, investment, borrowing, dividend, pricing and major procurement decisions have to be cleared with the ministry. The Ministry of Finance (Monitoring Cell) approves budgets. However they have a number of fiscal effects. They receive equity injections, loans and subsidies from the Government; they repay loans, and pay interest, taxes and dividends. There are also major effects on macroeconomic balances that are off the budget. Supplier credit is guaranteed by the Bangladesh Bank (the Central Bank of Bangladesh) on a counter guarantee by the Ministry of Finance. Where a corporation cannot meet its debt service liability, it borrows further from the commercial banks. Since 1995, all offers of supplier credit have to be cleared by a committee including the Finance Secretary, Planning Secretary and Bangladesh Bank Governor.

⁹ During the year 2003-2004, the exchange rate between dollar and Taka is US\$ = 62 Bangladeshi Taka.

NFPEs, of course, do not operate in free markets. Their financial performance is largely dictated by policy and operational interventions by the Government, particularly pricing and output decisions.

The previous Companies Act 1913 and the new Companies Act 1994 are not applicable to the nationalized companies in Bangladesh. In 1972, due to political commitment of launching a socialistic pattern of economy, and as because many industrialists of the then West Pakistan (Present Pakistan) nationals had left East Pakistan (present Bangladesh) at the time of the Liberation War in 1971, many abandoned industries had been taken over by the government under Presidential Order (P.O) No. 27 (P.O, 1972). Soon after that order, a subsequent Executive Order suspended application of Companies Act 1913 in the nationalized sector in Bangladesh. Article 21 & 22 of the same Order states that *“a corporation shall maintain proper accounts and other relevant records and prepare annual statements of accounts, including a profit and loss account and a balance sheet. A corporation, as soon as possible after the end of every financial year, furnish to the government a statement of accounts audited by the auditors together with an annual reports on the conduct of its affairs for that year. The copies of the audited accounts and annual reports shall be published in the official Gazette and shall be laid before the Legislature”* (P.O No. 1972). Nothing has been stated about the adaptation of Companies Act for those companies as well as the implementation of IASs in the disclosure of such nationalized sector. The World Bank Report (2002) clearly states that given the size, complexity and public importance of major spending ministries and autonomous bodies, compared with even the largest private sector firms, one might expect Chief Accounting Officers (CAOs) to play a similar role to Finance Directors in the private sector which is far from the case. This is evident from the fact that only 2% of the country's qualified accountants work in the Government of Bangladesh (2 ICAB members, 18 ICMAB) (Ibid). There are mainly two reasons behind it as identified by the World Bank Report (2002). Firstly, the payment is very low in the public sector¹⁰. Secondly, there is a very limited role and status of government accountants and auditors. It has also been stated that public accounting in Bangladesh, as in other

¹⁰ Government accountants get typically Tk 15-16,000/month against their private sector counterparts drawing Tk.60-70,000/month. This reflects not only the low pay throughout the civil service after years of compression and erosion, but also inter-cadre rivalries. Accountancy in the public corporation sector has higher status and attracts more accountants (ICAB 39, ICMAB 70, at June 1999).

countries, is still in a primitive cash accounting stage of development (Khan, 1996). There is little demand for management information and accountants are stuck in their roles as cashiers and bookkeepers. There are only 20 CAOs (for 35 ministries) and their management role lies mainly in keeping their colleagues informed on how much of their budget is still available for spending. CAOs are graded three levels below Ministry Secretaries, a hierarchical status gap that makes communication difficult. In more advanced countries such as Singapore, government accountants are highly trained professionals providing a full range of financial management and advisory services and drawing salaries comparable with the private sector. The issue is one of training and, in time, the professionalization of the accounting / auditing cadre, not just pay parity with the private sector. There were 12,846 accounting and audit staff in the Comptroller & Auditor General's (C&AG) Department as at September 2000. These facts suggest that the accounting practices in the Government of Bangladesh are not praiseworthy. The initial need is to provide a CAO for each ministry (World Bank 2000). This recommendation was endorsed by participants at a Workshop on Budgeting, Accounting and Internal Control on June 24, 2000. If this would be the condition at government levels, better accounting and reporting practices could not evolve in other sectors.

However, upon going through the procedures followed in the nationalized sector, consulting the World Bank Reports (2000 and 2002), ADB Reports (2002), and information gathered from the note book kept by the author at the visiting different government enterprise and talking to the different levels of officials, the following summary is presented:

- All NFPEs keep their accounts on an accrual basis. NFPEs have started computerizing their accounts (about 25 percent done) and payrolls (30-45 percent). Though there are labor fears, slow progress is being made. Bank reconciliations are done manually. This is seen from the auditors' report that there are some failures to complete reconciliations (The World Bank Report 2000).
- There is no set standard for implementation of International Accounting and Auditing Standards in Public Accounts and hence in the public enterprises. There are no procedure manuals. Instead, there are so many circulars on various matters such as financial delegation of power, administrative delegation,

submission of budgets, investment and the processing of projects. Few corporations have job descriptions (Ibid).

- I observed that almost all corporations have an internal audit unit. Its role and position in the organization varies: some report to the CEO, some to the Accounts section.
- Most NFPEs submit quarterly MIS reports to their administrative ministries and the Monitoring Cell, comparing their actual revenues and expenditures with the approved budget. A few can only manage half-yearly reports, coinciding with the preparation of revised estimates. Petrobangla (an enterprise of Bangladesh Petroleum Corporation) and a few others report monthly, with variance analysis (The ADB Report 2002).
- All corporations produce annual income and expenditure accounts and balance sheets. Some also produce cash flow statements. They should be subject to the same accounting standards for preparation of corporate financial statements as private enterprises.
- Apart from internal audit, NFPEs are subject to so-called 'commercial audit', i.e. audit by the C&AG (Commercial Audit Directorate). The statutes of about 30 out of the 40 corporations provide that there should also be audit by two chartered accountants (CA audit). The C&AG audit is a compliance audit, as for Government ministries. The CA audit is usually the same as for a private firm, i.e. a compliance audit, based on an appraisal of the internal control system, and a financial statements audit. Recently, CAs have been applying international audit standards in these audits (The World Bank Report 2002).
- The author has been informed that the NFPE board submits a short list of audit firms to its ministry, from which the ministry selects and appoints the auditors. No firm can audit the same corporation more than three years running.
- The internal and external professional auditors examine accounts of the enterprises under consideration. Side by side, there is an internal checking system in the accounts of those corporations.
- External auditors prepare a relatively big report and statements of accounts which is divided into two parts. In the first part, audit report and statements of accounts are attached that is sent to various agencies of the government to fulfill the requirement of Presidential Order No. 27. The second part, on the other hand, which is a descriptive and detailed report, is submitted to the Board of

Directors of the entity concerned for information and for taking necessary action. This part (the second part) is the main disclosure of the corporation that is used as a tool for internal management (The World Bank Report 2002). I observed that this part is treated as a so-called confidential report and is not normally sent to various interested parties.

- Normally, most of the enterprises prepare present accounts as per the Proforma provided by the Companies Act 1913. The prescribed form of presenting the Balance Sheet is 'Form F¹¹'. However, there is a tendency found in presenting the Balance Sheet of the companies these days that companies are interested to present their Balance Sheets in vertical form. This form is recommended by the Companies Act 1994.
- Different corporations follow different norms in the treatments of various items. As a result, sometimes, the results provided by various corporations are rather confusing because of the lack of uniformity in treatments and presentations of various items. This cannot be taken as a basis for comparison to draw a meaningful decision for any matter. This discourages the users in using these reports in decision-making process.
- As both the parts of the report are closely related, only one part should not be used separately. But, on the other hand, another part is a so-called confidential part (part-2). The auditors in that case try to use the loopholes in their report by using some vague words, such as, while reporting the first part, they use "subject to our separate report of even date". That means, they want to express that the report in the first part is subject to the report provided in the second part. But this second part is not a public good and hence cannot be easily obtained. Although, legally, the auditors' report is so-called qualified report, but this is conditional.
- As there is no legal binding in adopting the Companies Act or any other Act in disclosure for the nationalized corporations, the persons involved in the process of reporting may think that this is a "state-owned" enterprise and "normally state is not in any action". So, they are reluctant in preparing a meaningful report for the state.
- Some account personnel mentioned (while talking to them) that there is a lot of pending audit reports in each enterprise to be settled. The amount is so large that

¹¹ This is the form given in the schedule III of the Companies Act 1913. This is a horizontal form.

no administration has played any meaningful role to take corrective measures for those audit objections.

- Some social scientists argue that these nationalized enterprises are using public funds. In a poor country like Bangladesh, these public funds are very scarce. These corporations can discharge their accountability and social responsibility by adequate disclosure. The people have the right to know the level of efficiency of those organizations and how well they are managed. It has been observed in Bangladesh that most of the public enterprises have been suffering from losses year after year. To ease the pressure from different quarters in the country, government cannot achieve its denationalization decision for the loosing companies. It has been agreed that the main cause of such losses is inefficient management and less disclosure. This is hampering the industrialization process of the country. Moreover, these are partly liable for low economic growth of Bangladesh.
- People are also not willing to accept that there will be any meaningful disclosure in public or nationalized sectors. This type of tendency has been developed gradually due to misleading disclosure of this sector for a long period of time. This is a very alarming signal to the society. So, creating meaningful trust on the disclosure is a task ahead for economic development of the country.
- Some observers see that the accounts and audit reports of the nationalized sectors are real although sometimes these are “manipulated and window dressed”.
- Over and above of the administered prices, however, it is recognized that there is widespread mismanagement, politicized labor relations and corruption. Wages and salaries have been increasing faster than productivity in public enterprises in all sectors (World Bank Report, 2002).
- Appointments of board members and chief executives are the most important decisions affecting public enterprise (PE) performance. The present quality of directors and top executives is very mixed.

After having the scenario of the public sector enterprises, it is worthy to go for what to do for overcoming the present situation. The following discussion is done by the author for the same.

- The qualified audit done by the Chartered Accountant (shortly and locally known as CA audit) should be mandatory in all revenue-earning corporations. Proper measures should be taken to choose CAs. It has been reported that some ministries have blacklisted particular firms for fraud or negligence, but they have not been banned from auditing other corporations. The Government should exercise its responsibility as a shareholder and ensure reliable audit.
- These personnel should be appointed strictly on their qualifications, experience and track record in business. The procedure in India is for the Minister to make each appointment from a short list of candidates prepared from a central database of qualified personnel. This may be considered for adoption in Bangladesh (see Box-1 below).
- Proper actions should be taken for the audit reports or objections and should be widely circulated through media.
- Auditing department should be separated from administrative division and auditing should be made mandatory.

Box-1

Separation of Accounting and Audit in South Asia

In Sri Lanka, there has been separation of accounts and audit for 70 years. The Donoughmore Constitution of 1931 changed the designation of the Colonial Auditor to Auditor General and made that office directly responsible to the legislature. In 1976-80, India also completely split its accounts and audit services at the union level.

Accounts and audit are also separate in Nepal, Bhutan and the Maldives.

In Pakistan, after receiving the inputs of a High Level Committee which examined the financial, legal and administrative implications, the Government has drafted legislation to complete the separation of accounting and auditing and this is expected to be enacted shortly.

Source: World Bank Report. 2002

4.5.2.2 Disclosure in Multinational Sector in Bangladesh

Most of the multinational companies (alternatively known as Transnational Companies) in Bangladesh are regulated by the Companies Act 1994, Part-X, Sections 378 through 392. As Bangladesh has been pursuing an open market economy to adjust with the global trend of liberalization, various concessions and special benefits are available for the Transnational or multinational companies (TNCs or MNCs). As a result, these

companies are enjoying the benefits of 'soft law' in the sense that Government of Bangladesh (GOB) is not willing to impose many restrictions in any area of their operations and hence financial reporting too (Bangladesh Export Processing Zones Bulletin, 2005). The following are observations of the researcher by consulting the World Bank Report (2000 and 2002), the ADB Report (2002), and some other relevant works mentioned and also by the observations of the author during visiting some of the MNCs, the following summary is presented:

- a. The organizational structures of these corporations are that most of the companies are controlled by their parent companies from home countries. That is, they have their tight-centralized policies in their management structure (The World Bank Report 2000).
- b. I observed that companies that I visited use modern communication devices that facilitate them to maintain quick contact with their parents. Most of the companies are in the categories of market seekers or resource seekers such as cheap labors.
- c. However, these companies hire highly skilled people from local or international job markets. That is why, they are well paid off as compared to any national or private company. The author found that sometimes, it is rather difficult to know, even the pay structure and the extent of payment to employees working in these companies. This indicates that they do not like for more disclosure of their financial activities.
- d. It is reported that these companies are professionally managed companies and they try to avoid taxes through the mechanisms of transfer price. This is also supported by an empirical research work conducted by Rahman (1978).
- e. But parent companies have indirect obligations for mandatory and voluntary disclosure, at least in their home countries to satisfy their shareholders. Moreover, most of the multinationals have their web site in the Internet to keep informed their various interest groups. As a result, their structure of reporting is different in the sense that they use more easy methods of presenting financial disclosure (Ibid).
- f. It is stated by some of executives and professionals that the overall reporting of TNCs is better as compared to national enterprises – both public and private.

- g. There has been a growing belief that TNCs manipulate accounts and understate profits. But Rahman's study (1982) based on field level research states that there are not enough evidences to support this belief.
- h. Some experts are in the opinion that since the government has been actively looking for foreign direct investment (FDI), various multinationals try to treat it as a weakness of the government and often (mis)-use this attitude of the government. They remain reluctant to comply with the various provisions in appropriate manner.
- i. Some experienced personnel, working presently in different MNCs state that these enterprises are obliged to comply with various international laws, norms and traditions – such as labor law, environmental law, WTO rules, child labor law, and so on. These oblige them for more obligations than other types of companies. The business secrecies they maintain are mainly due to their rivals in the market.

4.5.2.3 Disclosure in Public Limited Companies Listed in Stock Exchanges

This sub-section provides an overview of money and capital markets in Bangladesh at the beginning. Then it will try to evaluate the effectiveness of different companies due to their listed status in different stock exchanges in Bangladesh.

With deregulation and liberalization in both the financial and real sectors of the economies, there has been found a significant shift by enterprises from loan to equity or bond finance worldwide. As a result, stock markets in many Asian countries have demonstrated dynamism and growth in recent years (United Nations 1995) with growing international linkages and gathering momentum of the transition from guided or controlled economies to deregulated and decentralized ones -- not only in the industrial world but also in a number of developing countries. The "Global Village" has been in the making over years in an increasingly inter-dependent, open and competitive world. The trends towards globalization are seen mostly in the financial flows and direct investment (Balla, 1995). Moreover, there has been growing trend of capital flows from developed countries in the recent years.

Bangladesh, as a signatory of the Uruguay Round Agreement, has a plan to enter into the economy based on free market by the year 2005. So, as a precondition of

globalization, Bangladesh has to participate in the global economy to progress and to compete and to integrate to the global village. The Government of Bangladesh realized in the early 1980s that an economic policy largely dependent on the state interventions and down playing of the private sector's role was most detrimental to the economic development of a poor country like Bangladesh. Hence the adoption of a state policy for macro economic reforms directed toward a market based economy under which the role of a state would recede and the private enterprises would play a dominant part. One can now expect better economic conditions in Bangladesh because of some policy measures like import liberalization, liberal foreign investment policy, convertibility of currency, privatization of public enterprises, deregulation of capital markets, globalization of the economy with a focus on export-led growth and efficient import substitutions, and letting the Bangladeshi currency (Taka) to float freely, etc. More specifically, the Government of Bangladesh (GOB) has taken the following measures for the development of capital market (Peregrine 1995):

- The Controller of Capital Issue was abolished and replaced by the Securities and Exchange Commission (SEC) Act 1993.
- Commercial banks are permitted to make loans of up to 40% of the market value of shares quoted on the stock exchange.
- The SEC has inaugurated various education programs to stamp out some undesirable practices in the market and to increase transparency.

The economy of Bangladesh has been suffering from acute backward in terms of the progress of industrialization. The contribution of industry sector to GDP is only 8.7%. Because of lowest per capita income (around US\$387) and lower saving rate (17.9%), we cannot contribute much to our industrial development. Banking sector has also been very inefficient in giving support to industrialization. Thousands of millions of money is lying idle each year in the banks that could fuel the industrial sector enormously. The bank loan recovery is another serious problem which even caused some of the banks to close their operation.

An overview of stock exchanges and their disclosure situations have been provided in the previous chapter. However, the next chapter provides a comprehensive study on listed companies in Bangladesh in terms of their disclosure.

4.6 An Empirical Study to Find the Extent of Disclosure in Bangladesh – The Application of UNCTAD Guidelines for Disclosure

Bushman and Smith (2002) express that in spite of the central role of information, until recently little attention has been given by empirical researchers to the information environment in Bangladesh.

In this sub-section, we want to evaluate the extent of financial disclosures by different types of entities in Bangladesh. Although it would be worthwhile if we could include all the SAFA Member countries, considering the practical circumstances with regards to availability of data for this section, we will only examine the situation prevailing in Bangladesh.

The bases of accomplishing such a task are the different reports published by the OECD, UNCTAD and Institute of Public Administration Australia (IPAA). Whereas OECD is highly concerned about the corporate governance practices in both developed and developing countries, UNCTAD has provided details of financial reporting variables considering that there are so many SMEs in any economy that also contribute to the economic development of any country. Not only that, but also there are so many small firms managed by the owners that should also be taken into account for the overall economic development of any country. That is why UNCTAD developed three levels of guidelines for ensuring proper disclosures by all the economic entities contributing to the growth and development of any economy. These are:

Level 1 (SE): Listed entities whose securities are publicly traded and those with a significant public interest should follow IFRS .

Level 2 (NLBGPC): Significant commercial, industrial and business entities that issue neither public securities nor financial reports to the general public may follow a single set of requirements derived from the IFRS.

Level 3 (LC): The smallest entities that are owner-managed and have few employees should follow a simple accruals-based accounting system, closely linked to cash

transactions, and with a derogation for businesses to use cash accounting for a limited time when establishing their accounting systems.

The IPAA guidelines for financial report may also be taken for evaluation of disclosure of different entities of any country. But one important limitation of those guidelines is that these are mainly directed towards the reporting of listed firms. On the other hand, although OECD guidelines are especially developed for the disclosure of developing countries, these are highly centered towards corporate governance reporting by the different private or public entities also listed in any stock exchange.

Our evaluation of transparency through financial disclosure will be based on different guidelines provided by UNCTAD. The reasons of choosing UNCTAD variables are as follows:

- These are the outcomes of different scientific researches by different researchers,
- UNCTAD is a recognized body,
- Its variables include the main theme and guidelines of the OECD for developing countries,
- It provides details description of different types of entities, and
- The guidelines are easy to understand even by those who have lack of proper accounting and auditing knowledge.

With a view to evaluate the real situation of corporate disclosure in Bangladesh, we will take the annual reports of different entities whether published or not. Then we shall see how many of the variables for the particular level of entities are included in the annual financial reports of the said entities. The following Table (Table-4) prepared on the basis of UNCTAD guidelines shows the items needed to be included in the annual reports of the concerned entity to judge the extent of disclosure for that entity.

Table-4
Variables for different levels of disclosure

Level I ¹²	Level II ¹³	Level III ¹⁴
<p>1. Financial Disclosure:</p> <p>a. Disclosure of the company's financial and operating results, related-party transactions and critical accounting policies.</p> <p>b. Enterprises should disclose all the financial information necessary for shareholders and other stakeholders to properly understand the nature of their business and how it was being developed for the future.</p> <p>c. Enterprises should disclose all related-party transactions and in addition any related-party relationships where control exists.</p> <p>d. Critical accounting policies that are key to the portrayal of an enterprise's financial condition and operating results should be disclosed.</p> <p>2. Non-Financial Disclosures</p> <p>a. Company Objectives</p> <p>b. Ownership and shareholders' rights.</p> <p>c. Governance Structures and Policies</p> <p>i. The structure, role and functions of the board,</p> <p>ii. Board Committees.</p> <p>d. Members of the Board and Key Executives</p> <p>i. Duties and qualifications</p> <p>ii. Evaluation mechanism</p> <p>iii. Directors' remuneration</p> <p>iv. Succession planning</p> <p>v. Conflict of interest</p> <p>e. Material Issues Regarding Employees and Other Stakeholders</p> <p>f. Environmental and Social Stewardship</p> <p>g. Material Foreseeable Risk Factors</p> <p>h. Independence of Auditors</p> <p>3. Annual General Meetings</p>	<p>1. Presentation of Financial Statements</p> <p>1.1 (Components)</p> <p>a. A Balance Sheet</p> <p>b. An Income Statement</p> <p>c. A statement showing:</p> <p>i. All changes in equity</p> <p>ii. Changes in equity other than those arising from capital transactions with owners and distribution to owners</p> <p>d. A cash flow statement</p> <p>e. Accounting Policies and Explanatory notes</p> <p>f. The Management's Assessment of an enterprise's ability to continue as a going concern.</p> <p>1.2 Content</p> <p>a. Name and or other identification</p> <p>b. Balance sheet date</p> <p>c. Reporting currency</p> <p>d. Period covered</p> <p>e. If not annually, the reasons of why a period other than one year is being used.</p> <p>f. The domicile or legal form of enterprise, its place of incorporation, address of registered office,</p> <p>g. Nature of operation and principal activities, and</p> <p>h. Number of employees at the end of the period, or average number of employees.</p> <p>1.3.1 Presentation of Balance Sheet</p> <p>a. Segregation of current and non-current assets,</p> <p>b. Segregation of current and non-current liabilities,</p> <p>c. Notes for both above.</p> <p>1.3.2</p> <p>(a) Property, plant and equipment;</p> <p>(b) <i>Intangible</i>;</p> <p>(c) Financial assets (excluding amounts shown under (e) and (f));</p> <p>(d) <i>Inventories</i>;</p> <p>(e) Trade and other receivables;</p> <p>(f) Cash and cash equivalents;</p> <p>(g) Trade and other payables;</p> <p>(h) Tax liabilities and assets;</p> <p>(i) <i>Provisions</i>;</p> <p>(j) Non-current interest-bearing liabilities; and</p>	<p>1. Presentation of Financial Statements</p> <p>1.1 Components</p> <p>a. A Balance Sheet and</p> <p>b. An Income Statement</p> <p>2. Basis of Statements</p> <p>a. On-going and</p> <p>b. Accrual</p> <p>3. Content</p> <p>a. Name of the enterprise</p> <p>b. The balance sheet date and period covered by income statement</p> <p>4. Current and non-current assets and liabilities should be shown separately.</p> <p>5. Movements of owner's equity</p> <p>6. Plant, equipments and other property at costs plus other costs occurred minus rebates or any deductions. The following additional items should also be included:</p> <p>a. additions;</p> <p>b. disposals;</p> <p>c. depreciation; and</p> <p>d. other movements</p> <p>7. Leased or Hire Purchase assets should not be included in the balance sheet.</p> <p>8. Inventories should be measured at the lower of cost and net realizable value. The cost of other inventories should be assigned by using the first-in, first out (FIFO) or weighted average cost formulas.</p> <p>9. Revenue from the sale of goods should be recognized when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from the rendering</p>

¹² A Short description of each of the items listed below is given in Appendix—3 applicable to listed entities developed by UNCTAD.

¹³ A Short description of each of the items listed below is given in Appendix—4 applicable to non listed Medium sized and government Enterprises developed by UNCTAD.

¹⁴ A Short description of each of the items listed below is given in Appendix—5 applicable to Small owner managed Enterprises developed by UNCTAD

<p>4. Timing and means of disclosure</p> <p>5. Best practices for compliance with corporate governance</p> <p>6. Conclusions</p>	<p>(k) Issued capital and reserves.</p> <p>1.3.3 Share Capital</p> <p>a. For each class of share capital</p> <p>(i) The number of share authorized</p> <p>(ii) The number of shares issued and fully paid, and issued but not fully paid;</p> <p>(iii) Par value per share, or that the shares have no par value;</p> <p>(iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the year;</p> <p>(v) The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;</p> <p>(vi) Shares in the enterprise held by the enterprise itself; and</p> <p>(vii) Shares reserved for issuance under options and sales contracts, including the terms and amounts;</p> <p>1.4.1 Income Statement</p> <p>(a) <i>revenue</i>;</p> <p>(b) the results of <i>operating activities</i>;</p> <p>(c) finance costs;</p> <p>(d) <i>tax expense</i>;</p> <p>(e) profit or loss from <i>ordinary activities</i>; and</p> <p>(f) net profit or loss for the period.</p> <p>1.4.2 Separate Disclosure</p> <p>a. Process of depreciation and amortization,</p> <p>b. Dividend per share declared and proposed,</p> <p>c. Capital transactions with owners,</p> <p>d. The balance of accumulated profit, and</p> <p>e. Carrying amount each class of equity capital, share premium and each reserve at the beginning and the end of the period.</p> <p>2. Cash flow statement classified by operating, investing and financing activities.</p> <p>3. Property, plant and equipment</p> <p>a. The measurement base,</p> <p>b. The depreciation method,</p> <p>c. Useful life and depreciation rate,</p> <p>d. The gross carrying amount and the accumulated depreciation at the beginning and end of the period,</p> <p>e. A reconciliation of the carrying amount at the beginning and end of the period showing:</p> <p>(i) Additions,</p> <p>(ii) Disposals,</p> <p>(iii) Revaluation,</p> <p>(iv) Basis used to revalue</p> <p>(v) Effective rate of revaluation</p> <p>(vi) Independent valuer used</p>	<p>of services should be recognized to the extent that the service has been provided.</p> <p>10. Where there is uncertainty as to the receipt of payment for a trade debt, a reasonable provision should be made against trade receivables.</p> <p>11. Any significant gains or losses should be separately disclosed.</p> <p>12. Formats provided for the preparation of income statement and balance sheet should be used.</p>
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	<p>(vii) or not, Impairment losses recognized in the income statement,</p> <p>(viii) Impairment losses reserved,</p> <p>(ix) Deprecation,</p> <p>(x) And other movements.</p> <p>f. Properties pledged as security of liabilities.</p> <p>4. Leases</p> <p>a. Economic life,</p> <p>b. Types of leases,</p> <p>c. Lease Term,</p> <p>d. Minimum Lease Payment.</p> <p>5. Intangible Assets</p> <p>Accounting Policies for Measurement</p> <p>6. Accounting Policies for valuing inventories</p> <p>7. Government Grants</p> <p>a. Method of presentation</p> <p>b. Contingencies attached to government assistance.</p> <p>8. Provisions</p> <p>a. Carrying amount at the beginning and at the end,</p> <p>b. Contingent liabilities, and</p> <p>c. Contingent assets.</p> <p>9. Revenue</p> <p>a. Accounting Policies for recognition for revenue,</p> <p>b. Revenue arising from</p> <p>(i) The sale of goods,</p> <p>(ii) The rendering of services,</p> <p>(iii) Interest,</p> <p>(iv) Dividends,</p> <p>(v) Royalties,</p> <p>(vi) Exchange of goods</p> <p>10. Borrowing costs</p> <p>a. Accounting Policies</p> <p>b. The amount capitalized during the year,</p> <p>c. The rate of capitalization.</p> <p>11. Major components of tax expenses</p> <p>12. Foreign exchange rates</p> <p>13. Events after Balance Sheet date</p> <p>14. Presentation after balance sheet date</p> <p>(a) Purchases or sales of goods (finished or unfinished);</p> <p>(b) Purchases or sales of property and other assets;</p> <p>(c) Rendering or receiving of services;</p> <p>(d) Agency arrangements;</p> <p>(e) Leasing arrangements;</p> <p>(f) Transfer of research and development;</p> <p>(g) License agreements;</p> <p>(h) Finance (including loans and equity contributions in cash or in kind);</p> <p>(i) Guarantees and collaterals; and</p> <p>(j) Management contracts.</p>	
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4.6.1 Application of UCTAD Guidelines in Bangladeshi Firms

After selecting the samples, a list of variables based on above Table-4 has been prepared for each category of samples by applying unweighted method. At this stage it is again worth to mention that there are mainly two ways of taking variables – weighted and unweighted. In chapter-2, a detailed discussion has been provided regarding the use of weighted and unweighted indices. Although there is a general consensus on the determination of this index, a debate has arisen concerning item weighting. Cooke (1989b; 1991; 1992; 1993), followed by numerous authors (e.g., Tai *et al.*, 1990; Ahmed, 1994; Hossain *et al.*, 1994; Wallace *et al.*, 1994; Hossain *et al.*, 1995; Chen and Jaggi, 2000; Archambault and Archambault, 2003), are in favor of unweighted items, implying that each item is of equal importance. The major argument is that “one class of user 5 will attach different weights to an item ... than another class” and that “the subjective weights of user groups will average each other out” (Cooke, 1989b). However, in those research works no model has been applied developed by any recognized bodies like OECD or UNCTAD that we are going to apply here. At this stage, we are not going to prepare any index; rather we want to apply One-Sample T-Test. Besides, considering the socio-economic conditions of Bangladesh, and to simplify the study, I have used unweighted measure despite of some limitations of unweighted approach.

If it has been seen that any sample’s annual report includes any variable, we put “1” to indicate that the variable is “yes” or “available” and if it does not include we put “0” to mean that the variable is “no” or “not available”. The results obtained are tabulated in the Excel Spreadsheets shown in Appendices 10 through 12. To have statistical results, all the Excel Sheets have been transferred to SPSS. For all levels (categories) of companies we have calculated Mode of variables, the percentage of each variables found disclosed, the Mean of the proportions, and the ‘t’ values of proportions for finding the association of variables with in the same category of companies / firms. A short description of variable levels and the results of ‘Present’ and ‘Absent’ variables are provided in the Table-5 given below and a condensed Table-6 showing the results obtained from running the SPSS. In the Appendices (Appendix-3, Appendix-4 and Appendix-5), again, the variable levels and the description of variables are provided for better understanding.

Table –5¹⁵
Summary Results of all Levels Companies / Enterprises / Entities / Firms

Variable Level I ¹⁶	Present (P) In No.	Absent (A) In No.	P (%)	A (%)	Variable Level II ¹⁷	Present (P) In No.	Absent (A) In No.	P (%)	A (%)	Variable Level III ¹⁸	Present (P) In No.	Absent (A) In No.	P (%)	A (%)
I101a	40	0	100	0	I2011a	40	0	100	0	I301.1a	19	21	47.5	52.5
I101b	40	0	100	0	I2011b	40	0	100	0	I301.1b	31	9	77.5	22.5
I101c	27	13	67.5	32.5	I2011c1	14	26	35	65	I302a	0	40	0	100
I101d	31	9	77.5	22.5	I2011c2	11	29	27.5	72.5	I302b	0	40	0	100
I102a	22	18	55	45	I2011d	14	26	35	65	I303a	40	0	100	0
I102b	19	21	47.5	52.5	I2011e	14	26	35	65	I303b	19	21	47.5	52.5
I102c1	26	14	65	35	I2011f	17	23	42.5	57.5	I304	0	40	0	100
I102c2	35	5	87.5	12.5	I2012a	40	0	100	0	I305	13	27	32.5	67.5
I102d1	9	31	22.5	77.5	I2012b	40	0	100	0	I306a	13	27	32.5	67.5
I102d2	22	18	55.0	45.0	I2012c	40	0	100	0	I306b	17	23	42.5	57.5
I102d3	29	11	72.5	27.5	I2012d	40	0	100	0	I306c	15	25	37.5	62.5
I102d4	26	14	65.0	35.0	I2012e	8	32	20	80	I306d	10	30	25	75
I102d5	13	27	32.5	67.5	I2012f	13	27	32.5	67.5	I307	0	40	0	100
I102e	28	12	70.0	30.0	I2012g	17	23	42.5	57.5	I308	13	27	32.5	67.5
I102f	21	19	52.5	47.5	I2012h	6	34	15	85	I309	37	3	92.5	7.5
I102g	25	15	62.5	37.5	I20131a	11	29	27.5	72.5	I310	28	12	70	30
I102h	34	6	85	15	I20131b	10	30	25	87.5	I311	0	40	0	100
I103	36	4	90	10	I20131c	5	35	12.5	87.5	I312	0	40	0	100
I104	33	7	82.5	17.5	I20132a	11	29	27.5	72.5					
I105	3	37	7.5	92.5	I20132b	11	29	27.5	72.5					
I106	40	0	100	0	I20132c	6	34	15	85					
					I20132d	27	13	67.5	32.5					
					I20132e	30	10	75	25					
					I20132f	14	26	35	65					
					I20132g	23	17	57.5	42.5					
					I20132h	14	26	35	65					
					I20132i	11	29	27.5	72.5					
					I20132j	0	40	0	100					
					I20132k	0	40	0	100					
					I20133a1	28	12	70	30					
					I20133a2	29	11	72.5	27.5					
					I20133a3	25	15	62.5	37.5					
					I20133a4	13	27	32.5	67.5					
					I20133a5	0	40	0	100					
					I20133a6	0	40	0	100					
					I20133a7	0	40	0	100					
					I20141a	40	0	100	0					
					I20141b	40	0	100	0					
					I20141c	16	24	40	60					
					I20141d	28	12	70	30					

¹⁵ Based on Appendix-9, Appendix-10 and Appendix-11.

¹⁶ The variables stated under this heading are linked with Table-4 shown above. That is, variable I101a means variable of Level I (1a) and so on. These names are given for running SPSS and Table-4 is the reflection of data provided in SPSS and this Table is inserted from SPSS shown in Appendix-6.

¹⁷ The variables stated under this heading are linked with Table-4 shown above. That is, variable I211a means variable of Level II (1.1.a) and so on. These names are given for running SPSS and Table-4 is the reflection of data provided in SPSS and this Table is inserted from SPSS shown in Appendix-7.

¹⁸ The variables stated under this heading are linked with Table-4 shown above. That is, variable I301.1a means variable of Level III (1.1a) and so on. These names are given for running SPSS and Table-4 is the reflection of data provided in SPSS and this Table is inserted from SPSS shown in Appendix-8.

Summary Table-6
Results Obtained by Running the SPSS
Total Number of Samples ($N_I + N_{II} + N_{III} = 40+40+40=120$)

	Proportion of Transparency			Proportion of Transparency ¹⁹					
	Mean (%)	Std. Deviation (%)	Std. Error Mean	One Sample T-Test Test Value = 1					
				t	df	Sig. (2- tailed)	Mean Difference (%)	95% Confidence Interval of the Difference (%)	
Lower	Upper								
Level I ($N_I=40$)	6179	16758	,02650	-14,423	39	,001	-38214	-4357	-3285
Level II ($N_{II}=40$)	2771	3751	,00593	-121,886	39	,001	-72294	-7349	-7109
Level III ($N_{III}=40$)	4806	14593	,02307	-22,512	39	,001	-51944	-5661	-4728

The Table-5 reveals that LC type firms disclose the company's financial and operating results, related-party transactions and critical accounting policies, and the financial information necessary for shareholders and other stakeholders to properly understand the nature of their business and how it was being developed for the future and also conclusions satisfactorily. This indicates that they are highly monitored by different regulatory bodies like SEC. However, the disclosure of holding Annual General Meeting is unsatisfactory. The reason might be that most of the most of the companies do not hold AGM regularly although it is an important task for protecting the rights of the shareholders to appoint Board of Directors, Auditors and to take important decisions for the company. On the other hand the same is true for the best practices for compliance with corporate governance. This could be because of the fact that the concept of practicing corporate governance is relatively new in Bangladesh.

On the other hand, in case NLBGPC type firms the disclosures of name or other identification, presentation of financial statements both the Balance Sheet and Income Statement along with date of preparation of those statements, period covered, and reporting currency are found highly satisfactory. It should be worth to mention that these are the preliminary information without which any financial information can not be accepted to any body. But they do not like to disclose share capital: The rights,

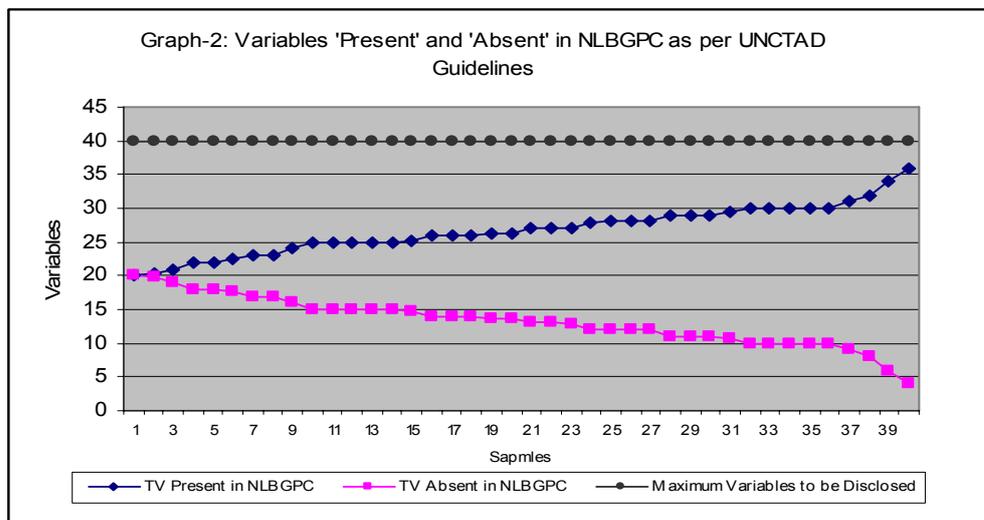
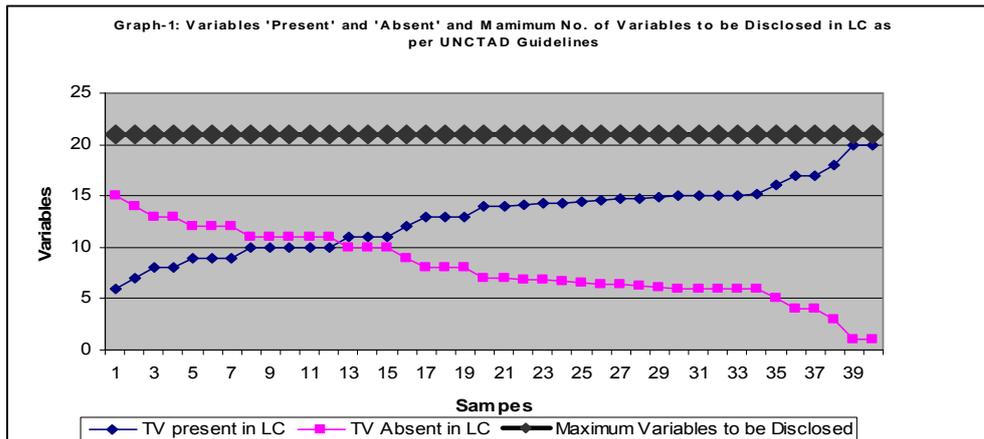
¹⁹ The 'Proportion of Transparency' means the percentage of total variables disclosed as compared to maximum number of variables required by the UNCTAD Guidelines to understand the extent of transparency of any business firm.

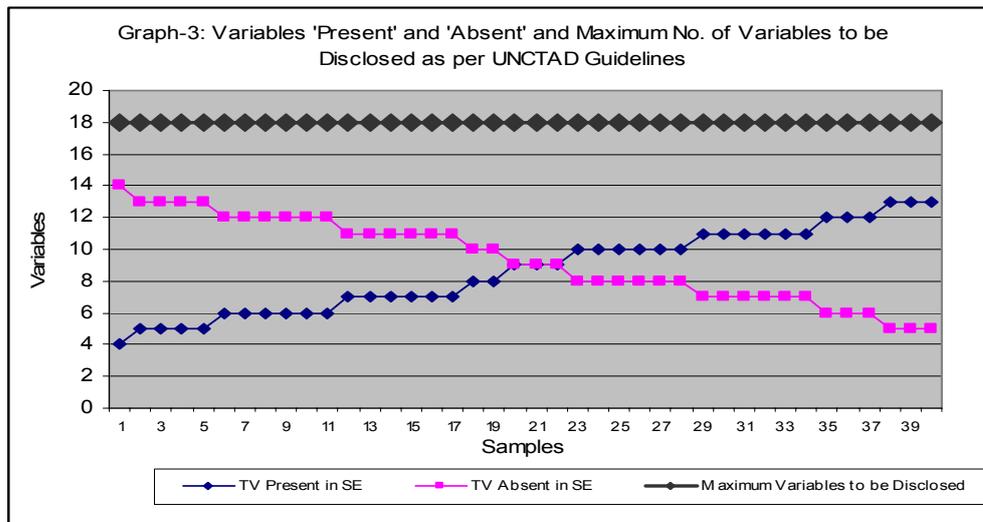
preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital, share capital: shares in the enterprise held by the enterprise itself, share capital: shares reserved for issuance under options and sales contracts, including the terms and amounts. The reason behind such non-disclosure of capital information might be that the government entities are owned by the government and most of them are losing concerns – share capital might have already been absorbed by the accumulated losses. The private limited companies might be reluctant for disclosing such information with the fear of tax authority.

The SE type firms disclose name of the enterprise and revenue from the sale of goods to be recognized when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from the rendering of services is also recognized to the extent that the services have rendered. Disclosing name of the enterprise is a preliminary step. They recognize the revenues as soon as it goods and services are sold or rendered. Otherwise they can not speculate profit earned or loss incurred. But in terms of following any recognized format for presentation of financial statements, disclosing any significant gains or losses separately, presenting any current or non-current assets and liabilities separately, nature of assets – lease or hire purchase, and the basis of accounting are found unsatisfactory. The reasons might be that they are not regulated, they do not have any idea about accounting procedure because of lack of education, they are afraid of tax authority, and the like.

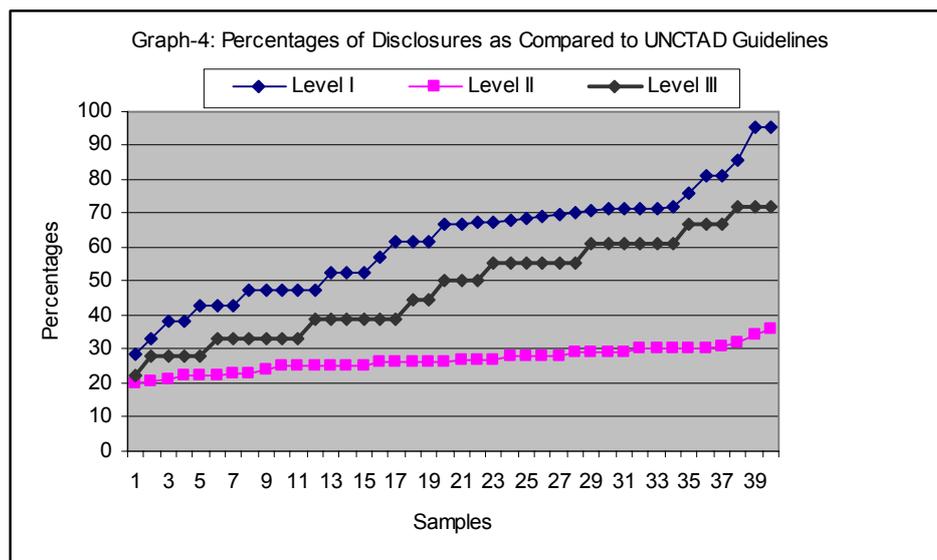
These two Tables (Table-5 and Table-6) are the condensed forms of the results obtained from running the SPSS. The first Table (Table-5) shows the items (known herein the variables) of information that should be included in the financial disclosure as per UNCTAD guidelines. This also gives us the information on how many variables are present in the respective sample elements, how many are absent and their percentages. The percentages of 'Present' and 'Absent' of all level of companies / enterprises / firms are also provided that show the percentages of 'Present' and 'Absent' variables as compared to total number of variables. Table-6 provides the readers with the information about the Means, Standard Deviation and One-Sample 't' values. To make the information contains in Table-5 more readable, the following graphs are presented. In those graphs, sample elements are arranged from low to high disclosure firms. The first graph reveals that there some firms fulfil 100% UNCTAD criteria, but the mean is

61.79%. In case of NLBGC and SE type firms the pictures are different and none of the firm touches the maximum number of disclose able line. The Means are 27.71% and 48.06% respectively. The situation is worse in NLBGPC type firms. The main reason is that the government entities are highly reluctant in disclosing information to the stakeholders.





Again, the proportions of disclosures in terms of percentages for all categories of firms are presented in the following graphs (Graph-4). In this case too, the sample elements have been ranked from low to high percentages.



The above Graph shows that the LC type firms disclose more information followed by SE type firms. But NLBGPC type firms are found consistent but highly unsatisfactory that reveals that government enterprises and private limited companies are not properly monitored.

For having conclusion on the proportion of transparency of different categories of firms, One-Sample 't' test has been carried out and the results are presented in Table-6 above. We know that the One-Sample 't' Test procedure tests whether the mean of a single

variable differs from a specified constant (1). We also know that a low significance value (typically below 0.05) indicates that there is a significant difference between the test value and the observed mean. The 't' values at .001 level of significance are -14.423, -121.886 and -22.512 respectively for LC, NLBGPC and SE categories of firms. These results indicate that within the sample elements there is a significance difference in disclosing information in any particular category of firms, that means, there is a significant difference between sample average and full disclosure. This is true for all categories of firms evaluated.

The k-independent means test has been carried out to find out the whether means of samples of different levels of firms are equal or not. The Means of different levels of firms' disclosure have been tested with a view to have a concrete conclusion on the equality of the sample Means. As suggested by Lind, Mason and Marchal (2000), 'F distribution' is appropriate for carrying out such a test with ANOVA Table. The following null and alternative hypotheses have been drawn:

Drawing the hypotheses

Conventional null hypothesis

$$H_o = \mu_1 = \mu_2 = \mu_3$$

the above null hypothesis states that the mean proportion of disclosure of different Levels of firms are the same.

The alternative hypothesis;

$$H_1 = \mu_1 \neq \mu_2 \neq \mu_3$$

i.e. the Mean Proportion of disclosure of different levels of firms are not the same.

Calculated value of F = 76.08605

The critical value = 3.07

(Calculation is shown in Appendix-1)

So it clearly shows that the null hypothesis is rejected and the alternative hypothesis is accepted. This indicates that there have significant differences among the means of samples.

The same results are obtained from paired sample 't' test given below:

Table-7: Paired Samples Test (obtained by running SPSS)

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	pro001 - pro002	34.82500	16.64699	2.63212	29.50103	40.14897	13.231	39	.000
Pair 2	pro001 - pro003	13.47500	20.02561	3.16633	7.07050	19.87950	4.256	39	.000
Pair 3	pro002 - pro003	-21.35000	15.24593	2.41059	-26.22589	-16.47411	-8.857	39	.000

The above Table also shows that the significance values are lower than 0.05 in all the pairs compared. In the same way, the 95% confidence interval does not contain zero. Both the results conclude that there is, in fact, no association between the means of any pair of means. Comparing the critical value of 't' (1.697) with the calculated values under 't' in the above Table, it clearly provides the conclusion that there is no association between and among the means of any pair. These results are also consistent to 'F distribution' result where we have rejected the null hypothesis.

However, Level I category companies disclose more as compared to all other types of enterprise and firms. This is mainly because of the fact that there are different authorities to monitor those companies as explained earlier. The overall results indicate that the transparency in disclosing information in the Annual Reports of the all the three levels of categories taken together is poor in Bangladesh. This is also consistent with Ahmed and Yusuf (2005) although they did not evaluate it by any scientific method, they identified that the reporting environment in Bangladesh is poor. However, they state that legal enforcement, discretionary powers of the corporate top management, overriding regulatory provisions, lack of standard practice in financial reporting and auditing, and absence of strong pressure groups create reporting, corporate governance and auditing weak in Bangladesh. The next section finds out the main causes of poor disclosure in Bangladesh.

4.7 A Closer Look for the Causes of Poor Disclosure in Bangladesh

From our above discussion it is clear that although corporate / firm disclosures help to be transparent to the stakeholders whereas transparency is the precondition for sound financial system and sound financial system is the precondition of economic growth and development, the disclosure in Bangladesh market is poor. Karim and others (1998) work on financial reporting in Bangladesh that looks regulatory framework with a conclusion that in developing countries companies can be expected to disclose a piece of information if either there is an economic incentive to do so or such disclosure is required by law and the law is enforced to that extent that they (companies) firmly believe that nondisclosure would result in substantial penalty against them. That would happen in developed countries earlier in 1970s when organizations were reluctant to disclose information that was likely to have an adverse effect on their share prices or on their corporate image and were more interested to disclose information that was likely to exert a positive influence on share prices (Morton, 1974). Ahsan (1995) makes an attempt to have a comparative analysis of new and old Companies Acts of Bangladesh in 1994 and 1913 respectively, however, the study does not contain any analytical review and does neither appreciate nor criticize the Law of 1994. In another study Karim (1995) concludes that the financial reporting environment of Bangladesh is characterized by the inheritance of the British accounting system via the British Companies Act, predominance of government ownership in the industrial sector, lack of a strong and broad based capital market, and an unsophisticated audit services market. In a study by Ahmed and Nicholls (1994) it has been found that the level of corporate disclosure in Bangladesh is very poor and whatever information is available is not reliable. Unfortunately, there is no formal scientific research in Bangladesh to search the causes of poor disclosure in Bangladesh. In this section, we shall evaluate the causes of poor disclosure in Bangladesh keeping in mind that identifying the causes of poor disclosure may serve as the best way of probable solutions. It would, obviously, be worthwhile if we could include all the SAFA Member countries, however, Bangladesh may be a representative country to show the causes of poor disclosure in the region.

4.7.1 Methodologies Used

Given the nature of the study, it is required to collect data from primary sources. For collecting qualitative primary data the Stratified Random Sampling method has been

used where the population is divided into subgroups, called strata, and respondents have been collected from each stratum nonproportionately. Stratified sampling has the advantage, in some cases, of more accurately reflecting the characteristics of the population than does random or systematic random sampling. In this sampling every person in the population has a chance of being selected for the sample. The names and addresses of the respondents were collected from the Members' Lists of ICAB and ICMAB, the Government Gazettes (for audit and Accounts) for executives working in different government entities, Directory of the Federation of Chamber of Commerce and Industry, Diaries of different universities, List of Shareholders of different public and private limited companies, List of Brokers of CSE and DSE, List of Officers of CSE and DSE, Officers' List of The Office of the Registrar of Joint Stock Companies, List of Financial Reporters of some well known dailies, Directory of Bureau of Non-Governmental Organizations (NGOs), Securities and Exchange Commission's List of Officers, and some market participants involved in the secondary share markets from the list of participants kept in each of the brokerage houses. The following Table (Table-8) provides us with the real picture of sample respondents selected.

Table-8: Respondents Selected for a Nonproportional Stratified Sample

Stratum	Name of Stratum	Number of Persons	Number Responded	Frequency in %
1	Members of the ICAB	30	07	14
2	Members of the ICMAB	25	05	10
3	Officers of Government Enterprises	20	04	08
4	Public Companies' Accountants	20	04	08
5	Private Companies Accountants	20	04	08
6	Securities and Exchange Commission Personnel	10	02	04
7	Registrar of the Joint Stock Companies	05	02	04
8	Academics: University Teachers, Researchers, etc	25	05	10
9	Government Officials	15	03	06
10	Stock Exchanges' Executives	10	02	04
11	Personnel from non-governmental organizations (NGOs), journalists, Local government authorities, etc	30	04	08
12	Stakeholders that include stockbrokers, minority and majority shareholders, participants in the stock markets, etc	40	08	16
Total		250	50	100

At this stage it is worth to put a short description of population of the above samples and reasons of inclusion in the sampling procedures. The following Table-9 shows the same.

Table-9: Population of Each Stratum and Reasons of Inclusion

Stratum	Name of Stratum	Population	Reasons of Inclusion	Sources
1	Members of the ICAB	270	Policy maker for ICAB, also financial report preparer	Ahmed (2006)
2	Members of the ICMAB	340	A member of the policy and decision making team of the ICAB	ICMAB Website
3	Officers of Government Enterprises	200	Responsible for the company's financial reporting	Govt. Gazette
4	Public Companies' Accountants	300	Responsible for the company's financial reporting	DSE & CSE
5	Private Companies Accountants	2500	Responsible for the company's financial reporting	Registrar of Joint Stock Companies, 2007
6	Securities and Exchange Commission Personnel	20	Policymaker. SEC official responsible for monitoring issues	SEC, 2007
7	Registrar of the Joint Stock Companies	10	Responsible for Registering the companies	Registrar of Joint Stock Companies, 2007
8	Academics: University Teachers, Researchers, etc	100	Published critical comments on the applicability of the IASs in Bangladesh in various papers and journals	Dairies of Universities in Bangladesh, 2007
9	Government Officials	70	Responsible for providing with the direction of government income, budget, expenditure, etc.	Office of Comptroller and Auditor General
10	Stock Exchanges' Executives	10	Responsible for monitoring companies	DSE and CSE, Bulletins
11	Personnel from non-governmental organizations (NGOs), journalists, Local government authorities, etc	50	Provide critical comments on published reports, prepare accounts, etc	Bureau of NGOs, 2007
12	Stakeholders that include stockbrokers, minority and majority shareholders, participants in the stock markets, etc	Not available	Beneficiaries in the capital market and investors	

4.7.2 Hypothesis

To go ahead for accomplishing the task, I have carried out a pilot survey to determine main causes of poor disclosure practices that hindered market, financial and economic development in Bangladesh. At the time of carrying pilot survey, 20 persons were selected covering all the 12 categories. Most of the persons taken in pilot survey are known to me due to my professional and academic links. During pilot survey elaborate discussions were held regarding the preparation of questionnaire, selecting samples, identifying the possible causes of poor disclosure, etc. However, considering the length

of time, volume of works, etc., I have taken into consideration the causes of poor disclosure only from the questionnaire used at the time of collecting primary data. Sixteen causes have been pinpointed based on discussion held so far and pilot survey conducted. To make it statistically meaningful I have drawn a Null Hypothesis. From this hypothesis, it will be possible either to accept or to reject opinion on causes of poor disclosure in Bangladesh.

Thus the hypothesis is:

H_0 = There is no relationship in ranks of different causes of poor disclosure.

H_1 = There is a relationship in ranks among the different causes of poor disclosure.

Taking care of the objective of the study and information a structured questionnaire has been prepared based on sixteen causes selected by literature and pilot surveys. This questionnaire (given in Appendix-2) was sent to the samples requesting them to provide ranks on those factors in the way that most significant factor would get the first rank (hereafter rank 1). Only 15 respondents were responded. The researcher, then, conducted interviews with rest 35 respondents by arranging date to talk on the issues. Necessary care has been taken to avoid any biasness during interviews so that there should have no dissimilarities in ranking the causes by the respondents. They were given full freedom in filling up the questionnaires during interviews so that there could have no influence from the side of researcher. Moreover, at the time of putting the data for analysis, I took necessary measures to see whether or not there has any difference between these two types of data collection procedures. At the end, when I became satisfied, I started using different statistical measures for obtaining results for analysis. To test the hypothesis and to measure the association of variables (causes / factors) I have followed the Kendall Coefficient of Concordance (W) and chi square test (χ^2) based on the model developed by Siegel and Castellan Jr. (1988).

4.7.3 Findings

Table-10 given below shows that sixteen factors have been ranked by the sample respondents, which are affecting transparency and disclosure in Bangladesh. According to their opinions weak legal system in the country and in the markets is the most important factor with a score of 116 and it bears the first rank. Less Developed Training and Development Process of Accountants and Auditors is the least important factor and

it bears last rank with the score of 733. For clear understanding of the findings the factors affecting the transparency and disclosure in Bangladesh have been shown in that Table.

Table-10: Shows the Causes of Poor Disclosure as per the Ranks or Importance

Ranks	Causes of Poor Disclosure	Score Obtained
i.	Weak Legal System in the Country and in the Markets	116
ii.	Weak and less Transparent Corporate Governance	231
iii.	Weakness of Monitoring Authority, such as, Registrar of Joint Stock Companies, SEC, Stock Exchanges, etc.	232
iv.	Underdeveloped Capital Markets	299
v.	Poor Understanding of the Spirit of Disclosure / Reporting	331
vi.	Corruption	350
vii.	Weakness of ICAB and ICMAB	383
viii.	Low Ethical Standards of Auditors	389
ix.	Low Demand for Qualified Accountants	398
x.	Lower Action Rate or Less Corrective Measures of Audit Reports	407
xi.	Lower Freedom of Accounts and Audit Personnel	489
xii.	Lower Trust on Audit Reports	523
xiii.	Low Supply of Qualified Accountants	629
xiv.	Weak Recognition of Accounts and Audit People / Low Status	542
xv.	Low Quality of Accounts and Audit Personnel	648
xvi.	Less Developed Training and Development Process of Accountants and Auditors	733

Source: Prepared by the author himself on the basis of Kendall Coefficient of Concordance (W). The Calculation is shown in Appendix-12.

4.7.4 Procedure of Getting the Results

Considering the various useful tools and formula applicable for non-parametric tests, Kendall Coefficient of Concordance (W) has been applied. To prove the application of Kendall Coefficient of Concordance (W) in determining the position of above stated factors which affect financial and reporting development in Bangladesh and their ranks, average correlation and association of variables have been calculated. The collected data are firstly arranged into K×N Table (shown in Appendix-12) with each row

representing the ranks assigned by a particular respondent to the N objects. Next we find the sum of ranks (\hat{R}_i) in each column of the Table shown in the Appendix –12, by adding the total rank numbers of each column. If any column gets the lowest value then that column would be ranked first and column that gets the highest value will be ranked last. The meaning of the first rank is most important and the last rank is least important. Next we find the average ranks of each column. To find that average rank, total rank number of each column will be divided by K. The next step is to find out the mean value of each column. To do this the sum of $\sum \hat{R}_i$ will be divided by N. Each of the \hat{R}_i may be expressed as a deviation from the grand mean. The procedure of ranking, average correlation, W and χ^2 are shown below precisely:

$$W = \frac{\sum_{i=1}^n (\hat{R}_i - R)^2}{N(N^2-1) / 12} \quad \text{-----(1)}$$

Where:

W = the degree of association among the 50 respondents in ranking 16 factors

\hat{R}_i = the average of the ranks assigned to the ith Cause.

R = the average (or grand mean) of the ranks assigned across all causes.

N = Number of causes being ranked.

K = number of respondents.

$N(N^2-1) / 12$ = maximum possible sum of the squared deviations, i.e. the numerator which would occur if there were perfect agreement among the K respondents.

Appendix -12 shows the details of calculation of W.

Now let's have a look on the results obtained by using different statistical packages such as Microsoft Excel and SPSS. These are as follows:

χ^2 (chi-square) = K (N – 1) W, at (N-1) degree of freedom

Results:

$$W = 0.5315$$

$$\chi^2 = 50(16-1) 0.5315 = 398.625$$

The way of calculation is given below:

$$\bar{R}_i = \frac{\sum \bar{R}_i}{K} = \frac{116}{50} + \frac{733}{50} = 136$$

$$R = \frac{\sum \bar{R}_i}{N} = \frac{136}{16} = 8.5$$

$$\sum (\bar{R}_i - R)^2 = (2.32 - 8.5)^2 + \dots + (14.66 - 8.5)^2 = 180.7256$$

$$N (N^2 - 1) / 12 = 16 (16^2 - 1) / 12 = 340$$

$$W = \frac{180.7256}{340} = 0.5315$$

Although equation (1) shows the intuitive rationale for the statistics of W, a somewhat simpler formula may be used. This formula is,

$$W = \frac{12^2 - 3K^2 N (N+1)^2}{K^2 N (N^2 - 1)} \quad (2)$$

Where $\sum \bar{R}_i^2$ is the sum of the squared sums of ranks of each of the N factors.

$$\therefore \sum R_i^2 = 116^2 + \dots + 733^2 = 3341814$$

Substituting this value into equation (2) we get,

$$W = \frac{12 (3341814) - 3 (50^2) 16 (16+1)^2}{50^2 (16) (16^2 - 1)}$$

$W = 0.5315$ (observed value).

The critical value of χ^2 at 15 degree of freedom and at .001 level of significance is 37.70 indicating that the H_0 is rejected and hence, the alternative hypothesis (H_1) is accepted meaning that there is good association among the ranks of causes of poor disclosure in corporate sectors in Bangladesh and the association is significant at 0.001 level of significance.

We can again, test the extent of correlation among the causes of poor disclosure by calculating the average correlation $aver(r_s)$ by the following formula to eliminate the limitation of W as W can not be negative .

$$aver(r_s) = \frac{KW - 1}{K - 1} \quad \text{-----} \quad (3)$$

$$= 0.52193$$

The $aver(r_s)$ indicates that there is good positive relationship among the causes of poor disclosure identified by the following ranks. This means that when there is no consensus among the respondents, the variability of rankings would be zero, i.e. the average rank will be the same for all objects ranked.

4.8 Conclusion

The purpose of this study is to evaluate the disclosure environment in the developing countries with special reference to Bangladesh. The reason of conducting such a study is to evaluate the extent of financial disclosure by different economic entities and to find out the causes of poor disclosure as compared to developed economies where financial disclosure is believed to be much better despite of some recent scandal. The intention is to help policy makers and standard setters or other participants in developing standards for creating a good disclosure environment in Bangladesh. It is true, on the one hand, that south Asian countries like Bangladesh are still struggling with different problems like economic, social and so. On the other hand, Bangladesh is trying to cope with the

changing world of liberalization and globalization (free market) for attracting foreign investment for its economic development.

To accomplish the task, I have tried to find out, very briefly, the present situation of financial disclosure around the world and the prevailing condition of the south Asian Countries. Although there are efforts of harmonization of financial disclosure by different bodies, still there are differences in disclosure based on national rules, norms, customs, etc. In the same line, the South Asian Federation of Accountants (SAFA) is also trying to harmonize the disclosure in the Member State of SAARC, but still there is a long way to go. Different countries follow different standards. However, the UNCTAD guidelines for financial disclosure are particularly developed for the developing countries that can be taken as the basis of testing. In this study, I have taken the same to evaluate the whole environment of disclosure in Bangladesh.

It has been found that the listed companies are relatively better in disclosing financial information as compared to all other economic entities. Very importantly, the government entities that are governed by the special laws are found very less in disclosing financial or non-financial information to the stakeholders. This reflects the non-transparency in the public sectors that may increase the corruption in those sectors. There are no set standards followed, there is no association of disclosure among different entities, and those sectors are found highly inefficient in maintaining and disclosing financial information. There has been found no set rules of accountability in the public sector. But these enterprises possess a significant portion of whole economic entities. Again, small and owner-managed firms are also found significantly less interested to follow any standards in maintaining their accounts and disclosing those accounts to others. There has been found no association in disclosing the financial information by different firms. The main cause of such a situation may be because of the fact that there is no set rule provided by any governing authority to follow. Moreover, most of those firms' owners try to follow their own rules for maintaining their accounts. They do not have any standard books of accounts and they do not need to submit any accounts to any authority. Besides, most of the owners do not have any accounting knowledge to follow. They do not like to spend money for hiring any accounting professional to help them for that purpose. Jacobs and Kemp (2002) show some interesting points on why small traders do not do accounting in Bangladesh. Firstly, there is no "external" demand for

accounting. Secondly, norms of reciprocity and trust - known as social capital, could also play an important role in understanding accounting absence that might be applicable to a wider context. This is also consistent with the result obtained by Murshed (1996) where he finds that despite small firms' role in the modern business world is well recognized, there exists a dearth of research in small firms, particularly in understanding the implications of accounting and finance. His paper reports the results of an empirical study carried out on the financial accounting and reporting of small firms in Bangladesh. The results are that financial reporting does not seem to be important in these firms except for complying with tax formalities, no systematic way of presenting financial figures among the firms was observed, most firms' financial statements do not provide any database for organizational decision making, the managers have a high degree of satisfaction, particularly with the format used in presenting financial statements. On the contrary, they hardly use those financial statements in organizational decision making and control. They prefer to use a simple form of financial statement and show almost no concern for users' need and attaining financial control.

However, specifically we can draw a conclusion that the overall financial disclosure in Bangladesh has been found poor. Different statistical tools have been used to test the results obtained.

Eventually, empirically, I have tried to find out the reasons of poor disclosure environment in Bangladesh. In this step too, I have used well-known statistical method – the Kendall Coefficient of Concordance (W) to test whether those reasons are valid or not. The sixteen causes have been found for the poor disclosure in Bangladesh. The most important cause is the weak legal system in the country and in the market. This indicates that although there are different legal measures to ensure the transparency of financial disclosure, the implementation of law is very weak. Those reasons are statistically tested and have been found valid at conventional 0.001 level of significance. A future research in this aspect may find out the real solutions of the problems to be found out by the potential researchers.

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Appendix-1

Table showing the calculations of F value for Means of Different Samples

	Level I (X)	Level II (X)	Level III (X)	Level I (X ²)	Level II (X ²)	Level III (X ²)	Total
	43	34	28	1837	1156	772	
	33	29	44	1111	841	1975	
	38	25	50	1451	625	2500	
	52	27	61	2744	729	3735	
	62	30	22	3832	900	494	
	38	36	33	1451	1296	1111	
	29	28	39	816	784	1512	
	62	30	67	3832	900	4444	
	71	31	56	5102	961	3086	
	52	25	39	2744	625	1512	
	62	25	39	3832	625	1512	
	86	30	72	7347	900	5216	
	76	32	61	5805	1024	3735	
	48	30	61	2268	900	3735	
	57	20	28	3265	400	772	
	95	25	28	9070	625	772	
	95	26	72	9070	676	5216	
	81	27	56	6553	729	3086	
	71	29	28	5102	841	772	
	48	30	61	2268	900	3735	
	48	22	72	2268	484	5216	
	52	21	33	2744	441	1111	
	43	28	50	1837	784	2500	
	71	26	50	5102	676	2500	
	67	25	56	4444	625	3086	
	43	24	33	1837	576	1111	
	48	23	56	2268	529	3086	
	48	22	61	2268	484	3735	
	67	28	56	4444	784	3086	
	81	29	33	6553	841	1111	
	67	22	33	4509	502	1111	
	68	29	39	4581	861	1512	
	68	26	39	4653	696	1512	
	69	20	67	4726	412	4444	
	69	26	61	4800	688	3735	
	70	25	39	4874	633	1512	
	70	27	33	4948	734	1111	
	71	26	67	5024	677	4444	
	71	28	56	5100	781	3086	
	72	23	44	5176	529	1975	
T _c	2462	1071	1922				5455
T _c ²	6062079	1146744	3694938				

T_c^2/n_c	151552	28669	92373				272594
n_c	40	40	40				120
X^2				161656	29173	100679	291508
SS Total							43513.25
SST							24599.51
SSE=SSTotal-SST							18913.73
Mean Square		MST					12299.76
		MSE					161.6559
		F					76.08605

Appendix-2

Questionnaire

(The information will only be used for a research study.)

1. Name:
2. Organization:
3. Designation:
4. Responsibilities:
5. Educational Attainments, Training obtained at home and abroad, etc.:
6. Duration of Present Work / Position:
7. Information about the Organization:
 - a. Year of Commencement of Business:
 - b. The nature of the company: (please put a tick (√) on the right answer)
 - i. industry ii. service rendering, iii. manufacturing, iv. financial institution, v. others (please specify)
 - c. The profitability trends of the last five years (please put a tick (√) on the right answer)
 - i. Gradually increasing, ii. Gradually decreasing, iii. static of profit, iv. static of loss, v. always ups and down, vi. Others:..... (please specify)
 - d. Status of the entity: (please put a tick (√) on the right answer)
 - i. Government, ii. Nationalized, iii. Private and listed, iv. Private but not listed, v. Autonomous, vi. Multinational, vii. Others: (Please specify)
 - e. Accounting Policies: (please put a tick (√) on the right answer)
 - i. Historical Cost, ii. Market Price, iii. Inflation adjusted, iv. Others (please specify)
 - f. Accounting Principles followed: (please put a tick (√) on the right answer)
 - i. Based on International Accounting Standards
 - ii. Based on National Accounting Standards
 - iii. Based on Companies Act 1913 or 1994
 - iv. Based on own principles of the company (GAAP)

- v. Others..... (please specify)
- g. Auditing Principles : (please put a tick (√) on the right answer)
 i. Internal Auditors, ii. External Auditing by qualified auditors, iii. Government Auditors, iv. others (please specify)
- h. Nature of Accounts Department : (please put a tick (√) on the right answer)
- a. Independent accounts department
 b. No independent accounts department
 c. Accounts department is run by qualified M.Com. ACA, ACMA, FCA, FCMA, MBA, others.
 If yes, how many:
 ACA.....
 FCA.....
 ACMA.....
 FCMA.....
 MBA.....
 B.Com (Hons.)
 B.Com (Pass)
 B.Com (Hons.) and M. Com.
 M. Com.....
- j. Is it computerized? Yes / No
 k. Who is the supervisory authority: (Please specify)
 l. Is there separate costing department? Yes / No
 m. Is there separate purchase department? Yes / No
 n. Have the assets of the enterprise been revalued at any time in the past?
 Yes / No
8. Disclosure:
- a. The means of disclosure: (please put a tick (√) on the right answer)
- i. the annual report, ii. directors' report, iii. Auditors' report, iv. accounts prepared by the accounts departments, v. web site, vi. Others (please specify)
- b. Disclosure Policies: (please put a tick (√) on the right answer)
 i. fully disclosed, ii. partly disclosed, iii. not disclosed, v. others.....
- c. Accounting Standards: (please put a tick (√) on the right answer)
 i. Own ii. National, iii. International, iv. Generally accepted principles, v. Others (please specify)
9. Is there any voluntary item(s) disclosed ? Yes / No
 If yes, what are that:
 a.
 b.
 c.
 d.

e.

a. and so on.

10. According to you, who are the main beneficiaries? (please specify)

a.

b.

c.

d.

11. Do you think that the existing legal provisions for disclosure in enough?

Yes / No

If No, what provisions should be included? (please specify)

12. Please provide ranks to the following causes of poor disclosure.

Causes of Poor Disclosure

Underdeveloped Capital Markets

Low Supply of Qualified Accountants

Weak Recognition of Accounts and Audit People / Low Status

Less Developed Training and Development Process of Accountants and Auditors

Low Demand for Qualified Accountants

Lower Trust on Audit Reports

Low Quality of Accounts and Audit Personnel

Weakness of Monitoring Authority, such as, Registrar of Joint Stock Companies, SEC, Stock Exchanges, etc.

Lower Freedom of Accounts and Audit Personnel

Poor Understanding of the Spirit of Disclosure / Reporting

Weakness of ICAB and ICMAB

Corruption

Lower Action Rate or Less Corrective Measures of Audit Reports

Weak Legal System in the Country and in the Markets

Weak and less Transparent Corporate Governance

Low Ethical Standards of Auditors

13. Open Space for providing opinion about the effectiveness of reporting system in Bangladesh, the problems and probable solutions, or any type of suggestions to improve the reporting system in Bangladesh.

Appendix-3

UNCTAD Guidelines

1. Financial Disclosure:

- a. Disclosure of the company's financial and operating results, related-party transactions and critical accounting policies.
- b. Enterprises should disclose all the financial information necessary for shareholders and other stakeholders to properly understand the nature of their business and how it was being developed for the future.
- c. Enterprises should disclose all related-party transactions and in addition any related-party relationships where control exists.
- d. Critical accounting policies that are key to the portrayal of an enterprise's financial condition and operating results should be disclosed.

2. Non-Financial Disclosures

a. Company Objectives

The objectives of enterprises may vary according to the values of society. In many, but by no means all, countries the primary corporate objective is to maximize the long-term return to shareholders (shareholder value). This objective appears in many codes throughout the world.

b. Ownership and shareholders' rights.

The ownership structure should be fully disclosed to all shareholders. It was also recognized that changes in the shareholdings of substantial investors should be disclosed to the market as soon as a company became aware of them.

Rules and procedures governing the acquisition of corporate control in the capital markets and extraordinary transactions such as mergers and sales of substantial portions of corporate assets should be disclosed.

c. Governance Structures and Policies

j. The structure, role and functions of the board

The composition of the board should be disclosed, in particular the balance of executive and non-executive directors. Where there might be issues that stakeholders might perceive as challenging the independence of non-executive directors, companies should disclose why those issues are not significant and do not impinge on the independence of the directors.

ii. Board Committees.

These structures may include committees or groups to which the board has delegated responsibility for oversight of executive remuneration, audit matters, appointments to the board, and the evaluation of management performance.

d. Members of the Board and Key Executives

j. **Duties and qualifications**

The duties of individual directors be disclosed. It was agreed that the number of directorships held by an individual director should be disclosed.

The experts took the view that there should be sufficient disclosure of the qualifications and biographical information of all board members to assure shareholders and other stakeholders that the members can effectively fulfil their responsibilities. There should also be disclosure of the mechanisms which are in place to act as "checks and balances" on key individuals in the enterprise.

ii. Evaluation mechanism

The board should disclose whether it has a performance evaluation process in place, either for the board as a whole or for individual members. Disclosure should be made of how the board has evaluated its performance and how the results of the valuation are being used.

iii. Directors' remuneration

Directors should disclose a transparent and accountable mechanism for setting directors' remuneration. Disclosure should be as full as possible to demonstrate to shareholders and other stakeholders that pay is tied to the company's long-term performance as measured by recognized criteria. Information regarding pay packages should include salary, share options and other associated benefits, financial or otherwise, as well as reimbursed expenses. Where share options are used as incentives but are not treated as expenses in the accounts, their cost should be fully disclosed using a widely accepted pricing model.

iv. Succession planning

The board should disclose whether it has established a succession plan for key executives and other board members to ensure that there is a strategy for sustaining the business. It also recognized that there might be confidentiality issues and that the details of any individual plan should not necessarily be publicly disclosed.

v. Conflict of interest

Conflicts of interests affecting members of the board should, if they were not avoidable, at least be disclosed. The board of directors should disclose whether it has a formal procedure for addressing such situations, as well as the hierarchy of obligations to which directors are subject.

e. Material Issues Regarding Employees and Other Stakeholders

Disclosure of whether there was a mechanism protecting the rights of other stakeholders in a business.

f. Environmental and Social Stewardship

the board should disclose its policy and performance in connection with environmental and social responsibility and the impact of this policy and performance on the firm's sustainability.

g. Material Foreseeable Risk Factors

The board should make appropriate disclosures and give appropriate assurances regarding its risk management objectives, systems and activities. In particular, it was agreed that the board should disclose existing provisions for mitigating the possible negative effects of risk-bearing activities. The board should report on internal control systems and their effectiveness.

h. Independence of Auditors

The board should disclose that it had confidence that the auditors are independent and their integrity had not been compromised in any way. The process for interaction with and appointment of internal and external auditors should be disclosed.

c. Annual General Meetings

The need for disclosure of the process for holding annual general meetings. Notification of the agenda should be made in a timely fashion, and the agenda should be made available in the national language (or one of the official languages) of the enterprise and, if appropriate, an internationally used business language.

d. Timing and means of disclosure

All material issues relating to corporate governance of the enterprise should be disclosed in a timely fashion. The disclosure should be clear, concise, precise and governed by the “substance over form” principle. Some issues may require continuous disclosure. Relevant information should be available for users in a cost-effective way.

e. Best practices for compliance with corporate governance

Where there was a local code on corporate governance, enterprises should be encouraged to disclose the extent to which they followed its recommendations and to explain any failures to follow recommendations. Where there is no local code on corporate governance, international companies should be encouraged to follow best practices. The use of “comply or explain” mechanisms in many countries allows investors greater access to information about the corporation and is to be encouraged.

f. Conclusions

This report has considered a range of areas in which disclosure may be advantageous to users of corporate information. It has discussed disclosure relating to financial and non-financial information, the objectives of the company, ownership structure and control devices, board composition and functions, environmental and social responsibility and risk management. It has examined disclosure on the annual meeting and the protection of shareholder and stakeholder rights. Finally, it has looked at the timing and means of disclosure and disclosure on the adoption of best practices in compliance with corporate governance requirements. In looking at areas where disclosure is necessary, the report has given examples from best practice codes from a number of countries. Although the review of such regional and national codes is by no means exhaustive, an attempt has been made to present a balanced review. One of the central tasks of the nineteenth session of ISAR is to evaluate this report and the conclusions of the ad hoc consultative group. If the nineteenth session finds these conclusions useful, it could discuss the elaboration of further guidance embodying both the generally accepted best practices outlined here and ways and means of implementing these practices and producing a guideline for national standard setters on corporate governance disclosures.

Source: UNCTAD (2004): International Accounting and Reporting Issues, Review 2002, Geneva

Appendix-4

Guidelines of UNCTAD for the Disclosures of government and Medium Enterprises

Guideline 1. Presentation of Financial Statements

Components of financial statements

1.1. A complete set of financial statements includes the following components:

- (a) a balance sheet;
- (b) an income statement;
- (c) a statement showing either:
 - (i) all changes in equity; or
 - (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;
- (d) a cash flow statement; and
- (e) *accounting policies*⁴ and explanatory notes.

Overall considerations

1.2 Financial statements should present fairly the financial position, financial performance and cash flows of an enterprise. The appropriate application of the Guidelines, with additional disclosure when necessary, results, in virtually all circumstances, in financial statements that achieve a fair presentation as appropriate for SMEs. In the event that the Guidelines do not cover a transaction undertaken by an enterprise, the enterprise should look to the full set of International Financial Reporting Standards (IFRS) for authoritative guidance, as set out below and in the

introduction to this document.

1.3 An enterprise whose financial statements are drawn up in compliance with the Guidelines should specify in its accounting policy note that the Guidelines are the requirement followed. There should be no reference to IFRS, nor may the entity hold itself out as complying with IFRS in any form.

1.3 Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.

1.4 1.5 In the extremely rare circumstances when management concludes that compliance with a requirement in the Guidelines would be misleading, and that therefore departure from a requirement is necessary in order to achieve a fair presentation, an enterprise should disclose:

- (a) that management has concluded that the financial statements fairly present the enterprise's financial position, financial performance and cash flows;
- (b) that it has complied in all material respects with applicable Guidelines, except for departing from them in order to achieve a fair presentation; and
- (c) the nature of the departure, including the treatment that the Guidelines would require, the reason why that treatment would be misleading in the circumstances and the treatment adopted.

1.6 When preparing financial statements, management should make an assessment of an enterprise's ability to continue as a going concern. Financial statements should be prepared on a going-concern basis unless management intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt on the enterprise's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going-concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the enterprise is not considered to be a going concern.

1.7 An enterprise should prepare its financial statements, except for cash flow information, on the accrual basis of accounting.

1.8 The presentation and classification of items in the financial statements should be retained from one period to the next unless

- (a) a significant change in the nature of the operations of the enterprise or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or
- (b) a change in presentation is required by the Guidelines.

1.9 Each material item should be presented separately in the financial statements. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not be presented separately. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item judged in the particular circumstances where its presentation comes into question.

1.10 Assets and liabilities should not normally be offset in the financial statements. However, some offsetting is required or permitted in exceptional circumstances, as mandated by the Guidelines (e.g. paragraph 2.6). Offsetting may also take place where gains, losses and related expenses arising from the same or similar transactions are not material.

1.11 Unless the Guidelines permit or require otherwise, comparative information with respect to the previous period should be disclosed for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Structure and content

1.12 Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed, and repeated when it is necessary for a proper understanding of the information presented: (a) the name of the reporting enterprise or other means of identification; (b) the balance sheet date or the period covered by the other financial statements, whichever is appropriate to the related component of the financial statements; and (c) the *reporting currency*.

1.13 Financial statements should be presented at least annually. When, in exceptional circumstances, an enterprise's balance sheet date changes and annual financial statements are presented for a

period longer or shorter than one year, an enterprise should disclose, in addition to the period covered by the financial statements:

- (a) the reason why a period other than one year is being used; and
- (b) the fact that comparative amounts for the income statement, changes in equity, cash flows and related notes are not comparable.

Balance sheet

1.14 Each enterprise should determine, on the basis of the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet. Paragraphs 1.16 to 1.20 of this Guideline apply when this distinction is made. When an enterprise chooses not to make this classification, assets and liabilities should be presented broadly in order of their liquidity.

1.15 Whichever method of presentation is adopted, an enterprise should disclose, for each asset and *liability* item that combines amounts expected to be recovered or settled both before and after 12 months from the balance sheet date, the amount expected to be recovered or settled after more than 12 months.

1.16 An asset should be classified as a current asset when it:

- (a) is expected to be realized in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle; or
- (b) is held primarily for trading purposes or for the short term and is expected to be realized within 12 months of the balance sheet date; or
- (c) is cash or a cash-equivalent asset that is not restricted in its use.

All other assets should be classified as non-current assets.

1.17 A liability should be classified as a current liability when it:

- (a) is expected to be settled in the normal course of the enterprise's operating cycle; or
- (b) is due to be settled within 12 months of the balance sheet date.

All other liabilities should be classified as non-current liabilities.

1.18 An enterprise should continue to classify its long-term interest-bearing liabilities as noncurrent, even when they are due to be settled within 12 months of the balance sheet date, if:

- (a) the original term was for a period of more than 12 months;
- (b) the enterprise intends to refinance the obligation on a long-term basis; and
- (c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorized for issue.

The amount of any liability that has been excluded from current liabilities in accordance with this paragraph, together with information in support of this presentation, should be disclosed in the notes to the balance sheet.

1.19 At a minimum, the face of the balance sheet should include line items presenting the following amounts:

- (a) property, plant and equipment;
- (b) *intangible*;
- (c) financial assets (excluding amounts shown under (e) and (f));
- (d) *inventories*;
- (e) trade and other receivables;
- (f) cash and cash equivalents;
- (g) trade and other payables;
- (h) tax liabilities and assets;
- (i) *provisions*;
- (j) non-current interest-bearing liabilities; and
- (k) issued capital and reserves.

1.20 Additional line items, headings and subtotals should be presented on the face of the balance sheet when such presentation is necessary to present fairly the enterprise's financial position.

1.21 An enterprise should disclose the following, either on the face of the balance sheet or in the notes:

- (a) for each class of share capital:
 - (i) the number of shares authorized;
 - (ii) the number of shares issued and fully paid, and issued but not fully paid;
 - (iii) par value per share, or that the shares have no par value;

- (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the year;
- (v) the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;
- (vi) shares in the enterprise held by the enterprise itself; and
- (vii) shares reserved for issuance under options and sales contracts, including the terms and amounts;
- (b) a description of the nature and purpose of each reserve within owners' equity; (c) the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorized for issue; when dividends have been proposed but not formally approved for payment, the amount included (or not included) in liabilities; and
- (d) the amount of any cumulative preference dividends not recognized.

An enterprise without share capital, such as a partnership, should disclose information equivalent to that required above, showing movements during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.

Income Statement

1.22 At a minimum, the face of the income statement should include line items which present the following amounts:

- (a) *revenue*;
- (b) the results of *operating activities*;
- (c) finance costs;
- (d) *tax expense*;
- (e) profit or loss from *ordinary activities*; and
- (f) net profit or loss for the period.

Additional line items, headings and subtotals should be presented on the face of the income statement when such presentation is necessary to present fairly the enterprise's financial performance.

1.23 All items of income and expense recognized in a period should be included in the determination of the net profit or loss for the period unless the SMEGA require or permit otherwise.

1.24 When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

1.25 Circumstances that may give rise to the separate disclosure of items of income and expense in accordance with paragraph 1.24 include the following:

- (a) the write-down of inventories to *net realizable value* or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;
- (b) a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of long-term investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

Information to be Presented Either on the Face of the Income Statement or in the Notes

1.26 An enterprise should present, either on the face of the income statement or in the notes to the income statement, an analysis of expenses using a classification based on either the nature of expenses or their function within the enterprise.

1.27 Enterprises classifying expenses by function should disclose additional information on the nature of expenses, including *depreciation* and amortization expense and staff costs.

1.28 An enterprise should disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements.

Changes in equity

1.29 An enterprise should present, as a separate component of its financial statements, a statement showing the following:

- (a) the net profit or loss for the period;
- (b) each item of income and expense, gain or loss which, as required by the Guidelines, is recognized

- directly in equity, and the total of these items; and
 (c) the cumulative effect of changes in accounting policy and the correction of *fundamental errors*.

In addition, an enterprise should present, either within this statement or in the notes, the following:

- (d) capital transactions with owners and distributions to owners;
 (e) the balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and
 (f) a reconciliation between the *carrying amount* of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement.

Notes to the financial statements

1.30 The notes to the financial statements of an enterprise should:

- (a) present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;
 (b) disclose the information required by the SMEGA that is not presented elsewhere in the financial statements; and
 (c) provide additional information that is not presented on the face of the financial statements but that is necessary for a fair presentation.

1.31 Notes to the financial statements should be presented in a systematic manner. Each item on the face of the balance sheet, the income statement and the cash flow statement should be cross-referenced to any related information in the notes.

1.32 The accounting policies section of the notes to the financial statements should describe the following:

- (a) the measurement basis (or bases) used in preparing the financial statements; and
 (b) each specific accounting policy that is necessary for a proper understanding of the financial statements.

1.33 An enterprise should disclose the following, if the information is not disclosed elsewhere in information published with the financial statements:

- (a) the domicile and legal form of the enterprise, its place of incorporation and the address of the registered office (or principal place of business, if different from the registered office);
 (b) a description of the nature of the enterprise's operations and its principal activities; and
 (c) either the number of employees at the end of the period or the average number for the period.

Guideline 2. Cash Flow Statements

Presentation of a cash flow statement

2.1 The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.

2.2 Cash flows from operating activities are primarily derived from the principal revenue producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss. Cash flows arising from income taxes should be separately disclosed within the operating activities section. Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in the determination of net profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

Investing activities

2.3 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.

Financing activities

2.4 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise.

2.5 An enterprise should report cash flows from operating activities using either:

- (d) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
 (e) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and

items of income or expense associated with investing or financing cash flows.

2.6 An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from financing and investing activities, except to the extent that cash flows described in paragraph 2.7 are reported on a net basis.

2.7 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

(a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and

(b) cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short.

2.8 Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

2.9 An enterprise should disclose the components of cash and cash equivalents and should present reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.

Cash and cash equivalents

2.10 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. To qualify as a cash equivalent, an investment must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents – for example, in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

2.11 Bank borrowings are generally considered to be *financing activities*. However, in some countries, bank overdrafts that are repayable on demand form an integral part of an enterprise's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates between being positive and being overdrawn.

Other disclosures

2.12 An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the enterprise.

Guideline 3. Property, Plant and Equipment

Disclosure

3.28 The financial statements should disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount (when more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed);

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals;

(iii) increases or decreases during the period resulting from revaluations;

(iv) impairment losses recognized in the income statement during the period (if any);

(v) impairment losses reversed in the income statement during the period (if any);

(vi) depreciation; and

(vii) other movements.

Comparative information is not required for the reconciliation in (e) above.

3.29 The financial statements should also disclose the existence and amounts of restrictions

on title as well as property, plant and equipment pledged as security for liabilities.
3.30 When items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

- (a) the basis used to revalue the assets;
- (b) the effective date of the revaluation; and
- (c) whether an independent valuer was involved.

Guideline 4. Leases

Classification of leases

4.1 The classification of leases is based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibility of losses from idle capacity or technological obsolescence and of variations in return caused by changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's *economic life* and of gain from appreciation in value or realization of a residual value.

4.2 Whether a lease is a *finance lease* or an *operating lease* depends on the substance of the transaction rather than the form of the contract. Following are examples of situations that would normally lead to a lease's being classified as a finance lease:

- (a) the lease transfers ownership of the asset to the lessee by the end of the *lease term*;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the *inception* of the lease, it is reasonably certain that the option will be exercised;
- (c) the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- (d) at the inception of the lease, the present value of the *minimum lease payments* amounts to at least substantially all of the fair value of the leased asset;
- (e) the leased assets are of a specialized nature such that only the lessee can use them without major modifications.

4.3 Following are indicators of situations that, individually or in combination, could also lead to a lease's being classified as a finance lease:

- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- (b) gains or losses from the fluctuation in the fair value of the residual fall to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease);
- (c) the lessee has the ability to continue the lease for a secondary period at a rent substantially lower than market rent.

Finance leases

4.4 Lessees should recognize finance leases as assets and liabilities in their balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the *interest rate implicit in the lease*, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used.

4.5 Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

4.6 A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets should be consistent with that for depreciable assets that are owned.

4.7 If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.

4.8 Lessees should disclose for finance leases, for each class of asset, the net carrying amount at the balance sheet date and the basis on which *contingent rents* have been recognized in the income statement.

Operating leases

4.9 Lease payments under an operating lease should be recognized as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is

representative of the time pattern of the user's benefit.

4.10 All incentives for the agreement of a new or renewed operating lease should be recognized as an integral part of the net consideration agreed for the use of the leased asset. The lessee should recognize the aggregate benefit of incentives as a reduction of rental expense over the lease term.

4.11 Lessees should disclose the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

- (i) not later than one year;
- (ii) later than one year and not later than five years; and
- (iii) later than five years.

Sale and leaseback

4.12 A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. The lease payment and the sale price are usually interdependent since they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease involved.

4.13 If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount should not be immediately recognized as income in the financial statements of a seller-lessee. Instead, it should be deferred and amortized over the lease term.

4.14 If a sale and leaseback transaction results in an operating lease and it is clear that the transaction is established at fair value, any profit or loss should be recognized immediately. If the sale price is below fair value, any profit or loss should be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

4.15 For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognized immediately.

Guideline 5. Intangible Assets

Disclosure

6.6 The financial statements should disclose:

- (a) the accounting policies adopted in measuring inventories, including the cost formula used;
- (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the enterprise; and
- (c) the carrying amount of inventories pledged as security for liabilities.

6.7 The financial statements should disclose either:

- (a) the cost of inventories recognized as an expense during the period; or
- (b) the operating costs, applicable to revenues, recognized as an expense during the period, classified by their nature.

Guideline 7. Government Grants

Disclosure

7.14 The following matters should be disclosed:

- (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
- (b) the nature and extent of government grants recognized in the financial statements and an indication of other forms of government assistance from which the enterprise has directly benefited; and
- (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognized.

Guideline 8. Provisions

Disclosure

8.18 For each class of provision, an enterprise should disclose:

- (a) the carrying amount at the beginning and end of the period; and
- (b) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.

8.19 Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable, an estimate of its financial effect, measured under

paragraphs 8.9 and 8.10.

8.20 Where an inflow of economic benefits is probable, an enterprise should disclose a brief description of the nature of the contingent assets at the balance sheet date and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 8.9 and 8.10.

8.21 Where any of the information required by paragraphs 8.19 and 8.20 is not disclosed because it is not practicable to do so, that fact should be stated.

8.22 In extremely rare cases, disclosure of some or all of the information required by paragraphs 8.18 to 8.20 can be expected to prejudice seriously the position of the enterprise in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an enterprise need not disclose the information but should disclose the general nature of the dispute, together with the fact that, and the reason why, the information has not been disclosed.

8.23 Examples of accounting for provisions are given in Appendix 2, part A.

Guideline 9. Revenue

Disclosure

9.11 An enterprise should disclose:

- (a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
- (b) the amount of each significant category of revenue recognized during the period, including revenue arising from:
 - (i) the sale of goods;
 - (ii) the rendering of services;
 - (iii) interest;
 - (iv) royalties; and
 - (v) dividends; and
- (c) the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Guideline 10. Borrowing Costs

Disclosure

10.12 The financial statements should disclose:

- (a) the accounting policy adopted for borrowing costs;
- (b) the amount of borrowing costs capitalized during the period; and
- (c) the capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

Guideline 11. Income Taxes

Disclosure

11.10 The major components of tax expense (income) should be disclosed separately.

Guideline 12. Accounting Policies

Disclosure

12.14 An entity should disclose:

- (a) the nature of the error; and
- (b) the amount of the correction for each prior period presented.

Guideline 13. Foreign Exchange Rates

Disclosure

13.4 An enterprise should disclose:

- (a) the amount of exchange differences included in the net profit or loss for the period; and
- (b) the amount of exchange differences arising during the period that is included in the carrying amount of an asset.

13.5 When the reporting currency is different from the currency of the country in which the enterprise is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.

Guideline 14. Events after Balance Sheet Date

14.1 An enterprise should adjust the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date.

14.2 The following are examples of adjusting *events after the balance sheet date* that require an enterprise to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

(a) the resolution after the balance sheet date of a court case which, because it confirms that an enterprise already had a present obligation at the balance sheet date, requires the enterprise to adjust a provision already recognized, or to recognize a provision instead of merely disclosing a contingent liability;

(b) the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:

(i) when the bankruptcy of a customer occurs after the balance sheet date, it usually confirms that a loss already existed at the balance sheet date on a trade receivable account and that the enterprise needs to adjust the carrying amount of the trade receivable account; and

(ii) the sale of inventories after the balance sheet date may give evidence about their net realizable value at the balance sheet date;

(c) the determination after the balance sheet date of the cost of assets purchased, or the proceeds from assets sold, before the balance sheet date;

(d) the determination after the balance sheet date of the amount of profit-sharing or bonus payments, if the enterprise had a present legal or *constructive obligation* at the balance sheet date to make such payments as a result of events before that date; and

(e) the discovery of fraud or errors indicating that the financial statements were incorrect.

14.3 An enterprise should not prepare its financial statements on a going concern basis if management determines, after the balance sheet date, either that it intends to liquidate the enterprise or to cease trading, or that it has no realistic alternative but to do so.

14.4 An enterprise should not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the balance sheet date.

14.5 An example of a non-adjusting event after the balance sheet date is a decline in market value of investments between the balance sheet date and the date when the financial statements are authorized for issue. The fall in market value does not normally relate to the condition of the investments at the balance sheet date, but reflects circumstances that arise in the following period. Therefore, an enterprise does not adjust the amounts recognized in its financial statements for the investments. Similarly, the enterprise does not update the amounts disclosed for the investments as at the balance sheet date, although it may need to give additional disclosure under paragraph 14.7.

14.6 If an enterprise receives information after the balance sheet date about conditions that existed at the balance sheet date, the enterprise should, in the light of the new information, update disclosures that relate to these conditions.

14.7 Where non-adjusting events after the balance sheet date are of such importance that nondisclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an enterprise should disclose the following information for each significant category of non-adjusting event after the balance sheet date:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

14.8 The following are examples of non-adjusting events after the balance sheet date that may be of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions:

(a) announcing a plan to discontinue an operation, disposing of assets or settling liabilities attributable to a discontinuing operation, or entering into binding agreements to sell such assets or settle such liabilities;

(b) major purchases and disposals of assets, or expropriation of major assets by government; and

(c) the destruction of a major production plant by a fire after the balance sheet date;

14.9 If dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognize those dividends as a liability at the balance sheet date.

14.10 An enterprise should disclose the date when the financial statements were authorized for issue and who gave that authorization. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact.

Guideline 15. Related-Party Disclosures

Disclosure

15.3 The following are examples of situations where *related-party transactions* may lead to disclosures

by a reporting enterprise in the period they affect:

- (a) purchases or sales of goods (finished or unfinished);
- (b) purchases or sales of property and other assets;
- (c) rendering or receiving of services;
- (d) agency arrangements;
- (e) leasing arrangements;
- (f) transfer of research and development;
- (g) licence agreements;
- (h) finance (including loans and equity contributions in cash or in kind);
- (i) guarantees and collaterals; and
- (j) management contracts.

15.4 Related-party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

15.5 If there have been transactions between related parties, the reporting enterprise should disclose the nature of the related-party relationships as well as the types of transactions and the elements of the transactions necessary for an understanding of the financial statements.

15.6 The elements of transactions necessary for an understanding of the financial statements would normally include:

- (a) an indication of the volume of the transactions, either as an amount or as an appropriate proportion;
- (b) amounts or appropriate proportions of outstanding items; and
- (c) pricing policies.

15.7 Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related-party transactions on the financial statements of the reporting enterprise.

Source: UNCTAD (2004): International Accounting and Reporting Issues, Review 2002, Geneva.

Appendix-5

UNCTAD guidelines

ACCOUNTING AND FINANCIAL REPORTING GUIDANCE FOR LEVEL III - SMALL ENTERPRISES

Introduction

Level 3 guidance and financial statements are designed for small enterprises that are owner-managed and have few employees. Such enterprises should follow a simple accrual-based accounting system that is closely linked to cash transactions, and with a derogation for businesses to use cash accounting for a limited time when establishing their accounting systems. This guidance is consistent with the guidance for Level 2 (as set out in TD/B/COM.2/ISAR/16 and Addenda 1–3). While Level 2 SMEs are likely to be economically significant, those at Level 3 constitute the smallest enterprises. This document consists of an accounting and reporting framework, related basic requirements and model financial statements.

I. Conceptual framework

Scope

Level 3 enterprises typically have significant difficulties in accessing bank and trade credit. They are likely to be one-person enterprises or businesses with few employees. The SMEGA for Level 3 are intended to meet the needs of users and preparers of financial statements for these enterprises.

Components of financial statements

A set of financial statements for Level 3 enterprises includes the following components:

- (a) an income statement; and
- (b) a balance sheet.

Level 3 Accounting framework

The two statements – the income statement and the balance sheet – are based on a simple accruals accounting approach broadly consistent with IAS 1. This guidance sets out the accounting and reporting requirements that apply to SMEs in Level 3. The guidance requirements do not involve compliance with IFRS but are based on the historical cost and accruals measurement approach, which is the basis of IFRS. To ensure that the Level 3 financial statements are a part of a coherent framework within the three levels, Level 3 guidance rules are linked with those for Level 2 and IFRS. Level 3 statements will normally be prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

The Objectives of Level 3 Financial Statements

The objective of Level 3 financial statements is to provide information about the reporting enterprise's financial performance and financial position that will be useful to users in assessing the performance of the enterprise and the stewardship of the enterprise's management.

Users and Their Needs

The objective of the proposed financial statements is to help develop the business by providing useful information to users. Therefore, the statements are designed to reflect users' needs. Evidence suggests that the principal users are likely to be:

- (a) management;
- (b) lenders and other creditors;
- (c) government;
- (d) taxation authorities; and
- (e) SME agencies.

The following is a summary of the likely needs of these users of annual financial reports of Level - 3 enterprises:

- (a) Management:
 - to confirm how well or badly the enterprise has performed during the year (including the levels of income, costs and revenues);
 - for applying for external financing;
 - for financial management purposes (e.g. deciding what portion of profits to retain); and/or
 - as a tool for succession planning and management of wealth.
 - (b) Lenders and other creditors:
 - to assess risk in the credit decision; and
 - to monitor the performance of enterprises that have been given credit.
 - (c) Government: For macro- and micro-economic planning purposes
 - (d) Tax authorities: For tax assessment purposes
- SME agencies:* To assess support requests from enterprises (e.g. grant applications, training requests, subsidized business services)

Qualitative characteristics

Understandability: It is essential that information provided in financial statements be readily understandable by users.

Relevance: To be useful, information must be relevant to the decision-making needs of users.

Reliability: Information is reliable when it is free from material error and bias and can be depended on by users to represent faithfully that which it is said to represent.

Comparability: Users must be able to compare the financial statements of an entity over time in order to identify trends in the entity's financial position and performance.

Constraints: The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgemental process. Standard setters as well as the preparers and users of financial statements should be aware of this constraint. In practice, trade-offs between qualitative characteristics are often necessary. Determining the relative importance of the characteristics in different cases is a matter of professional judgment.

Elements

Asset: An asset is a resource controlled by the enterprise as a result of past events and from which

future economic benefits are expected to flow to the enterprise.

Liability: A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

Equity: Equity is the residual interest in the assets of the enterprise after all its liabilities have been deducted.

Income encompasses both revenue and gains. It includes increases in economic benefits during the accounting period in the form of inflows or enhancements of assets as well as decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses are decreases in economic benefits.

Recognition

An item that meets the definition of an element should be recognized if (a) it is probable that any future economic benefit associated with the item will flow to or from the enterprise, and (b) the item has a cost or value that can be measured with reliability.

Measurement

The measurement base most commonly adopted by enterprises in preparing their financial statements is historical cost.

It is unlikely that Level 3 entities will have the resources to prepare these statements, and therefore the assumption is that the statements will be prepared by an external agency.

Level 3 Enterprises and financial management

For day-to-day management of the enterprise, owner-managers will tend to rely heavily on cash flow information. It is widely recognized that the managing of cash is critical to the survival of a business and to managing relationships with banks and other providers of finance. It is recommended that owner-managers keep cash records that will be a source of prime entry for the financial statements. These records, whether produced manually or using a software package, will be an important component in the financial management of Level 3 enterprises.

II. SMEGA Level 3 – Basic Requirements

The following details the basic guidance for Level 3 enterprises. For material transactions or events not covered by this guidance, reference should be made to the appropriate requirements in the guidance for Level 2.

The minimum set of primary financial statements includes the following components:

(a) A balance sheet; and

(b) An income statement.

Enterprises may wish to include other statements that are likely to enhance the overall transparency and quality of the enterprise's provision of information to users.

Financial statements should be prepared on a going-concern basis unless management either intends to liquidate the enterprise or cease trading, or has no realistic alternative but to do so. An enterprise should prepare its financial statements on the accrual basis of accounting.

The following information should be prominently displayed:

(a) the name of the reporting enterprise; and

(b) the balance sheet date and the period covered by the income statement.

Financial statements should be presented at least annually.

The enterprise should present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet.

An asset should be classified as a current asset when it:

(a) is expected to be disposed of for cash in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle; or

(b) is held primarily for trading purposes or for the short term and is expected to be disposed of for cash within 12 months of the balance sheet date; or

(c) is cash on hand.

All other assets should be classified as non-current assets.

A liability should be classified as a current liability when it:

- (a) is expected to be settled in the normal course of the enterprise's operating cycle; or
- (b) is due to be settled within 12 months of the balance sheet date.

All other liabilities should be classified as non-current liabilities.

As a minimum, the face of the balance sheet should include line items that present the amounts in the formats in Annex 3.

Additional line items, headings and subtotals should, if relevant to the enterprise, be presented on the face of the balance sheet.

An enterprise should disclose the movement of owner's equity during the financial year.

The income statement should follow the structure and use the headings shown in Annex 1.

An item of property, plant or equipment should initially be measured at its cost. The cost of an item of property, plant or equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.

The depreciable amount (cost less expected proceeds from disposal) of an item of property, plant or equipment should be allocated on a systematic basis over its useful life. Straight-line depreciation is the simplest method.

Land normally has an unlimited life and, therefore, is not depreciated. Buildings have a limited life and, therefore, are depreciable assets.

The financial statements should disclose for each class of property, plant and equipment a reconciliation of the carrying amount at the beginning and end of the period showing:

- additions;
- disposals;
- depreciation; and
- other movements.

Lease payments, whether deriving from an operating or finance lease, and payments under hire purchase (HP) contracts should be recognized as an expense (on a cash basis, not on an accruals basis). If the payments are material, the expense should be shown under a specific lease payment

heading in the formatted income statement.

The value of the lease should not be shown either as an asset or as a liability on the balance sheet. The same approach should be taken for assets acquired under HP contracts.

Inventories should be measured at the lower of cost and net realizable value (the estimated selling

price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale).

The cost of inventories should comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories should be assigned by using specific identification of the individual costs of items whenever possible. The cost of other inventories should be assigned by using the first-in, first out (FIFO) or weighted average cost formulas.

Revenue should exclude taxes on goods and services but should include commissions receivable. Revenue from the sale of goods should be recognized when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods.

Revenue from the rendering of services should be recognized to the extent that the service has been provided.

Where there is uncertainty as to the receipt of payment for a trade debt, a reasonable provision should be made against trade receivables.

Any significant gains or losses should be separately disclosed.

III. Level 3 Model Financial Statements

The Financial Statements

The two statements – the income statement and the balance sheet – are based on a simple accruals

accounting approach broadly consistent with IAS 1. To ensure that the Level 3 financial statements are a part of a coherent framework within the three levels, Level 3 guidance rules are linked with IFRS.

The Costs and Benefits of the Financial Statements

The formats take into consideration the cost/benefit issues of Level 3 enterprises. In order to ensure that the statements are useful to owner-managers of typical Level 3 enterprises, the costs of preparing the statements need to be weighed against the benefits to other users and particularly the enterprise itself. For example, potential providers of external financing are likely to require the two financial statements in order to assess the risks involved in the proposed transaction.

Users and Their Needs

The objective of the proposed financial statements is to help users extract information that can be helpful in developing the business. Therefore, the design of the statements is intended to reflect users' needs.

Income Statement: Annex 1 and 2*Rationale*

The structure of the income statement has been designed primarily to meet the needs of owner managers. It is recognized that the income statement is used by owner-managers to see whether in their pricing they have correctly anticipated the level of costs and profit margins. It is assumed that most enterprises at this level will price goods and services on a cost-plus basis.

Thus, the "contribution" reflects the difference between the sales and those costs that the mark-up is calculated on, which are described in the statement as "direct costs".

Direct costs will vary from enterprise to enterprise. For example, Annex 2 illustrates an income statement for a typical retail business where the mark-up is likely to be made just on purchases. Other types of enterprises may have different definitions of direct costs.

The cost structures of enterprises at this level are likely to be very different from those of large businesses. The reason for this is that the majority of these enterprises' costs are likely to be direct. In contrast, the majority of the costs of large businesses are indirect (i.e. related to overhead). The "tax" shown in the income statement relates to the estimated tax due for the year, which relates to the profit or loss for the same year. It therefore follows that the profit after tax and owners drawings/dividends corresponds to the amount shown under the heading "increase/decrease in owner's capital" in the balance sheet in Annex 3.

The headings under "indirect costs" will reflect the materiality of the costs in relation to the total indirect costs and their importance with regard to disclosure for users in general. Therefore, there is likely to be some variation among different types of enterprises.

Balance Sheet – Annex 3

The relevance of the headings will to a certain extent depend on the nature of the enterprise, but the main structure and headings should be applicable for most enterprises at this level.

Cash Flow Statements

Historical cash flow statements have been excluded from the set of financial statements at this level because there is little evidence suggesting that users at this level find such statements useful. It is, however, recognized that cash management on a daily basis is critical to the health and survival of enterprises at this level. No prescribed format has been suggested for the keeping of cash records because of variations that may be utilized by different enterprises. For example, some record-keeping systems are paper-based and individualized, whereas others use software packages that prescribe a standard format.

Level 3 Model Income Statement (example)

XYZ Ltd.
Income statement
for the year ended 31 December 20xx

Sales	
<i>Direct operating costs</i>	
Total direct operating costs	
<i>Contribution</i>	
<i>Indirect costs</i>	
Total indirect costs	
<i>Profit before interest and other financing costs</i>	
<i>Less:</i>	
<i>Interest</i>	
<i>Other financing costs</i>	
<i>Profit after interest and other financing costs</i>	
<i>Less:</i>	
<i>Tax</i>	
Profit after tax	
Owners' drawings	
Increase/decrease in owners' capital	

Model income statement (example)

XYZ Ltd.
Income Statement
for the year ended 31 December 20xx
(in US\$)

Sales	325 000
<i>Direct operating costs</i>	
Opening inventories	30 100
Purchases	195 000
	225 100
<i>Less:</i>	
Closing inventories	32 500
Total direct operating costs	192 600
<i>Contribution</i>	132 400
<i>Indirect costs</i>	
Salaries	34 350
Depreciation	6 500
Lease rent	15 600
Motor vehicle expenses	6 500
Insurance	1 300
Telephone	1 700
Light and heat	1 150
Total indirect costs	67 100
Profit before interest and other financing costs	65 300
<i>Less:</i>	
Interest and other financing costs	1 300
Profit after interest and other financing costs	64 000
<i>Less:</i>	
Tax	8 400
Profit after tax	55 600
Owners' drawings	45 000
Increase (decrease) in owners' capital	10 600

Model balance sheet (example)

XYZ Ltd
Balance Sheet
as of 31 December 20X1
(in US\$)

Assets			
Non-current assets			
Property	170 000		
<i>Less: Accumulated depreciation</i>	40 000	130 000	
Equipment	85 000		
<i>Less: Accumulated depreciation</i>	25 000	60 000	
Total non-current assets			190 000
Current assets			
Materials		18 200	
Stock		34 000	
Trade receivables	28 500		
<i>Less: Provisions</i>	2 500	26 000	
Bank accounts		5 600	
Cash		1 200	
Total current assets			85 000
Total assets			275 000
Owners' equity and liabilities			
Owners' capital			
Earnings for the year	55 600	132 900	
<i>Less: Drawings this year</i>	45 000		
Increase in owners capital		10 600	
Owners' capital 31 December 20X1			143 500
Non-current liabilities			
Loans		105 500	
Current liabilities			
Bank	2 500		
Taxes payable	4 600		
Trade payables	18 900		
Total current liabilities		26 000	
Total liabilities			131 500
Total owners' equity and liabilities			275 000

Source: UNCTAD (2004): International Accounting and Reporting Issues, Review 2002, Geneva.

Appendix-6

Level I

Variable Level	Description
I101a	Financial Disclosure: Disclosure of the company's financial and operating results, related-party transactions and critical accounting policies
I101b	Financial Disclosure: Enterprises should disclose all the financial information necessary for shareholders and other stakeholders to properly understand the nature of their business and how it was being developed for the future
I101c	Financial Disclosure: Enterprises should disclose all related-party transactions and in addition any related-party relationships where control exists
I101d	Financial Disclosure: Critical accounting policies that are key to the portrayal of an enterprise's financial condition and operating results should be disclosed
I102a	Non-Financial Disclosures: Company Objectives
I102b	Non-Financial Disclosures: Ownership and shareholders' rights
I102c1	Non-Financial Disclosures- Governance Structures and Polices: The structure, role and functions of the board
I102c2	Non-Financial Disclosures- Governance Structures and Polices: Board Committees
I102d1	Non-Financial Disclosures- Members of the Board and Key Executives: Duties and qualifications
I102d2	Non-Financial Disclosures- Members of the Board and Key Executives: Evaluation mechanism
I102d3	Non-Financial Disclosures- Members of the Board and Key Executives: Directors' remuneration
I102d4	Non-Financial Disclosures- Members of the Board and Key Executives: Succession planning
I102d5	Non-Financial Disclosures- Members of the Board and Key Executives: Conflict of interest
I102e	Non-Financial Disclosures- Material Issues Regarding Employees and other Stakeholders
I102f	Non-Financial Disclosure- Environmental and Social Stewardship
I102g	Non-Financial Disclosure: Material Foreseeable Risk Factors
I102h	Non-Financial Disclosure: Independence of Auditors
I103	Annual General Meetings
I104	Timing and means of disclosure
I105	Best practices for compliance with corporate governance
I106	Conclusions

Appendix-7

Level II

Variable Level	Description of Variable
I2011a	Presentation of Financial Statements: A Balance Sheet
I2011b	Presentation of Financial Statements: An Income Statement
I2011c1	Presentation of Financial Statements: All Changes in Equity
I2011c2	Presentation of Financial Statements: Other Changes in Equity
I2011d	Presentation of Financial Statements: A cash Flow Statement
I2011e	Presentation of Financial Statements: Accounting Policy and Explanatory Notes
I2011f	Presentation of Financial Statements: The Management's Assessment
I2012a	Content: Name and or Other Identification
I2012b	Content: Balance Sheet Date
I2012c	Content: Reporting Currency
I2012d	Content: Period Covered
I2012e	Content: Period Other than One Year
I2012f	Content: domicile or legal form of enterprise, its place of incorporation, address of registered office
I2012g	Content: Nature of operation and principal activities
I2012h	Content: Number of employees at the end of the period, or average number of employees
I20131a	Presentation of Balance Sheet: Segregation of current and non-current assets
I20131b	Presentation of Balance Sheet: Segregation of current and non-current liabilities
I20131c	Presentation of Balance Sheet: Notes for both above
I20132a	Property, plant and equipment
I20132b	Intangible
I20132c	Financial assets (excluding amounts shown under (e) and (f))
I20132d	Inventories
I20132e	Trade and other receivables
I20132f	Cash and cash equivalents
I20132g	Trade and other payables
I20132h	Tax liabilities and assets
I20132i	Provisions
I20132j	Non-current interest-bearing liabilities
I20132k	Issued capital and reserves
I20133a1	Share Capital: The number of share authorized
I20133a2	Share Capital: The number of shares issued and fully paid, and issued but not fully paid
I20133a3	Share Capital: Par value per share, or that the shares have no par value
I20133a4	Share Capital: A reconciliation of the number of shares outstanding at the beginning and at the end of the year
I20133a5	Share Capital: The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital
I20133a6	Share Capital: Shares in the enterprise held by the enterprise itself
I20133a7	Share Capital: Shares reserved for issuance under options and sales contracts, including the terms and amounts
I20141a	Income Statement: revenue
I20141b	Income Statement: the results of operating activities
I20141c	Income Statement: finance costs
I20141d	Income Statement: tax expense
I20141e	Income Statement: profit or loss from ordinary activities
I20141f	Income Statement: net profit or loss for the period
I20142a	Separate Disclosure: Process of depreciation and amortization
I20142b	Separate Disclosure: Dividend per share declared and proposed
I20142c	Separate Disclosure: Capital transactions with owners
I20142d	Separate Disclosure: The balance of accumulated profit
I20142e	Separate Disclosure: Carrying amount each class of equity capital, share premium and each reserve at the beginning and the end of the period
I202	Cash flow statement classified by operating, investing and financing activities
I203a	Property, plant and equipment: The measurement base,
I203b	Property, plant and equipment: The depreciation method,
I203c	Property, plant and equipment: Useful life and depreciation rate,
I203d	Property, plant and equipment: The gross carrying amount and the accumulated depreciation at the beginning and end of the period
I203e1	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Additions
I203e2	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Disposals
I203e3	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Revaluation
I203e4	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Basis used to revalue
I203e5	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Effective rate of revaluation
I203e6	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Independent valuer used or not
I203e7	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Impairment losses recognized in the income statement
I203e8	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the

Variable Level	Description of Variable
I2011a	Presentation of Financial Statements: A Balance Sheet
I2011b	Presentation of Financial Statements: An Income Statement
I2011c1	Presentation of Financial Statements: All Changes in Equity
I2011c2	Presentation of Financial Statements: Other Changes in Equity
I2011d	Presentation of Financial Statements: A cash Flow Statement
I2011e	Presentation of Financial Statements: Accounting Policy and Explanatory Notes
I2011f	Presentation of Financial Statements: The Management's Assessment
I2012a	Content: Name and or Other Identification
I2012b	Content: Balance Sheet Date
I2012c	Content: Reporting Currency
I2012d	Content: Period Covered
I2012e	Content: Period Other than One Year
I2012f	Content: domicile or legal form of enterprise, its place of incorporation, address of registered office
I2012g	Content: Nature of operation and principal activities
I2012h	Content: Number of employees at the end of the period, or average number of employees
I20131a	Presentation of Balance Sheet: Segregation of current and non-current assets
I20131b	Presentation of Balance Sheet: Segregation of current and non-current liabilities
I20131c	Presentation of Balance Sheet: Notes for both above
I20132a	Property, plant and equipment
I20132b	Intangible
I20132c	Financial assets (excluding amounts shown under (e) and (f))
I20132d	Inventories
I20132e	Trade and other receivables
I20132f	Cash and cash equivalents
I20132g	Trade and other payables
I20132h	Tax liabilities and assets
I20132i	Provisions
I20132j	Non-current interest-bearing liabilities
I20132k	Issued capital and reserves
I20133a1	Share Capital: The number of share authorized
I20133a2	Share Capital: The number of shares issued and fully paid, and issued but not fully paid
I20133a3	Share Capital: Par value per share, or that the shares have no par value
I20133a4	Share Capital: A reconciliation of the number of shares outstanding at the beginning and at the end of the year
I20133a5	Share Capital: The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital
I20133a6	Share Capital: Shares in the enterprise held by the enterprise itself
I20133a7	Share Capital: Shares reserved for issuance under options and sales contracts, including the terms and amounts
I20141a	Income Statement: revenue
I20141b	Income Statement: the results of operating activities
I20141c	Income Statement: finance costs
I20141d	Income Statement: tax expense
I20141e	Income Statement: profit or loss from ordinary activities
I20141f	Income Statement: net profit or loss for the period
I20142a	Separate Disclosure: Process of depreciation and amortization
I20142b	Separate Disclosure: Dividend per share declared and proposed
I20142c	Separate Disclosure: Capital transactions with owners
I20142d	Separate Disclosure: The balance of accumulated profit
I20142e	Separate Disclosure: Carrying amount each class of equity capital, share premium and each reserve at the beginning and the end of the period
I202	Cash flow statement classified by operating, investing and financing activities
I203a	Property, plant and equipment: The measurement base,
I203b	Property, plant and equipment: The depreciation method,
I203c	Property, plant and equipment: Useful life and depreciation rate,
I203d	Property, plant and equipment: The gross carrying amount and the accumulated depreciation at the beginning and end of the period
I203e1	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Additions
I203e2	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Disposals
I203e3	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Revaluation
I203e4	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Basis used to revalue
I203e5	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Effective rate of revaluation
I203e6	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Independent valuer used or not
I203e7	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Impairment losses recognized in the income statement
I203e8	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Impairment losses reserved
I203e9	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- Deprecation
I203e10	Property, plant and equipment: A reconciliation of the carrying amount at the beginning and end of the period showing- And other movements
I203f	Properties pledged as security of liabilities
I204a	Leases: Economic life
I204b	Leases: Types of leases
I204c	Leases: Lease Term
I204d	Leases: Minimum Lease Payment

Appendix-8

Level III

Variable Level	Description
I301.1a	Presentation of Financial Statements- Components: A Balance Sheet
I301.1b	Presentation of Financial Statements- Components: An Income Statement
I302a	Basis of Statements: On-going
I302b	Basis of Statements: Accrual
I303a	Content: Name of the enterprise
I303b	Content: The balance sheet date and period covered by income statement
I304	Current and non-current assets and liabilities should be shown separately
I305	Movements of owner's equity
I306a	Plant, equipments and other property at costs plus other costs occurred minus rebates or any deductions. The following additional items should also be included: additions
I306b	Plant, equipments and other property at costs plus other costs occurred minus rebates or any deductions. The following additional items should also be included: disposals
I306c	Plant, equipments and other property at costs plus other costs occurred minus rebates or any deductions. The following additional items should also be included: depreciation
I306d	Plant, equipments and other property at costs plus other costs occurred minus rebates or any deductions. The following additional items should also be included: other movements
I307	Leased or Hire Purchase assets should not be included in the balance sheet
I308	Inventories should be measured at the lower of cost and net realizable value. The cost of other inventories should be assigned by using the first-in, first out (FIFO) or weighted average cost formulas
I309	Revenue from the sale of goods should be recognized when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from the rendering of services should be recognized to the extent that the services have rendered
I310	Where there is uncertainty as to the receipt of payment for a trade debt, a reasonable provision should be made against trade receivables
I311	Any significant gains or losses should be separately disclosed
I312	Formats provided for the preparation of income statement and balance sheet should be used

Appendix-9 : Table shows the data collected for Level I

Sample	Level I																				Total	%		
	1				2												3	4	5	6				
	a	b	c	d	a	b	c		d					e	f	g	h							
						i	ii	i	ii	iii	iv	v												
1	1	1	1	1	0	1	0	1	0	1	0	0	0	0	0	0	0	1	0	1	0	0	9	43
2	1	1	1	0	0	0	0	1	0	1	0	0	0	0	0	0	0	1	0	1	0	0	7	33
3	1	1	1	0	0	0	0	1	0	1	0	1	0	0	0	0	0	1	1	0	0	0	8	38
4	1	1	1	0	0	1	1	1	0	1	1	0	0	0	1	0	1	1	0	0	0	0	11	52
5	1	1	1	1	1	1	1	1	0	1	1	0	0	0	0	0	0	1	1	1	0	0	13	62
6	1	1	0	0	1	0	1	1	0	0	0	0	0	0	0	0	0	1	1	1	0	0	8	38
7	1	1	1	0	0	0	0	0	0	0	0	1	0	1	0	1	0	0	0	0	0	0	6	29
8	1	1	1	1	0	0	1	1	0	1	1	1	0	1	0	0	1	1	1	0	0	0	13	62
9	1	1	1	1	1	0	1	1	0	1	1	1	1	1	0	0	1	1	1	0	0	0	15	71
10	1	1	1	1	1	0	1	1	0	1	0	1	0	1	0	0	1	0	0	0	0	0	11	52
11	1	1	1	1	0	0	1	1	0	0	1	1	0	1	0	1	1	1	1	0	0	0	13	62
12	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	0	0	0	18	86
13	1	1	1	1	1	1	1	1	0	1	1	0	1	1	1	1	0	1	1	0	0	0	16	76
14	1	1	0	0	1	0	1	1	0	0	1	0	0	1	0	0	1	1	1	0	0	0	10	48
15	1	1	0	1	1	0	1	1	0	0	1	1	0	0	0	1	1	1	1	0	0	0	12	57
16	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	0	20	95
17	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	0	20	95
18	1	1	1	1	1	1	1	1	1	1	1	1	0	0	1	0	1	1	1	1	0	0	17	81
19	1	1	1	1	1	1	1	1	1	1	1	0	0	1	1	0	0	1	1	0	0	0	15	71
20	1	1	1	1	1	1	1	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	10	48
21	1	1	0	0	0	0	0	1	0	0	1	1	0	1	0	1	1	1	1	0	0	0	10	48
22	1	1	0	1	1	0	0	1	0	1	1	0	0	0	0	1	1	1	1	0	0	0	11	52
23	1	1	0	1	1	0	0	0	0	1	0	1	0	0	1	0	1	1	0	0	0	0	9	43
24	1	1	1	1	0	1	1	1	0	1	1	1	1	1	0	0	1	1	1	0	0	0	15	71
25	1	1	1	1	0	1	1	1	0	0	1	0	1	1	0	1	1	1	1	0	0	0	14	67
26	1	1	1	0	1	0	0	1	0	0	0	0	0	1	0	1	0	1	0	0	0	0	9	43
27	1	1	0	1	0	0	1	1	0	0	0	0	0	1	1	1	1	1	1	0	0	0	10	48
28	1	1	1	0	0	0	1	1	0	0	0	0	0	0	1	1	1	1	1	0	0	0	10	48
29	1	1	1	1	1	1	0	1	0	1	1	1	0	1	0	1	0	1	1	0	0	0	14	67
30	1	1	1	1	1	1	0	1	0	1	1	1	1	1	1	1	1	1	1	0	0	0	17	81
31	1	1	1	1	1	1	1	1	0	0	1	1	0	1	1	1	1	1	1	1	0	0	14	67
32	1	1	1	1	1	1	1	1	0	0	1	1	0	1	1	1	1	1	1	1	0	0	14	68
33	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	14	68
34	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	14	69
35	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	15	69
36	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	15	70
37	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	15	70
38	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	15	71
39	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	15	71
40	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	1	1	1	1	0	0	0	15	72
Total	30	30	23	21	18	14	20	28	4	19	19	16	9	18	11	15	24	26	23	3	0			

Appendix-10

Appendix-11: Table shows the data collected for Level III

Sample	Level III																		Total	%
	1		2		3		4	5	6				7	8	9	10	11	12		
	a	b	a	b	a	b			a	b	c	d								
1	0	0	1	1	1	0	0	0	0	0	0	0	0	0	1	1	0	0	5	28
2	0	1	1	1	1	0	0	0	1	1	0	0	0	0	1	1	0	0	8	44
3	0	1	1	1	1	0	0	0	1	0	0	1	0	1	1	1	0	0	9	50
4	1	1	1	1	1	1	0	1	1	1	1	0	0	0	1	0	0	0	11	61
5	0	0	1	1	1	0	0	0	0	0	0	1	0	0	0	0	0	0	4	22
6	0	0	1	1	1	0	0	0	1	1	0	0	0	0	1	0	0	0	6	33
7	0	1	1	1	1	0	0	1	0	0	1	0	0	0	1	0	0	0	7	39
8	1	1	1	1	1	1	0	0	1	1	1	1	1	0	0	1	0	0	12	67
9	0	1	1	1	1	0	0	0	1	1	1	1	0	0	1	1	0	0	10	56
10	0	1	1	1	1	0	0	0	0	0	0	0	0	1	1	1	0	0	7	39
11	0	1	1	1	1	0	0	1	0	0	1	0	0	0	1	0	0	0	7	39
12	1	1	1	1	1	1	0	1	1	1	1	0	0	1	1	0	0	1	13	72
13	1	1	1	1	1	1	0	0	1	1	1	0	0	1	0	1	0	0	11	61
14	1	1	1	1	1	1	0	0	1	1	0	0	0	1	1	1	0	0	11	61
15	0	0	1	1	1	0	0	0	0	0	0	0	0	0	1	1	0	0	5	28
16	0	0	1	1	1	0	0	1	0	0	0	0	0	0	1	0	0	0	5	28
17	1	1	1	1	1	1	0	1	1	1	1	0	0	1	1	0	0	1	13	72
18	1	1	1	1	1	1	0	0	1	0	0	1	0	0	1	1	0	0	10	56
19	0	0	1	1	1	0	0	0	0	0	0	0	0	1	1	0	0	0	5	28
20	1	1	1	1	1	1	0	0	0	0	1	1	0	1	1	1	0	0	11	61
21	1	1	1	1	1	1	0	1	1	1	0	0	0	1	1	1	0	1	13	72
22	0	0	1	1	1	0	0	1	0	0	0	0	0	0	1	1	0	0	6	33
23	0	1	1	1	1	0	0	1	0	0	1	1	0	0	1	1	0	0	9	50
24	1	1	1	1	1	1	0	0	1	1	0	0	0	0	1	0	0	0	9	50
25	1	1	1	1	1	1	0	0	0	0	0	0	0	1	1	1	0	1	10	56
26	0	1	1	1	1	0	0	0	0	0	0	0	0	0	1	1	0	0	6	33
27	1	1	1	1	1	1	0	0	1	1	0	0	0	1	1	0	0	0	10	56
28	1	1	1	1	1	1	0	0	0	0	1	1	0	0	1	1	0	1	11	61
29	1	1	1	1	1	1	0	0	1	1	0	0	0	0	1	1	0	0	10	56
30	0	1	1	1	1	0	0	0	0	0	0	0	0	0	1	1	0	0	6	33
31	0	1	1	1	1	0	0	0	0	0	0	0	0	0	1	1	0	0	6	33
32	0	0	1	1	1	0	0	1	0	0	0	1	0	0	1	1	0	0	7	39
33	0	0	1	1	1	0	0	1	0	1	0	0	0	0	1	1	0	0	7	39
34	1	1	1	1	1	1	0	1	1	1	1	0	0	1	1	0	0	0	12	67
35	1	1	1	1	1	1	0	0	0	0	1	1	0	0	1	1	0	1	11	61
36	0	1	1	1	1	0	0	0	0	0	0	0	0	0	1	1	0	1	7	39
37	0	1	1	1	1	0	0	0	0	0	0	0	0	0	1	1	0	0	6	33
38	1	1	1	1	1	1	0	1	1	0	1	0	0	1	1	1	0	0	12	67
39	1	1	1	1	1	1	0	0	0	1	1	0	0	0	1	1	0	0	10	56
40	1	1	1	1	1	1	0	0	0	0	0	0	0	0	1	1	0	0	8	44
Total	19	31	40	40	40	19	0	13	17	16	15	10	1	13	37	28	0	7		

Appendix – 12**Table: Shows the Calculation Details of Kendall Coefficient of Concordance (W)**

Respondents	i.	ii.	iii.	iv.	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv	xvi	Total
1	2	3	1	10	11	5	14	7	13	6	9	16	12	4	8	15	136
2	2	1	3	12	7	5	15	4	14	6	8	16	9	10	11	13	136
3	3	9	4	13	11	2	15	1	12	6	8	10	14	7	5	16	136
4	1	2	3	12	10	4	14	5	13	6	7	9	8	16	11	15	136
5	1	3	2	15	11	5	12	6	14	4	7	10	13	16	8	9	136
6	1	3	2	12	11	4	10	8	9	6	5	13	15	14	7	16	136
7	1	3	4	15	13	11	16	2	12	6	8	14	9	5	7	10	136
8	1	3	7	15	12	4	16	5	2	6	8	10	11	13	9	14	136
9	1	4	3	14	12	5	10	6	7	9	2	8	11	13	15	16	136
10	2	1	3	13	11	7	12	6	4	9	14	8	5	10	16	15	136
11	2	4	3	10	8	6	12	5	1	9	7	15	11	13	14	16	136
12	3	8	7	12	11	9	15	1	4	14	5	6	2	10	13	16	136
13	4	6	9	14	15	12	7	8	5	3	10	11	1	13	2	16	136
14	1	7	4	13	14	11	15	5	6	12	9	10	2	16	3	8	136
15	6	10	1	16	14	5	15	7	2	11	3	9	8	12	4	13	136
16	1	7	6	15	10	5	14	8	9	13	4	2	3	11	12	16	136
17	2	9	6	12	15	7	10	8	1	11	13	3	4	16	5	14	136
18	1	2	9	13	14	7	10	5	11	12	15	8	6	3	4	16	136
19	1	5	3	12	15	8	11	6	14	7	9	13	4	2	10	16	136
20	1	5	4	8	10	7	16	2	14	9	11	15	6	3	12	13	136
21	5	8	6	14	13	7	9	1	12	4	10	11	3	2	15	16	136
22	2	6	7	15	14	8	10	1	5	13	4	3	9	11	12	16	136
23	2	10	9	15	11	5	8	7	6	12	14	1	3	13	4	16	136
24	1	6	8	14	15	11	12	7	9	13	10	4	2	5	3	16	136
25	3	8	7	13	15	10	12	1	4	14	6	2	5	11	9	16	136
26	6	9	12	14	15	11	10	2	1	8	7	4	3	13	5	16	136
27	3	8	2	15	13	12	14	7	10	4	5	9	1	6	11	16	136
28	1	2	9	12	14	7	13	3	6	11	4	10	5	15	8	16	136
29	3	6	12	15	13	5	11	10	7	14	1	8	2	9	4	16	136
30	1	9	10	11	12	8	16	14	7	15	5	6	3	2	4	13	136
31	1	4	5	12	13	8	16	6	7	9	10	14	11	3	2	15	136
32	1	5	4	13	15	9	16	6	7	8	10	12	11	3	2	14	136
33	1	4	5	12	15	8	14	6	7	9	13	11	10	2	3	16	136
34	4	5	1	11	10	7	13	6	8	9	12	16	15	2	3	14	136
35	1	3	2	10	11	9	12	6	7	15	8	14	13	4	5	16	136
36	3	2	5	6	10	9	16	8	7	13	14	11	12	1	4	15	136
37	6	3	1	10	11	7	16	2	8	13	9	14	12	5	4	15	136
38	6	8	1	14	13	10	9	2	3	11	7	16	12	5	4	15	136
39	3	9	2	15	14	11	13	1	7	10	6	12	8	4	5	16	136
40	3	7	6	16	15	8	13	1	2	12	9	11	10	5	4	14	136
41	1	6	4	11	13	9	14	5	7	10	8	15	16	3	2	12	136
42	1	8	4	9	12	10	14	5	6	13	7	16	15	3	2	11	136
43	1	9	7	13	16	14	12	2	4	11	5	10	6	8	3	15	136
44	2	9	7	15	11	10	14	1	3	6	5	13	12	8	4	16	136
45	2	10	1	13	12	8	15	3	9	11	4	16	5	7	6	14	136

46	4	11	1	13	12	9	16	2	3	14	5	10	8	6	7	15	136
47	6	7	2	14	12	10	15	1	3	16	4	11	5	8	9	13	136
48	2	9	4	11	16	10	12	3	6	8	7	14	13	5	1	15	136
49	3	4	1	15	14	9	13	5	7	12	8	10	11	6	2	16	136
50	1	9	2	15	14	10	11	3	5	6	4	13	12	7	8	16	136
Ri	116	299	231	642	629	398	648	232	350	489	383	523	407	389	331	733	6800
Average Ri (ARi)	2.32	5.98	4.62	12.84	12.58	7.96	12.96	4.64	7	9.78	7.66	10.46	8.14	7.78	6.62	14.66	
Grand Average (R)	8.5																
(ARi-R)*(ARi-R)	38.192	6.35	15.054	18.836	16.646	0.2916	19.892	14.9	2.25	1.6384	0.7056	3.8416	0.1296	0.5184	3.5344	38	180.7256
Ranks	1	4	2	14	13	9	15	3	6	11	7	12	10	8	5	16	
W	0.5315																6800
Ri*Ri	13456	89401	53361	412164	395641	158404	419904	53824	122500	239121	146689	273529	165649	151321	109561	537289	3341814
W	0.5315																

Source: Obtained by using Excel of Opinion Survey Questionnaires.

Appendix-13 : Concepts and Definitions Used in different economic agents

- i. **Establishment** : An establishment is defined as a unit of combining activities and resources directed by a single owning or controlling entity towards the production of a homogeneous group of goods and services at a single physical location.
- ii. **Large Scale Establishment** : Large scale establishment means and includes those establishments which have more than 49 workers.
- iii. **Medium Scale Establishment** : Medium scale establishment means and includes those establishments which have 9 to 50 workers.
- iv. **Small Scale Establishment** : which have fewer than 10 workers.
- v. **Household Establishment** : which are located in a dwelling unit under one management.
- vi. **Manufacturing** : manufacturing is defined as the mechanical or chemical transformation of organic or inorganic substances into new products, whether the work is performed by power driven machines or by hand, whether it is done in a factory or in a premise based location and whether the products are sold wholesale or retail.
- vii. **Unit** : where production of goods and services take place.
- viii. **Legal Status** : defines the status of ownership of the establishment for example, whether an establishment is recognised and registered as one person ownership or partnership, or private limited company or public limited company or cooperative society or nationalised corporation.
- ix. **Individually Owned** : Manufacturing establishment owned and run by one person or family who bear the profits or losses of the establishment.

Source : Bangladesh Bureau of Statistics, Report on Bangladesh Census of Manufacturing Industries (CMI) 1995-96, November 2001. pp-3-4.

Appendix-14

A Brief Introduction to SMEs in Bangladesh and their contribution to economy

Box 2: Small and Medium Enterprises

In Bangladesh, small and medium enterprises (SMEs) are significant contributors to manufacturing growth and employment creation. There are around 27,000 medium-sized enterprises and around 150,000 small-scale enterprises in the country. Comprising 80 percent of manufacturing establishments, SMEs account for 80 percent of the labor force and 50 percent of the output of the sector. SMEs provide vital linkages to larger enterprises, particularly in the high-growth export sector, and also form part of the core business activities in both rural and urban areas. The garments industry contributed to SME development through orders for accessories, packaging materials, etc., while the footwear industry increased subcontracts to SMEs. In addition, agro processing and poultry have recently emerged as important activities for the development of SMEs.

Over the past decades, SMEs have contributed significantly to fostering labor-intensive growth and reducing poverty. However, the lack of reliable data and information precludes a comprehensive analysis of the constraints and potentials of these enterprises. SMEs are handicapped from realizing their full potential due to a wide range of problems including shortage of capital, lack of access to institutional credit, poor infrastructure, difficulty in acquiring basic materials, unfavorable policy environment, and limited business development skills. Their production processes are often marked by outdated technologies. Further, there are considerable concerns that the adverse implications of termination of the Multi Fiber Arrangement (MFA) by the end of 2004 may seriously affect the SMEs, which have thrived with the growth of the garments industry. SMEs in general cannot offer the requisite collateral and meet the transaction costs for getting access to institutional credit. While banks and development finance institutions prefer assisting larger enterprises, and nongovernment organizations focus their activities on micro enterprises, the credit needs of SMEs are generally left unattended. Because of their limited range of investments, SMEs cannot raise capital from the stock market. They are often forced to borrow from informal sources at higher interest rates. SMEs also find it relatively more difficult to access key infrastructure including electricity and gas. The policy environment is not conducive to the growth of SMEs. They are subject to the same procedural rigors of registration, taxation, credit disbursement, export, and import as those for large enterprises, thus adding high costs to their operations. Large-scale smuggling of goods from across the border also puts SMEs at a competitive disadvantage, as they find it hard to cope with cheaper foreign goods. The low level of professional and managerial skills of entrepreneurs, lack of access to information and communication technology, poor access to market and related information, and difficulties in penetrating export markets also undermine the potential of SMEs. Besides, SMEs are not well organized themselves to represent and protect their interests.

Sustainable growth of SMEs will require addressing their problems in accessing credit, and infrastructure, and improving the policy environment, business development skills, and quality and timeliness of data on SMEs. Remittances from overseas Bangladeshis are a major source of foreign exchange for the country. Much of this money is used for consumption, real estate, and other nonproductive activities. Efforts need to be taken to harness these resources for investment in SMEs by providing information and imparting skills to the senders or recipients of overseas remittances.

Source: Asian Development Bank (ADB), Country Economic Report, No.CER: BAN 2002-02, Bangladesh

Chapter- 5

Mandatory Disclosure by the Listed Companies in Developing Countries with Special Reference to Bangladesh

5.1 Introduction

Investment is the primary impetus for the development of national economies worldwide in this age of market economy (Solaiman, 2001). It is very natural that in such market-based economy, funds are generally directed to those areas which investors consider most profitable. With the expansion of capitalism, the securities market has been an essential mechanism for rapid transformation of the financing model from the bank-based finance (Japan-German Model¹) to the market-based finance (Anglo-American Model²). Out of these two models of corporate finance, the last one (Anglo-American) is considered more conducive to innovation in finance (Baskin and Miranti, 1997). Firm-level (Demirguc-Kunt and Maksimovic, 1996) and industry-level (Ranjan and Zingales, 1997) studies suggest that the development of an 'equity market' is closely related to the national economy (Levine and Zervos, 1998).

Since long, the dilemma that the corporate managers have been facing whether and to what extent the corporate financial information should be disseminated to stakeholders. The researchers have also been trying to test the same analytically and empirically. There is a lot of discussion on different types and degree of disclosure such as discretionary, voluntary, full, partial, and regulatory disclosures. However, it has been agreed upon that the first means of corporate disclosure is the financial reporting, that is specifically known as annual financial reports published by the corporate entities. Lang and Lundholm (1993) find a high and significantly positive correlation between annual report disclosures and other forms of disclosure (see also Holland 1998). Surveys and other research evidences have documented that the annual report is a vital, though not sufficient, source of

¹ The Market under the Japan-German Model are described as being ones where 'powerful private and / or governmental institutions dominate local markets through informal, cooperative relationships'. Thus this model aims at satisfying a few institutional investors in contrast to the Anglo-American Model which provides information to 'a broad, anonymous universe of investors': Baskin, J.B. and Miranti, Jr., P. J. (1997): A History of Corporate Finance, Cambridge University Press Cambridge, pp-324. Further information about these two models are available in Demirguc-Kunt, A. and Maksimovic, V. (2002): Funding Growth in Bank-Based and Market-Based Financing System: Evidence from Firm-Level Data, Journal of Financial Economics, Volume 65, pp-337.

² The Anglo-American Model is characterized by freely competitive markets, transparency in corporate affairs and regulatory structure to protect investors from the incompetency or dishonesty of agents (Company Directors), Baskin et al (1997), pp-322

information to analysts both in the U.S. and elsewhere (e.g., AIMR 2000; Vergoossen 1993; Chang and Most 1985).

The disclosure of financial information in corporate annual reports and their determinants has attracted considerable attention in the West, but, there has been much less concern in developing countries. The aim of this paper is to examine critically the extent of mandatory financial disclosures by the listed companies in Bangladesh in their annual reports.

To accomplish the tasks, the following scheme has been arranged. Firstly, I will choose some variables from different laws enacted in Bangladesh such as Companies Act 1994, Banking Companies Act 1991, The Securities and Exchange Commission Rules 1987, The Dhaka and Chittagong Stock Exchanges provisions, etc. (A list of relevant laws and regulations in Bangladesh is given in Appendix-2, please see it). These variables will be put to see the real structure of corporate disclosure and to construct an Overall Disclosure Index (ODI). Later on, we will see the contribution of different variables in creating a real environment for financial disclosure in Bangladesh.

5.1.1 Review of Literature Relevant to Mandatory Disclosure

Numerous studies suggest that there has been a strong correlation between investor protection and the development of capital market (Solaiman, 2001). A group of researchers like La Porta, Lopez-De-Silanes, Scleifer and Vishny (LLSV, 2002) have presented perhaps most cited recent literature in connection with investor protection. The extent of public participation in the equity market depends on the investor protection and the market development thus rests on the legal protection of outside shareholders (Pistor, Raiser and Gelfer, 2000). Investor protection can be ensured if proper information is disseminated to them. The information dissemination is done mainly by the legal requirements in the developing countries like Bangladesh. Ansah and Yeoh (2005) find that corporate disclosure compliance levels in the periods after the enactment of the FRA are significantly higher than those in the periods before the enactment of the legislation of the listed companies in New Zealand. On the other hand, Bhattacharjee, Moreno and Yardly (2005) also suggest an institutional system based on trust must be rethought. In this paper, they propose an alternative framework for auditing that would meet investors' needs to reduce or even eliminate information risk while transforming this trust framework. In this model, the need for a traditional financial statement audit leading to an audit opinion would be eliminated since regulators could require that public companies purchase insurance from insurance companies to indemnify their financial statements against material misstatement. The insurance company would hire an auditor to act as an underwriter to

assess the risk of material misstatements in the financial statements. The auditor, in the capacity of underwriter, would assess the risk to determine the amount of the insurance coverage and premium. This also indicates a mandatory disclosure system should be launched for gaining public confidence in financial statements of the companies. It is also documented by Boubakri and Cosset (1998) that changes have happened in the developing countries during the period from 1980 to 1992 in the financial disclosure system mainly because of privatization wave. The article reveals that there have been significant increases in profitability, operating efficiency, capital investment spending, output, employment level, and dividends during the wave of privatization. This type of mandatory disclosure is, indeed, needed for a growing number of jurisdictions as seen by Gannon and Ashwal (2004) that require public companies to use IFRS for stock-exchange listing purposes, and in addition, banks, insurance companies and stock brokerages may use them for their statutorily required reports. However, another interesting research conducted by Fu, Stolowy and Ding (2004) provides a different direction regarding disclosure in the sense that it emphasizes pattern of disclosure rather than the disclosure level of entities. They are highly critical about the traditional method of measuring disclosure levels.

As mentioned in the earlier chapter that corporate financial reporting in any given society is largely a product of the regulatory framework governing such reporting and disclosure (Karim, Islam and Chowdhury, 1998). Although there are some other factors associated in framing disclosure policy of corporations in any nation, mandatory disclosure arrangement is the first to create an environment for further development. This is particularly important for the developing countries like Bangladesh where financial reporting is generally characterized by a lack of transparency, adequacy, reliability and timeliness (Karim, 1995).

Economic theory suggests that raising the level of disclosure reduces information asymmetry, which in turn should increase liquidity and lower the cost of capital (Frost, Gordon and Hayes, 2002). Akerlof (1970) also states that information asymmetries create costs by introducing adverse selection in transactions between economic agents. Regulations around the World are done for having an investor-oriented equity market with a view to protect the investors and the quality of market. Investor protection means that investors are provided with material information, and are protected through monitoring and enforcement. The International Organization of Securities and Exchange Commission (IOSCO February, 2002), the US Securities and Exchange Commission (1987; 1995) and the Securities and Investment Board (1994) are in the opinion that high quality markets are fair, orderly, efficient, and free from abuse and misconduct. Based on the opinions of above organizations, Frost

and Lang (1996) provided a chart that shows the broad objectives for regulations of Investor-Oriented Equity Market (shown in Exhibit-1 as an Appendix in the last part of the paper). Shirai (2002) provides a conclusive statement in this way that adequate informational, legal, and judicial infrastructures are installed in the equity market, equity finance requires more stringent disclosure requirements. The firms with low degree of informational asymmetry tend to have greater recourse to equity finance, while those with a high degree of information asymmetry tend to depend more heavily on bank loans (Ibid).

Lundholm & Myers (2002) demonstrated that firms with relatively more informative disclosures "bring the future forward". This indicates that investors can assess the investment portfolio before taking the investment decisions. It is evident from the study of Karamanou and Vafeas (2005) that voluntary corporate disclosures are highly dependent on active Board and effective audit structure, whereas, investment protective disclosures are the outcomes of regulatory framework. An effective regulatory framework can enhance the monitoring of stakeholders. Bens (2002) too shows that there is a positive association between the amount of information disclosed and increased monitoring by shareholders. McKinsey (2002) states that more than 70% of professional investors labels accounting disclosure as the most important item which impacts their investment decisions. Thompson (2001) indicates that among others, 'regulatory structures' are the precondition for institutional development for investors willing to invest through investment institutions. On the other hand, Botosan and Plumlee (2002) conclude that aggregating across different disclosure types results in a loss of information. Whereas reliability of disclosed information is an important component to the developed countries, there too firms' managers try to exaggerate information disclosed in annual reports (Miller, 2002). Sinha and Watts' (2001) research results show that an increase in alternate sources of information, and the resulting decline in relevance of financial reports, leads to a loss in economic efficiency despite the presence of additional information.

There are also evidences that in the developed and in the emerging economies like Malaysia researchers are carrying out their works on various determinants of disclosures whereas in the developing part of the world these types of research works are not done fruitfully. For example, Haniffa and Cooke (2002) accomplish their works on finding the importance of various corporate governance and cultural (race and education) characteristics as possible determinants of voluntary disclosures in the annual reports of Malaysian listed companies. Ovelere, Laswad and Fisher (2003) carried out another research on finding the determinants of internet financial reporting by New Zealand companies. The results indicate that some determinants of traditional financial reporting—

firm size, liquidity, industrial sector and spread of shareholding—are determinants of voluntary adoption of Internet financial reporting (IFR). However, other firm characteristics, such as leverage, profitability and internationalization do not explain the choice to use the Internet as a medium for corporate financial reporting.

Financial reporting quality in the less developed countries (LDCs) would appear to be a major concern for the international financial community (Karim, 2006). Such concern is reflected in the series of initiatives taken by the major Bretton Wood Institutions (BWIs) such as the World Bank, IMF, UNDP, and UNCTAD and regional development agencies such as the Asian Development Bank (ADB) towards improving LDC financial reporting infrastructure and strengthening their accounting and auditing professions. In the wake of rapid globalization of the world economies, international financial architecture can not effectively function if a significant majority of the global trading partners of the major capital market economies are unable to produce a credible and coherent set of financial statement (Ibid). Although there are researches done all over the World regarding the impacts of disclosure for the development of capital markets, such researches are not that much visible in the developing countries despite the fact that all the developing countries need to prepare themselves for enduring the wave of globalization. Hasan (2005) finds that in Bangladesh higher trading-categories companies classified by the Stock Exchanges are more active in disclosing mandatory and voluntary information as compared to lower-categories companies. However, this type of research is not that much worthy in terms of providing a new direction to the companies for disclosure to gain confidence of the investors. On the other hand, Haque and Islam (2005) carry out another simple research on the compliance of IAS 20 by Banking Companies of Bangladesh to see whether there is any improvement in the disclosure of information by the nationalized and publicly traded banks in Bangladesh. This article too does not provide any new direction of disclosure in the modern days. There are some different dimensions of research works going presently in the context of Bangladesh which should be treated as important but instead of resolving mandatory disclosures by the listed companies, these will carry less weight. For example, Imam (2000), Belal (2000 and 2001) carried out research on corporate environmental and social disclosure (CSR) in Bangladesh instead of finding whether listed companies are complying mandatory disclosures or not.

Almost all the developing countries in the World are trying to attract foreign investors to invest in both the fields – green field (foreign direct investment – FDI) and portfolio investment – capital market efficiency is the precondition for such an effort. Capital market efficiency, indeed, depends on the degree of information symmetry on entities participating in the markets. All the developing countries

are facing the challenges of coping with the new era of economy. That is the reason of having an in-depth study on application and compliance of laws and regulations in Bangladesh.

5.2 Research Design

All 287 companies listed on Dhaka and Chittagong Stock Exchanges were included in the study. The sectoral distribution of the samples has been shown in the Table-1 given below:

Table-1
Shows the Distribution of Samples Listed in Stock Exchanges

No.	Name of the Sectors	Number
1.	Bank	33
2.	Cement	08
3.	Ceramic Sector	04
4.	Engineering	21
5.	Food and Allied	37
6.	Fuel and Power	05
7.	Insurance	31
8.	Investment	14
9.	IT Sector	07
10.	Jute	04
11.	Miscellaneous	13
12.	Paper and Printing	08
13.	Pharmaceuticals & Chemicals	25
14.	Services and Real Estate	05
15.	Tannery Industries	08
16.	Textile	42
17.	Treasury Bonds	22
TOTAL		287

Source: Different Bulletins of DSE and CSE

A disclosure index was constructed based on a thorough and rigorous study of the existing regulatory framework for listed companies (as of Appendix-2) and an examination of the IASs adopted in Bangladesh as of 31 October 2007 (the list of IASs adopted by the Institute of Chartered Accountants of Bangladesh-ICAB, has been shown in Appendix-3A and 3B). However, the following regulatory frameworks are mainly considered along with others:

- Companies Act 1994
- Bangladesh Bank Order 1972
- Bank Companies Act 1991
- Financial Institutions Act 1993
- Securities and Exchange Ordinance 1969
- Securities and Exchange Commission Act 1993

- Bankruptcy Act 1997

5.2.1 Possible Errors and the Limitations of the Study

All the listed companies in the Dhaka and Chittagong Stock Exchanges are taken into consideration. We see that there are different types of companies listed in both the stock exchanges like financial and non-financial, manufacturing, service rendering, processing, and etc. As a result one type of companies may consider some items important to be disclosed to its stakeholders whereas other type of companies may treat these are less important to their stakeholders. This may erode the real aim of preparing index in the sense that one item disclosed by one company will get a score which is important or relevant to that company. If the same item is not disclosed by another company, this company will be penalized by nil score. This may influence the ODI or Statutory Disclosure Index (SDI). To avoid this type of error, I have taken corrective measure in the way that common items required by different laws are taken in preparing ODI / SDI. Keeping in mind, the following Table (Table-2) has been prepared with a view to preparing the Index. However, after choosing the items, all items are given the same weights. The reasons of equal weight are given later.

A disclosure index comprised items relevant to the ten main parts of the annual report. Table-2 given below shows the distribution of index items into different parts of the annual reports.

Table-2

Distribution of the Index Items into Different Parts of the Annual Report

No.	Name of the Major Parts of Annual Report	Total Items
1.	Company Profile	38
2.	Highlights Statement	24
3.	Graphical Presentation	11
4.	Directors' Report	08
5.	Balance Sheet	52
6.	Income Statement	65
7.	Cash Flow	40
8.	Accounting Policies and Notes to Accounts	30
9.	Value Addition	20
10.	Other Information	25
Total		313

The number of research works done in Bangladesh so far in this way and line is very less. Aktharuddin (2005) takes 160 items with equal weights of all the items dividing all those 160 items into five categories that miss some important categories like cash flow items, value addition items and other relevant items. On the other hand Karim and Ahmed (2005) use 411 items in preparing the index where the size of samples is highly selective. In this study, I have chosen the above 313 items based on the reality of accounting disclosure in Bangladesh and my academic connection and experiences. However, the relative importance of different items still may vary that might be a limitation of this study.

Disclosure of items by the corporate entities means that the items are disclosed in the company's annual report published or may not be published to the general people or at least the annual report is submitted to the SEC or to the stock exchanges where its securities are listed. We can construct an Overall Disclosure Index (ODI) / Statutory Disclosure Index (SDI) in such a way that if an item mentioned above is disclosed in the annual report of the company concerned, this will get a score of 1 for that item, otherwise 0 if not disclosed that item. In this way, we can add up all the items disclosed by the company. Precisely, the following formula is used for constructing the ODI:

Total Numbers of Items Disclosed in the Annual Report

$$ODI / SDI = \frac{\text{Total Numbers of Items Disclosed in the Annual Report}}{\text{Total Numbers of Disclose able Items}}$$

Symbolically,

$$ODI / SDI = \frac{\sum_{i=1} dm_i}{\sum_{i=1} dn_i}$$

Where d = 1 if a disclose able item is disclosed, 0 if that item is not disclosed
 m = number of items disclosed
 n = maximum number of disclosure items possible

The Index was constructed based on the Table-2 shown in Appendix-5.

As far as the data used for constructing the ODI are concerned, I have performed a tedious job of going through all the annual reports published during the years 2003-2005. Since none of the stock exchanges have created data base for the listed companies with their published annual reports, I needed to work in the libraries of both the stock exchanges for obtaining the data incorporated in the Table. Moreover, the annual reports available in those libraries were not found for the same year for all the companies. As a result, I have fixed a period of three years (2003-2005) with a view to go through the annual reports available.

The data and information used for the explanatory variables (to be used later on) were obtained from the company information published in the internet of the stock exchanges, the bulletins published by both the stock exchanges, etc.

5.3 Choosing the Variables for Drawing Hypothesis

Both the dependent and independent (explanatory) variables are chosen for carrying out the test and for building the model. A short description of both types of variables is given below:

Nature of Variables – Weighted and Unweighted

Cooke (1989) mentions that there are two methods for determining the index of level of corporate disclosure namely, weighted and unweighted. This is mainly because of the fact that not all the items mentioned in different disclosures are equally important. The relative importance of different items are different to different users (Inchausti, 1997). On the other hand, the unweighted method treats all the disclose able items are equally important (Akhtaruddin, 2005). Moreover, Wallace (1988) finds that all disclosure items are equally important to average users. Although there are different levels of users of disclosure items, the market trying to cope with the changing world should weigh all the mandatory items equally. If there is no provision in relevant laws regarding the relative importance, segregating is not feasible. Citing the prior experiences of weighted approach Akhtaruddin (2005) states that weighted approach has, in fact, encountered several problems pointing out that unweighted approach also has some limitations such as giving nil score for an item to company which is not applicable for that company. However, the unweighted approach has got superiority supported by the research works done by Owusu-Ansah (1998) Wallace and Naser (1995). That is why this research is also carried out by unweighted index and this is hereafter known as ODI (Overall Disclosure Index).

Dependent Variable

The ODI calculated and shown in Appendix-5 for each of the companies is taken as the dependent variable. The dichotomous procedure is followed whereby the total score received by a company is equal to the number of items disclosed in its annual report and then by calculating the ratio of items

disclosed and the number of items applicable to each company. The normality of the distribution of the index score was tested using the normality plot and histogram and both were found to be normally distributed.

Explanatory Variables

The following discussion provides the rationale of choosing the explanatory variables used in the regression analysis. This also indicates the process for operationalising the variables in the regression equation. It should be mentioned here that the choosing of variables is mainly based on chapter -2 (Literature Review) provided earlier in this Thesis.

Asset Size

Many disclosure studies (e.g. Chow and Wong-Boren 1987; Cooke 1991, 1992 and 1993; Ahmed and Nicholls 1994) suggest that there is a significant relationship between company asset size and the extent of voluntary disclosure. Ahmed and Courtis (1999) carried out a meta-analysis of 28 disclosure studies and found that a significant association exists between corporate size and disclosure levels. Marston and Shrivies (1996) review a number of disclosure studies and reach the same conclusion.

Marston and Wu (2005) demonstrate that agency theory, signaling theory and cost-benefit analysis can all be used to indicate that there may be a positive relationship between size and disclosure. Larger firms have an increased need for external funds. Agency costs can arise because of the conflicting interests of shareholders, managers and debt holders. Increased disclosures will reduce agency costs and information asymmetries. Larger firms may have a greater incentive to signal their quality by means of improved disclosures. Large organizations are increasingly complex so more disclosure may be needed to place the firm on the same footing as less complex organizations. Larger firms are more visible in society and political costs may be reduced by improved disclosures. The relative costs of collection and dissemination of information may be smaller for large firms thus increasing the incentive to disclose.

Marston and Leow (1998) and Craven and Marston (1999) found that for UK companies, disclosure on the Internet was significantly positively associated with size.

The size of a company can be measured in a number of ways, such as capital employed, turnover, number of employees, company's market value and more. There is no overriding theoretical reason to select one rather than another. For example, Firth (1979) used sales turnover and capital

employed to measure the company size, and Cooke (1991) used number of shareholders, total assets and turnover to measure the size of the company. This variable is labelled as **astsize**.

Profitability

Several studies have suggested that there might be a link between profitability and disclosure. For example, a study by Ng and Koh (1994) suggests that more profitable companies are more susceptible to public scrutiny and are therefore more likely to apply self-regulation mechanisms to fend off external regulation. Further, profitable companies would have more financial resources to comply with additional disclosure. Thus, it is conceivable that the more profitable the companies, the more likely it is for them to disclose additional financial information. Ahmed and Courtis (1999) identified 12 studies that investigated the association between profitability and disclosure with mixed results. Meta-analysis showed that profitability was not significantly associated with corporate disclosure. However, there are mixed results found regarding the linkage between profitability and disclosure. Singhvi, (1968), Singhvi and Desai (1971), Wallace et al. (1994), Patton and Zelenka (1997) and Owusu-Ansah (1998) find significant association between profitability and disclosure. On the other hand, McNally et al. (1982), Malone et al. (1993), Meek et al. (1995) Suwaidan (1997) and Abd Elsalam (1999) find no association between them. In this study we will use profitability as a function of disclosure.

A number of profitability measure were used by previous researchers. They include net profit to sales, earning growth, dividend growth and dividend stability (Cerf, 1961), rate of return and earning margin (Singhvi, 1967 and Singhvi and Desai, 1971). However, Karim and Ahmed (2005) use net profit to sales ratio for measuring profitability. In this study 'net profit to sales ratio' is taken as a variable to measure the profitability and to see the influence of this variable to ODI and labelled as **profitab**.

Shareholders

Shareholders are the real controllers of companies. They are also treated as the internal and external stakeholders. They have direct interest in the company. They can change the management and appoint new agents if they see anything is going wrong. It is expected that more the number of shareholders more will be pressure on the management and hired agents. As a result, number of shareholders is an important factor in determining the corporate disclosure level. This variable should be known as **stholder**.

Year of Incorporated in the Stock Exchange

Aktheraruddin (2005) demonstrates that company age is a critical factor in determining the level of corporate disclosure in the sense that older companies with more experience are likely to include more information in their annual reports in order to enhance their reputation and image in the market. However, for this research this is segregated in such a way that companies incorporated and listed before Companies Act 1994 (under the Companies Act 1913) are treated as older and companies incorporated and listed after the Companies Act 1994 are treated relatively new. This is labelled as **yrincorp**.

Multiple Listing Status

The motivation for this variable derives from agency, signaling and capital based theories (Leventis and Weetman, 2000). According to Fama and Jensen (1983) the stock exchange listing is a mechanism for mitigating incentive conflicts between contracting parties. Schipper (1981) suggests that multiple listing status can be perceived either as a substitute for, or complementary to, (voluntary) disclosure. However the association is not monotonic. If the link is substitutive, listing status could help to reduce agency costs in terms that listing on a stock exchange helps to improve the firm's reputational capital and reduce the need for voluntary disclosure to signal that agents are acting in the interests of principals (Hossain et al., 1994).

The capital orientation of companies may also influence companies in making differential disclosure. Voluntary disclosure may be associated with objectives of raising capital (Hongren, 1957; Cooke, 1991). That is supported by many studies in the disclosure area (e.g. Spero, 1973). Listing status may also be viewed as a screening scenario. Firms listed in more prestigious markets may provide signals to customers, suppliers and creditors about the strength of the company and that may also encourages brand recognition. It also provides a signal about the future prospects of the company (Mittoo, 1992). That also affects perceptions of other groups like government and local authorities, consistent with Roberts et al., (1998, p.650). Wallace, Naser and Mora (1994) are also in the same opinion.

Listing status has been tested and detected to be significant by Firth (1979), Cooke (1989, 1991), Meek and Gray (1989), Wallace et al. (1994), Hossain et al. (1994), Hossain et al. (1995), Meek et al. (1995) and Inchausti (1997). This variable is hereafter known as **multilis**.

Earning Per Share

Earning per share is an important component to understand the strength of the company concerned. This is particularly important for the participant in the stock market. The participants around the world look for the increase in the earning per share (EPS) as it is the return of their investment. There are researchers who find that this is an important determinant of corporate disclosure level. Among others Cerf (1961), Singhvi (1967), Singhvi and Desai (1971), Belkaoui and Kahl (1978), Spero (1979) and Wallace (1987). Cerf (1961), Singhvi (1967), Singhvi and Desai (1971) are particularly mentioned to support in taking this variable. The level of this variable is **eps**.

Ownership Structure

Ownership structure means the participants in the ownership group from different nationality. The company itself may not be exposed internationally, but when other nationalities hold the ownership in the company, it is naturally expected that the company is satisfying them in providing them with the necessary information. This variable is also taken as an explanatory variable and leveled as **ownstruc**.

Internationality

Subsidiary of multinational corporations operating in developing countries are expected to disclose more information and observe higher standards of reporting for a number of reasons. Firstly, they have to comply with the regulations of not only the host country but also the parent company where substantially higher standards of accounting and reporting are maintained. Secondly, they are usually equipped with more competent and efficient management and are more likely to have installed sophisticated accounting system and so, they have the potential to disclose more information without any incremental processing costs. Thirdly, they are under closer scrutiny by various political and pressure groups within the host country who view them as sources of economic exploitation and agents of imperialists power (Ahmed and Nicholls, 1994). Hence, they have an incentive to disclose more information in order to avert any pressure for excessive control or for expropriation. Wallace (1987) and Ahmed and Nicholls (1994) use international company influence as an explanatory variable in developing their models and the latter found it to be the most significant variable explaining disclosure levels. This study also takes this as a factor of disclosure and leveled as **intnatio**.

Market Category

Karim and Ahmed (2005) use this variable as a factor of the extent of disclosure. Recently, both Dhaka and Chittagong Stock Exchanges use categories of companies like A³, B⁴, and Z⁵ based on

³ When a company is included in CSE-30 or DSE-30, this company is in the category of A. There are some basic criteria and selection criteria needed to be included in category A. The basic criteria are: minimum two year period of commercial production before listing, market capital must be Taka 200 million at least, 15% of share capital must be freely floated, positive profits, minimum of 10% daily transactions, positive EPS for the

their regularity of holding Annual General Meetings and /or payment of dividend. It is expected that companies in the Z category are likely to have higher audit lags than those in the other two categories. This type of categorization will obviously provide a signal to the market regarding their performance. This is used as an explanatory variable in this study with the level of **mktcateg**.

The following Table-3 provides a short description about the variables taken for the regression analysis:

Table-3
Short Description of Explanatory Variables

Variable Level	Variable	Expected Sign
astsize	Asset Size in million of Taka	+
profitab	Profitability – Ratio with price earning	+
sthlder	Total Number of Shareholders	+
yrincorp	Year of Incorporated in the Stock Exchange -- '0' if listed after 1994 and '1' if listed on or before 1994	+
multilis	Multiple Listing Status – '0' if listed in only one of the stock exchanges and '1' if listed in both the stock exchanges	+
eps	Earning Per Share in Taka	+
ownstruc	Ownership Structure – '0' if types of ownership are limited with one or two groups and '1' if ownership is spread more than two groups.	+
intnatio	Internationality – '0' if there is no foreign ownership in the company and '1' if the is foreign ownership	+
mktcateg	Market Category – '0' if the company falls under the category of 'Z' and '1' if the company falls under the category of 'A' or 'B' as classified by the Stock Exchanges	+

5.4 Drawing the Hypothesis

Based on the aim of the study mentioned earlier, the study will examine the association between the extent of information disclosure in the annual reports of the listed companies and a number of

last two years, must declared dividend in the last year. The selection criteria are: high net asset per share, high EPS, high rate of divided, high free floating, high number of shareholders, high liquidity, higher market price of share as compared to share capital, remaining in the Top-30 for long period of time, and regular payment of listing fee.

⁴ If any company fails to fulfill any of the above criteria but has good reputation in the market and there is no objection of holding regular Annual General Meeting, there is no audit lag, etc., this company is categorized in B.

⁵ If there are allegations against a company like not holding AGM, there are higher audit lags, has negative figure of profit, have not declared divided for the last two years, etc. this company is categorized as Z.

'corporate attributes'. Corporate attributes include company size, asset size, profitability, number of stockholders, earning per share, multiple listing, ownership structure, market category, multinationality, year of listing, etc. To provide a formal shape, the following null and alternative hypotheses are drawn:

H₀: *There is no significant association (relationship) between extent of disclosure and larger company size, asset size, profitability, number of stockholders, earning per share, multiple listing, ownership structure, market category, multinationality, year of listing, etc.*

H₁: *There is a significant association (relationship) between extent of disclosure and larger company size, asset size, profitability, number of stockholders, earning per share, multiple listing, ownership structure, market category, multinationality, year of listing, etc.*

The multiple linear regression technique is used to test the hypothesis. One model is developed based on the information obtained on above attributes of a listed company.

5.5 Test of Hypothesis

The descriptive statistics for the dependant and explanatory variables are presented in Table-4 shown below (a detailed ODIs of all the samples are provided in Appendix-4). A correlation matrix of all the above explanatory variables along with dependent variable is constructed and shown in the Table-5.

Table-4
Descriptive Statistics of the Dependent (ODI) and Explanatory Variables

	N	Minimum	Maximum	Mean	Std. Deviation
odi	256	,23	,52	,3754	,05025
yrincorp	255	0	1	,49	,501
astsize	256	1	968	149,63	175,282
profitab	251	-249,80	105,40	9,9378	22,98848
stholder	253	10000	140000000	5493409,56	12329427,884
multilis	256	0	1	,70	,458
eps	252	-489,83	759,14	14,9944	76,29109
ownstruc	252	0	1	,69	,462
intnatio	250	0	1	,13	,335
mktcateg	255	0	1	,66	,474
Valid N (listwise)	247				

The above Table reveals that the average overall disclosure of the listed companies in Bangladesh is 37.54% which is higher than the previous research result of average disclosure of 29.33% Taylor (1998) but lower than Akhtaruddin (2005) which is 43.53. One of the important limitations of Akhtaruddin's (Ibid) research is that it only takes 94 samples with a lower number of disclosure items (160 items).

Table-5
Correlation Matrix

	odi	yrincorp	astsize	profitab	stholder	multilis	eps	ownstruc	mktcateg
odi	1								
yrincorp	-,189(**)	1							
astsize	,224(**)	-,109	1						
profitab	,144(**)	,023	,012	1					
stholder	-,227(**)	-,074	,254(**)	,013	1				
multilis	,411(**)	-,201(**)	,115	,077	,059	1			
eps	,228(**)	,084	,029	,285(**)	-,045	,008	1		
ownstruc	-,082	,089	,093	-,022	-,048	,015	,032	1	
mktcateg	,161(**)	,039	,103	,190(**)	,024	,170(**)	,271(**)	-,032	1

** Correlation is significant at the 0.01 level (2-tailed).

The model developed here is based on all the listed companies on Dhaka and Chittagong Stock Exchanges. A summary of the regression output using "ENTER" method is shown in Table-7. It was found that market category, year of incorporation, profitability, shareholders, multiple listing, and earning per share, are all significantly associated with disclosure levels. This implies that the disclosure level was higher for companies whose securities are not categorized as Z, whose asset sizes are large, companies that earn profit and distribute, those are listed in both the exchanges, those are older in terms of incorporation and listing, etc. On the other hand, the association is significantly lower with ownership structure. This is counter-intuitive as per the expectation. This may be because of the fact that foreign owners holding ownership in companies probably reluctant in getting the information or these owners simply own the share just for their international exposure.

To have concrete outcome of accepting and rejecting the hypothesis (H_0), the following Table-6 is provided that shows the ANOVA and the value of F.

Table-6
ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,157	9	,017	9,185	,000(a)
	Residual	,449	237	,002		
	Total	,606	246			

a Predictors: (Constant), mktcateg, ownstruc, stholder, yrincorp, profitab, intrnatio, multilis, astsize, eps

b Dependent Variable: odi

The above Table gives us a direction regarding the acceptance and rejection of hypothesis.

The calculated (empirical) value of F is 9.185 and the Table (theoretical) value of F is 2.51 at 1% level of significance with 9 and 237 degree of freedom. This indicates that the null hypothesis (H_0) may be rejected and the alternative hypothesis (H_1) may be accepted. As a result, we can now proceed to building the model in the following paragraph.

The Model based on the sample listed companies is as follows:

$$\text{ODI} = \alpha + \beta_1 \text{astsize} + \beta_2 \text{profitab} + \beta_3 \text{stholder} + \beta_4 \text{yrincorp} + \beta_5 \text{multilis} + \beta_6 \text{eps} + \beta_7 \text{ownstruc} + \beta_8 \text{intrnatio} + \beta_9 \text{mktcateg} + \varepsilon \dots\dots\dots(1)$$

A summary of the regression output using the ENTER method is shown in Table-7. It was found that there is an association between corporate attributes (chosen for the study) and the level of disclosure – the acceptance of alternative hypothesis (H_1).

Table -7

Summary of regression output for the whole sample

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,509(a)	,259	,230	,04353

a Predictors: (Constant), mktcateg, ownstruc, stholder, yrincorp, profitab, intrnatio, multilis, astsize, eps

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,346	,008		42,347	,000
	yrincorp	-,010	,006	-,101	-1,749	,082
	astsize	,000	,000	,204	3,428	,001
	profitab	,000	,000	-,011	-,193	,847
	stholder	,000	,000	-,108	-1,862	,064
	multilis	,040	,006	,375	6,431	,000
	eps	,000	,000	-,004	-,064	,949
	ownstruc	-,010	,006	-,093	-1,612	,108
	intnatio	-,010	,009	-,064	-1,106	,270
	mktcateg	,012	,006	,113	1,884	,061

a Dependent Variable: odi

The intercept is significant at the .001 level. The year of incorporation (yrincorp) is significant at the .08 level whereas market category (mktcateg) is significant at the .061 level.

The disclosure score, a continuous variable, is used as the dependent variable. The disclosure score for each company is related to company attributes, the independent variables for the study. The results reveals that the adjusted R^2 is 0.230 which reveals that the model is capable of explaining 23% variability in disclosing information in the annual reports of the listed companies in Bangladesh. The F statistic indicates that the model employed to explain the variation in mandatory disclosure in company annual reports is significant at the conventional level ($p < .01$).

5.5.1 Discussion

The results show that some variables are significant in explaining disclosures in the sense that companies that are larger in size in terms of assets and multiple listing status are likely to disclose more information ($p < .01$) because of the fact that larger companies can afford to meet the increased demand in reducing uncertainty about quality and expected rate of return (Akhtaruddin, 2005), they arguably face lower competitive cost of disclosure (Ferguson, Lam and Lee, 2002) as quoted in Aktaruddin (2005). This is also supported by Kamran and Goyal, (2005) in which they include the size of audit firms as an additional variable. Moreover, multiple listing means more pressure for compliances of laws of various stock exchanges. Similarly, market category and stockholder structure are also important in explaining overall disclosure index (ODI) of the companies. This is because of the fact that if any authority categories any stock in lower category (herein Z), it is natural that this

company does not comply the rules set for and also does not disclose necessary information. Stockholders structure is also found significant in ODI. If, within the structure, foreign investors are included, companies need to satisfy them too by providing more information. Moreover, they need to be aware of different cross country rules and regulations. Some results, such as - the association between company asset size and ODI, multiple listing and ODI and market category and ODI - are consistent with previous researches (Ahmed and Nicholls, 1994; Cooke, 1989; Meek et al., 1995; Owusu-Ansah, 1998; Wallace & Nesar, 1995; Lang and Lundholm, 1993; Ferguson, Lam and Lee, 2002 and Zubaidah and Koh, 1999).

On the other hand, whereas age of incorporation has been found significant in this study is counter-intuitive with the study done by Aktaruddin (2005). Normally, it is expected that over time companies should disclose more information to comply the laws and to satisfy the stakeholders. One of the reasons may be that Aktaruddin (Ibid) took fewer samples in his study from only one stock exchange (Dhaka) that may provide less acceptable result. In this study age of incorporation is treated in such a way that if a company was incorporated under Companies Act 1913 until 1994 has been treated as an old one and should get a score '1' and if a company was incorporated after 1994 under Companies Act 1994 should be treated as new one and should get a score '0'. It is evident that the older the companies are the information disclosed is more than those of the new companies. However, the result of positive association between company age and disclosure level is consistent with the finding of Owusu-Ansah (1998). In the same way, whereas profitability was found significant determinant by Hassan, Giorgioni, and Romilly (2006) in analysing Egyptian market, this is found here insignificant. This may be because of the fact that the profitability itself might not drive disclosure, but profit could be a proxy for other variables included in the present study but not in other studies. Another reason might be that more profit earning companies are afraid of competition in the market, they care less of rules and regulations, and the enforcing authorities may be reluctant in overseeing the compliances.

5.6 Conclusion and Recommendations

The aim of the study is to evaluate the level of mandatory corporate disclosure by the listed companies in Bangladesh with a view to help policy makers to inform them the most important factors to be considered for the improvement of the capital market in Bangladesh. The study reveals that in most of the cases even the listed companies in Bangladesh do not meet the legal and mandatory disclosure levels framed by different regulatory bodies. As mentioned, the overall disclosure level is still below average (37.60%) that indicates unsatisfactory level of disclosure. Necessary measures should be taken, indeed, to ensure the compliance of mandatory disclosure. However, there has been

found a gradual development in the sense that it was found in Akhtaruddin's study (2005) as 29.33%. He, indeed, mentions that mandatory disclosure in Bangladesh is low as compared to Zimbabwe which is 74.43% (Owusu-Ansah, 1998) citing some very important causes of poor level of disclosure for the Bangladeshi listed companies such as the efforts of ICAB for the compliance. The study supports the relationship between ODI and some corporate attributes that include company asset size, multiple listing status, year of incorporation, having a good position in the market category categorized by the stock exchanges, and internationality.. However, earning per share (eps) and mandatory disclosure are found counter-intuitive.

But for a sustainable disclosure environment in the developing countries like Bangladesh, more attention should be given on organizational culture, monitoring and enforcement by the regulatory body. In this regard, Ho and Wong (2001) point that in countries where the culture supports a high level of secrecy, managements become less transparent and are less likely to favor a high level of disclosure. The regulatory bodies have the responsibilities to create an environment that helps become aware of the companies consequences of non-disclosure of adequate information in the annual reports (Akhtaruddin, 2005). The Bangladesh Bank (the central bank of Bangladesh) may also come forward to compliances by encouraging them by providing loans and other financial facilities through commercial banks to the companies that are disclosing more information.

In the Acts, the requirement is that the company should present 'true and fair' view of the financial position of the company. This is a vague term. That must be made clear under what criteria the financial statements would be termed as 'true and fair'. There should have punitive measures for the non-compliance. In the same way, the mandatory requirements should also be realistic. The loopholes must be eliminated prevailing in different laws. The government may also form a body consisting different personalities like professional, academic, enforcing agent, etc. to upgrade the company and other relevant laws on a continuous basis. There should also have reward systems for better compliances and also for relevant voluntary disclosure.

There should have a body to evaluate the performance of audit firms as these firms are directly related to disclosure of companies. Audit firms' reputation and links are also important in compliances. Imam, Ahmed and Khan (2001) state that audit delay of the listed companies is an important issue in explaining market imperfection in Bangladesh. But their results are counter-intuitive with previous results in the sense that the results of previous studies (as they quoted) on audit delay that show firms associated with international audit firms appear to provide motivation for shorter audit

delays. But their study reveals that firms associated with international firms in Bangladesh have longer audit delays with a mean of 6.31 months, whereas the overall mean is 5.86 months. This is another direction for further research.

Environmental disclosure should also be included in the process of full disclosure. Belal (2000) carried out research on environmental reporting in the developing countries taking Bangladesh as a country of reference where he finds that that very limited environmental disclosure has been made, although some noted that 90% of companies made some environmental disclosures, the percentage of companies disclosing environmental information comes down to only 20 if we exclude disclosure related to expenditure on energy usage. In general, the quantity and the quality of disclosures seem to be inadequate and poor as compared to the environmental disclosures in the developed countries.

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Appendix-1**Exhibit-1****Broad Objectives for the Regulation of Investor-Oriented Equity Markets****Objectives: Investor Protection**

Investors are provided with material information, and are protected through monitoring and enforcement

Market Quality

Markets are fair, orderly, efficient and free from abuse and misconduct

Specifically:

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Provide investors with materials information. 2. Monitor and enforce market rules. 3. Inhibit fraud in the public offering, trading, voting and tendering of securities. 4. Seek comparability of financial information (allow investors to compare companies across industries and domiciles) | <ol style="list-style-type: none"> 1. Promote equitable access to information and trading opportunities (market fairness). 2. Enhance liquidity and reduce transaction costs (market efficiency). 3. Contribute to freedom from abuse through monitoring and enforcement. 4. Foster investor confidence. 5. Facilitate capital information. 6. seek conditions in which prices reflect investor perceptions of value without being arbitrary or capricious (market orderliness). |
|--|--|

Principles:

1. *Cost Effectiveness*: the cost of market regulation should be proportionate to the benefits.
2. *Market Freedom and Flexibility*: Regulation should not impede competition and market evolution.
3. *Transparent Financial Reporting and Full and Complete Disclosure*.
4. *Equal Treatment of Foreign and Domestic Firms*.

Sources: Frost and Lang (1996).

Appendix 2.

Table-2
List of Relevant Laws and Regulations in Bangladesh

Name of the Group	Relevant Laws and Regulations
Accountants	<ul style="list-style-type: none"> • Chartered Accountants Ordinance, 1961 (Ordinance No.X of 1961) • Bangladesh Chartered Accountants Order, 1973 (P.O.42No.2 of 1973) • Cost and Management Accountants Ordinance, 1977 (Ordinance No.LIII of 1977) • SEC Order No. SEC/CFD-71/2001/Admin/08 dated 28 March 2001 • SEC Order No. SEC/CFD-71/2001/Admin/02/05 dated 3 January 2002 • Bangladesh Bank circular on auditors
Banks and Financial Institutions	<ul style="list-style-type: none"> • Bangladesh Bank Order, 1972 (P.O. No.127 of 1972) • Bangladesh Banks (Nationalisation) Order, 1972 (P.O. No.26 of 1972) as amended by Bangladesh Banks (Nationalisation) (Amendment) Ordinance, 1977 (Ordinance No.28 of 1977) • Bank Company Act, 1991 (Act No.XIV of 1991), as amended in 1991, 1993, 1995, 1997, 1999 and 2001 • Financial Institutions Act, 1993 (Act No.XXVII of 1993) • Financial Institutions Regulations Rules 1994 • Foreign Exchange Regulation Act, 1947 (Act No.VIII of 1947) • Money Laundering Prevention Act 2002 (Act No.VII of 2002) • Negotiable Instruments Act, 1881 (Act No.XXVI of 1881) • Negotiable Instruments (Amendment) Act, 1994 (Act No.XIX of 1994)
Bankruptcy	<ul style="list-style-type: none"> • Bankruptcy Act, 1997 (Act No.X of 1997) • Bankruptcy Rules, 1997
Company	<ul style="list-style-type: none"> • Companies (Foreign Interests) Act, 1918 (Act No.XX of 1918) • Undesirable Companies (Second) Ordinance, 1958 (Ordinance No.XLIX of 1958) • Companies Act, 1994 (Act No.XVIII of 1994)⁴⁵
Debt Recovery Court	<ul style="list-style-type: none"> • <i>Artha Rin Adalat Ain</i> [Money Loan Court Act], 1990 (Act No.IV of 1990) • <i>Artha Rin Adalat Bidhan</i> [Money Loan Court Rules], 1990
Securities	<ul style="list-style-type: none"> • Securities Act, 1920 (Act No.X of 1920) • Securities and Exchange Ordinance, 1969 (Ordinance No.XVII of 1969) • Securities and Exchange Ordinance (Amendment) Act 2000 [Amendment of Ordinance No.XVII of 1969] • Securities and Exchange Commission Act, 1993 (Act No.XV of 1993) • Securities and Exchange Commission (Amendment) Act) 2000 [Amendment of Act No.XV of 1993]

	<ul style="list-style-type: none"> • Securities and Exchange Rules 1987 dated 28 Sep 1987 (SRO 237-L/87) • Securities and Exchange (Amendment) Rules 1987 dated 15 Dec 1999 (Notification No.SEC/SMED/98-551/1560) • Securities and Exchange (Amendment) Rules 1987 dated 4 Jan 2000 (Notification No.SEC/LSD/SER-1987/149) • Securities and Exchange Commission (Merchant Banker and Portfolio Manager) Regulations dated 24 Apr 1996 (SRO 59-Law/96) • Eligibility of Merchant Banker and Portfolio Manager (Notification) dated 24 Apr 1996 (Notification No.SEC/Section-7/Law/94-4/115) • Capital Sufficiency of Merchant Banker and Portfolio Manager dated 24 Apr 1996 (Notification No.SEC/Section-7/Law/94-4/1140) • Securities and Exchange Commission (Stock-Dealer, Stock-Broker and Authorised Representatives) Rules 2000 • Guidelines on Foreign Placement or Allotment of Securities dated 11 Feb 1995 (Notification No.SEC/Section-7/95-23) • Guidelines on Initial Public Offering to Local Investors dated 8 Feb 1995 (Notification No.SEC/Section-7/95-22) • Guidelines for Raising of Capital by Greenfield Public Companies dated 13 Jun 1995 (Notification No.SEC/Section-7/95-28) • Credit Rating Companies Rules, 1996 dated 24 Jun 1996 (Notification No.SEC/Section-7/117) as amended by vide Notification No. SEC/SRMID/2001-1018/Admin-03/02 dated 27 September 2001 • Securities and Exchange Commission (Mutual Fund) Rules 2001 • Public Issue Rules, 1998 dated 3 Jan 1999 (Notification No.SEC/Sec.7/P/R-98/140) • Rights Issue Rules, 1998 dated 27 Jul 1998 (Notification No.SEC/Section-7/RIR-98/137) • Depository Act 1999 (Act No.6 of 1999) • Depositories Regulations, 1999 • Margin Rules, 1999 dated 28 Apr 1999 (Notification No.SEC/Section-5/98-542/141) • Members' Margin Regulations 2000 • Listing Regulations of the Dhaka Stock Exchange, dated 18 Feb 1997 (Notification No.SEC/Member- II) • Settlement of Stock Exchange Transaction Regulations, 1998 dated 24 May 1998 (Notification No.DSE-343/97/910), as amended from time to time • DSE Protection Fund Regulations, 1999 dated 7 Dec 1999 • SEC (Acquisition of Substantial Shares, Merger & Take-over) Rules 2002 • Automated Trading Regulations 1999 • Investors' Protection Fund Regulations 1999 • SEC (Market Maker) Rules 2000 • SEC (Capital Issue of Public Limited Company) Rules 2001 • SEC (OTC) Rules 2001 • SEC Notification No. SEC/CMRRCD/2001-14/Admin/03/06 dated August 01, 2002 • SEC order of 8 October 2002 (on Lock-in on Foreign Sponsors/Placement Shares and mandatory investing through Portfolio Accounts)
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Insurance	<ul style="list-style-type: none"> • Insurance Act, 1938 (Act No.IV of 1938) as amended by Insurance (Amendment) Act, 1990 (Act No.XXVI of 1990) and Insurance (Amendment) Act, 1993 (Act No.XII of 1993) • Insurance Rules 1958 (as amended by SRO No. 201-Law/2002 dated 22 July 2002) • Insurance Corporations Act, 1973 (Act No.IV of 1973) as amended by Insurance Corporations(Amendment) Ordinance, 1984 (Ordinance No.LI of 1984) and Insurance Corporations (Amendment) Act, 1990 (Act No.XXIX of 1990)
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Source: Comparative Analysis of Corporate Governance in South Asia 94

Appendix-3A:

Current (as on 28 March 2007) Status of Bangladesh Accounting Standards(BASs) vis-à-vis IASs/IFRSs

BAS No.	BAS Title	BAS Effective Date	Remarks
01	Presentation of Financial Statements	01 July 1999	Originally adopted on 1 July 1984. Subsequently amended. IAS 1 (Revised 2003) not yet considered by ICAB.
02	Inventories	01 January 1999	Originally adopted on 1 January 1986. Subsequently amended. IAS 2 (Revised 2003) not yet considered by ICAB.
07	Cash Flow Statements	01 January 1994	Originally adopted on 1 January 1986. Subsequently amended.
08	Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies	01 January 1995	Originally adopted on 1 January 1991. Subsequently amended. IAS 8 (Revised 2003) not yet considered by ICAB.
10	Events after the Balance Sheet Date	01 January 1995	Originally adopted on 1 January 1990. Subsequently amended.
11	Construction Contracts	01 January 1999	Originally adopted on 1 January 1990. Subsequently amended.
12	Income Taxes	01 January 1998	Originally adopted on 1 January 1990. Subsequently amended.
14	Segment Reporting	01 January 2004	Adopted on 27 July 2003.
16	Property, Plant and Equipment	01 January 1995	Originally adopted on 1 January 1985. Subsequently amended. IAS 16 (Revised 2003) not yet considered by ICAB.
17	Leases	01 January 2004	Originally adopted on 1 8 November 2003. IAS 17 (Revised 2003) not yet considered by ICAB.
18	Revenue	01 January 1995	Originally adopted on 1 January 1985. Subsequently amended.
19	Employee Benefit	01 January 2004	Adopted on 27 July 2003. IAS 19 (Revised 2004) not yet considered by ICAB.
20	Accounting for Government Grants and Disclosure of Government Assistance *	01 January 1999	Adopted on 8 November 1998.
21	The effects of Changes in Foreign Exchange Rates	01 January 1995	Originally adopted on 1 January 1990. Subsequently amended. IAS 21 (Revised 2003) not yet considered by ICAB.
22	Business Combinations	01 January 2004	Originally adopted on 1 January 2004. IAS 22 has been superseded by IFRS3.
23	Borrowing Costs	01 January 1995	Originally adopted on 1 January 1990. Subsequently

BAS No.	BAS Title	BAS Effective Date	Remarks
			amended.
24	Related Party Disclosures	01 January 2004	Originally adopted on 27 July 2003. IAS 24 (Revised 2003) not yet considered by ICAB.
25 (BAS)	Accounting for Investments	01 January 1999	IAS 25 has been superseded by IAS 39 and IAS 40. Not withdrawn/superseded by ICAB.
26	Accounting and Reporting by Retirement Benefit Plans	01 January 2004	Adopted on 27 July 2003.
27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	01 January 1999	Adopted on 27 December 1998. IAS 27 (Revised 2003) not yet considered by ICAB.
28	Accounting for Investments in Associates	01 January 2005	Adopted on 1 January 2005. (Note –2c). IAS 28 (Revised 2003) not yet considered by ICAB.
29	Financial Reporting in Hyperinflationary Economics	Not yet Adopted	Not yet Adopted
30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions *	01 January 1999	Adopted on 27 January 1998.
31	Financial Reporting of Interests in Joint Venture	01 January 2004	Adopted on 27 December 2003. IAS 31 (Revised 2003) not yet considered by ICAB.
32	Financial Instruments: Disclosure and Presentation	Not yet Adopted	Under review by ICAB
33	Earnings Per Share	01 January 1999	Adopted on 27 December 1998. IAS 33 (Revised 2003) not yet considered by ICAB.
34	Interim Financial Reporting	01 January 1999	Adopted on 27 December 1998.
35	Discontinuing Operations	01 January 2005	Adopted on 18 April 2004. IAS 35 has been superseded by IFRS 5.
36	Impairment of Assets	01 January 2004	Adopted on 27 December 2003. IAS 36 (Revised 2004) not yet considered by ICAB.
37	Provisions, Contingent Liabilities and Contingent Assets	01 January 2004	Adopted on 27 December 2003.
38	Intangible Assets	01 January 2005	Adopted on 18 April 2004. IAS 38 (Revised 2004) not yet considered by ICAB.
39	Financial Instruments: Recognition and Measurement	Not yet adopted	Under review by ICAB
40	Investment Property	01 January 2005	Adopted on 18 April 2004. IAS 40 (Revised 2003) not yet considered by ICAB.
41	Agriculture	Not yet adopted	Under review by ICAB

IFRS	Title	Adoption Status of ICAB
IFRS-1	Adoption of International financial Reporting Standard	Under review by ICAB
IFRS-2	Share Based payment	Under review by ICAB
IFRS-3	Business Combination	Adopted by ICAB on 15 December 2005 and will be effective from 01 January 2007.
IFRS-4	Insurance Contracts	Under review by ICAB
IFRS-5	Non-Current Assets held for sale and Discontinued operations	Adopted by ICAB on 15 December 2005 and will be effective from 01 January 2007.
IFRS-6	Explanation for and Evaluation of Mineral Resources	Under review by ICAB
IFRS-7	Financial Instruments : Disclosures	Not yet Adopted

Sources: ICAB Education & Training Page.htm , 2007

Appendix-3B**Corporate Accounting Standards Practiced**

The ICAB has adopted to date the following IASs for Bangladesh:

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 7 Cash Flow Statements

IAS 8 Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies

IAS 10 Events after the Balance Sheet Date

IAS 11 Construction Contracts

IAS 12 Income Taxes

IAS 14 Segment Reporting

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 18 Revenue

IAS 19 Employee Benefits

IAS 20 Accounting for Government Grants

IAS 21 The effects of Changes in Foreign Exchange Rates

IAS 22 Business Combinations

IAS 23 Borrowing Costs

IAS 24 Related Party Disclosures

IAS 25 Accounting for Investment

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions

IAS 31 Financial Reporting of Interests in Joint Ventures

IAS 33 Earnings Per Share

IAS 34 Interim Financial Reporting

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Source: Beximco Pharmaceuticals, Annual Report-2005.

Appendix-4**Table-4**

Current (as on 28 March 2007) Status of
Bangladesh Accounting Standards(BASs) vis-à-vis IASs/IFRSs (This is the Excel Table)

No.	Company ID - Listing	CP	HS	GR	DR	BS	IS	CF	APNA	VA	OI	Total	ODI
	Standard No. of Items Determined	38	24	11	8	52	65	40	30	20	25	313	1
1	ABBANK (AB Bank)	15	10	7	6	30	40	10	18	10	10	156	0.50
2	ALARABANK (Al-Arafah Islami Bank)	10	8	5	4	25	30	12	15	12	14	135	0.43
3	BANKASIA (Bank Asia Ltd.)	16	12	8	7	20	32	10	13	10	14	142	0.45
4	CITYBANK (City Bank)	14	11	6	6	23	31	10	13	10	15	139	0.44
5	DHAKABANK (Dhaka Bank)	15	10	6	5	23	30	12	14	13	14	142	0.45
6	DUTCHBANGL (Dutch-Bangla Bank)	16	12	5	5	21	36	12	15		15	137	0.44
7	EBL (Eastern Bank)	17	10	5	5	20	32	12	16		17	134	0.43
8	EXIMBANK (Export Import (Exim) Bank of Bangladesh)	15	13	3	5	22	35	12	17		15	137	0.44
9	FLEASEINT (1st Lease International)	8	9	6	6	21	30	12	18		15	125	0.40
10	IDLC (IDLC)	7	8	6	6	25	29	12	16		19	128	0.41
11	IFIC (IFIC Bank)	17	11		4	23	28	12	14		18	127	0.41
12	ISLAMIBANK (Islami Bank)	15	12		5	24	23	12	16		20	127	0.41
13	ISLAMICFIN (Islamic Finance & Investment Ltd.)	10	10		6	15	30	12	15		10	108	0.35
14	MERCANBANK (Mercantile Bank Ltd.)	15	12		3	17	36	12	16		12	123	0.39
15	MIDASFIN (MIDAS Financing Ltd.)	12	12	2	5	18	35	12	14		17	127	0.41
16	MTBL (Mutual Trust Bank Ltd.)	15	10	5	7	16	38	12	18		18	139	0.44
17	NBL (NBL)	15	11	5	6	14	39	12	15		19	136	0.43
18	NCCBANK (NCCBL)	10	6	5	8	13	40	12	16		17	127	0.41
19	ONEBANKLTD (One Bank Limited)	14	4	2	5	20	22	12	15		18	112	0.36
20	ORIENTBANK (Oriental Bank Ltd.)	12	4		5	21	23	12	17		19	113	0.36
21	PLFSL (People's Leasing and Fin. Services Ltd.)	12	11	7	5	22	25	12	15		17	126	0.40
22	PREMIERLEA (Premier Leasing International Ltd.)	10	5		6	25	29	12	16		12	115	0.37
23	PRIMEBANK (Prime Bank)	15	12	2	5	26	30	12	17		13	132	0.42
24	PRIMEFIN (Prime Finance & Investment Ltd.)	9	5	5	4	24	35	12	16		15	125	0.40
25	PUBALIBANK (Pubali Bank)	16	13	6	7	27	36	12	14		16	147	0.47
26	RUPALIBANK (Rupali Bank)	17	15	9	5	23	35	12	16	15	15	162	0.52
27	SOCIALINV (Social Investment Bank)	15	12	9	6	25	35	12	14	16	15	159	0.51
28	SOUTHEASTB (Southeast Bank)	16	16	8	5	23	29	12	15	14	16	154	0.49
29	STANDBANKL (Standard Bank Limited)	15	12		5	25	26	12	17	14	18	144	0.46

30	UCBL (UCBL)	13	10		5	24	31	12	17	10	18	140	0.45
31	ULC (United Leasing)	10	5	5	4	26	32	12	17	10	19	140	0.45
32	UTTARABANK (Uttara Bank)	14	12	8	6	23	36	12	18	5	17	151	0.48
33	UTTARAFIN (Uttara Finance)	13	8		5	20	32	12	18	5	17	130	0.42
34	ARAMITCEM (Aramit Cement)	15	13		6	28	32	10	17		9	130	0.42
36	CONFIDCEM (Confidence Cement)	16	12	9	6	23	36	10	17		8	137	0.44
37	HEIDELBCEM (Heidelberg Cement Bd.)	14	14	8	6	26	29	10	18		8	133	0.42
38	LAFSURCEML (LAFARGE SURMA CEMENT LTD.)	15	11	8	5	28	28	10	16		9	130	0.42
39	MEGHNACEM (Meghna Cement)	13	11	8	5	23	25	10	16		9	120	0.38
40	MODERNCEM (Modern Cement)	15	12	8	4	25	26	10	16		8	124	0.40
41	NILOYCEM (Niloy Cement)	16	13	8	6	24	21	10	16		9	123	0.39
42	PADMACEM (Padma Cement)	10	5	8	4	26	23	10	15		8	109	0.35
43	BENGALFINE (Bengal Fine Ceramic)	15	8	4	6	29	23	8	17		18	128	0.41
45	FUWANGCER (Fu-Wang Ceramic)	16	12	8	5	22	21	9	15		17	125	0.40
46	MONNOCERA (Monno Ceramic)	14	11	9	6	24	23	7	16		15	125	0.40
47	STANCERAM (Standard Ceramic)	16	15	9	5	26	22	12	18		16	139	0.44
48	AFTABAUTO (Aftab Automobiles)	15	12	8	5	25	26	10	13		10	124	0.40
50	ANWARGALV (Anwar Galvanizing)	12	8	6	5	28	28	13	15		10	125	0.40
51	ATLASBANG (Atlas Bangladesh)	14	6	5	5	27	35	12	16		10	130	0.42
52	AZIZPIPES (Aziz Pipes)	15	12	8	4	23	35	12	17		10	136	0.43
53	BDAUTOCA (BD.Autocars)	10	11	9	4	22	36	12	16		12	132	0.42
54	BDLAMPS (Bangladesh Lamps)	12	10	8	4	22	34	12	16		12	130	0.42
55	BDTHAI (Bd.Thai Aluminium)	10	5	3	4	20	32	10	16		11	111	0.35
56	BEMCO (BEMCO)	9	8	6	4	19	31	12	16		14	119	0.38
57	ECABLES (Eastern Cables)	14	7	5	4	18	30	13	14		13	118	0.38
58	KAY&QUE (Kay and Que)	15	12		4	17	28	14	17		15	122	0.39
59	METALEXCR (Metalex Corporation (Suspended))	9	5		4	16	24	15	15		16	104	0.33
60	MONNOJTX (Monno Jutex)	6	5		4	15	22	11	15		10	88	0.28
61	MONNOJTX (Monno Jutex)	6	4		4	18	25	11	17		10	95	0.30
62	NPOLYMAR (National Polymer)	6	4		4	13	27	11	17		11	93	0.30
63	NLTUBES (National Tubes)	5	5		4	18	29	11	16		12	100	0.32
64	OLYMPIC (Olympic Industries)	15	12	9	4	19	28	11	16		12	126	0.40
65	QSMDRYCELL (Quasem Drycells)	12	12	6	4	21	26	11	17		14	123	0.39
66	RANFOUNDRY (Rangpur Foundry)	14	12	8	4	23	28	11	18		10	128	0.41
67	RENWICKJA (Renwick Jajneswar)	2	6	5	4	21	25	11	15		10	99	0.32
68	SINGERBD (Singer Bangladesh)	18	15	8	4	25	30	11	16		12	139	0.44
69	WONDERTOYS (Wonderland Toys)	16	12	4	6	24	31	11	15		12	131	0.42
70	ALPHATOBA (Alpha Tobacco)	12	8	6	5	26	32	10	16		13	128	0.41
72	AMAMSEAFD (Amam Sea Food (Suspended))	10	12	4	4	23	32	10	16		10	121	0.39

73	AMCL(PRAN) (AMCL (Pran))	16	15	9	6	25	30	10	14		10	135	0.43
74	APEXFOODS (Apex Foods)	16	12	5	5	23	23	10	14		11	119	0.38
75	BANGAS (Bangas)	12	12	5	4	21	25	10				89	0.28
76	BATBC (BATBC)	10	5		4	23	28	10				80	0.26
77	BDPLANT (Bangladesh Plantation)	9	5		4	25	26	10			12	91	0.29
78	BEACHHATCH (Beach Hatchery Ltd.)	12	12		5	21	28	10			21	109	0.35
79	BENGALBISC (Bengal Biscuits)	16	15	5	5	20	26	10	15		15	127	0.41
80	BIONICFOOD (Bionic Sea Food)	8	7	6	5	19	28	10	15		15	113	0.36
81	BLTC (BLTC)	8	8	5	6	20	26	10	14		15	112	0.36
82	BXFISHERY (Beximco Fisheries)	10	6		6	18	26	10	13		10	99	0.32
83	CTGVEG (Chittagong Vegetable)	17	12		5	17	26	10	10		10	107	0.34
84	DHAKAFISH (Dhaka Fisheries)	12	10		5	15	35	10	10		10	107	0.34
85	ELCAMELIA (EL Camellia)	10	12	5	5	16	36	10	12		8	114	0.36
86	FINEFOODS (Fine Foods Limited)	13	12		6	19	36	10	11		8	115	0.37
87	FUWANGFOOD (Fu Wang Food)	15	15	5	6	18	32	10	11		8	120	0.38
88	GACHIHATA (Gachihata Aquaculture)	16	15	5	4	17	31	10	12		9	119	0.38
89	GBJVFOOD (German Bangla Foods)	16	15	8	5	16	32	10	15		9	126	0.40
90	GEMINISEA (Gemini Sea Food)	6	8	8	6	19	30	10	15		9	111	0.35
91	GULFOODS (Gulf Foods)	12	10	5	5	18	30	10	12		8	110	0.35
92	HILLPLANT (Hill Plantation)	8	8	5	6	18	36	10	15		7	113	0.36
93	MEGCONMILK (Meghna Condensed Milk)	7	2	5	5	16	35	10	14		7	101	0.32
94	MEGHNAPET (Meghna Pet Industries)	7	5	5	5	19	30	10	17		8	106	0.34
95	MEGHNASHRM (Meghna Shrimp)	14	5	5	4	18	32	10	14		8	110	0.35
96	MODERNIND (Modern Industries)	6	6	5	4	18	24	10	12		8	93	0.30
97	MONAFOOD (Mona Food)	15	7	5	6	21	21	10	12		12	109	0.35
98	NTC (National Tea)	16	8		5	23	25	10	11		12	110	0.35
99	RABEYAFLO (Rabeya Flour Mills)	10	8		2	23	26	10	11		18	108	0.35
100	RAHIMAFOOD (Rahima Food)	3	5	5	6	22	23	10	10		16	100	0.32
101	RANGAFOOD (Rangamati Food)	12	13	8	6	26	21	10	10			106	0.34
102	RASPIT (Raspit Inc.(BD.))	12	10	9	5	23	22	10	10			101	0.32
103	SHYAMPSUG (Shaympur Sugar)	6	5	5	2	25	23	10	8		14	98	0.31
104	TRIPTI (Tripti Industries)	14	10		3	24	37	10	8		12	118	0.38
105	TULIPDAIRY (Tulip Dairy & Food)	6	9	5	4	24	38	10	9		12	117	0.37
106	YOUSUFLOUR (Yousuf Flour)	6	5	5	3	23	39	10	11		12	114	0.36
107	ZEALBANGLA (Zeal Bangla Sugar)	6	5	5	5	25	40	10	12		10	118	0.38
108	BDWELDING (Bd. Welding Electrodes)	10	9		6	22	41	8	11			107	0.34
110	BOC (BOC Bangladesh)	15	10	5	6	23	40	8	12			119	0.38
111	EASTRNLUB (Eastern Lubricants)	6	12	6	5	25	42	8	13			117	0.37
112	PADMAOIL (Padma Oil Co.)	10	8	7	5	21	35	8	14			108	0.35

113	SUMITPOWER (Summit Power Limited)	15	13	6	5	21	36	8	15			119	0.38
114	AGRANINS (Agrani Insurance Co. Ltd.)	5	5		5	19	34	13	17		20	118	0.38
116	ASIAPACINS (Asia Pacific General Insurance Co. Ltd.)	10			5	18	36	13	18		12	112	0.36
117	BGIC (BGIC)	12	5	3	5	17	35	13	15		12	117	0.37
118	CENTRALINS (Central Insurance)	16	6	2	4	16	35	13	17		13	122	0.39
119	DELTALIFE (Delta Life Insurance)	15	8	6	4	19	35	13	16		15	131	0.42
120	EASTERNINS (Eastern Insurance)	16	8	5	4	18	38	13	18		15	135	0.43
121	EASTLAND (Eastland Insurance)	14		5	6	16	38	13	17		16	125	0.40
122	FAREASTLIF (Fareast Islami Life Insurance Co. Ltd.)	14			5	18	32	13	13		14	109	0.35
123	FEDERALINS (Federal Insurance)	12	12	2	5	19	31	13	11	8	14	127	0.41
124	GLOBALINS (Global Insurance Ltd.)	10	10	5	4	18	30	13	10	7	14	121	0.39
125	GREENDELTA (Green Delta Insurance)	12	12	5	4	13	28	13	15	9	15	126	0.40
126	JANATAINS (Janata Insurance)	15	15	6	5	15	28	13	14	7	16	134	0.43
127	KARNAPHULI (Karnaphuli Insurance)	5	5	4	4	16	27	13	12	10	16	112	0.36
128	MEGHNALIFE (Meghna Life Insurance Co. Ltd.)	14	12	8	4	16	29	13	12	12	16	136	0.43
129	MERCINS (Mercantile Insurance Co. Ltd.)	5	10	5	5	16	27	13	12	10	15	118	0.38
130	NATLIFEINS (National Life Insurance)	15	15	9	5	18	27	13	14	10	15	141	0.45
131	NITOLINS (Nitol Insurance Co. Ltd.)	16	16	9	5	17	28	13	11	15	16	146	0.47
132	PEOPLESINS (Peoples Insurance)	14	15	8	5	19	21	13	12	10	15	132	0.42
133	PHENIXINS (Phoenix Insurance)	15	12	6	5	20	31	13	13	8	15	138	0.44
134	PIONEERINS (Pioneer Insurance)	18	18	9	5	23	30	13	14	9	15	154	0.49
135	POPULARLIF (Popular Life Insurance Co. Ltd.)	13	13	4	5	23	31	13	10	9	14	135	0.43
136	PRAGATIINS (Pragati Insurance)	10	12	5	5	23	29	13	18	9	15	139	0.44
137	PRAGATILIF (Pragati Life Insurance Ltd.)	8	5	2	5	23	26	13	17		8	107	0.34
138	PRIMEINSUR (Prime Insurance)	6	5	3	5	25	25	13	16		8	106	0.34
139	PROGRESLIF (Progressive Life Insurance Co. Ltd.)	5	8		5	25	28	13	16		9	109	0.35
140	PURABIGEN (Purabi Gen. Insurance)	17	12	6	5	24	29	13	15		9	130	0.42
141	RELIANCINS (Reliance Insurance)	15	15	9	5	24	29	13	14		9	133	0.42
142	RUPALIINS (Rupali Insurance)	14	12	3	5	26	28	13	14		7	122	0.39
143	SANDHANINS (Sandhani Life Insurance)	10	10	5	5	24	25	13	14		8	114	0.36
144	SONARBAINS (Sonar Bangla Insurance Ltd.)	14	10	4	5	22	23	13	21		9	121	0.39
145	UNITEDINS (United Insurance)	8	9	3	5	23	26	13	12		8	107	0.34
146	1STBSRS (1st BSRS M.F.)	14	12	3	5	12	26	13	15			100	0.32

148	1STICB (1st ICB M.F.)	16	12	6	5	15	26	13	16			109	0.35
149	2NDICB (2nd ICB M.F.)	14	12	5	5	18	25	13	14			106	0.34
150	3RDICB (3rd ICB M.F.)	15	15	6	5	16	31	13	14			115	0.37
151	4THICB (4th ICB M.F.)	14	14	3	5	18	31	13	14		12	124	0.40
152	5THICB (5th ICB M.F.)	15	12		5	19	30	13	14	10	9	127	0.41
153	6THICB (6th ICB M.F.)	14	10	3	5	22	28	13	14	11	9	129	0.41
154	7THICB (7th ICB M.F.)	10	10	3	5	25	39	13	14	8	9	136	0.43
155	8THICB (8th ICB M.F.)	15	5		5	29	32	13	14	7		120	0.38
156	AIMS1STMF (Aims 1st M.F.)	12		3	5	27	32	13	20	7		119	0.38
157	GRAMEEN1 (Gremeen Mutual Fund One)	14	2	3	5	25	31	13	15	6		114	0.36
158	ICB (ICB)	10	2		5	25	36	13	12	7	21	131	0.42
159	ICBAMCL1ST (ICB AMCL 1st M.F.)	11	15	8	5	25	38	13	15	7	20	157	0.50
160	ICBISLAMIC (ICB AMCL Islamic Mutual Fund)	12	12	6	5	26	37	13	16			127	0.41
161	AGNISYSL (Agni Sytems Ltd.)	10	10	4	5	26	39	10	15			119	0.38
163	BDCOM (BDCOM Online Ltd.)	2	2		5	25	39	10	14		9	106	0.34
164	BDONLINE (Bangladesh Online)	5	9		5	24	39	10	16		9	117	0.37
165	DAFODILCOM (Daffodil Computers Ltd.)	4	6		5	24	38	10	14		9	110	0.35
166	INTECH (In Tech Online Ltd.)	10	13		5	25	34	10	12		8	117	0.37
167	ISNLTD (Information Services Network)	14	12	3	5	23	36	10	13		9	125	0.40
168	RASPITDATA (Raspit Data Management)	12	12	2	5	23	35	10	15		10	124	0.40
169	JUTESPINN (Jute Spinners)	6	4		5	24	28		18		11	96	0.31
171	NORTHERN (Northern Jute)	5	4		5	26	27		17		12	96	0.31
172	SALEHCARPT (Saleh Carpet)	5	5		5	28	27		16		12	98	0.31
173	SONALIANSH (Sonali Aansh)	5	6		5	27	25		15		12	95	0.30
174	ARAMIT (Aramit)	15	12	9	5	21	26	10	15		11	124	0.40
176	BDLUGGAGE (Bangladesh Luggage)	12	10	7	5	32	26	10	12		12	126	0.40
177	BERGERPBL (Berger Paints Bangladesh Ltd.)	12	14	6	5	23	26	10	12		12	120	0.38
178	BEXIMCO (BEXIMCO)	14	20	8	5	23	28	10	12		10	130	0.42
179	BSC (BSC)	15	12	4	5	23	28	10	13		10	120	0.38
180	ENGINEER (The Engineers)	10	12	5	5	25	28	10	14		10	119	0.38
181	GQBALLPEN (GQ Ball Pen)	15	15	6	5	20	28	10	14		12	125	0.40
182	HIMADRI (Himadri)	12	12	6	5	20	25	10	14	8	12	124	0.40
183	MIRACLEIND (Miracle Ind.)	14	13	5	5	20	26	10	14	5	11	123	0.39
184	ROSEHEAVEN (Rose Heaven Ball)	15	15	8	5	20	28	10	15	6	10	132	0.42
185	SAVAREFR (Savar Refractories)	14	12	5	5	20	27		17	6	8	114	0.36
186	SINOBANGLA (Sinobangla Industries)	10	10	5	5	20	28		15	6	9	108	0.35
187	USMANIAGL (Usmania Glass)	5	6	3	5	21	26		16	6	12	100	0.32
188	AZADIPRIN (Azadi Printers)	15	12	8	5	23	28	11	10		12	124	0.40
190	HAKKANIPUL (Hakkani Pulp & Paper)	15	15	7	5	22	28	11	10		12	125	0.40
191	MAQENTER (Maq Enterprises)	14	12	5	5	21	29	11	11		10	118	0.38
192	MAQPAPER (Maq Paper)	15	15	9	5	23	27	11	9	8	10	132	0.42

193	MONOSPOOL (B.Monospool Paper)	16	16	5	5	21	29	11	8	7	10	128	0.41
194	PADMAPRINT (Padma Printers)	5	5		5	2	26	11	9		10	73	0.23
195	PAPERPROC (Paper Processing)	15	14	7	5		25	11	8		12	97	0.31
196	SONALIPAPR (Sonali Paper)	2	13	4	5	25	24	11	8		13	105	0.34
197	ACI (ACI Limited.)	18	15	10	5	23	28	8	9	10	15	141	0.45
199	ALAMINCHEM (Al-Amin Chemicals)	15	16	9	5	25	29	8	8		15	130	0.42
200	AMBEEPHA (Ambee Pharma)	14	15	6	4	25	28	8	7		15	122	0.39
201	BANGLAPRO (Bangla Process)	8	10	4	5	26	29	8	12		10	112	0.36
202	BCIL (BCIL)	12	5	3	5	23	30		15		10	103	0.33
203	BXPHARMA (Beximco Pharma)	12			4	21	23		15		12	87	0.28
204	BXSYNTH (Beximco Synthetics)	4			4	20	31		15	8	12	94	0.30
205	GLAXOSMITH (Glaxo SmithKline)	6		2	5	20	30	10	10	8	13	104	0.33
206	IBNSINA (The Ibn Sina)	15	13	9	6	18	29	10	10	8	12	130	0.42
207	IMAMBUTTON (Imam Button)	14	13	6	5	18	21	10	15	9	10	121	0.39
208	KEYACOSMET (Keya Cosmetics)	15	10		4	17	25	10	12	9	13	115	0.37
209	KEYADETERG (Keya Detergent)	12	13		5	17	28	10	13	9	13	120	0.38
210	KOHINOOR (Kohinoor Chemicals)	15	12	7	6	19	28	10	13	7	13	130	0.42
211	LIBRAINFU (Libra Infusions Limited)	14	12	8	5	19	23	10	14		13	118	0.38
212	ORIONINFU (Orion Infusion)	16	5	3	4	19	25	10	14			96	0.31
213	PERFUMCHM (Perfume Chemicals)	14		6	5	19	28	10	12			94	0.30
214	PETROSYNTH (Petro Synthetic)	2		2	5	18	29	10	13	5		84	0.27
215	PHARMACO (Pharmaco International)	6			5	18	28	10	13		8	88	0.28
216	PHARMAID (Pharma Aids)	3			5	21	27	10	13		8	87	0.28
217	RAHMANCHEM (Rahman Chemicals)	6	2		5	21	26	10	13	5	8	96	0.31
218	RECKITTBEN (Reckitt Benckiser(Bd.)Ltd.)	10	5	2	5	23	25		15	6	9	100	0.32
219	RENATA (Renata Ltd.)	12	5	3	5	20	25			6	9	85	0.27
220	SQURPHARMA (Square Pharmaceuticals Ltd.)	10	8	4	5	25	26				7	85	0.27
221	TBL (Therapeutics)	20	9	8	5	25	32		12			111	0.35
222	WATACHEM (Wata Chemicals)	8	7	3	5	26	32		12	8	7	108	0.35
223	BDHOTELS (Bangladesh Hotels)	5	11	2	5	23	30	8	12	10		106	0.34
225	BDSERVICE (Bangladesh Services)	5	5	2	5	25	31	10	13		9	105	0.34
226	EHL (Eastern Housing)	8	5	2	5	24	31	12	14		8	109	0.35
227	SAMORITA (Samorita Hospital)	9	6	3	5	21	28	12	12	8	9	113	0.36
228	SHINEPUKUR (Shinepukur Holdings Limited)	12	10	5	5	23	28	10	12	10	8	123	0.39
229	APEXFOOTWR (Apex Footwear)	10	9	4	5	23	36	10	18		12	127	0.41
231	APEXTANRY (Apex Tannery)	9	5	3	5	25	35	10	18		10	120	0.38
232	BATASHOE (Bata Shoe)	15	12	7	5	20	34	10	15	12	12	142	0.45
233	EXCELSHOE (Excelsiorshoes)	7	5	3	5	25	32	10	12	12	13	124	0.40
234	LEGACYFOOT (Legacy Footwear)	12	10	4	5	25	21	10	10	11	15	123	0.39

235	LEXCO (Lexco)	15	14	8	5	24	21	10	13	11	15	136	0.43
236	PHENIXLETH (Phoenix Leather)	4	6		5	24	32	10	13	10	12	116	0.37
237	SAMATALETH (Samata Leather)	12	10		5	26	23	10	13	10	15	124	0.40
238	AL-HAJTEX (Al-Haj Textile)	8			5	26	32	12	14	14	12	123	0.39
240	ALLTEX (Alltex Ind. Ltd.)	6			5	21	31	15	15	15	10	118	0.38
241	ANLIMAYARN (Anlima Yarn)	10	3		5	25	30	14	15	16	10	128	0.41
242	APEXSPINN (Apex Spinning.)	15	16	6	5	26	28		16	15	18	145	0.46
243	APEXWEAV (Apex Weaving)	14	13	4	5	25	21		14	10	15	121	0.39
244	ARBEETEX (Arbee Textile)	6	6		5	24	21	12	12	10	15	111	0.35
245	ASHRAFTEX (Ashraf Textile)	15	10		6	23	21	14	13		11	113	0.36
246	BDDYE (BD.Dyeing)	14		4	6	23	25	18	13		11	114	0.36
247	BDZIPPER (BD. Zipper Ind.)	16		4	5	22	24	15	15		11	112	0.36
248	BXDENIMS (Bex. Denims)	18		5	5	23	25	10	15		11	112	0.36
249	BXKNIT (Beximco Knitting)	14	12	3	5	22	26	11	15		11	119	0.38
250	BXTEX (Beximco Textiles)	8	12	4	5	23	23	12	15		12	114	0.36
251	CHICTEX (Chic Tex Ltd.)	14	13	4	5	21	24	12	10		15	118	0.38
252	CMCKAMAL (CMC Kamal)	14	11	5	5	23	25		10		12	105	0.34
253	DANDYDYE (Dandy Dyeing)	5	5		5	21	26		10		12	84	0.27
254	DELTASPINN (Delta Spinners Ltd.)	15	14	6	5	23	23		10		12	108	0.35
255	DSHGARME (Desh Garmants)	9	8		5	25	25		12		13	97	0.31
256	DULAMIACOT (Dulamia Cotton)	15	11	7	5	25	28		13		13	117	0.37
257	DYNAMICTEX (Dynamic Textile)	15	16	4	5	24	23		15		15	117	0.37
258	EAGLESTAR (Eagle Star Textile)	16	15		5	25	21		18		14	114	0.36
259	GMGIND (GMG Ind. Corp.)	18	18	4	5	22	33		15		14	129	0.41
260	HRTEX (H.R.Textile)	10	9		5	21	33		16		11	105	0.34
261	METROSPIN (Metro Spinning)	15	10		5	20	32		16		14	112	0.36
262	MHOSSAIN (M. Hossain Garments)	15	12		5	23	34		16		11	116	0.37
263	MITATEX (Mita Textile)	14	10		5	21	34		15	8	12	119	0.38
264	MITHUNKNIT (Mithun Knitting)	12	9		5	23	32		15	9	9	114	0.36
265	MODERNDYE (Modern Dyeing)	11	8		5	21	30		18	8	8	109	0.35
266	MONNOFABR (Monno Fabrics)	12	8		5	21	19		18	8	9	100	0.32
267	PADMATEX (Padma Textile)	10	8		5	22	18		12	8	8	91	0.29
268	PRIMETEX (Prime Textile)	14	11		5	24	16		15	9	9	103	0.33
269	QSMSILK (Quasem Silk)	10		4	5	27	18		16	7	8	95	0.30
270	QSMTEX (Quasem Textile)	5		4	5	21	37		14	7	9	102	0.33
271	RAHIMTEXT (Rahim Textile)	8			5	20	18		18	8	10	87	0.28
272	SAFKOSPINN (Safko Spinnings)	14	12	5	5	23	19		19		11	108	0.35
273	SAIHAMTEX (Saiham Textile)	16	12	4	5	20	20		19		11	107	0.34
274	SAJIBKNIT (Sajib Knitwear)	14	14	4	5	20	25		12		12	106	0.34
275	SONARGAON (Sonargaon Textiles)	15	15	4	5	23	24		21		12	119	0.38
276	SQUARETEXT (Square Textile)	16	12	3	5	23	26		21		10	116	0.37
277	SREEPURTEX (Sreepur Textile)	14	12		5	23	23		12		13	102	0.33
278	STYLECRAFT (Stylecraft Limited)	8			5	23	25		13		10	84	0.27
279	TALLUSPIN (Tallu Spinning)	12	12		5	21	27		16		12	105	0.34
280	TAMIJTEX (Tamijuddin Textile)	14	11		5	20	23		15		12	100	0.32

Abbreviations

- (CP) -Company Profile
- (HS) -Highlights Statement
- (GR) - Graphical Presentation
- (DR) - Directors' Report
- (BS) - Balance Sheet
- (IS)- Income Statement
- (CF)-Cash Flow
- (APNA) -Accounting Policies and Notes to Accounts
- (VA) -Value Addition
- (OI)- Other Information
- (ODI) –Overall Disclosure Index

CHAPTER-6

CONCLUSIONS, IMPLEMENTATIONS AND AVENUES FOR FURTHER RESEARCH

6.1 Introduction

The dissertation is directed to search a research question – the extent of disclosure of firms in Bangladesh. To address this question, four sub-questions are taken and evaluated step by step in the next four chapters. Three studies explicitly evaluate different aspects of financial disclosure in Bangladesh, namely, the legal and institutional arrangements of disclosure in Bangladesh along with evaluations of each arrangement, the total disclosure environment of Bangladesh by applying the UNCTAD guidelines, and the disclosure of listed companies in Bangladesh. The dissertation is completely new one that takes all these three aspects in the field of financial reporting research in Bangladesh. In some cases, as references, regional comparisons are also taken into account as the SAARC countries are trying to harmonize the reporting culture in the region by SAFA.

6.2 Review of Literature and Methodologies

This chapter is designed to find out the research works done in different parts of the world in disclosing information by the economic entities. Different studies reveal that there is a positive correlation between information disclosure by the entities and economic development of a nation. Moreover, this is a pre-condition for both the economic agents – domestic and international firms - to cope with the rapidly changing business environment to attain required growth for survival. There are different ways and means for examining the overall development in disclosure of a country. However, modern research works are highly concentrated in building models instead of merely providing with descriptive prescription. Research works done in the developed parts of the world seek to evaluate the market perfection by taking relevant variables to judge the extent of disclosure. It is found that entities in those parts are fulfilling not only the mandatory requirements but also the voluntary items to satisfy the stakeholders whereas the developing countries are still trying to attain the disclosure set by laws. But in developing parts of the world research works done on this issue are not much, especially in the SAARC region. Whereas South Asian Federation of Accountants (SAFA) could

play a vital role in creating an environment in the Member countries for harmonizing financial disclosure, there is no visible development found in this area. There are some research works done so far covering the disclosure of companies listed in the exchanges houses in Bangladesh, none of the research works covers broader aspects such as legal and institutional arrangements, application of any model developed by different recognized bodies like OECD, UNCTAD, to judge the extent of disclosure, etc, to understand disclosure environment of the whole country. Moreover, scientific evaluation done so far to go inside of knowing causes of less satisfactory disclosure in SAARC countries, especially in Bangladesh. Recently, some research works done taking Bangladesh as a country of reference are found quite relevant and interesting to the modern age, highly valuable those show the paths for potential researchers, but those researches have some very important limitations. This could be because of the fact that the incentives of research in Bangladesh are very less. There is no organized body in this sector to evaluate the recommendations provided in such a tedious task and to implement the important suggestions. But the recent move of the Government of Bangladesh (GOB) towards coping with the globalization makes the financial disclosure by the entities an important issue. The GOB is trying to make all the associated bodies effective by reforming them so that all the entities become transparent to the stakeholders.

6.3 Legal and institutional arrangements of financial reporting in Bangladesh

This study is to examine the legal and institutional arrangements of disclosure in Bangladesh keeping in mind that countries with poorer investor protections, measured by both the character of legal rules and the quality of law enforcement, have smaller and narrower capital markets (La Porta et al., 1997) that eventually create barriers in economic development of a country like Bangladesh. Moreover, Kantor, Roberts, Salter (1995) show citing some well-known research works like Adler, Hofstede and Bond, and Jaeger that culture to be a major factor affecting the structure of business and society and, latterly, accounting. Similarly, the legal structure and the development of stock markets in a society affect its accounting and reporting structure. Although I mainly focus on Bangladesh, sometimes, I have compared legal and institutional arrangements of SAFA countries as references.

The harmonization efforts of Member countries under SAFA are still at the initial stage of development. Although SAFA can play an effective role in creating an environment of good disclosure in the region, there has been found no such an effective effort for the same. The main reason is the political indecision for other aspects of integration. There are scopes of researches to bring all the countries' financial reporting practices together to create a real reporting environment in the region. The main focus should be concentrated on the effectiveness of SAFA by professionals and politicians in the region.

Companies doing business in Bangladesh now need to follow the Companies Act 1994. Other related Acts, Rules, Orders for controlling the other types of firms are also old in fashion – for examples, Banking Companies Act 1991, Insurance Act 1938, SEC Rules 1987, Income Tax Ordinance 1984, Partnership Act 1932, etc., came into effect in different times.

It has been found that

- There are problems identified in the study that include unorganized users, fear of public criticism and more competition, minimalist policy, legacy of the past, purposive reporting, lack of professionalism, etc.
- There are so many laws to ensure transparency by disclosing necessary information in Bangladesh, but most of the laws are outdated.
- Laws can not alone bring any change if the implementation of those laws is not ensured. In Bangladesh the implementation of laws found not well satisfactory.
- If the laws are scattered, overlapping, contradictory, and less clear, the affected persons try to find our loopholes. This complicates the whole legal systems.
- Institutions were reluctant in updating, forming and reforming, and implementing laws. Some institutions abuse monopoly powers. The accountability systems are not praiseworthy.
- The shapes of the institutions and bodies regulating and overseeing market are also very old.
- Government sectors are found highly ineffective in disclosure that may cause the spread of corruption in public funding and spending.

There needs comprehensive research works for making those laws up to date. A coordination body should be formed to work on them. There should have a single set of

standards to be followed by each category of companies / firms / enterprises. All types of firms should be brought under same law. This will create a good reporting environment in Bangladesh. Importantly, the legal system should be more active so that there will be no scope of reluctance of implementation of law. The potential researchers should try to formulate a frame of simplifying the laws so that the same type of firms should follow a coordinated set of laws. Same sets of books of accounts should be kept in all the similar type of firms. This will be cost effective and minimize confusions among the firms and also among the stakeholders as well.

6.4 An Empirical Study on Transparency in Financial Reporting in South Asia with Special Reference to Bangladesh

This study aims at evaluating the whole reporting environment of Bangladesh. There are different types of firms doing business namely, government enterprises, public limited companies, private limited companies, partnership and owner-managed small and medium firms, that should be considered in evaluating the total reporting environment of Bangladesh. The study divided into two parts – description of disclosure of different types of firms by considering the observations at the time of visiting some of the samples, by accumulating research works done so far, and by going through the basic organizational structures followed. A total of 120 samples have been selected (40 from each levels) for applying UNCTAD guidelines as standards for measuring the extent of disclosure. Taken together all types of firms, it has been scientifically proved that the reporting environment of Bangladesh is not praiseworthy.

An unweighted index has been prepared to evaluate each of samples of all the three levels of firms existing in the Bangladesh market taking UNCTAD variables developed for measuring the extent of disclosure by different levels of developing country firms. The data collected have been put into the SPSS. The results reveal that the Means of the Proportion of Transparency are 0.6179, 0.2771 and 0.4806 for Level I (listed and publicly traded firms), Level II (private limited companies but not listed and government entities) and Level III (owner-managed small and medium level firms) categories of firms respectively that indicate that none of the sample companies satisfies full disclosure

criteria. Then the proportion of transparency of different levels of firms have been tested by applying the One-Sample T Test Method as we know that The One-Sample 't' Test procedure tests whether the mean of a single variable differs from a specified constant. The 't' values at .001 level of significance are -14.423, -121.886 and -22.512 respectively for different categories of firms that imply that there is no association among companies / enterprises / firms in the same category in disclosing information in their published or unpublished annual reports. We know that a low significance value (typically below 0.05) indicates that there is a significant difference between the test value and the observed mean. Again, the means of proportions of different levels of firms have been tested by ANOVA and paired sample 't' test methods to find out the association between and among the means of those proportions. All the tests clearly demonstrate that there is no systematic way of disclosure within the firms in the same level and among the firms in different levels of firms. This means that the economy, in fact, has been experiencing a type of non-disclosure culture. This leads the market imperfection, provides scopes for financial corruption, creates fears to the small-scale investors, etc. However, Level I category companies disclose more as compared to all other types of enterprise and firms. This is mainly because of the fact that there are different authorities to monitor those companies as explained earlier. The worst situation prevails in the government entities – the public sector enterprises. The overall results, however, indicate that the transparency in disclosing information in the Annual Reports of the all the three levels of categories taken together is poor in Bangladesh.

People related to accounting information and disclosure try to blame so many items for poor disclosure system in Bangladesh. But there has been found no scientifically acceptable study in identifying those causes systematically. The study accomplishes the same. The empirical results of the opinion survey indicate that legal system in terms of implementation is the main cause of poor disclosure of Bangladesh. Sixteen causes have been identified with the most important to least important reasons of poor disclosure in Bangladesh. These causes have been tested scientifically and have been found statistically valid for poor disclosure. These results will help the regulatory and policy making bodies to understand the real situation in designing financial reporting system in the country to gain the confidence of the participants in the market. The potential researchers may be interested to resolve them in the coming days.

6.5 Mandatory Disclosure by the Listed Companies in Bangladesh

The disclosure of financial information in corporate annual reports and their determinants has attracted considerable attention in the West, but, there has been much less concern in developing countries. The aim of this study is to examine critically the extent of mandatory financial disclosures by the listed companies in Bangladesh in their annual reports.

There has been found a gradual development of mandatory disclosure by the listed companies in Bangladesh as compared to previous studies by Karim (1995), Karim et. al (1998 & 2005) and Akhtaruddin (2005). Nevertheless, the disclosure level in Bangladesh is still below average (37.60%) which can not be treated as praiseworthy. The study supports the relationship between Overall Disclosure Index (ODI) and some corporate attributes that include company size, multiple listing status, year of incorporation, and having a good position in the market categorized by the stock exchanges. However, having ownership by the foreign investors and earning per share are not related to ODI which is counter-intuitive.

Citing the studies of El-Gazzar, Philip, Finn & Jacob (1999) and Ho & Wong (2001) Akhtaruddin (2005) states that disclosure decisions are culture-driven. So, creating a financial reporting culture at corporate levels should be one of the main considerations of the policy makers. Cultural factors should be brought in further researches. Much awareness programs should be worked out to understand the consequences of non-disclosure of adequate information in the annual reports.

Based on the findings of this study, let's have some specific recommendations which may be useful to the different stakeholders such as managers, financial analysts, investors, regulatory bodies, etc. for the development of the capital market in particular and economy in general:

- There should have an effective and coordinated legal system that will have less or no loopholes.
- The legal system must be clear to the market participants.
- There should have a body to upgrade the relevant laws continuously.
- The body must ensure the compliances.

- As Akhtaruddin (2005) suggests for setting a separate Board of Accounting which consists of members from ICAB, ICMAB, University Teachers, professional practitioners, business community, and government officials, etc. An accounting court may be set up to ensure the compensation to the aggrieved person.
- The accountancy and auditing professions should well be recognized by the legal system. Simultaneously, there should have corrective measures for the auditors not honoring the ethics of auditing.
- Temple (2002) suggests amendment of legislation to make Bangladesh accounting and auditing standards mandatory for all public limited companies and the establishment of Audit Committees in all listed companies having adequate shareholder participation; computerization of the operations and strengthening the office of the Registrar of Companies; the establishment of a National Accounting and Auditing Standards Board with representation from the users of accounts and regulators; the creation of a sub-professional accounting qualification; and the preparation of strategic plans to expand the output of professional accountants and auditors.
- The quality of a country's financial reporting system is determined by the incentives of those preparing the financial statements-the managers and the auditors. Improvement of the incentives and better accounting standards is a precondition for creating a culture of reporting (Ball, 2004). This is consistent with the view of Ball, Robin and Wu ((2003) that financial reporting practice under a given set of standards is sensitive to the incentives of the managers and auditors responsible for financial statement preparation.

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