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IFAC's globalisation attempts in LDCs: A success story?

In spite of the enthusiasm and eagerness demonstrated by professional institutes in less developed countries (*LDCs*) to attain global recognition, the socio-political and legal systems of these countries may still pose significant threats to the attainment of IFAC's vision for a globalised auditing profession



In 2006, the International Federation of Accountants (*IFAC*) issued seven statements of membership obligations (*SMOs*) to assist 'high quality performance by professional accountants'. The member bodies of IFAC, which includes national accountancy bodies from most of the countries in the world, were required to give their best efforts to abide by the *SMOs*, and failure to do such without satisfactory explanations would result in suspension or removal of membership. The seven *SMOs* issued by the IFAC covered areas such as audit quality, audit education, code of ethics for professional auditors, disciplinary procedures to be adopted by national auditing bodies, adoption of International Standards on Auditing (*ISAs*) and International Financial Reporting Standards (*IFRS*), and accountability and auditing in the public sector.

Like many other researchers and academicians in this area, I was also initially sceptical of the applicability of these *SMOs* in a less developed country (*LDC*) such as Bangladesh, given that these mechanisms, developed in the context of developed economies, would only work under assumptions of an efficient capital market, higher investor sophistication, and presence of effective second order institutions (*such as efficient regulators, judiciary, et al*) that would complement such governance schemes. However, a few years down the line, it appears that some of these globalisation attempts are actually pro-

ducing results that might change the image of the accountancy profession in this impoverished yet economically promising nation.

As part of Institute of Chartered Accountants of Bangladesh's (ICAB) attempts to comply with the IFAC quality control requirements, a quality assurance department has been established. Regular visits are now being made by the ICAB's quality assurance team to different audit firms across the country to ensure that their audits are of the standards set by the IFAC. The visits include comprehensive scrutiny of some sample audit working papers. This is important in the context of Bangladesh, as the poor quality of audit work performed especially by small audit firms has been a concern. Also, an audit manual has been produced and regular workshops are being arranged by the ICAB to create awareness regarding audit quality in Bangladesh. The ICAB members involved with the quality assurance programme appeared enthusiastic regarding the level of cooperation received from the audit firms.

Another significant development towards compliance with the IFAC standards has been the area of audit education and training. In 2008, a World Bank funded project helped the ICAB to enter into a twinning programme contract with the Institute of Chartered Accountants of England and Wales (ICAEW). The ICAEW worked closely with the ICAB between 2008 and 2009 to improve the curriculum, overseeing and monitoring reform in the education and training system. Once the project is completed, members of the ICAB will have the opportunity to secure memberships of the ICAEW subject to certain conditions. This global recognition has, perhaps, given the auditing profession in Bangladesh the greatest opportunity to present itself to the world as skilled, competent and ethical professionals who are capable of working in the largest audit firms and corporations in the world. This is probably the reasons why the ICAB seems to have taken this project with utmost seriousness, and decided, despite its limited resources, to continue funding the twinning arrangement with the ICAEW even after the World Bank funding stops.

Other significant developments for the profession include the adoption of the IFAC code of professional ethics, and the adoption of the IFRS. Bangladesh has been one of the very few countries in the world to have adopted the IFRS for the small and medium enterprises. This is significant for a country where the corporate sector is characterised by the presence of large number of SMEs, and will help ensure accountability in this sector.

As part of the compliance programme, every member body of the IFAC is required to submit progress report through a questionnaire response. The ICAB's sincere effort in Bangladesh implies that Bangladesh is likely to tick most of the right boxes. However, there are still a number of significant risks and challenges for implementing the IFAC SMOs. Despite the good intentions and efforts of the ICAB, the accountancy profession still has to operate within the socio-political environment in Bangladesh. This means that efforts to self-regulate the profession are still likely to be affected by the painstakingly time consuming judicial process, which would make any disciplinary actions initiated by the ICAB largely inactive.

Also, the profession has to deal with the government regulators, who are not always entirely competent, and have the knack of undermining the role of the ICAB. There was even a recent attempt to take away the standard setting powers of the ICAB, but fortunately, common sense seems to have prevailed. The high degree of ownership concentration in the Bangladeshi corporate sector is another cause of concern. Family domination in the mainstream business sector has led to the development of a corporate culture where the members of the board, generally from the same family, are not always convinced of the value of external auditing. Rather, audit is



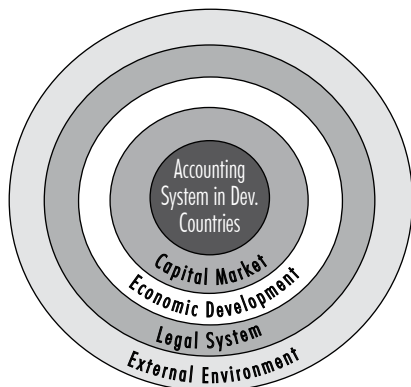
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Factors affecting adoption of IFRS in developing countries

Developing countries certainly need to have a strong capital market to adopt IFRS

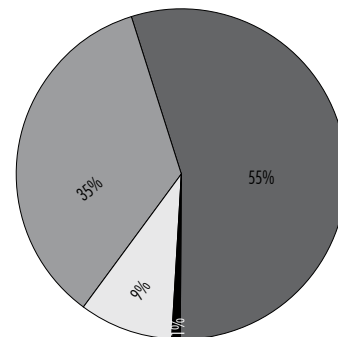


Source: VAMK, University of Applied Sciences

International Federation of Accountants (IFAC) Survey

55% of respondents said IFRS adoption was "very important" to economic growth

- 1% – not important
- 9% – somewhat important
- 35% – important
- 55% – very important



Source: IFAC

sometimes viewed as a mere regulatory requirement. As a result, the companies are not willing to pay higher audit fees, which, in turn, affect audit quality. Although the twinning project with the ICAEW will resolve some of the issues relating the quality of accountancy education, the standard of accountancy and auditing education offered at the undergraduate levels still remains a concern.

However, despite such concerns, the IFAC would be generally happy with the contribution they have made in the development of the auditing profession in emerging economies

like Bangladesh. However, as the above discussion suggests, there is still a lot to be desired. In spite of the enthusiasm and eagerness demonstrated by professional institutes in countries such as Bangladesh to attain global recognition, the socio-political and legal systems of these countries may still pose significant threats to the attainment of IFAC's vision for a globalised auditing profession. IFAC, therefore, needs to devote more attention regarding the ground level realities of these countries, and perhaps encourage further reforms to create proper environments in emerging economies for the auditing profession to be nurtured. Otherwise, the apparent progress made through the compliance programme may prove to be ineffective due to problems encountered at the implementation stages.

There were times when the Bangladesh public accountancy profession used to draw a lot of criticism from the company directors, researchers, and popular press for their perceived failure to do their job as auditors properly – the quality of audited financial statements were questionable, and the role of the ICAB in disciplining its members was challenged. Thanks to the IFAC compliance programme, the image of the profession has begun to change. The IFAC compliance programme has, at least, provided the ICAB with the much-needed impetus to change the face of the profession in countries such as Bangladesh. Bangladesh is striving to become a middle income country by 2021 and needs a strong capital market to facilitate private sector-led growth. A well-developed and skilled auditing profession is going to be one of the cornerstones to complement such growth, and the IFAC compliance programme may have given it the momentum that it needed for a long time. BPM

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