Financial Reporting Council: A Voyage towards Corporate Governance to Investors Reliance

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Prelude

The Financial Reporting Act 2015 (FRA) has been enacted in the National Parliament of Bangladesh on September 2015 for the purpose of making provisions to establish a Financial Reporting Council (FRC) with a view to improvement of 'public interest entities' financial reporting systems and overall governance. The main fundamental objectives of establishment of the FRC are: corporate financial reporting under well defined structure; setting standards for the accounting and auditing profession; and properly act as an oversight body in implementing and executing other related activities. Thus government has been established the Financial Reporting Council (FRC) on 23rd April 2016 under section 3(1) of the Financial Reporting Act 2015 (FRA) by a Gazette Notification. Hence, corporate financial reporting in Bangladesh has started its journey into a new regulatory framework. Meanwhile, on 10 August 2017 the first meeting of the FRC (as per section 9 of the FRA) was held in presence of its Chairman and Council Members. The aims of the meetings was to plan and decide its next course of action in regard to hire office premises, appointment of Executive Directors & other staffs; and initiating rules and regulations relating thereto.

The FRA has been developed from a holistic demand of all stakeholders (preparer, authenticator, regulator, standard setter) involved in the financial reporting process. This is with a view to strengthening audits of publicly traded corporations to protect investors, prevent fraud and provide a strong foundation of corporate governance for the Bangladesh economy. This would result in national level participation and contribution to ensuring a robust financial reporting system. The enactment of the FRA will strengthen the overall financial reporting infrastructure through making the professional institutes more accountable towards protecting public interest. This would also facilitate the supply of well-qualified professionals as either financial standards follower (those in service) or financial standards practitioners (those in auditing service). The FRC is expected to play a wider role through its Standards Setting Division by incorporating Financial Reporting Standards, Auditing Standards, Valuation Standards and Actuarial Standards setting within its purview. Overall the FRA aims to build and sustain the confidence of general public in the corporate financial reporting system through enforcement and monitoring of all accounting and auditing activities (Nizami, Md. Helal Uddin; Interview: **The Cost and Management**, vol. 44, no. 2, Mar-Apr, 2016).

BSEC Measures about Corporate Financial Reporting

Bangladesh Securities and Exchange Commission (BSEC) considers the Corporate Governance Guidelines, 2012. Since the guidelines, being part of listing regulations of the stock exchanges, is applicable to all entities listed on the exchanges, which include not only companies but also funds. Besides, a number of amendments have been made over the years to the Securities and Exchange Ordinance (SEO) 1969, for the greater harmonization between the provisions of the guidelines and the ordinance.

Furthermore, the 'public interest entities' financial reporting and auditing standards and others professional accounting services for the auditors- historically adopted and published by professional accountancy institutes- mainly by the Institute of Chartered Accountants of Bangladesh (ICAB). Since Financial Reporting Council

(FRC) has began its functions – the corporate reporting standards, professional accounting services and other regulatory framework shall be under the jurisdictions of the FRC. But until any similar standards are made under the framework (rules and regulation) of the FRA, stand in such a way as if these were made under the FRA (Bala, Swapan Kumar, **Monthly Review**, DSE, vol. 32, no. 8, August 2017). Thus there is no scope being in conflict with it.

Financial Reporting Council (FRC) in the World Wide

A good number of both developed and developing countries do follow identical laws and have councils or authorities to regulate the activities of the audit firms and ensure accountability and transparency in financial reporting. Table below illustrates the regulatory framework of the FRC in different countries:

Sl.	Name	Regulatory Structure	Country	Period of Establishment
01.	Financial Reporting Council	The UK Corporate Governance and Stewardship Codes	UK	1990
02.	Financial Reporting Council	It is a statutory body under Part 12 of the Australian Securities and Investments Commission Act 2001 (the ASIC Act).	Australia	2004
03.	Financial Reporting Council	Financial Reporting Act 2004	Mauritius	2005
04.	Financial Reporting Council	Financial Reporting Council Ordinance	Hong Kong	2006
05.	Financial Reporting Council	Financial Reporting Council of Nigeria Act, 2011	Nigeria	2011
06.	Financial Reporting Council	Financial Reporting Act-2015	Bangladesh	2017

The Sarbanes and Oxley Act, 2002 (USA) contains mandatory measures for Audit Committee including 'Whistle Blowing' on Accounting issues. While reviewing the same, FRC in UK, Australia, Nigeria and India (proposed), it is observed that the provisions on auditors and corporate houses to ensure professional services and corporate disciplines are implemented through the CAs, being and heads of executive departments as well as part of council of these oversight bodies. In the provision of Companies Act 2013 of India, it is mentioned that the central government may, by notification, constitute a 'National Financial Reporting Authority' to provide for matters relating to accounting and auditing standards under this Act.

In 1992, the Cadbury Committee issued the code of best practice that recommended "Boards of UK Companies"- include at least three members/directors (external/independent) and that the position as CEO and Chairperson of the board be held by different individuals. The US Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE) have recommended the establishment of Corporate Audit Committee with a view to reinforce oversight.

In Germany, the corporate structure is an example of a two-tier board structure, which is used in several others European countries. A Supervisory Board comprising mainly external members, and sometimes employees, has the highest authority and oversees the management board (Ahmed, Jamaluddin; **The Bangladesh Accountant,** Jan-Mar, 2017, p. 24).

Prospects and Challenges for the FRC

Most of the issuer company do not like to disclose the quality reports. Whereas it is the main essence of good governance - which instill investors confidence. Foreign investors and their investment decisions are also influenced by the good governance practices. So this is one of the main challenge to set out the common objectives and the way of working among the FRC members, since FRC consists of a number of policy makers, professionals and academicians from the private and public sector together to work coherently for common objectives. Moreover, the Chairman, along the members of FRC, may face a lot of pressure from various stakeholders to conform to status quo. On the other hand, any measures which increase cost of business will possibly be resisted by the corporate. Besides, the FRC has to be totally independent. It needs financial independence also. The concerned ministry will need to ensure appropriate funds to adequately equip the FRC with resources so that it can act accordingly as expected.

The FRA brings in another layer of accountability through enforcement and monitoring within the accounting profession. However, the FRC will enhance the standard of the profession and the quality of the members in the profession in anyway. There is a common perception that key to corporate governance lies in the change in mindset. Therefore, professionals and policy makers who are included in the FRC-would act constructively by using their highest level of professionalism and commitment to fulfill the public hopes and aspirations.

Conclusion

Investors are largely dependent on the audited financial statements for investment decision in the capital market. But unfortunately poor quality audits of publicly listed companies continue to plague the capital market investment, allowing misleading information, insufficient disclosures, outright frauds, eventually may cause substantial losses. Under the present scenario, users in many cases, have minimum level of reliance on these published accounts of listed companies. This mainly stems from weak governance around the practicing professional auditing firms. So investors should strongly believe that an effective FRC will ensure fairness, transparency and accountability of all information in the published accounts of listed companies and other public interest entities. This will enable informed decisions which in turn will lead to transparency within the capital market. Most importantly people can expect the elimination of ''Rumor based' trading which adversely affects small investors in the capital market. Moreover, the fundamental analysis based on audited financial statements would be helpful to reduce systematic risk and thereby contribute to stabilize the market.

Recently established FRC shall provide the opportunity to oversee public limited company audit functions and it is expected to prevent accounting fraudulence and financial jugglery. Currently the Initial Public Offering (IPO) process of BSEC is disclosure based and Corporate Governance Guidelines is not comply or explain based rather mandatory. If the FRC works effectively, all IPOs will be accompanied by useful and relevant disclosures. BSEC also plays an integral role in the financial literacy of general investors. It's 'Nationwide Financial Literacy Program'- is, of course, heavily dependent on appropriate financial disclosures. FRC, though their enforcement and monitoring, will ensure the appropriateness of these disclosures. Further, one of the Commissioners of BSEC is Member of the FRC. This is with a view to directly oversee the integrity of corporate audits and establish discipline and governance against offenders. Finally, it gives us an opportunity to contribute to the policy initiatives regarding corporate financial reporting.