Understanding the Political-Economic Impacts on Inception and Operational Effectiveness of an Audit Oversight Body: Case of an Emerging Economy

MD. ATIQUR RAHMAN*
Jahangirnagar University, Bangladesh

SALAH UDDIN RAJIB
Jahangirnagar University, Bangladesh

MAHFUZUL HOQUE
University of Dhaka, Bangladesh

Abstract: This paper aims to analyze the impacts of the political-economic setup of an emerging economy on audit oversight arrangements introduced due to isomorphic pressure. We adopted a mixture of qualitative research methods for the study. Expert interviews and document analyses were conducted. Structuration theory and, more specifically, the institutional relational dynamics framework proposed by Dillard et al. (2004) have been utilized to understand the phenomenon theoretically. We found that the Financial Reporting Council (FRC) was established in Bangladesh in 2016 within the context attributed to relatively ineffective corporate governance in the face of international and local stakeholder pressures. Financial policymakers responded strategically to the coercive pressure from donor agencies. Deviating from global practice, the majority of government nominees instead of experts have been ensured in FRC. Moreover, instead of reactivating six existing financial regulators, the government buffered the creation of FRC for a decade. Low resources have been endowed, limiting the capacity of FRC to bring about structural changes. In line with the field-level norm, the body has already become dormant and susceptible to politicization. There are few studies on audit oversight arrangements in the least Developed Countries (LDCs). Our paper addresses a unique political-economic setup influencing the effectiveness of oversight bodies. Structuration theory assists us in magnifying the scenario further. The study can determine the actual trajectory of enhancing audit quality through the audit oversight body in LDCs. However, instead of generalizing the finding, this study can be considered a case study as LDCs are unique in various characteristics.

Keywords: Audit Quality; Independent Audit Oversight; Least Developed Countries (LDC); Auditing Regulation; Structuration Theory; Bangladesh

Abstrak: Paper ini bertujuan untuk menganalisis dampak pengaturan politik-ekonomi ekonomi baru pada pengawasan pengawasan audit yang diperkenalkan karena tekanan isomorfik. Kami mengadopsi campuran metode penelitian kualitatif untuk penelitian ini. Wawancara ahli dan analisis dokumen dilakukan. Teori strukturasi dan, lebih khusus lagi, kerangka kerja dinamika relasional institusional yang diusulkan oleh

*Corresponding Author: atikais@juniv.edu

Kata Kunci: Kualitas Audit; Pengawasan Audit Independen; Negara Terbelakang (LDC); Peraturan Pemeriksaan; Teori Strukturasi; Bangladesh

1. Introduction

The quality of financial statements and statutory audits have become a global discussion center after large accounting scandals at the beginning of the millennium (Blavoukos et al., 2013). Different initiatives have been taken around the world to improve reporting quality. Independent audit oversight bodies have been created in other countries to overcome the limitations of self-regulation in the public accounting sector. Independent inspections by oversight bodies improved audit quality, particularly in some developed, regulated nations. The success of such oversight arrangements stimulated some countries to mimic the reform. Donor agencies emphasized establishing oversight bodies in the Least Developed Countries (LDCs), stimulating initiatives driven by isomorphic pressures. But in many instances, bodies established

---

1 The term originates from the notion of ‘isomorphism’ introduced by DiMaggio and Powell (1983). Institutional Isomorphism refers to the similarity of structures, practices, and processes within two or more organizations or countries. The similarity might originate from coercive, mimetic, or normative pressures.
due to coercive or mimetic isomorphic pressures could not diminish deficient audit practices. Strongly institutionalized informal practices emerging from the political-economic history of such countries resulted in the subsequent futility of transplanted arrangements.

Few exploratory studies have investigated the emergence and operation of audit oversight bodies. Moreover, very few researchers explored how the political-economic context of a country and the key institutional players, including accounting bodies and other existing regulators in relevant organizational fields, might affect the inception and operation of audit oversight bodies. We identified only three papers investigating the issue. Blavoukos et al. (2013) and Caramanis et al. (2015) examined the failure of the Anglo-American model of audit oversight in the Greek context due to conflict with local political-economic norms. Hazgui and Gendron (2015) studied how French professional accounting bodies started responding strategically to take control of the newly established audit oversight body for their interest, eventually making the oversight arrangement ineffective. However, studies investigating the development of audit oversight arrangements in developing countries remain scarce even though emerging countries differ substantially from developed economies in different aspects (Elshandidy et al., 2019).

Moreover, structuration theory (Anthony Giddens, 1976, 1979, 1984) gives a better picture of how socio-political and economic context interplay with the effective functioning of economic agents and how agents' actions subsequently contribute to the gradual alteration of the context. Later, Dillard et al. (2004) utilized structuration and institutional theories to develop a structural change framework. Though these theoretical lenses could more effectively describe the process of country context affecting audit oversight bodies, the extant literature on audit regulation and oversight is yet to apply them. This paper, therefore, aims to fill the literature gap by using structuration theory and the framework of institutional relational dynamics (Dillard et al., 2004) to understand how the dynamic political, economic, legal, and regulatory context of an emerging economy, i.e., Bangladesh affected the origin and operation of audit oversight arrangement.
Bangladesh is a non-litigious country attributed to the extended politicization of public officials (Islam, 2013; Jahan and Shahan, 2008; Huque and Rahman, 2003), bipolar neopatrimonialism (Islam, 2013; Lewis, 2011), and dysfunctional democracy (Riaz, 2014; Islam, 2013; Lewis, 2011). The case of the establishment and operation of The Financial Reporting Council (FRC hereafter) is quite interesting for detailed study for several reasons. Firstly, FRC was formed during a political government only after strong demand from the World Bank (WB), Asian Development Bank (ADB), and local investors. Moreover, it was created instead of reactivating six.\(^2\) Existing ineffective financial regulators. One of the biggest concerns of creating FRC was to bring back investor confidence in the secondary share market after a big collapse. But according to Gerboth (1973), when public confidence becomes destiny for a regulation, political issues rather than technical ones become more critical. Secondly, though government officials in Bangladesh are attributed to corruption and inefficiency (Huque and Rahman, 2003) and are subject to politicization, the Government of Bangladesh (GoB) ensures the majority of government nominees in the council. Thirdly, two accounting bodies had conflicting opinions regarding the creation of FRC. Finally, even six years after its establishment, the body is far from fully operative. The inactivity of previous regulators, followed by the lethargic operation of a newly formed body, is an interesting issue to be studied. We have set three key objectives. We tried to analyze elements of the political-economic context within which FRC has been set up. Then we attempted to recognize the contextual effects of FRC on adopting The Financial Reporting Act

\(^2\) The World Bank mentioned in the Report on Observance of Standards and Codes- Accounting and Auditing, 2015 (ROSC A&A, 2015) that Bangladesh already had six ineffective financial regulators before formulating FRC. Those are the central bank of the country, i.e., Bangladesh Bank (BB), The Registrar of Joint Stock Companies (RJSC), the Insurance Development and Regulatory Authority (IDRA), a monitoring cell of the Ministry of Finance (MoF), the Institute of Chartered Accountant of Bangladesh (ICAB), and the Bangladesh Securities and Exchange Commission (BSEC).
Md. Atiqur Rahman et Al.

(FRA), the act guiding the establishment of FRC. Finally, we narrate the aftermath of this environment.

Data for this study has been collected through document analysis and expert interviews. Though the number of experts is not very large, all are closely associated with audit regulatory reform processes, professional accounting bodies, or FRC. Structuration theory-based institutional framework for organizational change proposed by Dillard et al. (2004) has been applied to demonstrate that political-economic, organizational fields and organizations have a reciprocal rather than linear relationship. The impact of different political, social, and field level barriers on FRC, eventually audit quality, have been analyzed considering structuration theory. The theory explains how actions are facilitated or constrained by extant structure and eventually reproduce the structure creating a new context for future actions.

It is evident in the documents that though WB initially advocated for the establishment of FRC in 2003, in March 2015 (World Bank, 2015), considering the existence of self-regulatory capacity improvement of the Institute of Chartered Accountants of Bangladesh (ICAB) and high family ownership in corporations, it declared Bangladesh unready for independent audit oversight. But GoB passed the FRA in September 2015 with a provision for establishing an independent audit oversight body. Though the body was formed in 2016, the government responded strategically to pressures from international donors and local investors by keeping government nominations as the majority in the governing body. While bureaucrats and government officials are allegedly highly politicized and attributed to inefficiency, the composition made FRC vulnerable to political intrusion. The scope of politicization has also been ensured in the composition of the appellate authority. The criterion set at the political level affected resource allocation to the body.

Considering resources allocated to the other regulators, only thirty percent of human resources claimed by the organization have been approved through inter-ministerial meetings. The allocation of the conventional amount of resources in the moment of evident ineffectiveness of previous regulators due to resource scarcity indicates the intention of the political-economic level to prevent the body from taking innovative
regulatory measures. The political-economic context of low corporate governance, partisan intervention, and allocation of scarce resources may prevent the body from taking appropriate disciplinary actions. Such incapacity, when communicated, can reinstate auditors’ stock of knowledge regarding regulatory ineffectiveness and influence the resource allocation of auditors. Auditors may deploy more resources to gain political support than to enhance the quality of audits. As mentioned earlier, the political-economic context adversely affects the organizational field composed of financial regulators.

The ineffectiveness of six existing financial regulators has been noticed in various platforms (e.g., World Bank, 2015). A few studies investigated such ineffectiveness concerning the political-economic context (e.g., Siddiqui, 2010). It can be reasonably postulated that ineffectiveness at the field level can affect the performance of FRC, as field-level coordination is obligatory for effectiveness. Contextual effects on FRC are already evident; the body is dormant even six years after its inception. Moreover, it is already facing political pressure while making decisions. Audit practitioners, too, are informed of such incidence and expressed apprehension.

Our findings have immense implications for global financial policy-making and beyond. It narrates how the mere establishment of regulatory bodies may remain rhetorical and fail to establish fair regulatory practices. The extant political, economic, and sociological structure highly influences practices. Such strong forces must be considered while making policy recommendations. This reality demands attention from reformation agents, including donor agencies. The paper also adds to the accounting and auditing literature by presenting strategic responses of politicians of a dysfunctional democratic country to coercion for policy reforms.

The rest of the paper has been arranged as follows: Sections two and three focus on audit quality in Bangladesh and literature on the emergence and impact of independent audit oversight arrangements. Section four discusses the theoretical framework followed by the methodology in section five. The sixth segment presents findings, while the seventh concludes the paper.
2. Audit Quality in Bangladesh

There has been trivial research on auditing in Bangladesh (Siddiqui et al., 2009). Auditing researchers thus always depended highly on Reports on Observance of Standards and Codes- Accounting and Auditing (ROSC A&A report) of WB. WB published three such reports in 2001, 2003, and 2015 respectively, pointing out accounting and auditing standard implementation, stakeholder perceptions, and policy recommendations. ROSC report of 2003 identified the weak capacity of ICAB, lack of guidelines for quality audit, weak training opportunities, absence of enforcement, and most importantly, low demand for quality audits as major concerns for effective audits. But in 2015, WB appreciated the quality improvement initiatives of ICAB but expressed concern about low audit fees resulting from a lack of governance in family-owned companies.

Among academic scholars, Siddiqui and Podder (2002) studied the effectiveness of bank audits in Bangladesh. They questioned the competence and independence of auditors as they found significant understatement of provision for bad or doubtful loans having little or no effect on auditor reports. Sen and Bala (2002) reported in the case of non-obligatory tax audits that unless compensated through high fees, auditors are unwilling to take on clients because of higher risk emanating from independent inspection by tax officials. Karim and Zijl (2013) found that higher quality auditors are appointed by a company if there is CEO-Chair duality, more audit risk, and high institutional and foreign ownership. Sponsor and government shareholding and audit complexity were irrelevant to auditor quality choice. Habib and Islam (2007) attributed Bangladesh as a non-litigious country with low monetary and reputational risk of auditors in case of audit failure. As of 2001, there has been no evidence of litigation against auditors in Bangladesh. WB reported it to have happened due to low expectations from the profession and insignificance of audit reports rather than due to sophisticated technical abilities and ethical standards of auditors (World Bank, 2001 as cited in Siddiqui et al., 2009).
3. Emergence and Impact of Independent Audit Oversight Bodies Globally

Audit quality became a central issue after corporate collapses at the beginning of the century (Blavoukos et al., 2013). Stringent rules of financial reporting and auditing were initiated in response. Independent audit oversight bodies such as PCAOB (USA), POB’s AIU (UK), and AOA (Germany) was created with an expectation of improvement in audit quality. Singapore and Japan were the pioneers in establishing oversight bodies in Asia. Sri Lanka, Indonesia, Malaysia, and Thailand adopted such arrangements later. India has published a rule to establish NFRA, an independent audit oversight body. Due to demands from investors and other stakeholders (Habib, 2019; World Bank, 2003, p.12) and in line with the global ‘trend’, the Government of Bangladesh passed FRA in September 2015 and created FRC in 2016 though one professional accounting body resisted strongly (Siddiqui, 2018; Bala, 2017; World Bank, 2015). Though the ROSC report of 2003 set in motion the creation of FRC, it took a decade for the body to be legally formed in 2016.

Independent regulatory bodies impacted audit quality in the expected direction in some countries. Academic literature has focused mainly on the USA while evaluating the effects of such arrangements. Though peer review under self-regulation in the USA has been claimed to provide credible information about quality (Hilary and Lennox, 2005), firms choosing their reviewers tend to receive peer review reports more favorably than subsequent PCAOB inspection reports (see Anantharaman, 2012). Later, PCAOB inspections improved audit quality as depicted in reduced earnings management by clients (Carcello et al., 2011), small auditors providing inferior quality audits exiting the market (DeFond and Lennox, 2011), and a higher probability of issuing going concern opinion (Lamoreaux, 2016; DeFond and Lennox, 2011).

The full potential of such regulatory reforms could not be realized in some countries. Examples of such countries include France and Greece. Llewellyn (1998) found in the case of France that professionals engaged themselves in strategic behavior or boundary work like downplaying the need for regulatory change, withholding information, and finally managing membership in multiple committees of the oversight
body to gain control over the body. Boundary work eventually affected the independence of the body from the profession. As evidenced by Caramanis et al. (2015) and Blavoukos et al. (2013) in the case of Greece, mimicking successful reforms without considering the local historical and socio-political context in countries characterized by clientelism led to subsequent inertia to make reforms effective.

Some Asian countries could utilize the transformative potential of independent oversight, while the arrangement became rather decorative in some. OECD-Asian Roundtable on Corporate Governance, 2019, held on 27-28 November (Auditing and Accounting in Southeast Asia), present prospects and challenges of some Asian independent audit oversight bodies. Referring to the CG Watch report of 2018, they attributed the Audit Oversight Board (AOB) of Malaysia and the Accounting Corporate Regulatory Authority (ACRA) of Singapore to be proactive in improving audit quality. On the other hand, the Indonesian oversight body has reported the lack of disciplinary actions emanating from resource scarcity. Ismail and Theng (2015) analyzed discretionary accrual data for four years, including two immediate years after the inception of AOB; Malaysia also evidenced slight improvement in audit quality in that short span. NFRA in India, though yet to be functional, has not been welcomed warmly by the auditing profession (Siddiqui, 2018). Such a stance of the professional body of auditors can be a barrier to the successful operation of the oversight body.

The potential impact of regulatory change in Bangladesh on audit quality can be a significant question of study as Bangladesh is a country attributed with bipolar neopatrimonialism and clientelism (Islam, 2013; Lewis, 2011), extended politicization of government officials and bureaucrats (Islam, 2013; Jahan and Shahan, 2008; Huque and Rahman, 2003), and dysfunctional democracy (Riaz, 2014; Islam, 2013; Lewis, 2011) though independent oversight arrangement was expected to reduce audit expectation gap (Siddiqui et al., 2009). Moreover, with weak institutionalization (Lewis, 2011), clientelism in the political system, and reform capacity problems (Lewis, 2011; Chowdhury, 2002), Bangladesh can be termed a delegative democratic country. Though centralized bureaucratic systems from colonizers favor adopting accounting-related practices in LDCs (Rajib et al., 2019; Adhikari et al., 2013), many successful institutions
of developed countries are mimicked by delegative democratic countries (O’donell, 1994). But formal institutions transplanted therein are eroded afterward by informal and deep-rooted practices (O’donell, 1994).

4. Theoretical Underpinning

The structuration theory proposed by Anthony Giddens (1976, 1979, 1984) is our study’s key theory of concern. The theory has also been effectively employed in accounting, control, and auditing (Dillard and Yuthas, 2002). Giddens proposed that actions by an agent can be predicted or influenced only if the socio-cultural contexts are well understood. Actions are facilitated or constrained by extant structure, which eventually reproduces the structure creating a new context for future actions. This sociological concept of duality of structure has later been well applied by Dillard et al. (2004) in developing an institutional model of organizational change. We have also shed light on the framework since the focus of the framework is more closely related to our area of study.

Structuration theory describes the process of change in structures, the key element of institutional theory, through the actions of knowledgeable agents (Dillard et al., 2004). Structures are rules-resource sets that stay as memory traces and set the context for actions (Dillard and Yuthas, 2002). Rules can be interpretative or normative, whereas resources are authoritative or allocative. Interpretative rules facilitate communication through symbolic sense-making and create a signification structure. Signification structure results in communication among actors through formulating a stock of knowledge. Norms and values are represented as a legitimation structure, whereas control over physical and human resources is a domination structure. Legitimation structure, on the other hand, determines rewards and sanctions for particular actions by defining the rights and obligations of actors. Finally, domination structure, by defining control over resources for goal attainment, ultimately defines the power and control of a particular agent. Legitimation, signification, and domination structures affect one another. Sanctions/rewards, power and control, and actors' communication also affect one another. The interactions (sanctions/rewards,
power/control, and communication) and structure components also affect one another through the modalities.

Figure 1:
Structuration Theory (Adopted from Dillard and Yuthas, 2002)

One example, a detail of which can be found in Bala (2017), in the context of the auditing sector of Bangladesh, might clarify the components of the theory. Before the enactment of FRA, only the members of ICAB were entitled to conduct a financial audit in Bangladesh. Members of the only other significant group of professional accountants, i.e., the Institute of Cost and Management Accountants of Bangladesh (ICMAB), could
only conduct cost audits which are not mandatory for the corporations operating in the country. The accounting codes (signification structure) included such provision that allocated financial resources to be generated from financial auditing services (domination structure) solely to the members of ICAB, i.e., the Chartered Accountants (CAs). The CAs and the corporations accepted it as a norm (legitimation structure) for a long time. The sole control over financial audit service fees (Resource control facilities for attaining goals) made ICAB the country's most powerful (Control and Power) accounting body. Accounting codes giving sole right financial auditing rights to CAs created a stock of knowledge and interpretation in the auditing sector (Interpretative scheme and stock of knowledge), which was communicated to different actors in the field. The accepted norm of financial auditing to be conducted by CAs established the auditing rights and obligations of the CAs. The monopolistic nature of the industry reduced the propensity of sanctions against CA for misconduct (Sanctions and Rewards).

However, for successfully implementing a regulatory artifact, only initiating the rule does not suffice (Dillard et al., 2004; Dillard and Yuthas, 2002). A change in regulation (e.g., setting up an audit oversight body) to sustain must be supported by a parallel change in norms, values, and interpretations unless agents are coerced through sanctions to comply with the regulatory requirements (Dillard and Yuthas, 2002). Moreover, resources and rules must have a continuous and consistent interaction. Rules unsupported by resource allocation eventually fail to bring structural change. Both normative and interpretative rules are prevailing schemas that must be operationalized through resource allocation and vice versa (Sewell, 1992, as cited in Dillard and Yuthus, 2002). In the case of alteration of rules unsupported by consistent cognitive change of agents, the absence of sanctions stands in the way of structural change as the non-existence of sanctions gets communicated and subsequently changes agents' interpretation of rules. Control over resources (power) also may provide scope for influencing sanctions. Such exercise of power gets communicated and changes the signification structure.
This paper also utilizes the institutional model of organizational change developed by Dillard et al. (2004) to recognize that the political system, institutionalized ineffectiveness, and political leaning of existing regulatory bodies may affect newly formed FRC. The framework better depicts how contextual features get transmitted to organizations working within the context and vice versa. It elaborates on how political and economic criteria shape practices in the organizational field and, eventually, the organizations. Based on the concept of duality of structure, the model also recognizes that innovative practices by organizations like FRC can lead to structural changes in the organizational field and economic & political levels.

Before presenting their framework, Dillard et al. (2004) elaborately discussed a framework proposed by Burns and Scapens (2000). Burns and Scapens focus on management accounting change at the organizational level and recognize that rules and routines have a reciprocal instead of linear relationship and institutions are routine sedimentary processes followed. Dillard et al. (2004) extend the study by incorporating three levels of social relationships, namely political-economic level, organizational field level, and organizational level. Norms and values are generated and disseminated from the political-economic level. Norms and values, subsequently rules, are affected by the
relative power of different stakeholders at the political-economic level. The organizational field transforms the socio-political norms and values so developed into field-specific directions, which individual organizations within the field later follow. The framework recognizes the possibility of alteration of an institution through resistance or conscious efforts of well-informed organizations. Within a highly institutionalized environment, not all but a few organizations (innovators) may resist. Their innovative practices may modify the field-level criteria and practices and, eventually, the political-economic context. But the framework also identifies that innovative practices can be constrained by organizational field-level practices or even higher-level factors.

Understanding the context within which FRC works is key to understanding the potential effectiveness of the body in improving audit quality. Our paper sheds light on field-level practices and political-economic criterions constraining innovative practices. FRC must overcome the institutionalized notion of the ineffectiveness of financial regulators in Bangladesh and will have to act as an innovator in discarding institutionalized practices. Structuration theory will assist us in evaluating the potential effects of contextual impediments constraining FRC from bringing structural changes.

5. Methodology

Qualitative research methods have been used for our study. Expert interviews were arranged to collect data. FRA, WB reports, International Forum of Independent Audit Regulators (IFIAR) publications, research papers, interviews of FRC chairman and members, expert articles in daily newspapers, and relevant websites were scrutinized as secondary data sources.

Fifteen semi-structured interviews were arranged with 13 experts selected through judgment sampling. Key personnel from FRC, ICAB, and ICMAB were interviewed. CA firms’ partners, directors, and managers were interviewed to understand auditor reactions to FRC. Two prominent political scientists and a retired secretary of GoB were also interviewed. A detailed list of respondents has been provided in Appendix A. Most of the respondents were interviewed face to face. The duration of the interviews ranged
from 25 minutes to 2 hours. Conversations were recorded with the permission of respondents. Interviews were initially conducted in Bengali and translated into English later.

As semi-structured interviews were conducted, diverse issues emerged during long discussions. While interviewing personnel from FRC, we tried to emphasize their progress of activities, political intervention encountered, IFIAR membership, and coordination with other regulators. All the public accountant respondents were asked, "FRC is empowered to sentence five years of imprisonment to auditors. How do you think the provision might affect audit quality?" Political scientists provided strong insight into political strategies used by Bangladeshi politicians to make global reform suggestions. An interview with the retired secretary of GoB was arranged to understand the government's point of view. A sample of key questions asked to one expert has been provided in Appendix C for reference.

6. Findings and Discussion

While analyzing the potential effectiveness of an oversight body, different contextual issues at socio-historic and organizational field levels must be analyzed. We emphasize contextual issues like lack of corporate governance, the culture of political intrusion and low resource endowment, and the dysfunctional organizational field, which may impede the disinterested operations of FRC. Finally, we analyze symptoms of potential ineffectiveness of the body.

6.1. Political-Economic and Field Level Context for FRC

6.1.1. Culture of Political Intervention:

Political parties have always tried to politicize independent bodies in Bangladesh. Partisan appointments in regulatory bodies are not surprising as a result. Public personnel, especially bureaucrats, have gone through extensive politicization during the democratic regimes since the independence of Bangladesh (Islam, 2013; Jahan and Shahan, 2008; Huque and Rahman, 2003). Partisan appointments in key positions are outcomes of such politicization. Though partisan appointments are quite prevalent in developed countries (Jahan and Shahan, 2008), unlike neo-patrimonial states with

6.1.2. Absence of Corporate Governance:

Notions of weak corporate governance, like lack of board independence (Abbott et al., 2001), audit committee ineffectiveness (Al-Ajmi, 2009), and family ownership (Ho and Kang, 2013), restrict audit quality. IFIAR states in its' core principles that independent audit oversight arrangements will be fruitful only if a well-structured legal and corporate governance framework is prevalent. Family firms tend not to hire top-tier firms as less severe agency problems between owners and managers prevent them from paying higher fees for better-quality audits (Ho and Kang, 2013). Corporations in Bangladesh are attributed to very high family ownership (World Bank, 2015, p. 14; Parry and Khan, 1984), negatively affecting governance and demand for quality audits. Though GoB adopted regulations to improve corporate governance, non-compliance remains high (Siddiqui, 2010).

We find that the dominance of family ownership in Bangladesh significantly affects the quality of audits, especially pre-IPO audits. In the opinion of an audit partner and an executive director of FRC, pre-IPO firms tend to select small audit firms for their IPO valuation to influence valuation. The ED (FRC) explicitly mentions a case of a large family-owned corporation getting IPO audit service from a small audit firm while the company typically delegates audit works to large firms. Partner of a large CA firm states:

\[...\] Once we had to withdraw from an IPO engagement .... The client asked to be irrationally flexible about reporting over-valuation and cash transactions beyond the allowable limits.
This institutionalized practice, the poor audit quality choice of many listed companies, and a culture of non-compliance with regulations, if not eradicated before establishment, can threaten the effective operation of FRC. Auditing nowadays is a commodity, and firms are forced to compete for the price (Dillard and Yuthas, 2002). Hence, even in independent oversight, at least during the early days of FRC, why would companies seek to pay higher fees? And why would auditors not try to get work compromising quality if necessary? Extant signification structure that regulations are rather decorative and regulatory bodies are ineffective may influence audit quality choice. The norm of non-compliance has already developed a domination structure where authoritative and physical resources are controlled not by the regulators but by the families’ possessing corporations.

6.1.3. Culture of Low Resource Endowment to Regulatory Bodies:

As noted by O'Donnell (1994), many successful institutions of developed countries are mimicked in delegative democracies, but later those formal institutions are eroded by informal and strong practices. Bangladesh has also experienced an erosion of numerous formal institutions, including several concerning financial reporting. Six other regulators assume the role of observing and enforcing financial reporting regulations, but none are functional (World Bank, 2015, p. 10). Moreover, FRC has boosted investor confidence (Habib, 2019; Siddiqui, 2018; ICMAB, 2017). When public confidence becomes destiny for a regulation, political issues, rather than technical ones, become more critical (Gerboth, 1973). Low resource endowment to the regulatory bodies, along with politicization, assists in eroding the potential of the bodies to bring structural changes. The issue of the paucity of resources of the financial regulators has come out through a comment of the BSEC commissioner:

[...] We severely lack human resources here at BSEC. Bureaucrats are unwilling to appoint technical people, which is not the case while appointing bureaucrats. I do not think FRC will face something exceptional.
6.1.4. Challenges for FRC at the Field Level:

We consider that the financial reporting regulators, namely the Registrar of Joint Stock Companies (RJSC), BSEC, Central Bank, Insurance Development and Regulatory Authority (IDRA), ICAB, and the Monitoring Cell of the Ministry of Finance, constitute the organizational field for FRC. The National Board of Revenue (NBR) is also a substantial user of audited financial statements. Though a coordinated effort is inevitable among the regulators, there remains trivial (World Bank, 2015, p. 30). Moreover, the bodies' capacity is also questioned (World Bank, 2015, p. 54). Sakib (2020) finds in the case of the Anti-Corruption Council (ACC) of Bangladesh that patronage-based politics, ‘iron triangles’ of business, bureaucratic, and political elites, the strategic response from policymakers, and capacity problems imposed on regulatory bodies prevent regulatory agencies from being effective. Lack of coordination among bodies involved adversely affects the attainment of anti-corruption goals. These issues are all relevant to the financial regulatory environment as well. In the financial sector, the political-economic context has affected the field adversely, resulting in field practice (POF) of incompetence, non-cooperation, and futility. Similar field-level criteria (COF) have also been established, which will eventually affect the functionality of FRC.

FRC must ensure cooperation from other regulatory authorities to ensure quality audits. For example, all the companies (listed or not) in Bangladesh submit audited financial statements to RJSC. FRC, ICAB, and RJSC must work together to ensure companies do not submit fake audit reports. Due to a lack of coordination and effectiveness at the field level, many fake reports already exist. ED of IDC says,

[...] Approximately 70,000 audited financial statements were submitted to RJSC last year. In contrast, the total number of clients reported by audit firms is 16,000 [...] Either companies submitted fake reports or firms underreport several clients [...] Anomalies cannot be detected, let alone prevented without coordinated efforts.

While coordination with other regulators is obligatory for improving audit quality, the immobility of other regulators can stand in the way of developing innovative practices at the organizational level. Long, severe conflict of interest between two dominant groups of accounting professionals (ICAB and ICMAB) regarding oversight
arrangement (Bala, 2017) makes coordination more challenging. The bodies may engage in boundary work for control over FRC in the new regulatory space. Competition for control over FRC can counterintuitively impact the quality of statutory audits. Lack of coordination and cooperation among regulators may restrict sanctions too. Communication can validate the existing knowledge about regulatory ineffectiveness and reinforce the extant structure of non-compliance with audit quality requirements.

6.2. Contextual Impacts on FRA and FRC

6.2.1. Passage of FRA Buffered for a Decade:

A sluggish response is a widely used strategy to avoid isomorphic pressure. Bala (2017) conducted a longitudinal study on the adoption of FRA and the establishment of FRC. An analysis of the literature shows how GoB buffered the passage of FRA. The need for adopting FRA and establishing FRC was first emphasized in ROSC- A&A report of WB in 2003. ADB identified the need for strengthening accounting oversight later in 2005. The first regulation was prepared in 2008 under a caretaker government. In a response that was not passed in the parliament in subsequent political regimes. Draft FRA was prepared twice afterward (in 2010 and 2013) but remained unimplemented due to resistance from auditors. In November 2014, the cabinet approved a bill on FRA and placed it in the parliament in January 2015. But due to disagreement among professionals about the creation and disciplinary power of FRC, the draft act was ‘sent back and forth by parliamentary standing committee’ multiple times (Siddiqui, 2018). Finally, FRA was published in September 2015. Such sluggish adoption indicates the unwillingness of GoB to initiate change.

6.2.2. Composition of FRC: A Notion of Possible Political Interference?

There is a significant difference between FRO 2008, the bill on FRA 2015, and FRA 2015 as to the composition of FRC. All the proposed compositions differ considerably from the ones suggested by global bodies. A Comparison of compositions

---

3 Caretaker Government: In the electoral system of Bangladesh, Caretaker Government is a non-partisan government appointed to conduct a fair election between the interim periods of political governments. It should be noted that the system is abolished now.
is given in Appendix B. One of the factors affecting such composition was the negotiation of ICAB and ICMAB with the government (Bala, 2017). At the same time, the former secretary of ICAB states in favor of expert-based FRC, the ex-president of ICMAB, points out the drawback of such a formation.

[...] Tension was growing in ICAB about the recognition of ICMAB members as financial auditors and the council composition [...] We always wanted the FRC, if created, to be formed of experts. Ex-secretary, ICAB.

[...] You might ensure the apparent independence of audit experts from the professional body, but ensuring independence, in fact, is quite challenging. Ex-president, ICMAB.

Though the FRC structure under FRO 2008 and FRA 2015 differs significantly from the one suggested by WB, the deviations inherently differ. FRO was passed during a military-backed caretaker government 4 Whereas FRA was passed during a political government. During the military-backed caretaker government period, several populist initiatives were taken against corruption; a demonstration of fair treatment was also exhibited (Sakib, 2020; Rajib et al., 2016). Not surprisingly, FRO inserted four executive officers and two professional accountants in the governing body. No voting rights were given to executive officers to exhibit operational independence from professionals. On the other hand, FRA gives eight voting rights to the government nominees in a body of twelve to ensure control over it. Unlike FRO, FRA disregards WB’s suggestion to nominate independent competent professionals (World Bank, 2015, p. 52) and violates IFIAR principles of operational independence and competence (principles 2 and 5). The domination of non-accountant government nominees has brought the capacity of FRC to improve audit quality and restore investor confidence

4 Military-backed Caretaker Government: Though the caretaker government's tenure was 120 days, the third caretaker government of the country exceeds the period, which is done with the association of the country's military. The third caretaker government was from January 11, 2007, to December 29, 2008, and this interim government is known as the 'military-backed caretaker government'.

under serious question (Siddiqui, 2018). On the other hand, though it may appear straightforward that the army-backed caretaker government intended to strengthen the regulatory framework, political scientists attribute such measures to the legitimacy-seeking behavior of undemocratic military rulers. A political scientist says:

" [...] The military-backed caretaker government tried to legitimize themselves [...] FRO was a populist measure taken with mass investor acceptance in the head. The intent of their admired measures is mostly questioned."

Since the independence of Bangladesh, bureaucracy has gradually shifted to a strategy of political affiliation rather than confrontation to exercise power. Huque and Rahman (2003) identified post-retirement contractual appointments of bureaucrats as a symptom of the alliance between politicians and bureaucrats. Consistent with their finding, a non-accountant retired secretary (retired on July 08, 2015) has been appointed as the first chairman of FRC. Though the chief of audit oversight bodies often does not have accountancy qualifications, the appointment of a retired bureaucrat supports the argument of Huque and Rahman (2003) and raises the concern of political intervention. While discussing the appointment of the Chairman, a national accounting policymaker calls into question the possible effectiveness of FRC:

" [...] though we expect change through FRC, how can it be operative with a retired bureaucrat appointed as Chairman in recognition of loyalty to the government?"

Section 54 of FRA discusses the structure of the Accounting and Auditing Appellate Authority, a body with authoritative power to resolve appeals against decisions of FRC. Interestingly, FRA explicitly mentions being a 'retired secretary' as one of the qualifications to be the authority's Chairman. No other profession has been mentioned. This further reveals the alliance between bureaucrats and politicians and exemplifies the claim of Huque and Rahman (2003). Section 6(1) indicates the government's intent to control the body. The section states that government nominees cannot be removed from FRC for incapacity or absence. However, this is not the case for other members.

A retired secretary, later re-appointed by the government, states that acquaintance with the administrative procedure and more accountability to the government make bureaucrats and government officials more eligible for appointment in independent
bodies. In his opinion, handsome remuneration makes some government officials keen to be appointed to independent bodies. He justifies the appointment of government officials rather than independent experts:

[...] ‘Independent’ experts are rarely independent in Bangladesh. They are rather political appointees with little acquaintance with administrative procedures. Once appointed, they become uncontainable.

Statements of the bureaucrat recall the relationship between the bureaucrats and the politicians and support the claim of Jahan and Shahan (2008). While the bureaucrat attributes the selection of 'independent' experts as highly influenced by political-economic structures, a political scientist characterizes the empowerment of only bureaucrats in every sphere as civil populism.

[...] Lately, there has been a massive promotion of bureaucrats and armed forces by the government. The ruling party knows who should be kept contented to stay in power.

As we can explain using the framework of Dillard et al. (2004), the politicization of the council originates from neopatrimonialism and dysfunctional democracy at the political-economic level, which results in dysfunction at the organizational field level and is expected to affect FRC eventually. Though, as per the framework, innovative practices of FRC as effectiveness in improving audit quality can have a positive impact moving to upper levels, we find that bureaucratization of the council prunes the bud by making the body susceptible to political intervention. According to structuration theory, the norm of the political structure of the oversight body can have a multiplicity of impacts on the statutory audit industry as well. While this arrangement was long demanded improvement in audit quality, the current structure of FRC may change the domination structure within the audit industry by empowering the politically influential firms. The political affiliation rather than audit quality of firms may become more relevant to determine disciplinary actions of FRC. If such biases of FRC originate, they will be communicated, changing the legitimation structure. As audit firms redeploy resources to consider stakeholders if their belief is influenced (Dillard and Yuthas, 2002), rather than striving for quality, firms may attempt to gain political power.
6.2.3. **FRC in a lethargic motion**

The first appointment of any executive (i.e., Chairman) was made fourteen months after FRC was established. The first council meeting was held eighteen months after its establishment but before the council was fully formed (Bala, 2017). The sluggish operation of FRC was further evident when the ED (Audit Practice Review) appointment was made in late 2019, eighteen months after the advertisement for the post on June 25, 2018.

FRC has four operating arms (i.e., standard setting, financial reporting monitoring, audit practice review, and enforcement). For any division to start working, appointing a divisional chief executive (i.e., Executive Directors) is the foremost step. But no ED of the enforcement division has been appointed till September 2020. This indicates the possibility of no legal enforcement by FRC itself. Besides, of 218 staff proposed in the initial organogram, 60 and 15 are required for audit practice review and enforcement, respectively. Fewer than five appointments have been made in these departments to date.

In March 2019, FRC Chairman identified regulations as a stepping stone for operation and expected to prepare rules by September 2019 (Habib, 2019). But four years later, no regulation has been published yet. Moreover, seven years after its establishment, FRC has yet to join IFIAR. IFIAR membership is given only if certain pre-conditions necessary for effective operation are met.

Even if the inception of FRC created concern for audit quality, at least among some firms, the operational inertia of the body might change the interpretation of the arrangement. New legitimation may prevent firms from allocating resources for quality enhancement resulting in the reinstatement of the pre-FRC structure. Moreover, the operational inertia of FRC can partially restore dependence on ICAB for disciplinary actions resulting in the reinstatement of the pre-FRC domination structure.

**6.2.4. Political Intrusion:**

In LDCs, political intervention in regulatory bodies is evident (Sakib, 2020). Consequently, regulatory bodies often act for political motives. Experts' opinions indicate Tension among the stakeholders regarding political intervention in FRC.
Respondents fear that the main challenge for FRC is yet to come but will be evident once it operates in full swing. It is likely that when FRC tries to take action against firms after inspections, it will face severe political disruption. The ex-Chairman of FRC acknowledged the possibility of facing political influence in an interview with a prominent national daily (Habib, 2019). An incidence of political pressure has already been exposed to the audit industry. An audit partner conveys:

[…] an ED of FRC has already been reprimanded by the Chairman for issuing a letter to a firm. One of the firm partners who had strong political affiliations felt embarrassed just for a letter. Think how challenging the situation will be for FRC when it starts taking disciplinary actions!

Coincidentally, the ED we interviewed is the one who intervened. He conveyed that a minister called him over the phone to clarify the position of an audit firm and insisted on letting the issue go. The ED states:

[…] Mr. Minister said that he knew the key partner of the firm as quite a nice person […] He requested to handle the case gently.

Dillard and Yuthas (2001) state that responsibility ethic that responses to actions create a context for future actions, and such responses make an agent concerned about being accountable to the ongoing community in the future. Adverse responses from the political domain, if continued, hence may influence future disciplinary actions.

6.2.5. Resource Scarcity at FRC:

FRC initially submitted a requisition for five hundred staff. After several interministerial meetings, an organogram with just 150 staff has been approved. The number has been determined after analysis of the workforce of other regulatory bodies. ED (FRC), though contented with the quality of appointments, expressed concerns about low human resource endowments to the body. As limited human resources have been approved, the staff appointed must be highly efficient. But the existing compensation package offered is far less than lucrative for qualified accounting and information technology professionals.

[…] Qualified professionals have very high financial opportunity costs. We must change our salary structure. Says ED (FRC).
As Dillard et al. (2004) explain about structuration theory, socio-historical contexts formulated through the relative power of different parties play a significant role in formulating rules and eventually determining resource allocation. Such resource allocation later reinforces the extant structure. In the case of FRC, approval of inadequate human resources will also stand in the way of effective operation as the number has been determined to make the body parallel to other regulatory bodies. The WB has marked these organizations for ineffectiveness in regulating the financial sector. Thus, the allocation of scarce human capital will only reinforce the extant structure of regulatory inefficiency, preventing FRC from being an innovator in the field. Swell (1992), as cited by Dillard et al. (2004), states that resources can be “read like texts” to understand the rules being implemented. Allocation of human resources based on trend analysis depicts the unwillingness of the political-economic level represented by different ministries to empower FRC to initiate change in the regulatory regime. The statement of one secretary we interviewed can be quoted as follows:

[....] look, as secretaries have good affiliation with the top authorities
[....] it's comparatively easy for them to influence to manage the resources.

The statement again brings up the relationship between bureaucrats and politicians and the top executives’ reluctance to manage the resources.

6.3. A Summary of Strategic Response of Politicians

Oliver (1991) explains possible responses to isomorphic pressures. An institution may acquiesce, compromise, avoid, defy, or manipulate in response to pressures. As evidenced by Sakib (2020), in the Anti-Corruption Commission of Bangladesh (ACC) case, GoB took a long time to pass the bills and form the commission. Later, GoB weakened the commission through biased appointments. Through avoidance and manipulation, the government could exhibit compliance with isomorphic pressure while the compliance was ceremonial. Compliance with donors' conditionality to establish such a commission was inevitable to avail subsequent financial support (Parnini, 2011 as cited by Sakib, 2020), especially because donors can merely distinguish between genuine and ceremonial adoptions (Sakib, 2019).
The process of establishing FRC paced up after it was strongly recommended in the ROSC report of 2003. The pressure intensified after one of the largest stock markets collapsed in 2009. But as seen throughout previous sections, politicians of Bangladesh have always responded strategically to the isomorphic pressures from donor agencies and investors. Strategies identical to the ones mentioned by Sakib (2020) in the case of ACC have been adopted. Such avoidance and manipulation strategies include sluggish adoption of FRA and operation of FRC, hampering the council's independence through deviating from the suggested formation of the council and delegating resources inadequate for an effective operation.

Though donors often cannot distinguish between ceremonial and genuine compliance, this has not been the case for FRC. Though WB initially recommended the creation of FRC, in the report of 2015, it suggested that FRC be established only if all the pre-conditions and principles of IFIAR are met. WB also expressed concern that a government agency so formed may create a bureaucratic ambiance and deteriorate the pace of improvement of the audit profession (World Bank, 2015, p. 52). Even though ROSC A&A Report 2015 was published in March 2015, six months before the passage of FRA, the government strategically avoided the suggestions as investor demand for the such body was high. As in the case of ACC (Sakib, 2020), FRC was created later in 2016 with no political will to make it effective. A political scientist specializing in isomorphism states:

[…] Isomorphism can bring regulatory success only if there is political will for progress. Participatory electoral and parliamentary practices are inevitable for bringing political willingness for progress. Unfortunately, these pre-conditions were rarely present in Bangladesh. […] Numerous regulatory bodies have thus been created to exhibit compliance only.

6.4. Auditing Community Response to New Regulatory Arrangement

Tension in the audit community is found in our interview regarding the formation of FRC. Audit firms are yet to respond to independent oversight arrangements. But respondents from the auditing community believe that once FRC starts operating in full
swing, larger firms rather than the small ones may respond more promptly as they have ‘more to lose’.

"[...] We have at least more reputation for being concerned of." -Says the director of a top firm.

Large firms are proactively considering their possible strategic responses to the higher risk of punitive actions. In the opinion of respondents from large firms, such strategies include plans for indemnity insurance, reducing the number of audits and focusing on consultancies, and accepting clients with higher fees. The strategy of accepting clients only at higher fees due to the higher risk of disciplinary action by a regulatory body was evidenced by Sen and Bala (2002) in the case of tax audits in Bangladesh. Firms need to charge more fees to increase their audit efforts. A high fee requirement can be explained as compensation for increased effort and higher audit quality. But policymakers must be concerned if big firms stop auditing due to higher litigation risk; small firms with little capacities start auditing those large clients. Instead of increasing, the audit quality may decline in that case. More reliance on indemnity insurance can also have a counterintuitive effect.

Respondents also believe that many small firms provide audit reports at impractically low fees and, in some instances, even without conducting any audit. Audit fees, therefore, can be found to be as low as 50 US dollars here. Respondents hope that even if FRC operates with low resources, a neutral approach in operation will discard such irregularities. But respondents find it unlikely that several small firms will leave the industry due to disciplinary pressure created by FRC.

[...] Audit industry is already trivial, with less than 200 firms. I do not think FRC itself wants any firm to leave. Who will audit the 128,000 companies in the industry if firms start leaving? - Partner of a small firm.

This finding is opposite to that of DeFond and Lennox (2011), who reported the departure of six hundred small firms in the USA after the commencement of inspections of PCAOB. If large firms shift focus to consultancies, the role of small firms may become crucial in the audit industry. But suppose they, too, follow the path of risk aversion created by their larger peers. In that case, a vacuum can be caused in the
The Indonesian Journal of Accounting Research – January - April, Vol. 26, No.1, 2023

statutory audit industry, leading instead to deterioration in audit quality. But all the respondents highly emphasize impartiality in the body's operation as key for ameliorating irregularities in financial reporting. Auditors are more worried about the unprecedented capacity to sentence up to 5-year imprisonment to auditors provided to the body, which they fear may create bureaucratic domination over the profession. Statement of a CA firm partner depicts anxiety about politicization:

[…] We hope FRC will do a great job, but what if it starts taking strong action against only the politically non-affiliated firms leaving the affiliated ones?

7. Conclusions, Implications, and Limitations

This paper explores the initiatives, formation, and governance of independent audit oversight from the political-economic environmental perspective of LDC. As most of the LDCs witnessed the flawed adoption of bureaucratic legacy from western countries, ample scope remains to investigate the effectiveness of policies that are often inserted by the externals (e.g., development partners), the regulatory tools that are ultimately implemented, and the way of implementation of those tools. As in LDCs, the extended politicization, clientelism in policy-making, and poor legal framework exist, and tension rise among the agents (policymakers, practitioner, and policy analyzer), which raises concern about the effectiveness of those externally forced quality control mechanisms.

The study finds that without the infrastructure, popularity seeking, and political motive-based initiatives raise doubt, tension, and question the effectiveness of reforms. Bangladesh has witnessed the creation of an audit oversight body before proper corporate governance mechanisms have been ensured. The body has been created in response to the coercion of donors, a professional body, and some local investors. Strategies of avoidance and manipulation have been observed in the process of responding to isomorphic pressures. While on the one hand, the adoption of FRA has buffered for twelve years, on the other hand, the body so created has been kept effectively dormant for more than six years. Low resources have been deployed to the body. The body formed to warrant political control rather than expertise in the opinion
of many stakeholders may create a bureaucratic atmosphere and debar the current pace of development of the industry. Considering the state of corporate governance and political-economic indicators, the donor who set the independent oversight arrangements in motion suggested establishing the body only after stipulated developments of the pre-conditions. We have observed the subsequent recommendations made six months before the establishment of the council being completely ignored as there was high investor demand for a regulatory audit body growing. Strategic responses like avoidance and manipulation of isomorphic pressures have been confirmed in the case of another Bangladeshi regulatory body by Sakib (2020). The newly formed audit oversight body has already started facing political intrusion even though it is yet to commence operation in full swing. The body politicization process is already communicated with the audit industry. Audit firm partners expressed concern for possible biases in the body's operation. If such political bias of FRC gets established, it may affect audit quality adversely by shifting firms' efforts from gaining efficiency to attaining political affinity. So, we conclude that Bangladesh's 'transplanted' reforms have probably been strategically designed to exhibit compliance but not to bring about structural changes. Such reforms eventually get decomposed within the extant structure of politicization and neopatrimonialism.

Our findings have significant implications for global policymakers and international donor agencies. This paper draws the attention of global accounting and auditing regulatory authorities to the fact that policy reforms without careful consideration of the local political-economic context of a country may result in a strategic response from the local political/regulatory domain, which might bring about mere rhetoric changes. We also draw attention to the bitter fact that global regulatory and donor agencies sometimes fail to distinguish between rhetoric and actual compliance with policy reform requirements. Despite its notable contribution to accounting literature, this paper has some limitations. Firstly, though careful attention has been given to keep it to the lowest, conventional limitations of qualitative research apply to this study. Secondly, the number of respondents from FRC is not large. However, we tried to make sure that the experts selected from FRC were working at
the strategic or policy-making level. Increasing the number of respondents from FRC was particularly difficult given that less than five persons worked at the strategic level of FRC during the study. We supplemented our interview with a published interview of the Chairman of FRC. Finally, our findings must be read cautiously as they are only relevant to developing economies. Moreover, as all developing countries are unique in many ways (Rudra, 2007), some findings may also not apply to other developing countries.

Future research avenues still exist to improve our understanding of independent audit oversight. Quantitative analysis of the effects of independent inspection on earnings management or audit quality can be conducted to precisely understand the influence of political-economic factors on the functionality of the regulator. As our study discovers the immense influence of political-economic forces on organizations in Bangladesh, a similar study with broader scope incorporating all the seven regulators in the financial arena, i.e., on the organizational field, can be conducted. Finally, a longitudinal study on the boundary work of two competing bodies of accounting professionals will be unique as extant literature on auditing is yet to address such a multifaceted competition for control.

References


Md. Atiqur Rahman et Al.

## Appendix A

### List of Experts

<table>
<thead>
<tr>
<th>Sl.#</th>
<th>Time of Interview</th>
<th>Respondent Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>June 2019</td>
<td>o Commissioner, BSEC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Former MD and CEO, Dhaka Stock Exchange Ltd.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Fellow member, ICMAB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Professor of Accounting</td>
</tr>
<tr>
<td>2</td>
<td>December 2019</td>
<td>o Former President, ICMAB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Professor of Accounting</td>
</tr>
<tr>
<td>3</td>
<td>May 2020; August 2020</td>
<td>o Executive Director, FRC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Fellow Member, ICAB</td>
</tr>
<tr>
<td>4</td>
<td>June 2019; August 2020</td>
<td>o Partner of a top Bangladeshi CA firm.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Member, Jury Board of ICAB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Fellow member, ICAB</td>
</tr>
<tr>
<td>5</td>
<td>May 2021</td>
<td>o Partner of a newly established CA firm</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Fellow Member, ICAEW</td>
</tr>
<tr>
<td>6</td>
<td>July 2021</td>
<td>o Retired Secretary, GoB.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Re-appointed in a statutory body.</td>
</tr>
<tr>
<td>7</td>
<td>June 2019</td>
<td>o Executive Director, Investigation and Disciplinary Committee (IDC), ICAB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Former manager of a CA firm</td>
</tr>
<tr>
<td>8</td>
<td>October 2020</td>
<td>o Professor of political science</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Prominent researcher of electoral practices in Bangladesh</td>
</tr>
<tr>
<td>9</td>
<td>June 2019</td>
<td>o Former Secretary, ICAB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Professor of Accounting</td>
</tr>
<tr>
<td>10</td>
<td>June 2019</td>
<td>o Director of a CA firm</td>
</tr>
<tr>
<td>11</td>
<td>May 2021</td>
<td>o Associate Professor of Political Science</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Specializes in institutional Isomorphism in Bangladesh.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Research fellow, University of Sydney</td>
</tr>
<tr>
<td>12</td>
<td>April 2019</td>
<td>o Audit Manager, Ernst &amp; Young Bangladesh</td>
</tr>
<tr>
<td>13</td>
<td>May 2019</td>
<td>o Finance controller of a Public Limited Company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Former manager of a CA firm</td>
</tr>
</tbody>
</table>
Appendix B

Proposed and Adopted Compositions of the Council Compared

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The size of the body not mentioned</td>
<td>Maximum 11 members</td>
<td>Total 12 members</td>
</tr>
<tr>
<td>Members proposed in FRO:</td>
<td>Members proposed in FRO:</td>
<td>The current structure of FRC:</td>
</tr>
<tr>
<td>…Nothing explicitly mentioned about the appointment of the Chairman…</td>
<td>…Nothing explicitly mentioned about the appointment of the Chairman…</td>
<td>Chairman appointed by the government (will be the CEO)- has a second casting vote</td>
</tr>
<tr>
<td>Bangladesh Bank (BB)</td>
<td>Governor of BB- Chairman of FRC. Other members were:</td>
<td>Deputy Governor of BB</td>
</tr>
<tr>
<td>Securities Exchange Commission (BSEC)</td>
<td>Chairman of BSEC</td>
<td>One Commissioner of BSEC</td>
</tr>
<tr>
<td>The Institute of Chartered Accountants of Bangladesh (ICAB)</td>
<td>One Chartered Accountant (Member of ICAB)</td>
<td>President of ICAB</td>
</tr>
<tr>
<td>The Institute of Cost and Management Accountants of Bangladesh (ICMAB)</td>
<td>One Cost and Management Accountant (Member of ICMAB)</td>
<td>President of ICMAB</td>
</tr>
<tr>
<td>Bangladesh Bar Council</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)</td>
<td>X</td>
<td>President of FBCCI</td>
</tr>
<tr>
<td>Dhaka Stock Exchange (DSE)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Chittagong Stock Exchange (CSE)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Department of Accounting of Dhaka University (The oldest and the largest university in the country)</td>
<td>X</td>
<td>One professor of accounting from any public university</td>
</tr>
<tr>
<td>The Institute of Business Administration of Dhaka University</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>04 (Four) Executive Officers without voting rights</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>Chairman of the National Board of Revenue (NBR)</td>
<td>One member nominated by the Chairman of NBR</td>
</tr>
<tr>
<td>X</td>
<td>Chairman of the Insurance Control Authority (ICA)</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>One Chief Executive Officer</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>Additional Secretary (Ministry of Finance)</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>Additional Secretary (Ministry of Commerce)</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>One Deputy C&amp;AG nominated by Comptroller &amp; Auditor General</td>
</tr>
<tr>
<td>X</td>
<td>X</td>
<td>One Executive Director (ED)</td>
</tr>
</tbody>
</table>
Appendix C

Sample Questions

Questions asked to a respondent depended on the respondent's relationship with the FRC. A different aspect of the inception and operation of FRC was discussed with different respondents. The following key questions were asked of the Executive Director of FRC. The responses have not been included here for space constraints.

Question 1. FRC was formed in 2016. What are the contributions FRC made to the auditing profession in the last four years?
Question 2: Even after four years of inception, no audit inspection guidelines or accounting standards have been adopted by FRC. What are your constraints in adopting accounting standards or inspection guidelines?
Question 3: FRC has appointed only a few persons in the last few years. Not even all four executive directors have been appointed. There is a circular for appointing an outstanding ED for the last two years. Why are you taking so long to appoint the ED?
Question 4: As an audit oversight body, FRC is supposed to coordinate with all the other financial regulators like RJSC, BSEC, and IDRA. How well do you think the regulators are coordinating with each other?
Question 5: While the existing financial regulators have failed to ensure governance, how is FRC planning to stand out?
Question 6: FRC would have to inspect the works of CA firms and take necessary actions against the firms if necessary. Do you think that FRC could withstand the political pressures from the end of the firms in all cases? What are you planning to ensure equitable treatment for all the firms, irrespective of their political connections?
intentionally blank