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Auditors’ perceptions of the implementation of International Financial Reporting Standards (IFRS) in a developing country

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ABSTRACT

Purpose – The International Financial Reporting Standards (IFRS) have been adopted by 140 countries around the globe, including the G20 countries. Most of the prior literature focuses on adoption issues in developed countries. Due to the paucity of research on implementation issues in developing countries, this study explores the impediments of IFRS implementation in a developing country from 1998 to 2014 based on the auditors' perceptions and documentary analyses.

Design/methodology/approach – Three rounds of interviews (2010, 2012, and 2014) from a total of 75 auditors (including 12 internal auditors and 13 external auditors) were conducted and enforcement documents from 1998 to 2010 were evaluated. The purpose of the three rounds of interviews was to explore the reflection on the changes which the interviewees have experienced over a five year period.

Findings – Using institutional isomorphism, the results suggest that policy-makers should focus on several factors to implement IFRS effectively, including low audit fees, a lack of qualified accountants, a lack of interest in IFRS by managers of some companies, a culture of secrecy, and a family-based private sector. Surprisingly, chartered accountancy firms are able to continue their work because of a culture of non-punishment for violating rules and the absence of any reliable exercising of due care or professional ethics in Bangladesh. Regulators such as the Bangladesh Securities and Exchange Commission (BSEC) and the Institute of Chartered Accountants of Bangladesh (ICAB) are not inclined to enforce actions against corrupt Chartered Accountant (CA) firms. This raises question about the professional integrity of auditors as well as regulators. Unlike, Albu *et al.* (2011) (World Bank as coercive) and Hassan *et al.* (2014) (Western influence as coercive), the findings of this study imply that coercive isomorphism (regulatory authorities in Bangladesh) should be more proactive to ensure a successful implementation of IFRS.

Research limitations/implications – This study has some limitations, including transcribing information from Bengali to English and some enforcement documents were not available on the BSEC website. This last limitation is mitigated by the fact that a substantial number of enforcement releases (1647 enforcement notices for a 13 year period) are analyzed and three rounds of interviews were conducted.

Originality/value – The findings of this study contribute to, and advance the incremental knowledge of IFRS implementation issues and auditing literature in a developing country's experience to policy-makers (e.g. World Bank, IMF, Basel Committee, G20, IOSCO, and IFAC). The findings may be generalised to other developing countries that are facing effective implementation of IFRS.

Keywords: IFRS; implementation; auditor; developing country; policy-makers.

1. Introduction

The nexus between International Financial Reporting Standards (IFRS) adoption and implementation has garnered considerable attention from both accounting practitioners and policy-makers in recent years. This is largely due to the fact that IFRS has been adopted globally with the aim to attract foreign investment and improve accounting quality (see Table I). IFRS is used to prepare financial information for capital markets covering over half of the world's GDP (Gross Domestic Product). According to the IFRS Foundation (2015a),

> "Analysis of IFRS jurisdictions by GDP shows that capital market investors and lenders in jurisdictions with 58% of the world's GDP receive IFRS financial statements. IFRS is also used in some of the remaining economies, for example, by nearly 500 foreign companies whose securities trade in the United States".

As of 1 May 2015, IFRS is applied in 140 jurisdictions, which represent all parts of the globe (IFRS Foundation, 2015a). Table I shows the use of IFRS in various jurisdictions: 116 of these 140 jurisdictions (83%) require IFRS for all or most domestic publicly listed companies and financial institutions in the capital markets. All but one of these has already begun using IFRS. Bhutan will begin using IFRS in 2021. Some comments on the remaining 24 jurisdictions that have not adopted (IFRS Foundation, 2015a): 12 jurisdictions permit, rather than require, IFRS (Bermuda, Cayman Islands, Guatemala, Honduras, India, Japan, Madagascar, Nicaragua, Panama, Paraguay, Suriname, Switzerland); two jurisdictions require IFRS for financial institutions but not listed companies (Saudi Arabia, Uzbekistan); one jurisdiction is in the process of adopting IFRS in full (Thailand); one jurisdiction is in the process of converging its national standards substantially (but not entirely) with IFRS (Indonesia); and, eight jurisdictions use national or regional standards (Bolivia, China, Egypt, Guinea-Bissau, Macao, Niger, United States, Vietnam).

[Insert Table I about here]

Prior research strongly suggests that IFRS adoption alone is not the solution to improving the quality of financial reporting (Larson and Street, 2004). There is an increasing amount of literature on compliance with IFRS, particularly with regard to developed countries. However, little attention has been paid to developing countries and even these studies only focus upon the compliance level of IFRS (Abd-Elsalam and Weetman, 2003; Abdelsalam and Weetman, 2007; Ahmed and Nicholls, 1994; Akhtaruddin, 2005; Al-Akra *et al.,* 2010; Ali *et al.,* 2004; Al-Shammari *et al.,* 2008; Al-Shiab, 2003; Fekete *et al.,* 2008; Hasan *et al.,* 2008; Omar and Simon, 2011). None of these studies explore the reasons for non-compliance or implementation issues. Studies such as Bloom, Fuglister, and Myring (1998), and Naciri and Hoarau (2001) believe that country-specific factors influence its accounting practices. Bloom *et al.* (1998, p. 641) point out that:

> No accounting system can be judged superior to any other without considering how the system serves society in a specific country.

It is observed from prior research that Bangladesh has the lowest level of disclosure (43.53%) in terms of IFRS mandatory disclosures (Akhtaruddin, 2005). Furthermore, over the last 17 years (1998 to 2015), three World Bank Reports (2003, 2009 and 2015) have provided the same sentiments regarding poor compliance of accounting and auditing practices in

Bangladesh. For example, World Bank (2003, p. 7) stated that accounting practices in Bangladesh suffer from institutional weaknesses. The World Bank (2009, p. 10) later reported that:

> Full implementation will also require that current donor assistance to ICAB [The Institute of Chartered Accountants of Bangladesh] be maintained, to allow for much needed professional development and expansion in the number of trained auditors and accountants.

More recently, the World Bank (2015, p. 26) also reported that:

> All companies, both private and public, are required to file audited financial statements with the Registrar of Joint Stock Companies (RJSC); however, compliance with this requirement is low with only approximately 10% of companies complying.

Again, due to corruption and major regulatory failure, the disastrous fall of the market index from 8,918 in December 2010 to 5,579 in February 2011 (average P/E Ratio fell to 13.68 from 29.16) caused a gross loss of public confidence (World Bank 2015, p. 40). The Bangladesh Securities and Exchange Commission (BSEC) amended the Securities and Exchange Rules of 1987 and required the listed companies to prepare financial statements in compliance with IFRS, as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) from 1998 (No: BSEC/Section-7/SER/03/132, dated 22 October 1997). Hence, it would be interesting to study a country in which unsuccessful implementation has existed for more than a decade. This study therefore aims to identify the key problems and factors that influence the effective implementation of IFRS in Bangladesh. Effective implementation in this study means the observed outcomes of introducing, monitoring, and enforcing accounting standards. These outcomes include the actions of the government, the BSEC, the ministry, professional bodies, the stock exchange, and the central bank.

No study to date has conducted in-depth interviews to better understand the factors affecting effective implementation of IFRS in a developing country. This study conducted a total of 75 interviews with auditors over a five year period (2010, 2012, and 2014). The primary reason for conducting three rounds of interviews is that Bangladesh in recent years has undergone significant changes in its political and economic environment. In addition, the enforcement documents concerning chartered accountancy (CA) firms' violations (1998 to 2010) were evaluated. The major contribution of the study is that the findings advance incremental knowledge on IFRS implementation issues and auditing literature in a developing country's experience to the policy-makers (e.g. World Bank, IMF, Basel Committee, G20, IOSCO, and IFAC). Some policy making issues that arose from the findings include: low audit fees, a lack of qualified accountants, a lack of interest in IFRS by managers of some companies, a culture of secrecy, and a family-based private sector. These issues may be applicable to other developing countries which are facing effective implementation of IFRS. CA firms are able to continue their work because of a culture of non-punishment for violating the rules. Regulators like the BSEC and the ICAB are not inclined to enforce any actions against corrupt CA firms and this implies a serious question about the professional integrity of both the auditors and the regulators in Bangladesh.

The rest of this article is organised as follows. Section 2 reviews the prior literature. Section 3 describes the theoretical framework. Section 4 outlines the research method that was used in this study. Section 5 provides the results and discussion thereof, and finally, Section 6 gives the summary and conclusion.

2. Literature Review

> "The strict adoption of IAS [International Accounting Standards] by developing countries may be harmful because developing countries' environments, cultures, and accounting needs differ from those of developed countries." (Larson, 1993, p. 2)

Larson (1993) examined the effect of adoption and non-adoption of IFRS. He focused on the two relationships: firstly, the adopted countries and the non-adopted countries; and secondly, non-adopted countries and the economic growth in African region countries. He found that the adoption could contribute to the economic growth if the adoptions considered the local and regional environmental conditions. Consistent with Larson's (1993) study, Woolley (1998) studied the Asian countries and found that there was no relationship between the economic growth and the adoption or non-adoption of IAS/IFRS.

Christopher and Islam (1999) examined the relationships between the adopted countries and non-adopted countries, focusing on developing countries. Their study found that developing countries need more sophisticated accounting standards because of poor economic growth. Their study also provided strong evidence that only 50 developing countries were members of the IASB (International Accounting Standards Board) where there were a total of 123 developing countries, based on the UNDP (United Nations Development Programme) report, and the adopted countries followed a mixed approach of IAS/IFRS. In a similar vein, Street and Bryant (2000) used an empirical investigation on the application of IAS/IFRS in US listed and non-listed companies. They concluded that listed US companies disclosed more than non-listed US companies (Street, Gray and Bryant, 1999). Similar findings were observed in the study of Street and Gray (2001). Using a case study method, Chamisa (2000) examined the justification and usefulness of IAS/IFRS in Zimbabwe. He found that listed companies in Zimbabwe voluntarily and significantly comply with IAS/IFRS, which are not required by the Zimbabwe Companies Act provides indirect evidence that the IASC standards are relevant in Zimbabwe. He also argued that "the relevance of the IASB standards to developing countries is most likely to be boosted by (1) the growing commonality of worldwide economic conditions, in particular, the steps being taken by (former) communistic developing countries and (former) communist countries to move away from communistic to capitalistic economies; (2) the growing interdependence of countries; and (3) the increasing importance being attached to global and regional economic groups" (pp. 279-80).

Chong, Tower, and Taplin (2000) investigated IFRS in the Asia-Pacific region. Their study considered 130 listed manufacturing companies from Australia, Hong Kong, Indonesia, Malaysia, and Singapore. They used four variables, including country of reporting, company size, profitability, and debt leverage. They found that the four variables influenced the choice of accounting policy, especially IFRS, in these countries. They concluded that the variations of accounting harmonisation (i.e. '*de facto* measurement harmonisation: how and why certain transactions are measured within the core financial statements, with specific concentration on harmonisation indices studies' p. 84) exist in five different countries. In particular, Goodwill and non-current asset valuation measurement not highly harmonised across the five countries.

Ball *et al.* (2003, p. 235) argue that the IASB's standards derive from common law sources (UK, US, and IFRS), which are widely viewed as being of a higher quality (e.g. 'common law approach of IFRS is transparent'- Ball *et al.*, 2000, p. 47) than code law standards. Ball *et al.* (2003) find that a common law legal system has a very detailed, prescriptive set of accounting standards that has little to do with the nature of the legal system. Leuz *et al.* (2003) also argue that common law origin is more transparent in terms of setting accounting standards and implementation.

Jermakowicz (2004) investigated the impact of IFRS in Belgium. This study was based on the companies listed in BEL-20 and it revealed that the transition from Belgium GAAP to IFRS had a significant impact on the net income and companies' equity. Since the study was based on the BEL-20, it was assumed that the top profitable companies would disclose more. Therefore, the study did not generalise about the small and medium sized companies. Sucher and Jindrichovska (2004) highlighted some of the key issues regarding the implementation of IFRS reporting for listed group companies and other enterprises in the Czech Republic. The key issues included when implementing new accounting regulations, some of which are not new, are as follows: local accounting practice and IFRS; the issue of enforcement of compliance with IFRS and its relationship with audit; the link between IFRS reporting and taxation; and, the provision of education and training. They mentioned that:

> The Ministry of Finance was reluctant to share its regulatory power. This has possibly slowed down the implementation process and must cast doubt on whether the changes in financial reporting will benefit a wider group of users outside the tax inspectorate (Sucher and Jindrichovska, 2004, p. 134). [Emphasis added]

Prather-Kinsey (2006) examined the usefulness (relevance and timeliness) of earnings announcements in two emerging markets, namely: the Johannesburg Stock Exchange (JSE) and the Bolsa Mexicana de Valores Stock Exchange (BMV). She also found that the interaction between accounting and market infrastructure is a valuable input to the Financial Accounting Standards Board (FASB) and the IASB regarding one set of accounting regulations for all countries. Tyrrall, Woodward, and Rakhimbekova (2007) examine the relevance and implementation of IFRS to the emerging economy of Kazakhstan from independence in 1991 to 2006, and they conclude that "Kazakhstan had little choice but to proceed with IFRS, and that IFRS relevance is likely to increase as Kazakh economic development continues" (p. 82). They also question whether the real issue is the pathway of change that nations might follow as they implement IFRS.

Joshi, Bremser, and Al-Ajmi (2008) conducted an exploratory study of Bahrain's accounting and auditing professionals' perceptions about important issues relevant to developing and implementing global accounting standards. Bahrain is a financial hub of the Middle East with distinct features that could provide some insights to harmonisation issues. The respondents' (auditors and non-auditors) views were optimistic and they reported that "harmonisation of accounting standards is a worthwhile objective that can be fairly, but gradually accomplished" (p. 41). They concluded that nationalism may well continue to be a major impediment to global adoption of IFRS.

Al- Shammari *et al.* (2008) studied the compliance of IFRS in six countries: Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates of the Gulf Co-Operation Council (GCC) member states. Their study analyzed 137 listed companies from the period 1996 to 2002. They concluded that the disclosures increased substantially; for example, in 1996 the level of disclosure was 68% and in 2002 it was 82%. They also found that no actions were taken against the managers, directors, or the auditors for violating the accounting rules and regulations.

Albu *et al.* (2013) investigates the perceptions of stakeholders involved in financial reporting in four emerging economies (i.e. Czech Republic, Hungary, Romania, and Turkey) with regard to the possible implementation of IFRS for SMEs. Their interviews reveal differences between stakeholder groups and between countries regarding the preferred implementation approach (for instance, mandatory adoption, voluntary adoption or convergence of national regulations with IFRS for SMEs). The interviewees gave most support to the convergence approach, which moves the regulators' attention from users' needs to the preparers' preferences and preparedness. However, the users opposed convergence and preferred the adoption of IFRS for SMEs. Jindrichovska, Kubickova, and Kocmanova (2014) investigated the development of rules and practices of accounting, as well as the application of IFRS in the Czech Republic. They found that the implementation effort is not systematic or homogenous because the application of local rules is still required in the domain of taxation. They found that the majority of Czech companies currently have little motivation to switch to IFRS.

Ramanna and Sletten (2014, p. 1517) asked: “If the differences in accounting standards across countries reflect relatively stable institutional differences, why did several countries rapidly adopt IFRS in the 2003–2008 period?” Testing the hypothesis that the perceived network benefits from the extant worldwide adoption of IFRS, they find that “perceived network benefits increase the degree of IFRS harmonisation among countries and that smaller countries have a differentially higher response to these benefits. Further, economic ties with the European Union are a particularly important source of network effects”. Interestingly, they mentioned that the IFRS adoption was self-reinforcing during the sample period 2003–2008.

Based on the perception of Vietnamese accountants regarding the advantages, disadvantages, potential costs, and challenges of IFRS adoption, Phan, Mascitelli, and Barut (2014) argued that the Ministry of Finance of Vietnam has not yet determined whether to fully adopt IFRS. The accounting professionals were optimistic about the possible benefits of IFRS adoption, and indicated the expected costs and challenges in implementing IFRS.

Using a large sample of Italian banks (both listed and non-listed firms) Cameran and Perotti (2014, p. 155) examined the effect of IAS/IFRS adoption on audit fees and showed that higher audit fees (19.29% in real terms) were paid after moving to IFRS. They found that support for financial reporting quality was not affected by the adoption of IAS/IFRS. Based on reviewing extant empirical evidence in relation to four comprehensive accounting standard setting criteria (decision usefulness, reduction of information asymmetry, economic consequences of standards and political aspects of standard), Mohammadrezaei, Mohd-Saleh, and Banimahd (2015) found that the value relevance of accounting numbers and financial reporting comparability enhanced significantly after the adoption of IFRS. However, they mentioned that significant differences exist in the institutional features. Abdullah, Evans, and Tsalavoutas (2015, forthcoming) examine the effect of family control on IFRS mandatory disclosure levels for Malaysian companies. Their findings suggest that family control is related negatively to disclosure and that compliance levels are not value relevant. These findings also suggest that theories linking common law legal systems to high quality financial reporting require refining in certain national contexts.

With regard to Bangladesh, Ahmed and Nicholls (1994) studied the extent of disclosures in Bangladesh based on the non-financial companies listed on the Dhaka Stock Exchange (DSE), Bangladesh comprising 94 mandatory items. The result showed that larger audit firms who audited the companies and the multinational subsidiaries disclosed more than other companies, but the accountant’s qualification had a weak influence on the level of disclosures. Karim (1995) examined the disclosure level of 161 listed companies in DSE comprising 113 items. He found that companies did not comply with the disclosure requirements set by the regulatory bodies and Acts in Bangladesh. Ahmed (1996) revealed that that having a multinational subsidiary and auditors’ size had a positive association on the level of disclosures, but not with the size, debt, and the accountant’s qualifications. Later, Akhtaruddin (2005) investigated the level of mandatory disclosures and the company characteristics (Company Age, Company Status, Profitability and Industry size) based on the

94 listed companies in Bangladesh. He found that the listed companies in Bangladesh disclosed only 49% of items, although the sampled items were mandatory. He also mentioned that company age had an insignificant relationship with the mandatory disclosure, the company status and profitability had no effect on disclosures, and the industry size had marginally significant effect on the disclosures. However, Hasan, Karim, and Quayes (2008) investigated the effectiveness of changes in the regulatory environment on the quality of compliance to mandatory disclosure requirements in Bangladesh. Using a mandatory disclosure index of listed firms, they showed that there was a significant improvement in the quality of compliance during the more regulated time period. The size of the firm, the qualifications of the accounting staff who prepare the financial statements, and the reputation of its auditing firm had significant positive impact, while profitability and multinational firms had an insignificant impact on the quality of mandatory compliance. However, doubts remain on the mandatory disclosure items because they did not mention on what basis and how they selected the mandatory items.

In summary, very few studies have focused on the implementation of IFRS in developing countries. There were no consistencies in these studies because they used different samples that were relatively small in size and a disclosure index that was not based on the IFRS mandatory disclosure items. All of these studies were predominantly quantitative in nature. So, there is significant gap in the literature on the reasons behind low level disclosure. Therefore, Wallace, Naser, and Mora (1994) properly suggested that the research on the disclosure studies was inconsistent and varied because of the improper data, the variables, the samples, the regression equation, and the disclosure checklist. To address this gap, the present study explores the reasons for poor disclosure encompassing IFRS implementation experience in a developing country.

3. Theoretical Framework

The term 'institutions' was first used in social sciences in 1725 by Giovan Battista (Giambattista) Vico in his *Scienza Nuova (New Science).* There are endless disputes over the definitions of institutions. For example, Wells (1970, p. 3) said that: "Social institutions form an element in a more general concept, known as social structure." Foster (1981, p. 908) defined institutions as "prescribed patterns of correlated behaviour". According to North (1990, p. 3): "Institutions are the rules of the game in society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic". North (1994, p. 361) later added: "If institutions are the rules of the game, organisations and their entrepreneurs are the players. Organisations are made up of groups of individuals bound together by some common purpose to achieve certain objectives".

Institutions can be both formal and informal mechanisms in which informal institutions (e.g. trust, values and social norms) provide initial support for formal institutions (e.g. the laws and regulations). These two types of institutions can be can be mutually reinforcing because laws and regulations can reinforce and validate the underlying values and norms while values and norms are often formalised into laws and regulations (Wysocki, 2011, p. 310).

Organisations are the key element in the definition of institutions (Wysocki, 2011). DiMaggio and Powell (1983) assert that organisations are by definition impacted by the organisational environment in which they operate. Therefore, organisations operating in a similar environment are assumed to compare actual behaviour, including the structures, choices, and designs (DiMaggio and Powell, 1983, 1991; Meyer and Scott, 1983; Meyer

1981; and Meyer and Rowan, 1977). For example, the internal structures will reflect the rules and procedures that are perceived to be 'right' within society (DiMaggio and Powell, 1991). DiMaggio and Powell's (1983) version of institutional theory (Tuttle and Dillard, 2007; Dillard *et al.*, 2004; Powell, 1991; DiMaggio, 1988; Levitt and Nass, 1989; Meyer, Scott and Strang, 1987; and Tolbert and Zucker, 1983) has been termed neo-institutional theory and focuses on: "The way action is structured and order made possible by shared systems of rules that both constrain the inclination and capacity of actors to optimise as well as privilege some groups whose interests are secured by prevailing rewards and sanctions" (p. 22). They further argue that the concept of institutional isomorphism is a useful tool for understanding the politics and ceremony that pervade much modern organisational life. DiMaggio and Powell (1983) identified three mechanisms through which institutional isomorphic change occurs: (1) Coercive isomorphism; (2) Mimetic isomorphism; and (3) Normative isomorphism. They pointed out that while the three types intermingle in empirical settings, they tend to drive from different conditions and may lead to different outcomes (DiMaggio and Powell, 1991).

Coercive Isomorphism

Coercive isomorphism refers to the similarity within a population of organisations, which is a response to political influence and/or a search for organisational legitimacy (Meyer and Rowan, 1977). According to DiMaggio and Powell (1983, p. 150): "Coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function". Meyer and Rowan's (1977) work predominantly considers the influence of socio-cultural expectations while DiMaggio and Powell's (1991) emphasis is on coercion that is achieved through both interdependencies and "the problem of legitimacy" (p. 67). Consistent with this idea, Irvine (2008, p. 132) argue that the major players in world capital markets (i.e. the World Bank and the IMF) are "deeply embedded in the structures of capitalism", providing loans and assisting in economic development, arguably from beneficial motives. These two organisations represent a major global institutional force that are "pushing countries to adopt IFRS or develop national standards based on IFRS", and even in some cases making the adoption of IFRS a requirement of their loans (Alfredson *et al.*, 2005, p. 9; Mir and Rahaman, 2005, p. 835). Using the perspective of institutional and structuration theory, and mixed methods (11 in-depth semi-structured interviews and secondary data related to accounting regulations), Albu *et al.* (2011) discussed two stages of IAS/IFRS implementation in Romania. They found that, as a result of coercive external forces (e.g. the influence of the World Bank), the actual implementation was very limited in the first stage. In the second stage of IFRS implementation for only listed companies in terms of consolidated accounts and financial institutions, the change processes were more significant than in the previous period. For example, Hassan, Rankin and Lu (2014 p. 371) reviewed the historical development of accounting regulation in Iraq from an institutional perspective and found that all three forms of institutional isomorphism (i.e. coercive, mimetic, and normative) explain the initial decision to adopt IFRS. However, coercive pressure (e.g. the occupation by Western forces following the fall of the Ba'ath regime) was the most significant force in the decision to adopt IFRS. Mimetic and normative pressures came from Iraq's trade partners, multinational corporations, and the accounting profession. They also argued that: "IFRS adoption is accompanied by reform to governance and investor protection regimes, together with investment in education and training to support ongoing implementation. Otherwise, IFRS adoption may be perceived as merely symbolic" (p. 371).

Mimetic Isomorphism

Mimetic isomorphism occurs when structures within organisations occupying the same field begin to resemble each other because of "standard responses to uncertainty" (DiMaggio and Powell, 1991, p. 67). Under conditions of uncertainty, organisations look to other organisations that are considered 'successful', as well as similarly sized organisations, as role models. The presence of 'successful' organisations is predictive of mimicry within an organisational population: they are structural agents of mimicry. This *mimetic* behaviour can occur explicitly via the transfer of personnel or through the use of consultants or trade associations. Tuttle and Dillard (2007, pp. 392-93) assert: "Change is voluntary and associated with one entity copying the practices of another. Mimetic pressures include benchmarking and identifying of best practices and leading players in the field. Mimetic isomorphism occurs when the processes motivated by these pressures become institutionalised so that copying continues because of its institutional acceptance rather than its competitive necessity".

Normative Isomorphism

According to DiMaggio and Powell (1983), *normative* isomorphism indicates that if a given industry is increasingly professionalised, one could expect to observe greater homogeneity among organisational characteristics as a result of personnel transfer, standardised training and education of workers, as well as efforts on the part of these firms to ensure that they provide comparable services to their competitors. Hence, for example, the practices of accounting departments in different firms are not determined by the management of those firms but rather by the standards and norms of the accounting profession. A good example within the research on normatisation was provided by Palmer, Jennings, and Zhou (1993) whose study showed a strong relationship between CEOs who had attended elite business schools and those executives' companies adopting a multi-divisional form (MDF). The multi-divisional form strategy has been taught as part of conventional wisdom in elite schools, and thus has been passed on to students who later became CEOs. The actions of these similarly trained executives resulted in organisational similarity within fields. Torres (1988) also found that professionalisation eliminated potential variation among structural forms within a niche. To provide a clear picture of IFRS adoption in UAE, Irvine (2008, p. 134) said: "Within the UAE, all of the Big 4 accounting firms have a presence, and have pitched themselves to add value to Arab businesses. They require clients to present their financial reports under IFRS, while other accountancy firms operating in the UAE 'have been encouraging their clients, with considerable success, to prepare accounts under IAS' (IFRS). In doing this they have both driven the adoption of IFRS, and benefited from that adoption. They have been identified as one of many international forces behind the process of harmonisation of accounting standards and are the backbone of globalized business". Dufour, Teller, and Luu (2014) examined the forces leading an agent (in this case an organisation providing standards for accounting) to adopt, at a given moment, new standards (IFRS). They found that "The two most significant isomorphisms in the simulation are coercive and normative isomorphisms..... coercive isomorphism, is characterised by the greater role of the environment and by a weak threshold of adoption....normative isomorphism is characterised by a weak speed of professionalisation and by an elevated threshold of adoption" (pp. 42-43).

[Insert Figure I about here]

The theoretical literature signifies that there is a gap in the application of institutional theory in the IFRS implementation area; therefore, the present study will provide the how and why the state of IFRS implementation becomes problematic in a country's experience (Irvine, 2008; Dillard *et al.*, 2004). Figure I show various institutional isomorpisms pressures in relation to IFRS implementation. It is argued that isomorpisms pressures may arise from both lecal level and international level. Hence, this study determines to what extent institutional theory is applicable in the context of a developing country in a study of global IFRS experience (Irvine, 2008).

4. Research Methodology

This study employs mixed methods: interviews and documentary analyses. Fuentes (2008, p. 1592) argues that mixed methods provide "richer detail than either method can generate alone". In addition, the weakness of single method usage is overcome through mixed methods (the complementary principle) (Tarrow, 2004). In terms of 'philosophical issues' (with regard to mixed methods), the traditional view of ontological and epistemological approaches to social sciences is as a differentiation between two schools of thoughts. A critical debate exists when choosing paradigms (ontology and epistemology), and evaluating their validity and ability to generate an understanding of the social system (Bhaskar, 1978). Therefore, 'critical realism' as a philosophical stance can explain the reasons for choosing mixed methods to provide a generalisation of the findings (Llewellyn, 2007). The purpose of this research is to explore the problems experienced in IFRS implementation in a developing country. This aim can be achieved using interviews and documentary analysis because constructing a social reality is a characteristic of this area of research.

Regarding interviews, this study selected a qualitative approach because of the in-depth data (i.e. rich data) obtained directly from auditors (Beattie and Fearnley, 1998; Fontaine *et al.,* 2013; Patton, 2002). Three rounds of interviews were conducted in 2010 (June to August), 2012 (June to July), and 2014 (May to June). A total of 75 interviewees were selected for the study. A total of 25 interviewees participated in each round of interviews (see Table II):

- **External Auditor** **= 13**
  [Big 4 = 7
  Small local accountancy firm = 6]

- **Internal Auditor** **= 12**
  [Bank = 4
  Engineering company = 2
  Textile company = 1
  Multinational company = 2
  Pharmaceutical company = 3]

Total **25**

These interviewees were selected based on their experience (at least five years) in auditing. Another criterion was the interviewees must be either internal auditor or external auditor.

I also conducted second round and third round follow-up interviews to obtain detailed and in-depth data (Creswell, 2007; Yin, 2003). Qualitative longitudinal research involves in-depth follow-up interviews (i.e. returning to interviewees) to measure and explore changes which occur over time and the processes associated with these changes (Holland *et al.,* 2004). Mills (1959, p. 226) earlier pointed out that follow-up interviews explores 'how personal troubles became public issues'. Holland *et al.* (2004) also argue that follow-up interviews repeated at roughly fixed time intervals with the same people led by the same research team. According to Farrall (2006, p. 6):

> "Retrospective studies can be influenced by respondent's failure to recall events or the correct ordering of events. They also leave themselves open to deliberate distortions as respondents attempt to imbue their actions with a rationality which they did not have at the time, or non-deliberate distortions due to subconscious suppressions of painful memories. With prospective studies one is less likely to be taken in by such biases, since one as a record of what was said earlier on the same topic. (Of course, this too may have been subject to various distortions, but assuming one can triangulate data with either other records or other respondents, it ought to be easier to detect)."

Accordingly, this present study explores reflection on the changes which the interviewees have experienced since the previous interview. It will allow to link macro-level processes (the decision of mandatory compliance with IFRS by the state) to individual organisation over a five year period (2010 to 2014) (Hollway and Jefferson, 2000; Neale and Flowerdew, 2003; Saldana, 2003).

The military-backed government ruled for three years (2006-2008). Democracy was restored in 2009 after the ninth national parliamentary election was held on 29 December 2008. After this election, the Bangladesh Awami League led by Prime Minister Sheikh Hasina, formed a government. The opposition party was the Bangladesh Nationalist Party (BNP), led by Khaleda Zia. The tenth national parliamentary election was held on 5 January 2014 (which was boycotted by the main opposition BNP) and the Bangladesh Awami League formed a consecutive government after winning a controversial one-sided walkover election ((Nurunnabi, 2015a). In terms of regulation, the Financial Reporting Act was proposed by the military-backed government but it is still under consideration by the present government for more than five years (Nurunnabi, 2015b). The three periods (2010, 2012 and 2014) were chosen because of the political changes and it is assumed that the interviewees will provide different views under various political regimes.

The length of most of the interviews ranged from 70 minutes to 90 minutes. Although my initial motivation was to record all of the interviews, 15 of the interviewees were not convinced about recording the interview. Based on prior studies (in particular, Ahmed and Nicholls, 1994; Chamisa, 2000; Chong *et al.*, 2000; Mir and Rahaman, 2005; Tyrrall *et al.*, 2007; Irvine, 2008; Joshi *et al.*, 2008), the interview questions were prepared and then sent to the interviewees prior to the interview (see Appendix I). All of the interviewees were assured of anonymity. The italics in the interview quotations indicate that the interviewee strongly emphasised the specific issue (i.e. I have tried to convey the interviewees' tone by use of italics).

[Insert Table II about here]

In terms of documentary analysis, the study evaluated enforcement documents of CA firms' violations during the period of 1998 - 2010. A total of 1, 647 enforcement notices were issued by the BSEC from 1998 to 2010. The enforcement notices were accessed from the BSEC website (http://www.sec.gov.bd/). The documentary data analysis in this study was based upon the procedure of Chen *et al.* (2005).

In this study, qualitative validity was achieved by checking the accuracy of the findings by using multiple sources of data (interviews and documentary analysis) (Creswell and Miller, 2000).

5. Results and Discussion

As of 24 July 2015, with the exception of IAS 29 and IAS 39, all IFRS and IAS issued by the IASB were adopted as BFRS (Bangladesh Financial Reporting Standards) and BAS (Bangladesh Accounting Standards), respectively, by the ICAB. IAS 29 (Financial Reporting in Hyperinflationary Economies) (adopted but is effective from 1 January 2015); and IFRS 9 (Financial Instruments) will replace IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 has been made effective from 1 January 2018 by the IASB and is currently in the process of adoption by the ICAB and, as such, IAS 39 is still in practice. IFRS is subjected to a due process of technical review for adoptability and acceptability in the country context by ICAB's Technical and Research Committee. Regarding modifications to IFRS, the IFRS Foundation (2015b, p. 42) stated: "Bangladesh has not adopted IAS 39 in full. Instead, it has adopted the version of IAS 39 that was included in the 2010 IFRS Red Book. The 2010 IFRS Red Book version of IAS 39 does not include requirements for financial assets because that part of IAS 39 has been replaced by IFRS 9 Financial Instruments. However, Bangladesh has not adopted IFRS 9. Bangladesh has also modified the transitional provisions in several Interpretations, including IFRIC 4 Determining whether an Arrangement contains a Lease and IFRIC 12 Service Concession Arrangements".

The results from the interviews and documentary analyses are explained the next two sub-sections.

5.1 Interviews

The interviewees were first asked the motivating research question: What are the main problems of effective implementation of IFRS in Bangladesh? This was followed by various follow-up questions (see Appendix I). Information on the background to the interviewees is shown in Table II. The findings imply various problems, including low audit fees, a lack of qualified accountants, a lack of interest in IFRS by managers of some companies, a culture of secrecy, and a predominantly family-based private sector in an orderly fashion (see Table III). Table III (Panel A) presents the findings from the first round of interviews. Table III (Panel B) presents the findings from the second round of interviews. Table III (Panel C) presents the findings from the third round of interviews.

[Insert Table III about here]

Low audit fees

In the first round of interviews, 24 of 25 interviewees agreed that a low audit fee is one of the major obstacles of implementing IFRS (see Table III). Similar perceptions were found in both the second and third round of interviews (23 of 25). With the exception of one Big 4 auditor, all were critical about the current audit fees structure in Bangladesh. Excerpts from the two interviewees provide relevant examples of this belief:

> Our audit fees are *very low* in comparison to neighbouring countries like India and Pakistan (A1, first round).

> The audit fees have not increased over the last decade. *Where is our incentive?* The government, the ICAB and the ICMAB do not care about this matter. I strongly feel that audit fees must be increased in order to implement IFRS effectively (A9, second round).

The findings of Karim and Hasan (2012) also demonstrate that the audit fees actually declined over time. The majority of the interviewees from three rounds also viewed that audit fees of public sector enterprises were fixed during the Pakistani era and have continued in this way with only slight/nominal increases. The audit fees in Bangladesh are very low compared to those in India and Pakistan (Siddiqui *et al.,* 2013). The audit fees of the Central Bank of Pakistan are Rs. 3,500,000[1], the Reserve Bank of India are Rs. 4,500,000. In Bangladesh, the audit fees of state owned commercial banks are less than Tk. 1,000,000 for portfolios of more than Tk. 100 billion to 200 billion, and the other state owned enterprises (SOEs) are no exception to this.[2] Even the audit fees of private sector foreign banks are much lower compared with India, Pakistan, and Sri Lanka.

Lack of qualified accountants

According to the interviewees (23 out of 25) in each of three rounds of interviews, the root of many problems in implementing IFRS can be pinpointed on one principal issue: a lack of qualified accountants (see Table III: Panel A, B and C). There are not enough CAs to meet the needs of the country. Several factors can be attributed as causes for the small numbers of CAs in Bangladesh, including an absence of desire in students wanting to purse a CA career, as well as the societal perception of CAs. The comment below represents this issue:

> In Bangladesh, we have only 700-800 qualified accountants, whereas we have more than 80,000 companies. *Without qualified CAs, it is a dream to implement IFRS* (A7, third round).

Furthermore, many students have chosen to pursue alternative careers to the CA because they feel that the services a CA provides are not properly compensated. The auditing profession in Bangladesh struggles to recruit talented individuals (Karim and Moizer, 1996; Karim and Hasan, 2012). Students also feel that the salary of CAs is insufficient. One of the main reasons for this is the unwillingness of companies to pay a decent salary to CAs. As a result of low salary levels, society in general views a career as a CA as inferior to others and considers that CAs are incapable of supporting themselves and their families. One interviewee's thoughts on this debate are given below:

> There is a lack of qualified professionals because *the companies don't want to pay the same as those in a developed country would. The low level of audit fees de-motivates students from becoming CAs.* (A15, second round)

Despite the barriers, there are a few students who choose to study to become a CA. However, these students have a difficult time throughout their education because of the inconsistencies among the assessment criteria and the difficulty of the curricula. As a result, many students who choose to study to become a CA fail to pass the national exams. These students feel that they are at a disadvantage. There is a continuous cycle of small numbers of students studying the CA; and even from those, a smaller number of students actually pass exams and become CAs. This cycle is an overwhelming factor that causes an ongoing shortage in CAs to meet the needs of the country. One interviewee stated his opinion on this issue:

> The pass rate for CAs is very low due to the lack of transparency in the assessment criteria. It creates a *real frustration for us in studying CA*. Although nepotism plays a big role, the majority of the students still fail. (A25, first round)

In the third round of interviews, one interviewee strongly points out that without qualified accountants the implementation process is *more rhetoric than reality*.

> *Of course, the lack of qualified accountants (is important)...*Additionally, the professional accountants do not know how to properly follow these IFRS in the preparation and auditing of the annual reports of the companies and in practice; they are copying others' annual reports! (A17, third round)

The ICAB was founded with only 80 members (Ahmed 2006). The Institute had 610 members in 1992 and 700 in 2000. Of these 700 members, 565 were resident in Bangladesh and 135 were resident abroad; 274 were practicing as public accountants and the rest were serving in various sectors (Azizuddin, 2006). In 2009, the institute had a total of 914 members, of which 662 were fellow members and 252 were associate members. In 2010, the number had grown to 1,200, of which 300 are in practice and the remainder is serving the government, public enterprises, NGOs, donor organisations and different corporate sectors. According to Ahmed (2010), Pakistan had over 3,000 CAs, Sri Lanka had over 2,700 and Nepal had around 270 CAs, while Bangladesh had around 1,200 CAs. Since the economy of Bangladesh is expanding rapidly, it is estimated that the actual number of qualified accountants needed is more than 12,000. In 2010, among the four nationalised commercial banks in Bangladesh, two of them did not have any CAs; around 90 banks and insurance companies had only 15 CAs; 14 out of 52 SOEs had CAs; and 35 out of 250 listed companies had CAs (Ahmed, 2010). As of 15 June 2015, there are 1,536 CAs, of which 368 members are in practice and 1,168 members are not in practice; there are 167 accountancy firms and out of this 71 are proprietorship firms and 96 are partnership firms. The government of Bangladesh does not employ any professional accountants in managing its budget of over Tk. 1,150 billion (Ahmed, 2010). Therefore, transparency in both the public and private sectors is questionable (The Daily Star, 2011). To increase the number of CAs in Bangladesh, in 2009 the ICAB signed a Memorandum of Understanding (MoU) with the ICAEW to develop a new syllabus in line with the IFAC requirements.

Lack of interest in IFRS by the managers of some companies

Eighteen out of 25 (first round) interviewees expressed that, in order to implement IFRS effectively, the companies' management first have to take a wide and in-depth interest (see Table III). The perceptions were negative over time (21 out of 25 in the second round, and 22 of 25 in the third round). One of the main reasons that the companies lack interest is due to the fact that costs override benefits. For example, one interviewee stated:

> The Company thinks that there won't be any benefit in complying with IFRS because the tax department of the government won't trust them. They also think [that] training and development costs will be higher in implementing IFRS. (A11, second round)

Two interviewees in particular believed that the directors do not fully understand the underlying meaning of IRFS and its usefulness. One auditor commented that:

> I would say [that]...... *business directors think [that] if IFRS are implemented, they will be unduly controlled and monitored*…. Their attitude is, *if the old system is working, then why implement a new one [e.g. IFRS]*. (A19, second round)

Another core problem with the implementation of IFRS is a lack of initiative by management with regard to auditing and the costs associated with it. In order to save on costs, management often opts out from being audited by one of the 'Big 4' firms. This issue is highlighted by one of the interviewees who worked for one of the Big 4 firms:

> In the UK or other developed countries, about 95% - 96% of the listed companies are audited by the Big Four. Conversely, *in Bangladesh, about 95% - 96% companies are audited by Tom, Dick and Harry and only 4% by the Big Four. This is because companies' management are not interested in spending money on being audited by one of the Big Four.* (A15, first round)

The interviewees reported that the accounting standard setting and adoption process will be useless if companies are not interested in following it. The interviewees felt that 'A-category' companies (i.e. large and profitable ones) do not employ qualified accountants, meaning that other companies do not bother about qualified accountants either. For example, A6 commented that:

> *We are trying to implement IFRS, in particular depreciation and inventory issues*. …We are *a loss making company and follow a conservative approach*. Therefore, we can't follow IFRS fully. *I think [that] if a company fully complies with IFRS, then its weaknesses will be visible to its competitors.* (A6, second round)

Culture of secrecy
The interviewees also emphasised another topic constituting a central problem in the effective implementation of IFRS as a corporate practice. A total of 16 of the 25 interviewees (18 in the second round and 20 in the third round) mention that the current corporate practice in Bangladesh allows for the hiding and copying of information, as well as a lack of knowledge among shareholders (see Table III: Panel A, B and C). The two interviewees stated that:

> Bangladesh is a closed society in terms of disclosure, as *hiding of information is a natural phenomenon*. Therefore, being in a closed society, the disclosure level is not [as] per expectations. (A16, third round)

> *Our country's culture is to hide income or profit for different purposes.* They don't want to reveal the actual [or] true picture of the company. (A23, first round)

The interviewees also felt that it is easy for accountants to copy extracts from the notes to the financial statements (e.g. accounting policies) of large companies' financial statements. This type of practice occurs because of a lack of enforcement of laws and a lack of punishment. The thoughts of one interviewee are given below:

> The *'copying culture'* in our country is a very common phenomenon. For example, *one of my friends is an accountant in another company who copied one particular standard practice from British American Tobacco.* But this is very ironic, as British American Tobacco and his company are two completely different entities. (A23, first round)

However, an auditor from a multinational company explained that:

> *As a multinational company, we strictly follow IFRS because we have global guidance to follow them.* The orientation is also bigger than that of the local companies in Bangladesh. As a matter of fact, *the culture of multinational companies is more transparent, and certainly better than the local companies.* (A10, first round)

According to the respondents, the culture of Bangladesh is such that shareholders and/or users are not concerned about whether or not financial statements are prepared in accordance with IFRS. This culture allows for companies to neglect the following of IFRS. For example, one of the interviewees stated that:

> The first, immediate and direct users of accounting information are shareholders. However, *shareholders are not concerned with whether the accounts have been prepared in accordance with IFRS. How will the present culture of (non-)compliance with IFRS change, if the users are not demanding that change?* (A5, second round)

The interviewees' view that companies are inclined to hide information, and that this is facilitated by their political connections. In addition, the directors are aware of the fact that the regulators will not question their non-complying activities because they themselves are corrupt. This culture makes it difficult to implement IFRS.

Family-based private sector

The family-based private sector (listed in the stock exchange) plays a key role in the problems associated with the implementation of IFRS. A total of 14 out of 25 (both first and second rounds) interviewees expressed that the private sector has had an overwhelming dominance in Bangladesh (see Table III: Panel A, B and C). Surprisingly, in the third round of interviews, none of the interviewees commented on the family-based private sector in terms of implementation of IFRS. During the 1980s, the private sector increased to vast numbers of companies but the majority of these are family-based. The interviewees suggest that in order to effectively implement IFRS, there should be an increase in the private sector that is not primarily family oriented. The following two comments highlight the issue of the family-based private sector:

> Since the *beginning of the country,* the public sector used to dominate industry in Bangladesh. According to the financial *system* (equity based finance, bank finance and state finance), the public sector was and is not equity based. But you know, in the US, about 65% of companies are equity based and disclosure is much needed for them. *The capital market in Bangladesh is very small in size.* There is a structural problem of the economy now that the public sector has moved to a family-based private sector. (A23, first round)

> *The family-based private sector is an inherent weakness of the economy of Bangladesh. The structure of the Bangladeshi economy does not permit disclosure.* (A17, first round)

> *More than 70,000-80,000 registered companies are small size private companies where there is no disclosure and no corporate governance practices are observed.* (A25, second round)

The interviewees consider that cost-benefit is a significant factor in the implementation of IFRS. This issue has been raised by the auditors of six small local accountancy firms. The respondents point out that university graduates from various backgrounds (e.g. History, Marketing, Management, Finance, Accountancy etc.) are working as company accountants in small companies. These graduates have a very limited technical knowledge of accounting standards. These six auditors criticised the regulator's policy of the implementation of IFRS by all listed companies. They believe that the regulators are only concerned about large companies. A partner of the audit firm expresses his sentiments in the following way:

> First of all, *size does matter.* For example, *a small company cannot employ a CA because the costs would not be bearable.* Further, companies are not well equipped to comply with IFRS. (A16, first round)

One of the interviewees was critical about the government entities and stated:

> *If the government sector does not follow the IPSAS, why should the private sector follow IFRS*? (A7, second round)

In Bangladesh, the SMEs are permitted to use either IFRS as adopted by the ICAB or the BFRS for SMEs. According to the World Bank (2015, p. 21) "The statutory regulations have not been framed to introduce a simplified financial reporting framework for SMEs. IFRS for SMEs have been adopted by ICAB as BFRS for SMEs, applicable for periods on or after 1 January 2013. Currently no companies are legally required to use BFRS for SMEs in the absence of a specific statutory financial reporting framework for SMEs". The IFRS for SMEs and its 'Guide for Micro Entities' allow for differential reporting, reducing the financial reporting burden by allowing entities to report in terms of frameworks appropriate to their circumstances. The Companies Act does not currently clearly define public interest entities (PIEs) and SMEs. The BFRS for SMEs is the IFRS for SMEs, excluding Section 31 Hyperinflation. According to the ICAB, Section 31 was not relevant to SMEs in Bangladesh because it is not a hyperinflationary economy. However, there is no statutory requirement for their use at present. Implementation guidelines are needed to assist the preparers.

5.2 Documentary Analysis

Prior literature suggests that adoption of IFRS appears not to improve financial transparency unless combined with effective enforcement (Ball *et al.,* 2001; Ball *et al.,* 2003). The capital market benefits of IFRS only exist in countries with strong enforcement (Daske *et al.*, 2008) and IFRS adoption only improves analysts' information environment in countries with both strong enforcement (Byard *et al.,* 2011). In a similar vein, Landsman *et al.* (2012) find that the improvement in the information content of earnings after IFRS adoption is larger in countries with stronger legal enforcement. In a recent study, Christensen *et al.* (2013) point out that changes in reporting enforcement during the same period play a significant role for the liquidity benefits after mandatory adoption of IFRS.

Consistent with this view, I examined CA firms' violations from 1998 to 2010. Based on the analysis, approximately 36% of independent auditing firms (31 from a total of 86) have violated the BSEC rules regarding IFRS (see Table IV). More specifically, 38 of 1647 (2.3%) enforcement notices were issued against CA firms. Table IV also shows that enforcement notices were not released against the CA firms until 2002. The largest number of violations was identified during the years 2006 and 2009. The findings reveal that none of the firms were penalised for violating the BSEC's rules, with the exception of two cases. This means that 36 violations were flagged (the BSEC stated 'Failure to comply with securities related laws regarding financial statements of the issuers' [Warning]) and two of them were fined. In terms of the two exceptions in 2008, the BSEC stated a 'Failure to submit qualified audit report of the issuer' [Penalty] and in 2010, the BSEC stated a 'Failure to comply with securities related laws regarding financial statements of the issuers' [Penalty]. Surprisingly, none of these firms paid a penalty.

[Insert Table IV about here]

Certain audit situations were very common in many of the independent CA firms' violations which were examined. For instance, some CA firms continuously violated the SEC rules. For example, A and Co. were warned for non-compliance with securities related laws in connection with the audited financial statements of Bangladesh X Ltd. for the year ended 30 June 2006, 2009 and 2010; and B and Co. were warned for non-compliance with securities related laws in connection with the audited financial statements of Y Ltd. for the year ended 30 June 2008, 2009 and 2010. Notably, B and Co. is one of the 'Big 4' audit firms in Bangladesh. This shows that not only small CA firms but also the 'Big 4' firms have violated the SEC rules. Furthermore, the BSEC restricted access to the documentation on one CA firm in the SEC websites. The released information was a 'Disposal of review petition against Penalty Order'. In connection with auditor's qualifications and Commission's observations on the audited financial statements of Z Ltd. for the year ended 30 June 2006, (http://www.secbd.org/List%20of%20Enforcement%20Actions%20for%20the%20month%20of%20February%202010.htm) M/S C and Co. (http://www.secbd.org/April-27-2010%20_Ms%20Mowla%20Mohammad%20&%20Co_.pdf). It is also evident that the CA firms were retained for more than three years but the BSEC did not penalise the companies; an example of this can be seen in the auditors of XX Ltd. (http://www.secbd.org/Keya%20Cosmetics%20Ltd.%2026.04.11-458.pdf). This evidence raises a question as to why these corrupt practices are repeated. A possible explanation suggested by the interviewees is that the SEC suffers from a lack of professionals and, therefore, they cannot identify the CA firms' violations or act upon these if they are discovered.

6. Conclusions and Limitations

Due to the paucity of research on IFRS implementation in a developing country, this study investigated the impediments of IFRS implementation. Based on 75 interviewees and 1647 enforcement document analysis, the study reveals that low audit fees play a key part in slowing down the IFRS implementation process in Bangladesh. A lack of qualified accountants is another key problem in implementing IFRS in Bangladesh. Without adequate numbers of qualified CAs, it is nearly impossible to even consider implementing IFRS. There would be no one to physically implement the regulations of IFRS. The majority of the interviewees suggested that company managers in Bangladesh were hesitant to comply with IFRS. The respondents thought that normal practice is that most companies copy the big companies' reporting styles. The interviewees also reported that shareholders and/or users in Bangladesh do not bother to acquaint themselves with what is happening through reports; for example, whether or not their companies are complying with IFRS. The purpose of IFRS is, therefore, questionable if the shareholders do not care about this compliance. The interviewees also argue that the general corporate practice in Bangladesh is to hide information, resulting in a lack of transparency. The interviewees' opinions' are that the companies are inclined to hide information, and that this is facilitated by their political connections. In addition, the company directors are aware of the fact that the regulators will not question their non-complying activities because they are using their political connections. This culture makes it difficult to implement IFRS. Moreover, the family-based private sector is not inclined to comply with IFRS.

This study finds that the BSEC's enforcement actions against CA firms were very limited. It was also found that the ramifications of enforcement actions did not go beyond the impact of press releases. Furthermore, the BSEC did not identify any CA firms' violations of auditing standards. Although there is a quality assurance committee of the ICAB for overseeing CA firms' activities, this committee is possibly not active in this regard. Another significant finding is that the identified CA firms are able to continue their work because of a culture of non-punishment for violating rules. This indicates the absence of any reliable exercising of due care or professional ethics in Bangladesh. It also raises questions about the quality of annual reports and the investors' trust in the annual reports presented to them. Bangladesh is a common law origin. Unlike prior research (Ball *et al.,* 2000; Ball *et al.,* 2003; Leuz *et al.,* 2003), which argues that common law origin is more transparent in terms of implementing accounting standards, in this research the findings suggest that Bangladesh's common law origin has no influence on implementing accounting standards. This is possibly because Bangladesh contains a unique environment which may be explained via country-specific factors.

Regarding the theoretical contribution, this study finds support for the institutional isomorphic pressures on the implementation of IFRS at the national level. The findings of this study are consistent with the prior research (Chamisa, 2000; Tyrrall *et al.*, 2007; Irvine, 2008; Joshi *et al.*, 2008; Albu *et al.*, 2011; Albu *et al.*, 2013; Hassan *et al.*, 2014). Interestingly, the coercive pressures were found to be the strongest predictor of IFRS implementation. In particular, the actual implementation is very low due to the lack of regulatory pressure (coercive isomorphism) from the government of Bangladesh. Albu *et al.* (2011) found similar findings in the Romanian experience but in this case coercive isomorphism was caused by pressure from the World Bank. In a recent study, Hassan *et al.* (2014) found that all three of the institutional isomorphisms (including coercive, mimetic, and normative) explain the initial decision to adopt IFRS in Iraq; however, coercive pressure or Western pressure was the most significant force. Unlike, Albu *et al.* (2011) and Hassan *et al.* (2014), the findings of this study imply that coercive isomorphism (regulatory authorities in Bangladesh) should be more proactive in making implementation of IFRS successful. Since the directors in Bangladesh are not inclined or have little interest to follow IFRS and a culture of secrecy exists, the mimetic and normative isomorphisms are silent or not confirmatory in the Bangladeshi environment. These findings also raise an interesting question for further research of how coercive isomorphism may influence mimetic and normative isomorphism to explain the implementation of IFRS.

Although prior research suggests that all three isomorphic pressures explain unique institutional norms regarding IFRS implementation, this study shows why certain institutional isomorphic pressures are superior to others. One possibility is that institutional norms differ from country to country, which transcends IFRS implementation, and this was the case in Bangladesh. Indeed, the findings may be of interest to institutional theorists because prior research has been criticised for examining all three isomorphic pressures in the context of IFRS adoption.

The findings of this study have major implications for policy-makers (World Bank, IMF, Basel Committee, G20, IOSCO, and IFAC) and auditing literature regarding IFRS implementation in developing countries. They may also be generalised to other developing countries that are facing problems with the effective implementation of IFRS.

This study has observed some limitations. First, a number of interviewees answered with ‘yes/no’ and/or ‘no comment’, and were reluctant to explain much. Second, there were a number of technical difficulties observed when transcribing information from Bengali to English. Some words have the same meanings, a different meaning, or no equivalent meaning. For example, the pronoun ‘you’ has three equivalents in Bengali, which can be ‘Tui’, ‘Tumi’, or ‘Apni’. Again, ‘democracy’ or ‘democratic’ have been used to explain ‘co-operative’ purposes. Nevertheless, allowing interviewees to respond increased the interviewees’ comfort levels with the researcher. Finally, some enforcement documents were not available from the BSEC website. This limitation is mitigated by the fact that a substantial number of enforcement releases (1647 enforcement notices for 13 years period) are analyzed. Future research could conduct a survey among various groups of financial reporting users (for instance, policy-makers, academics and researchers, stock-brokers, accounts preparers) regarding IFRS implementation. Research could also be carried out to investigate how the state owned companies are complying with IFRS.

Notes

1. The Bangladeshi currency is the Taka (Tk.), the Indian currency is the Indian Rupee (Rs.), and the Pakistani currency is the Pakistani Rupee (Rs.). The exchange rate on 1 April 2015 was [United States Dollar (USD), $1 = Bangladeshi Tk. [BDT] 77.925; $1 = Indian Rs. [INR] 62.68; $1 = Pakistani Rs. [PKR] = 101.93].
Available at: http://treasury.un.org/operationalrates/OperationalRates.aspx) (accessed: 13 April 2015).

2. For example, the audit fee for the Power Development Board is less than Tk. 7,500,000 to audit a balance sheet of more than Tk. 260 billion; for the T and T Board it is Tk. 170,000 for a balance sheet of Tk. 50 billion and BTCL (formerly BTTB) has discontinued their private sector audit since 1997 and no financial statements have been prepared or audited (Ahmed, 2010).

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Relevant Regulations regarding accounting:

1. Banking Companies Act No. 14, 1991 (http://www.cgap.org/gm/document-1.9.45687/Bank%20Companies%20Act%20No%2014%20of%201991.pdf)
2. Corporate Governance (CG) Guidelines (to comply or explain) in 2006 (http://www.secbd.org/Order%20relating%20to%20Corporate%20Governance%20Guidelines-9%20Jan06.pdf)
3. Dhaka Stock Exchange listing Rules 1998 (http://www.dsebd.org/pdf/listing_reg.pdf)
4. Section 2CC of the Securities and Exchange Ordinance, 1969 (XVII of 1969) (http://www.secbd.org/LawBook2007/F-01.pdf)
5. Section 34 (1) of the Securities and Exchange Ordinance, 1969 (XVII of 1969) (http://bdlaws.minlaw.gov.bd/print_sections_all.php?id=355)
6. The Chartered Accountants Bye-laws 1973
7. The Companies Act 1994 [Bengali version available at: (http://www.businesslaws.boi.gov.bd/components/com_eregistry/attach/28.%20The%20Companies%20Act,1994%20Bangla.pdf)
8. The Companies Act No. 18, 1994 (http://www.vakilno1.com/saarclaw/bangladesh/companies_act.htm)
9. The Cost and Management Accountants (Amendment) Act, 1990 (Act No. XXXIX of 1990)
10. The Cost and Management Accountants Ordinance (1977) (http://bdlaws.minlaw.gov.bd/pdf/558___.pdf)
11. The Bangladesh Securities and Exchange Act 1993 (http://www.sai.uni-heidelberg.de/workgroups/bdlaw/1993-a15.htm)
12. The Bangladesh Securities and Exchange Rules, 1987 (http://www.secbd.org/LawBook2007/F-02.pdf)

Table I. The use of IFRS in the 140 jurisdictions

Region	Jurisdictions in the region	Jurisdictions that require IFRS for all or most domestic publicly accountable entities	Jurisdictions that require IFRS as % of total jurisdictions in the region	Jurisdictions that permit or require IFRS for at least some (but not all or most) domestic publicly accountable entities	Jurisdictions that neither require nor permit IFRS for any domestic publicly accountable entities
Europe	43	42	98%	1	0
Africa	19	15	79%	1	3
Middle East	9	8	89%	1	0
Asia-Oceania	32	24	75%	3	5
Americas	37	27	73%	8	2
Totals	140	116	83%	14	10
As % of 140	100%	83%		10%	7%

Source: IFRS Foundation (2015a)

Table II. Three rounds of interviewees (n = 25[a]) in 2010, 2012, 2014

Code	Company/Organization	Role of the interviewees	Work Exp. (yrs.)	Recorded/ Not recorded[b]
A1	Big 4 Accountancy Firm in Bangladesh	External Auditor	32	Not recorded
A2	A Pharmaceutical company	Internal Auditor	24	Recorded
A3	Big 4 Accountancy Firm in Bangladesh	External Auditor	9	Not recorded
A4	Small Accountancy Firm	External Auditor	10	Recorded
A5	Bank	Internal Auditor	10	Not recorded
A6	An Engineering company	Internal Auditor	8	Not recorded
A7	Bank	Internal Auditor	15	Recorded
A8	Small Accountancy Firm	External Auditor	5	Not recorded
A9	Small Accountancy Firm	External Auditor	20	Recorded
A10	Multinational company	Internal Auditor	11	Recorded
A11	A Pharmaceutical company	Internal Auditor	7	Not recorded
A12	Big 4 Accountancy Firm in Bangladesh	External Auditor	15	Not recorded
A13	Big 4 Accountancy Firm in Bangladesh	External Auditor	32	Not recorded
A14	A Pharmaceutical company	Internal Auditor	24	Recorded
A15	Big 4 Accountancy Firm in Bangladesh	External Auditor	9	Not recorded
A16	Small Accountancy Firm	External Auditor	10	Recorded
A17	Bank	Internal Auditor	10	Not recorded
A18	An Engineering company	Internal Auditor	8	Not recorded
A19	Bank	Internal Auditor	15	Recorded
A20	Small Accountancy Firm	External Auditor	5	Not recorded
A21	Small Accountancy Firm	External Auditor	20	Recorded
A22	Multinational company	Internal Auditor	11	Recorded
A23	A Textile company	Internal Auditor	7	Not recorded
A24	Big 4 Accountancy Firm in Bangladesh	External Auditor	15	Not recorded
A25	Big 4 Accountancy Firm in Bangladesh	External Auditor	32	Not recorded

Note: Code (Interviewee): A: Auditor;
[a]25 same interviewees were interviewed in 2010, 2012 and 2014.
[b]15 interviewees were reluctant to have the interviews recorded.

TABLE III. Auditors' Perceptions on impediments of IFRS implementation [Three rounds of interviews 2010, 2012, 2014]

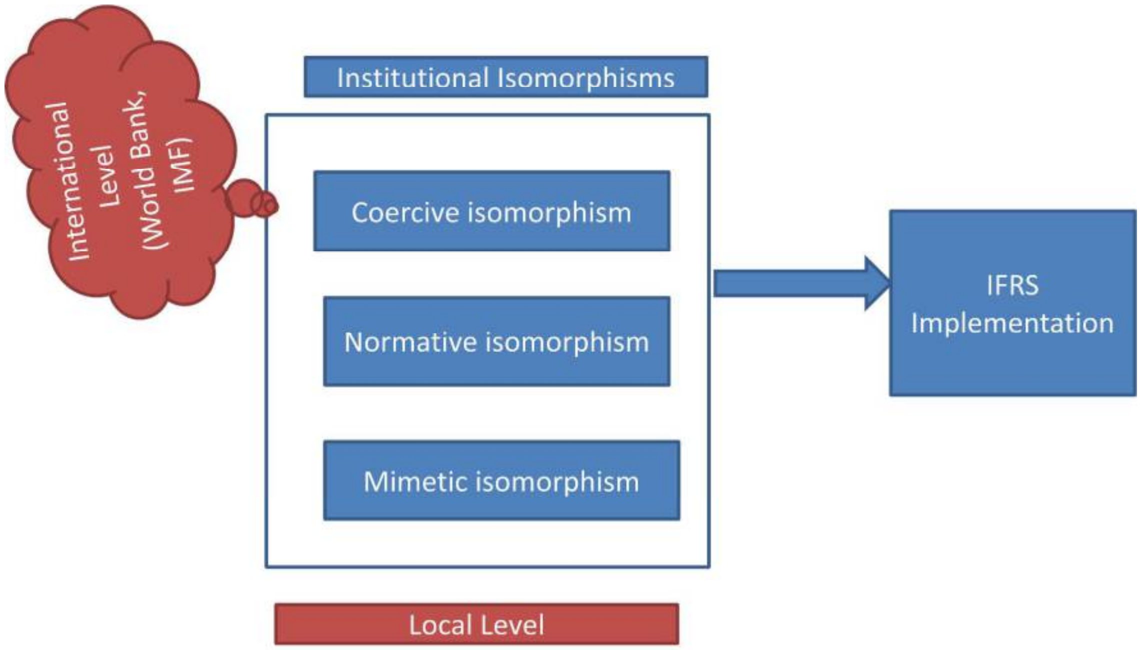
Problems of Implementing IFRS	No. of Auditors	Percentage (%)	Rank
Panel A: First Round of interviews, 2010 (n=25)			
Low audit fees	24	96%	1
Lack of qualified accountants	23	92%	2
Lack of interest in IFRS by managers of some companies	18	72%	3
Culture of secrecy	16	64%	4
Family-based private sector	14	56%	5
Panel B: Second Round of interviews, 2012 (n=25)			
Low audit fees	23	92%	1
Lack of qualified accountants	23	92%	1
Lack of interest in IFRS by managers of some companies	21	84%	3
Culture of secrecy	18	72%	4
Family-based private sector	14	56%	5
Panel C: Third Round of interviews, 2014 (n=25)			
Low audit fees	23	92%	1
Lack of qualified accountants	23	92%	1
Lack of interest in IFRS by managers of some companies	22	88%	3
Culture of secrecy	20	80%	4

TABLE IV. Chartered Accountancy Firms' Violations (1998-2010)

2010		2009		2008		2007		2006		2005		2004		2003		2002		2001		2000		1999		1998		Total	
O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F	O	F
3	3	8	8	5	3	6	4	8	6	2	2	2	2	3	2	1	1	0	0	0	0	0	0	0	0	38	31

Notes:
O= Number of occurrences (The term 'occurrences' is used for violations in this study);
F= Number of CA Firms;
Company names have been anonymized. Detailed information is available on request from the author.

Figure I. Theoretical framework for this study



Appendix I. Interview Questions

Personal background of the interviewee

Ethics and anonymity

Motivating interview question:

- What are the main problems of effective implementation of IFRS in Bangladesh?

Other follow-up questions:

- Are you already preparing IFRS?
- Why do you think that IFRS are being implemented in Bangladesh so far?
- What issues do you see in implementing IFRS in Bangladesh?
- IFRS for SME: could you, as far as possible, explain what it means to you?
- Who will be using your IFRS accounts?
- If you are not sure about the treatment under IFRS, how will you deal with it and who will you ask?