



A Critical Analysis of Accounting Practices in the Context of Current Situation of Bangladesh

Muhammad Joynal Abedin^{1*}, Mohammad Sohel², Erani Akter³

Lecturer, Department of Accounting
Siddheswari College, Dhaka, Bangladesh

ABSTRACT

The purpose of the study is to Analysis of Accounting Practices in the Context of Current Situation of Bangladesh as well as to analyze the extent to which accounting Practices is being used in measuring financial performance by Country with limitations. This empirical study is based on the primary (face to face interview and interview over the phone using questionnaire) and secondary (Various book, published research papers, websites, statistical report of BBS and annual report of BB) sources of data where 17 questions for 40 populations total. Different statistical tools (hypothesis testing, co-relation analysis and Chi-Square test) are used to analyze and find the result of the study. The designated measures of accounting system are records of document, financial statement, audited financial statement, accounting methods, accounting basis, quality of accounting information and entrepreneur having accounting knowledge. The findings of the study, it is found that public sector in Bangladesh follows cash basis of IPSAS lightly. Although the government accounting sectors provide that they are following cash basis IPSAS fully. In preparing government accounts, the fundamental accounting principle adopted is the cash basis of accounting. Accrued receipts and charges are not included in government accounts. This paper provides useful information to the concerned authority as well as other stakeholders who are directly or indirectly involved in Accounting Practices.

Keywords: *Accounting Practices, Analysis, Accounting system, Bangladesh*

INTRODUCTION

During the last decade the public sector has been affected by the introduction of significant reforms in the public accounting system in the international context. The aim of the public sector reforms is to overcome bureaucratic obstacles so that managers can use their limited resources more efficiently. Accounting played a crucial role in the public management development once the autonomy in public service organizations increased. Under the new public sector reform, different public institutions have transformed their financial statements to incorporate accrual accounting principles. In several countries there is considerable debate regarding the scope and format of accrual accounting systems.

The application of international accounting standards (IPSSAS) to the public sector could obviously contribute significantly to the provision of comparable, relevant and understandable financial information by Bangladesh government. There are a lot of reasons for the updating the accounting systems at central, local government level. Preconditions for adopting IPSASs are doubtless more positive, especially because of the world-wide influence of other countries with this cultural background which is working hard to promote the development of IFAC international standards.

The use of alternative criteria in public accounting systems leads to different results concerning the financial statements, the income and expenditure statements and the balance sheet. In spite of these, public accounting harmonization is taking its first steps through the efforts of INTOSAI (International Organization of Supreme Audit Institutions) and IFAC (International Federation of Accountants) at global level. The standards of INTOSAI have mainly focused on the elaboration of a conceptual

framework for public accounting information. The IFAC standards entered into more detailed recommendations on accounting practices adapting the International Accounting Standards for public entities and passing over the features of public sector accounting.

In Bangladesh, the accounting and auditing practices are based on cash basis accounting, which lags behind the international public sector accounting practices and fails to report on economic, efficient and effective use of public resources with proper accountability and transparency. Therefore, strengthening public sector accounting and auditing is the focal challenge to ensure superiority in procuring government resources, formation of proper budgets, keeping proper recording and reporting of assets and providing accurate financial information.

OBJECTIVES

The current economic crisis and the severe fiscal constraints being experienced by many governments has underscored the need for governments to transparently report all their assets and liabilities. IPSAS facilitates the alignment with best accounting practices through the application of credible, independent accounting standards on a full accrual basis. It improves consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard. Bangladesh as well as other South Asian countries like Bhutan, Maldives, Nepal, India, Pakistan, Sri Lanka is also in the process of adopting full accrual basis accounting of IPSAS. The main objectives of this study are-

1. To assess the present accounting practices in public sector in Bangladesh.
2. To compare the accounting practices in public sector in Bangladesh with some other countries.
3. To measure the variances in public sector accounting practices among Bangladesh and some other countries.
4. To recommend for the adoption of IPSAS and its benefits in public sectors.

LITERATURE REVIEW

According to Ciaran Connolly and Noel Hyndman, it is clear that accruals accounting is well embedded in central government departments in the UK. From the interviews it is seen that, under RAB, the accounting information is complex, few managers understand it and there is limited conviction that its provision has resulted in improved decision making. Moreover, the introduction of RAB has led to significant cost increases (at implementation and in use).

Whether, in the long term, this will change is unknown; what is known is that some years after it went 'live', several of the UK interviewees questioned its contribution. Accrual basis accounting is defined by the Federation des Experts Comptables Europeens (FEE, 2007) as a method of recording financial transactions in which all transactions are recorded during the period to which they relate. Accounting records generated by this method, however, are questioned for the same reasons that they are questioned related to private sector use, i.e., the inherent potential for improper use due to the subjective evaluations and judgments required to implement the method (Garseth-Nesbakk, 2011). According to Laughlin (2012), the additional information generated by accrual basis accounting and the benefits to the information user in terms of decision-making are counterbalanced by a number of issues related to definitions (e.g., asset, expense, liability, revenue), the use of subjective judgment, and uncertainties around the method. This claim has led to much discussion regarding the possible use of such information for decision-making purposes.

Full accrual basis accounting methods, which are often used in the private sector, are rare in the public sector (Land & Rocher, 2011). IFAC (2011) recognizes modified cash and modified accrual basis accounting methods as intermediate stages between cash and accrual basis accounting systems. In modified cash basis accounting, transactions and other events are recognized on a cash basis during the year, and accounts payable and receivable are only recognized at the end of the year. Modified accrual basis accounting recognizes transactions and other events under accrual basis accounting, but certain classes of assets and liabilities are not recognized (Christiaens et al., 2010). Alternatively, expenses may be recorded when acquired resources are received, and revenues may be recorded as they become measurable during the year.

The choice between cash or accrual accounting systems for the public sector has been the cause of debate at both the practical and theoretical levels (Deaconu, Nistor, & Filip, 2011). The migration of governments from the cash to accrual basis accounting has, according to Carlin (2003), not been the result of a quiet revolution. This author cites a broad body of research that both favors and opposes the adoption of accrual basis accounting in the public sector. The most consistent criticism of accrual basis accounting is expressed by Guthrie (1998), who considers this type of system to be poorly suited to the public sector due to the differences in the objectives of the public and private sectors.

However, an increasing body of literature has criticized the adoption of accruals accounting by public sector organizations on both theoretical and practical grounds. Guthrie (1998) argues that, in the context of the public sector, accruals accounting is inferior and unsuitable because: profit is not a goal and cannot consequently be a relevant measure of performance; financial structure and solvency are not relevant in the public realm; accruals accounting does not measure outcomes; and accruals accounting provides a narrow idea of performance, focusing on cost of services and efficiency. In addition, Hepworth (2002) urges caution to governments contemplating the change to accruals accounting, arguing that accruals accounting will not solve underlying financial control problems; indeed it will make them worse because it arguably leaves greater scope for judgement (however this, given the political dimension of public sector budgeting, may be attractive to politicians as it offers more flexibility for window dressing). Cash-based accounting has the virtues of simplicity, understandability and objectivity, qualities which should not be underestimated, particularly as in many government departments there are few, if any, skilled accountants and preparing and understanding the related information requires a degree of training (Pina, Torres and Yetano, 2009). Regardless of the warnings against the unthinking adoption of private sector practices, in particular accruals accounting, it is argued that there is pressure on the public sector to reform and to demonstrate efficiency and effectiveness, with the implementation of accruals-accounting systems often being viewed as having a prominent role in this process (Pallot, 1992). As NPM advocates mimicry of private sector practices and emphasizes quantification and performance measurement, it has had a profound effect on public sector accounting practices, with the need for accruals accounting being seen as 'self-evident' (Lapsley, Riccardo and Paulsson, 2009), perceived as progress (Guthrie, Humphrey, Jones and Olson, 2005) and viewed as fashionable (Hepworth, 2002).

METHODOLOGY

With a view to conduct a research, what is necessary is to design the research framework and select the appropriate research methodology. This is a descriptive type of research that has undertaken about the public sector accounting practices in Bangladesh and its comparison with other countries. This report is prepared on the basis of primary and secondary data. The subject matter related to methodology of this report is the following:

SOURCES OF DATA:

Primary sources:

Direct interview of employee of government public sector using structured questionnaire;

Secondary sources:

- Government Publications.
- Different reports and magazines;
- Newspapers;
- Different books, article and journals; and
- Internet and websites.

Types of information:

Relevant data is collected through direct interview of government officials who are directly involved in accounting department. A structured questionnaire has been served as a data collection instrument. The questionnaire contains 17 specific questions. In order to take answer of the questions from the respondents, a 05 point Likerts scale ranging from 01 to 05 is used. In which 05 indicates “strongly agree”, 04 indicates “agree”, 03 indicates “Neutral”, 02 indicates “disagree”, and 01 indicates “strongly disagree”.

Data analyzing process:

Collected information is processed by the using computerized system. Various statistical tools such as Z-test, weighted average, standard deviation etc. are used for processing the data.

RESULTS**Table 1: An overall view of responses of respondents upon structured questionnaire: Part-1**

Accounting Criteria	Quantitative responses based on qualitative norms i.e., To what extent do the respondents agree with statement: Strongly Disagree: 1; Disagree: 2; Neutral: 3; Agree: 4; and Strongly Agree: 5.									
	Serial number of respondents and their responses									
	1	2	3	4	5	6	7	8	9	10
Principles prescribed by IPSAS for the public sector to ensure more transparency and accountability are relevant	4	4	4	5	5	5	4	4	4	5
Public sector accounting system in Bangladesh has adopted IPSAS	4	4	4	5	4	4	3	4	4	4
Education and training of accountants is in accordance with IPSAS	4	4	4	4	3	4	4	4	4	4
ICAB code of ethics match international standards	3	4	3	4	3	4	4	3	4	4
There is a dedicated body to prescribe Public Sector Accounting standards.	3	3	3	4	3	4	3	4	3	4
Financial Statements are prepared in accordance with IPSAS standards.	4	5	4	5	4	5	4	5	4	5
Disclosures are provided in accordance with IPSAS	3	4	4	4	4	4	4	3	4	3
Accounting policies and explanatory notes are provided for general public	3	4	3	3	3	4	4	3	3	3
All documents and accounting records are kept open for public	2	2	2	2	3	4	4	4	4	3
Cash basis IPSAS is followed in public sector in Bangladesh	4	5	4	5	4	4	2	4	4	4
Cash and receipt statements are provided	4	5	4	5	4	5	1	4	4	4
Accrual basis IPSAS is followed for accounting practices in public sector	1	1	2	2	3	2	3	2	1	2
Reporting system lag to disclose further information	2	1	2	2	2	1	4	4	2	3
Correction of errors is disclosed	2	3	3	3	4	3	4	4	3	3
Segment reporting is available	4	5	4	4	4	5	4	4	3	4

Classified financial statements are prepared	5	5	4	4	4	5	4	4	4	4
Consolidated financial statements are provided	5	5	4	4	4	5	4	4	4	4

Table 2: An overall view of responses of respondents upon structured questionnaire: Part-2

Public Sector Accounting Criteria	Quantitative responses based on qualitative norms i.e., to what extent do the respondents agree with statement: Strongly Disagree: 1; Disagree: 2; Neutral: 3; Agree: 4; and Strongly Agree: 5.									
	Serial number of respondents and their responses									
	11	12	13	14	15	16	17	18	19	20
Principles prescribed by IPSAS for the public sector to ensure more transparency and accountability are relevant	4	4	5	5	3	3	3	3	5	4
Public sector accounting system in Bangladesh has adopted IPSAS	2	3	2	4	4	2	3	3	3	4
Education and training of accountants is in accordance with IPSAS	5	4	3	3	5	3	3	2	3	4
ICAB code of ethics match international standards	4	3	4	4	5	5	5	4	4	5
There is a dedicated body to prescribe Public Sector Accounting standards.	4	4	4	5	5	3	3	2	4	3
Financial Statements are prepared in accordance with IPSAS standards.	5	4	2	1	4	3	3	2	4	3
Disclosures are provided in accordance with IPSAS	3	3	2	3	5	3	3	2	2	3
Accounting policies and explanatory notes are provided for general public	3	1	3	4	5	3	3	3	3	4
All documents and accounting records are kept open for public	2	5	3	4	2	4	2	3	4	3
Cash basis IPSAS is followed in public sector in Bangladesh	5	2	2	3	2	3	2	3	2	4
Cash and receipt statements are provided	5	5	3	4	4	2	3	3	3	3
Accrual basis IPSAS is followed for accounting practices in public sector	3	3	1	4	5	3	3	1	2	3
Reporting system lag to disclose further information	2	3	3	4	4	3	2	4	4	3
Correction of errors is disclosed	2	1	3	3	4	3	3	2	4	4
Segment reporting is available	3	3	3	5	4	3	2	2	3	4
Classified financial statements are prepared	5	5	3	5	5	3	3	3	2	3
Consolidated financial statements are provided	5	2	5	5	5	3	2	3	3	3

Table 3: An overall view of responses of respondents upon structured questionnaire: Part-3

Public Sector Accounting Criteria	Quantitative responses based on qualitative norms i.e., To what extent do the respondents agree with statement: Strongly Disagree: 1; Disagree: 2; Neutral: 3; Agree: 4; and Strongly Agree: 5.									
	Serial number of respondents and their responses									
	21	22	23	24	25	26	27	28	29	30
Principles prescribed by IPSAS for the public sector to ensure more transparency and accountability are relevant	4	4	4	5	4	5	5	4	5	5
Public sector accounting system in Bangladesh has adopted IPSAS	2	2	2	2	2	1	1	2	1	2
Education and training of accountants is in accordance with IPSAS	3	4	3	3	2	3	1	2	1	2
ICAB code of ethics match international standards	4	4	4	4	3	3	3	3	1	2
There is a dedicated body to prescribe Public Sector Accounting standards.	4	4	3	2	3	4	4	2	3	2
Financial Statements are prepared in accordance with IPSAS standards.	3	3	3	3	4	3	2	4	3	3
Disclosures are provided in accordance with IPSAS	2	4	2	3	2	3	2	3	2	3
Accounting policies and explanatory notes are provided for general public	3	3	3	2	3	2	3	3	2	3
All documents and accounting records are kept open for public	3	3	2	2	4	2	4	2	3	3
Cash basis IPSAS is followed in public sector in Bangladesh	2	3	2	2	1	2	2	2	2	2
Cash and receipt statements are provided	3	3	3	2	3	3	3	3	3	3
Accrual basis IPSAS is followed for accounting practices in public sector	2	2	2	2	1	2	2	1	2	2
Reporting system lag to disclose further information	4	4	3	2	3	4	4	3	3	3
Correction of errors is disclosed	3	3	3	3	3	4	2	3	3	3
Segment reporting is available	4	4	3	4	4	4	2	4	4	3
Classified financial statements are prepared	2	4	4	3	4	3	4	3	4	3
Consolidated financial statements are provided	3	3	3	3	3	3	4	3	4	3

Table 4: An overall view of responses of respondents upon structured questionnaire: Part-4

Public Sector Accounting Criteria	Quantitative responses based on qualitative norms i.e., To what extent do the respondents agree with statement: Strongly Disagree: 1; Disagree: 2; Neutral: 3; Agree: 4; and Strongly Agree: 5.									
	Serial number of respondents and their responses									
	31	32	33	34	35	36	37	38	39	40
Principles prescribed by IPSAS for the public sector to ensure more transparency and accountability are relevant	4	5	5	3	5	4	4	5	4	4
Public sector accounting system in Bangladesh has adopted IPSAS	4	3	3	3	1	2	1	2	3	2
Education and training of accountants is in accordance with IPSAS	3	3	3	3	3	2	2	3	1	3
ICAB code of ethics match international standards	2	4	4	5	4	3	4	2	4	3
There is a dedicated body to prescribe Public Sector Accounting standards.	3	4	4	3	4	4	2	2	2	3
Financial Statements are prepared in accordance with IPSAS standards.	4	4	3	3	3	2	4	4	3	4
Disclosures are provided in accordance with IPSAS	3	2	3	3	2	2	3	2	2	2
Accounting policies and explanatory notes are provided for general public	2	2	2	4	2	3	4	3	4	2
All documents and accounting records are kept open for public	3	2	4	2	2	3	2	2	3	3
Cash basis IPSAS is followed in public sector in Bangladesh	2	3	2	4	2	4	3	3	3	2
Cash and receipt statements are provided	2	3	3	4	2	4	3	2	3	3
Accrual basis IPSAS is followed for accounting practices in public sector	2	3	2	4	1	1	3	2	3	2
Reporting system lag to disclose further information	3	4	4	4	4	4	4	1	2	4
Correction of errors is disclosed	3	3	3	2	4	2	5	2	2	3
Segment reporting is available	4	3	3	3	3	3	4	4	4	4
Classified financial statements are prepared	4	2	4	4	3	2	2	4	4	3
Consolidated financial statements are provided	4	2	3	4	4	3	3	2	4	4

Table 5: A cumulative view of responses of the respondents upon a structured Questionnaire

Public Sector Accounting Criteria	Cumulative view of responses based on qualitative norms					
	Number of respondents of different alternatives					
	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Total
Principles prescribed by IPSAS for the public sector to ensure more transparency and accountability are relevant	0	0	5	19	16	40
Public sector accounting system in Bangladesh has adopted IPSAS	5	13	9	12	1	40
Education and training of accountants is in accordance with IPSAS	3	6	17	12	2	40
ICAB code of ethics match international standards	1	3	11	20	5	40
There is a dedicated body to prescribe Public Sector Accounting standards.	0	7	15	16	2	40
Financial Statements are prepared in accordance with IPSAS	1	4	14	15	6	40
Disclosures are provided in accordance with IPSAS	0	14	17	8	1	40
Accounting policies and explanatory notes are provided for general public	1	8	22	8	1	40
All documents and accounting records are kept open for public	0	16	13	10	1	40
Cash basis IPSAS is followed in public sector in Bangladesh	1	18	8	10	3	40
Cash and receipt statements are provided	1	5	19	10	5	40
Accrual basis IPSAS is followed for accounting practices in public	9	18	10	2	1	40
Reporting system lag to disclose further information	3	9	11	17	0	40
Correction of errors is disclosed	1	8	22	8	1	40
Segment reporting is available	0	3	13	21	3	40
Classified financial statements are prepared	0	5	11	17	7	40
Consolidated financial statements are provided	0	4	15	14	7	40

Graphical presentation of cumulative view of responses of the respondents

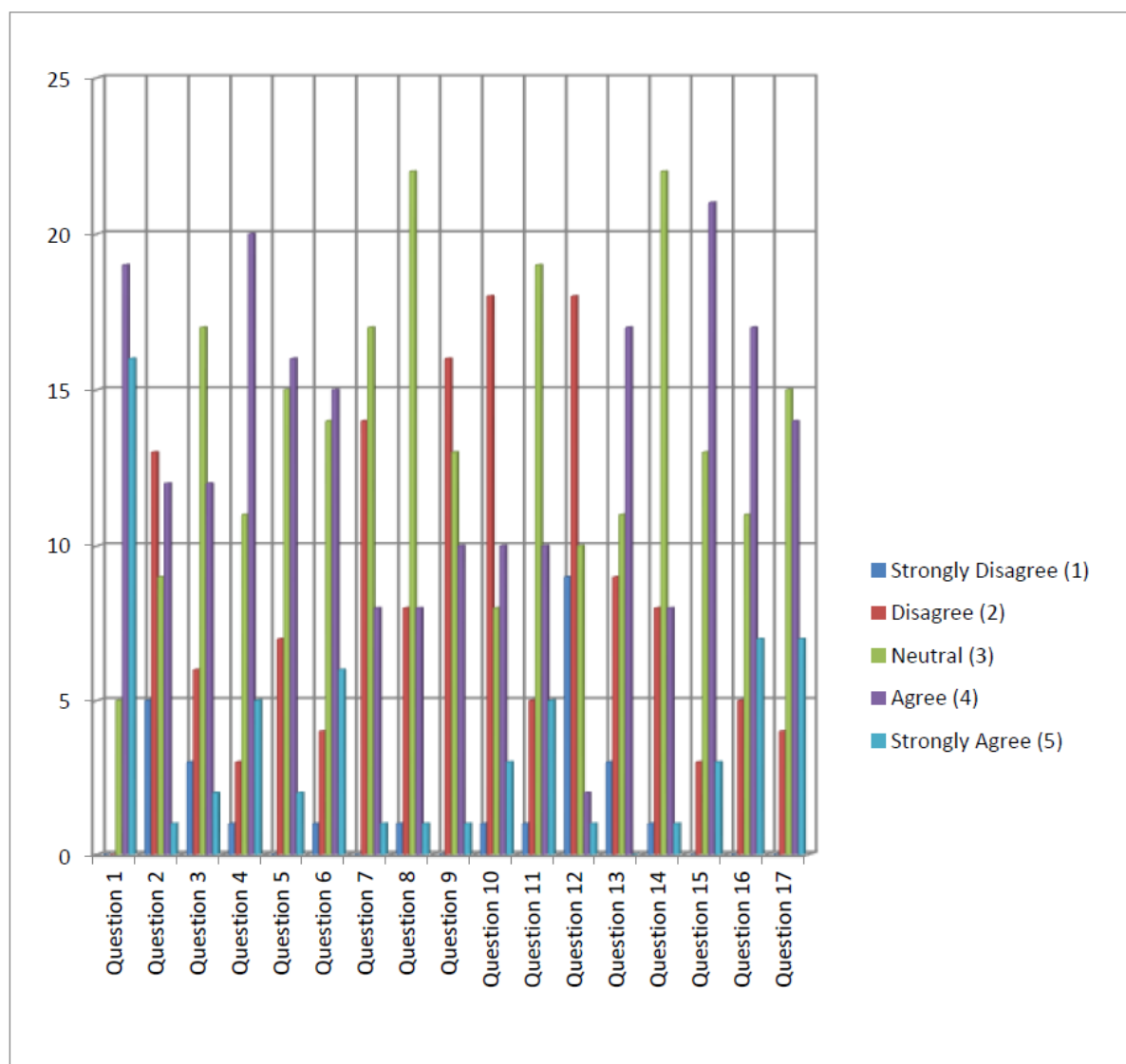


Fig. 1: Graphical presentation of cumulative view of responses of the respondents

DISCUSSION

From the statistical analysis of this study, it is found that public sector in Bangladesh follows cash basis of IPSAS lightly. Although the government accounting sectors provide that they are following cash basis IPSAS fully. In preparing government accounts, the fundamental accounting principle adopted is the cash basis of accounting. Accrued receipts and charges are not included in government accounts. But present practices stands against the standards of cash basis of IPSAS, as the survey shows the present public sector accounting practice lacks some criteria of cash basis IPSAS.

CONCLUSION

It is essential for the public sector to have an efficient, reliable and user-friendly accounting system. Cash-based accounting has been the mainstream accounting and financial information system in the sector for many years, with some governments using and preferring this method. And Bangladesh is not exceptional to it. Although cash accounting has its merits, it gives no information concerning liabilities and the future benefits for assets, accountability and decision-making. But, accrual accounting was introduced as an alternative to cash accounting to improve the financial management of public sector entities.

In the last decade, fiscal reformers have promoted accrual-based government accounting as a way to improve systems and quality of accounting. In developed and developing countries alike, many public accounting experts consider the old cash-based approach to public accounting woefully inadequate for modern public finance challenges.

To meet the given challenges, in Bangladesh, public sector accounting laws and regulations should make mention of accrual basis of International Public Sector Accounting Standards i.e., IPSAS. Study shows Bangladesh stands against some other developing and developed countries in ensuring public sector transparency. So it is a crucial need for Bangladesh to adopt and apply accrual basis of IPSAS. Current regulations are prescriptive about the maintenance and compilation of accounts, but there is no current prescription for the adoption of accrual basis of IPSAS. There needs to be a more comprehensive plan to adopt the accrual Basis IPSAS as part of a longer-term program for each government entity in accordance with the IPSAS. There is also a need for the finance legislation to be brought up to date, including the requirements for the general budget sector to develop a consolidated financial statement on an accrual in accordance with IPSAS.

RECOMMENDATIONS

1. In practice, public sector accounting follows modified cash basis of IPSAS as this study shows that. But many governments are now following accrual basis of IPSAS to ensure more transparency and reliability. So the C&AG should establish policies regarding adoption of accrual basis of IPSAS in public sector in Bangladesh as it (accrual basis of IPSAS) are enriched with improved accountability, greater transparency and greater credibility.
2. In this study, the public sector accounting practices in Bangladesh is compare with the public sector accounting practices in Sri Lanka, Malaysia, United Kingdom and United States. Among these countries Sri Lanka, United Kingdom and United States fully adopt accrual basis of IPSAS so that they can provide more transparency and reliability to the mass people. So, the government of Bangladesh should take steps to give order to the C&AG to follow full accrual basis of IPSAS as it ensures better transparency to the public sector.
3. In the study, a significant amount of variances have been found in the application of IPSAS bases irrespective of cash or accrual basis. Bangladesh is not following any of the IPSAS bases fully whether it is cash basis or accrual basis. So, Bangladesh should adopt a specific basis of IPSAS fully considering the benefits and difficulties of application of cash or accrual basis of IPSAS.
4. It is found from this study that accrual basis of IPSAS provide greater accountability, transparency, credibility, improved management and planning in public sector. Adoption of accrual basis of IPSAS in Sri Lanka, United Kingdom and United States shows the fact. So, Bangladesh should adopt full accrual basis of IPSAS and apply all the criteria of accrual basis of IPSAS.

REFERENCES

1. Athukorala , S. L., Reid, B. (2003) Accrual Budgeting and Accounting in Government and its Relevance for Developing Member Countries. Manila, Philippines: Asian Development Bank.
2. Barrett, P. (2004) Financial Management in the Public Sector – How Accrual Accounting and Budgeting Enhances Governance and Accountability?. *Address to the Challenge of Change: Driving Governance and Accountability CPA Forum 2004* Australian National Audit Office.
3. Barton, A. (2005) Professional Accounting Standards and the Public Sector a Mismatch. *Abacus*, 41(2). P.138-158.
4. Chan, J. L. (2006) IPSAS and Government Accounting Reform in Developing Countries. In Evelyne Lande & J.-C. Scheid (Eds.). *Accounting Reform in the Public Sector: Mimicry, fad or Necessity* (p. 31-41): Comparative International Government Accounting Research.
5. Christianens, J., Reyniers, B., & Rollé, C. (2010) Impact of IPSAS on reforming governmental financial information systems: a comparative study. *International Review of Administrative Sciences*. P.537-553.

6. Christiaens, J., & Peteghem, V. V. (2007) Governmental Accounting Reform: Evolution of the Implementation in Flemish Municipalities Financial Accountability & Management. 23(4).
7. Christiaens, J., & Rommel, J. (2008) Accrual Accounting Reforms: Only for Businesslike (Parts of) Governments Financial Accountability & Management. 24(1).
8. Deloitte. (2011) IPSAS Summary (February 2011 ed.): Deloitte.
9. Diamond, J., & Khemani, P. (2005) Introducing Financial Management Information Systems in Developing Countries IMF Working Paper.
10. Economic Commission for Africa. (2003) Public sector management reforms in Africa (D. P. Management, Trans.).
11. IFAC, & IPSASB. (2006) Presentation of Budget Information in Financial Statements.
12. IFAC, & IPSASB. (2011) Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities. *Study 14* (January 2011 ed.): International Federation of Accountants.
13. IPSASB. (2007) Preface to International Public Sector Accounting Standards (January 2007 eds.): International Federation of Accountants.
14. Khrouz, F., & Brusca, I. (2007). Accounting Rules and Practice at Local Level: Council of Europe.
15. Bangladesh. The World Bank. (2007) *Bangladesh public sector accounting and auditing: A comparison to international standards*. NY: South Asia Region Financial Management Unit. (39175-BD)
16. Bangladesh. The World Bank. (2010) *Bangladesh Public Expenditure and Institutional Review*. NY: South Asia Region Financial Management Unit. (47767-BD)
17. Bangladesh. The World Bank. (2010) *Bangladesh public sector accounting and auditing: A comparison to international standards*. NY: South Asia Region Financial Management Unit. (54606-SAS)