

Accounting, auditing and governance in the SAARC group of nations

Accounting research in SAARC: a call for further research

This special issue on “Accounting in SAARC” was conceptualised to explore the deeper structures of accounting and auditing practices in seven countries of South Asia, inclusive of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. This group of countries represents one of the world’s largest population zones with territorial, historical, social and economic proximity. This geographic zone is dense in population and has emerged as a thriving export and import hub for global business. Despite burgeoning economic activity, global integration from many perspectives has yet to evolve. Financial reporting, audit quality and corporate governance represent one such area where full global integration is evolving. This special issue gives a voice to accounting and auditing researchers who are located in or have an interest in this community. *Managerial Auditing Journal (MAJ)* reached out to researchers from the seven South Asian Association for Regional Cooperation (SAARC) countries and sought contributions in their respective areas of expertise and country-specific expertise. The special issue sought and received contributions comprising a wide variety of topics, including the historical development of accounting and/or the profession; the role of professional accounting bodies in the development of accounting; financial reporting, integrated reporting, accounting standards, regulation and taxation; a critical analysis of financial reporting; accounting in a cultural context; integrated reporting; internal and external auditing; corporate governance mechanisms to improve financial, environmental and social performance; management accounting and controls; the role of accounting education to inspire a new generation of accountants; and accounting and accountability issues in the public sector, non-governmental organisations, multinational corporations and family businesses.

A total of 17 papers were submitted to the special issue and after a rigorous review process, nine papers met the requirements of publication (the final list of accepted papers is outlined in [Table I](#)). The papers reflect a diversity of research topics and methodologies making a statement about accounting discourse as well as infrastructure of the SAARC countries. The papers accepted for publication were ultimately derived from three country contexts, India (four papers), Bangladesh (two papers) and Sri Lanka (three papers). The breadth of the country contexts is less diverse than what the guest editors had set out to achieve, which, on the one hand, could be interpreted as a failure on the part of the guest editors to elicit greater diversity of submissions, or alternatively, it raises some important questions on accounting research in these countries. Publishing in English-language journals is a continuing issue for non-native English speakers, but the lack of contributions from some countries could also reflect an on-going struggle of these groups of researchers to feel that they belong to, and can contribute to, an international community of accounting research. Understanding the reasons for this lack of contribution will help overcome the barriers that may hinder contributions from researchers from these countries. Whilst the



Author/s	Country	Topic	Methodology
1. Mansi <i>et al.</i> (2017)	India	CSR focus in the mission and vision statements of public sector enterprises	Content Analysis of M & V statements of 230 PSEs
2. Chandok and Singh (2017)	India	Empirical Study on Determinants of Environmental Disclosure: Approach of Selected Conglomerates	Content Analysis of websites and annual reports of 100 companies listed at BSE
3. Sagar and Singh (2017)	India	Corporate Governance and Risk Reporting: Indian Evidence	Content analysis of 100 listed Indian non financial companies Survey
4. Sharma <i>et al.</i> (2017)	India	IFRS adoption challenges in developing economies: an Indian perspective	Survey
5. Muttakin <i>et al.</i> (2017)	Bangladesh	Business Group Affiliation, Earnings Management and Audit Quality	Content analysis of annual reports
6. Azim <i>et al.</i> (2017)	Bangladesh	Combating Corruption in a Microfinance Institution	Content analysis of interviews
7. Nagrikandalage and Binsardi (2017)	Sri Lanka	Inquiry into the Cultural Impact on Cost Accounting Systems (CAS) in Sri Lanka	Interviews
8. Yapa <i>et al.</i> (2017)	Sri Lanka	Professionalization of auditing in less developed countries	Interviews
9. Gunarathne and Senaratne (2017)	Sri Lanka	Diffusion of Integrated Reporting in an Emerging South Asian (SAARC) Nation	Content analysis of annual reports and interviews

Note: IFRS = International Financial Reporting Standards

Table I.
Accounting, auditing and governance in the SAARC group of nations: accepted papers

breadth of the country contexts is limited, overall, it was both encouraging and discouraging to find a multiplicity of responses from such a fertile economic zone that was lacking in cultural breadth but had research insight depth.

Another issue arising from this exercise was the methodological choices of the SAARC research community. With the exception of the paper by [Gunarathne and Senaratne \(2017\)](#), which relied on the diffusion of innovation theory to understand the extent of adoption of integrated reporting in Sri Lanka, the papers were empirically designed and devoid of conceptual or theoretical contributions. This might suggest a lack of theoretical depth in accounting and auditing research in this region. Alternatively, it could once again reflect the barriers imposed by language. Four papers relied on a content analysis of published data, including annual reports, mission and vision (M&V) statements and corporate websites. Three additional papers relied on the interview method of data collection, while one paper relied on the survey method.

In spite of the limitations noted above, a detailed analysis of nine selected papers posits a promising future for the research community in this group of countries. The paper by [Mansi et al. \(2017\)](#) explored corporate social responsibility (CSR) pronouncements within M&V statements of Indian public sector enterprises. Keyword analysis includes sustainability (including sustainable development), social responsibility, environment, conservation (energy, nature, resources or related), safety (safe working conditions), moral, ethical, best practice (good practice), protection (environment, natural resources), responsibility, stakeholders, corporate citizenship, green (energy, production), people (employees), community (society or related), governance, health (employees, consumers, suppliers), diversity and rights (human rights, employee rights). CSR is a relatively under-explored area of research in developing countries and almost un-researched in the Indian public sector. The paper consequently makes a welcomed contribution to this area of research. After analysing the M&V statements of 230 public sector enterprises, the authors found that CSR lacked serious attention in smaller public sector companies but became increasingly important in larger and environmentally sensitive enterprises such as mining, coal and petroleum. This variability is present even though CSR is a mandatory requirement with sufficient conceptual references and standards in terms of sustainability and triple-bottom-line reporting. The results appeared counter-intuitive but highlighted the importance of policymakers to revisit this issue.

[Chandok and Singh \(2017\)](#) examined the status of the corporate environment from data published on websites and annual reports of selected companies. On a scale of diversity of reporting culture, this study identified the need for eventual convergence of financial and sustainability reporting. Data analysis focussed on the top-100 listed companies of the Bombay Stock Exchange. The sample was clustered into groups of specific environmental issues such as waste treatment, water management and carbon footprint. It connected the disclosure norms with company size and profitability ratios. Not all companies disclosed environmental information, but the study also highlighted the absence of any standard methodology of disclosing the data. It was recommended that professional bodies while framing disclosure guidelines should give special attention to the disclosure of information related to water management, air pollution and land pollution, as these represent the prerequisites for the existence of life on this planet. A policy overview of environmental disclosures was provided. The data also found that profitability ratios were in inverse proportion to disclosure, raising interesting questions that could be explored with further research. Studies such as this pave the way for an in-depth investigation of social and ecological capital generated by business organisations and the embedded culture.

The paper by [Saggar and Singh \(2017\)](#) was also based on the Indian context. Its core focus was corporate governance but from a predominantly “risk” perspective. Risk is a double-edged sword that has elements of business opportunities as well as threats against investor security. Both elements can be manipulated through the use of data disclosure style. This paper examined 100 listed non-financial Indian companies regarding their impact on risk disclosure. From an accounting perspective, this is a critical domain that should be reflected in annual reports, but a comprehensive exploration by the authors highlights the need for addressing board characteristics, those influence disclosures by the Indian companies, for example, whether the promoter is an Indian or foreign citizen, may influence the level of risk disclosures. The reporting mindset is more inclined to present a positive risk than a negative risk dimension, highlighting the lack of auditor independence in the face of concentrated ownership. This kind of discretionary disclosure style deprived the users of annual reports from reliable risk information for taking up a prudent decision.

[Sharma et al. \(2017\)](#) represent a study of India’s journey of challenges involved in IFRS adoption, accepted reluctantly by regulators. As with [Nagirikandalage and Binsardi \(2017\)](#), IFRS adoption eventually falls-out of coercive and mimetic isomorphism that is significantly present in SAARC countries. The target participants of the study were accounting professionals (those who prepare the reports) and banking executives (those who use them). A quantitative study involving 192 respondents from both sets of professionals was undertaken by the authors. Though there was no outright rejection of the accounting standards, the findings highlighted serious reservations in terms of training, cost, interpretation, IT infrastructure and staffing. This study provided an apt warning for all the other countries facing similar challenges in their adoption of IFRS.

[Muttakin et al. \(2017\)](#), the first of two papers on Bangladesh, focussed on the impact of audit quality on business group affiliations and earnings management. The research explored companies listed on the Bangladesh Stock Exchange through a content analysis of annual reports. It underlined the critical role of audit quality in curtailing improper discretionary accruals in group firms. The linkage between a corporate governance model and the relative independence of an auditor was critically analysed in the context of Bangladesh. This study emphasised the need for a strong culture of investor protection particularly in relation to minority shareholders. The study relied on a large sample size, and it underlined the evolution of the accounting profession, its diversification and its business relevance as necessary elements of strong investor confidence. From a relatively smaller country within the SAARC zone and a turbulent past, this study represents a mature reflection of accounting institutions and corporate governance in an emerging economy.

[Azim et al. \(2017\)](#) highlight the near-corruption-free governance culture of a unique microfinance institution in Bangladesh, the Grameen Bank. The founder of this poor-friendly bank was awarded a Nobel Prize for bringing exemplary self-development options to rural, poor and female populations of the country. The paper investigates the internal structure and workings of the Bank to explore how the fraud is controlled by stopping staff-level corruption in an otherwise highly corrupt country. This is a field-based study comprising interviews with staff of the Grameen Bank and documentary evidence. Data for this study relied on a total of 250 survey respondents with diversity in age, work length and locality, accompanied by 35 direct interviews. The Bank has no written contract between itself and its borrowers, yet the recovery rate is 98.28 per cent. Staff rely on strict notions of self-regulation and those mandated by the Bank. This paper represents a lateral dimension of auditing research, as it engages in a domain external to the traditional boundaries of research but, in fact, makes trust and governance the crux of reporting and accountability frameworks.

On research in Sri Lanka, [Nagirikandalage and Binsardi \(2017\)](#) focussed on the two inter-related issues mentioned in the guest editors' call for papers: the historical development of accounting and/or the profession, and the role of professional accounting bodies in the development of accounting. They examined the cultural impact of cost accounting systems (CASs) in Sri Lanka by examining the local factors that hinder the adoption of CAS. It was an interview-based study that recorded interactions with 16 respondents well-versed with all issues of cost accounting from all tiers of the management. It was an effort that factored in two contrasting perspectives; one was premised on homogeneity posited by institutional isomorphism, and the other was premised on heterogeneity offered by cultural theories of Clifford Geertz. The findings of the study indicate the existence of complete institutional isomorphism in Sri Lanka, but the adoption and implementation of CAS was not a smooth affair. The sluggishness of cost accounting adoption in the country was marked by low cost awareness and an indifferent attitude towards the importance of these systems in the accounting culture of the firm and society. Both coercive and mimetic isomorphism played an important role in the adoption of CAS. This study has the potential for spill-over on other SAARC countries. As the cultural heritage of this region is common, it can lead to a quality assessment of culturally limiting factors in accounting systems.

[Yapa et al. \(2017\)](#) investigated the tensions among local audit firms with the introduction of open economic policies and the international audit firms operating in Sri Lanka. Sri Lanka has 532 audit firms, but six foreign audit firms control the majority of the business of all listed companies. The overall shape of the auditing infrastructure in Sri Lanka is like that of a large head with an elongated thin body. To be precise, a middle-class auditing community is absent in Sri Lanka. There appears to be a power imbalance in terms of auditing favouring foreign firms because they are believed to provide technological superiority, global integration, assurance for international opportunities and sound managerial relationship with the local Sri Lankan accounting regulatory body, the Institute of Chartered Accountants of Sri Lanka (ICASL). The data for this paper are based on comprehensive interviews and a review of relevant literature. The data bring a mix of field evidence and theoretical support to mark the nature and reasons of tensions among the auditing community. This is the first such study of the auditing profession in Sri Lanka, and it has quality lessons for researchers working in other SAARC countries. It justifies and consolidates the current neo-liberal framework behind globalisation of the accounting systems.

The final paper ([Gunarathne and Senaratne, 2017](#)) examined the diffusion of integrated reporting (IR) as a managerial technology among companies listed on the Colombo Stock Exchange in Sri Lanka. Within the context of growing acceptance of IR globally, the study analysed data from annual reports to identify adopter entities in Sri Lanka, and then further investigated relevant issues by interviewing key actors involved in the process of the adoption and diffusion of IR. The authors conclude that the temporal trend of IR is presently at the diffusion stage (second of four stages), where the volume of adopters was rapidly increasing. The authors contend that early adopters of IR were driven by efficient choice perspective (rationale economic choice), and companies in the process of the diffusion stage were driven by fashion setting, attributable to the active propagators in the supply side of IR diffusion. The authors also detected evidence of new adopters motivated by the "fad" perspective, in which they imitate successful IR adopters. Overall, IR is in transition from the relatively more common sustainability report and has yet to fully morph.

On a broad level, the call for papers brought forth an assemblance of researchers from the SAARC group of countries to form a collective voice that in the past has been spatially distant and diverse. Unfortunately, not all countries are represented in this special issue, but this highlights the need for greater contributions, collaboration and opportunities for such

countries to put their best foot forward. The room for constructive debate and critique in this space is immense, but more importantly, there is a need to understand how to encourage participation in global mainstream accounting research. In our view, the world will no doubt benefit from varied and rich research on accounting in the cultures absent from this special issue: Pakistan, Nepal, Bhutan and Maldives. A further call is made to entice research from these countries.

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