An analysis of disclosure of IAS-24, related party disclosure of selected insurance company in Bangladesh.

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Abstract

This paper reviews on IAS-24, Related-Party Disclosure in the context of insurance company in Bangladesh and discusses issues surrounding such disclosure. This study has also reviewed the annual reports of selected insurance companies and highlights issues of the requirements of regulatory authority for IAS-24, Related Party Disclosure. IAS-24, Related Party Disclosure states the related-party's relationships of commerce and business. The purpose of this study is to identify content analysis using IAS-24, Related Party Disclosure to understand more about the effect of financial reporting. Effective financial reporting disclosure of related-party measures the strength of a company. In order to remove the asymmetry of accounting information worldly, this study has been focused on to analyze getting the actual scenario of related party disclosure and benefits of fully application of IAS-24, Related Party Disclosure for insurance companies. This study has also found out that the most insurance companies have poor application of IAS-24, Related-Party Disclosure. With the evidence, this study has tried to present the scenario of related party disclosure in annual report and how to improve such disclosure, IAS- 24, Related-Party Disclosure efficiently.

Keywords: IAS-24, Related party disclosure, Insurance company, Regulatory framework.

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Introduction

Transaction between entities that are considered related parties must be adequately disclosed in financial statements. Such disclosures have been a common feature of financial reporting, and the most accounting standards-setting bodies have imposed similar mandates (Epstein and Jermakowicz 2009). Transaction with related-party of an entity is necessary to measure financial position and profit/loss that may have been affected by the existence of related parties. Business entity frequently makes transaction through parent, subsidiaries, and associates. Unavailable information regarding such transaction with related parties (parent, subsidiaries, and associates) may occur indecision or improper presentation in annual report. In addition, the information users as well as stakeholders of an entity enable to assess the effect of financial and operating policies which have been taken to control, joint control or significant influence.

While IAS 24, Related-Party Disclosure has been operating for over two decades, it is commonly observed that related party disclosures are not being properly disclosed in all instances. IAS 24, Related Party Disclosures is to be applied in dealing with related parties and transaction between reporting entity and its related parties. IAS 24, Related-Parties Disclosure is to be employed in determining the existence of related party that may be instructed by its parent and subsidiaries. Since related-party transactions could have an effect on the financial position and operating result of an entity. Besides, an entity's transactions with parent company and subsidiary companies may affect on the assessments of its operations and the users of financial statements.

Objective of the Study

IAS 24 addresses the related party issue and prescribes extensive disclosures. For that reason, extensive disclosure of such transaction is deemed necessary to covey full picture of an entity. The major objectives of this study are to assess the present status of related party disclosure and practices level of IAS-24, Related-Party Disclosure in annual report by selected insurance companies in Bangladesh. There have been specified the following objectives:

To evaluate the disclosure level of IAS-24, Related Party Disclosure of insurance company in Bangladesh [1-5],

To identify the reason for practicing IAS-24, Related Party Disclosure in presenting financial report of insurance company, and

To formulate some specific suggestions to develop related party disclosure in annual report for this industry.

Literature Review

Regulatory guide 76 (2011) on Related Party Transactions set out a guidance to promote better disclosure and governance for related party transactions. Independent valuation on related party transaction can help members better understand and make an informed decision about how to vote. Related party disclosure can also play an important part in maintaining investor confidence in management of an entity. IAS-24, Related Party disclosure designed for public companies, responsible entities of registered managed investment schemes, experts, public company directors and their professional advisers.

Mohamad and Hashim 2013 presented in their study about existing regulation that surrounds RPTs disclosure practise by looking into the accounting standards on RPTs, listing requirement, and security commission's guidelines. They also examine the measures of RPTs being used in empirical research that analyzed the economic consequences of RPTs information. They find that the level of RPTs disclosure varies, and the variations are due to the different nature and types of RP transactions. They propose that research on RPTs should apply content analysis using a voluntary disclosure index to understand more about the breadth and depth of the RPTs information.

Zuni Barokah 2013 discussed the institutional factors that potentially influence RP disclosures and the extent of IAS 24 adoption in the selected Asia-Pacific countries [1]. Countries in the Asia-Pacific region provide an important setting to investigate RP disclosures for at least two reasons. First, companies in some Asian countries are commonly characterized by dominant shareholders and family-controlled ownership. Second, Asia-Pacific countries differ in legal origin, capital market development, enforcement, control for corruption, and corporate governance structures. While those country factors provide an important setting to investigate the nature and extent of corporate RP disclosures, there is no known empirical evidence on the influence of these country factors on the extent of RP disclosures. This study also highlighted the potential influences of these country factors on the extent of RP disclosures. First, legal origin is likely to influence the financial reporting system. Specifically, common-law countries tend to have greater disclosures than civil law countries.

Key Regulatory Authorities for Disclosure

The Securities and Exchange Commission (SEC): The functions of the Commission as laid down in the SEC Act 1993 are to ensure proper issuance of securities, to protect the interests of investors in securities, and to promote the development of, and regulate, the capital and securities market (Akhtaruddin 2005).

The Institute of Chartered Accountants of Bangladesh (ICAB): The ICAB is an active member of various International and Regional accounting regulatory bodies such as the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the Confederation of Asian and Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA). The institute circulates all IFAC releases inrelation to IFRSs to its members. They work for adoption of accounting standards.

The Institute of Cost and Management Accountants of Bangladesh (ICMAB): The primary objective of the institute is to develop and train cost and management accountants. The fellows qualifying from ICMAB are not required to go through practical accounting and auditing training with a professional accounting firm (Solaiman, 2006). The ICMAB's capacity is constrained by the shortage of well-trained instructors and resources. The institute has no auditing power, and hence does not play any role regarding financial accounting standards.

The Dhaka Stock Exchange (DSE): The Dhaka Stock Exchange (DSE) is a regulatory authority for financial reporting and its activities are regulated by its Articles of Association rules and regulations. The volumes of transactions and the number of quoted companies in the DSE have increased significantly (Siddiqui, 2010).

The Registrar of Joint Stock Companies (RJSC): The function of the Registrar is to grant registration to new incumbents Hasan et al. The Companies Act 1994 requires that every joint stock company obtains a registration from the Registrar and files a copy of their annual report. However, the Registrar's role is reduced to one of routine licensing of companies, in exchange of a specified fee and housing the file of companies' accounts.

Methodology of the Study

This study is based on secondary data which has been collected from different published documents like book journals, brochures, audit reports, web sites of different insurance company. Furthermore, some secondary information collected from the annual reports (2014) of the company & web information from the related companies and regulatory authorities. Mainly, in this study, descriptive analysis method has been applied. The information of IAS-24, Related Party Disclosure in annual is presented using checklists of selected general insurance companies. For making checklist, it has been given tick mark (√) if the item of IAS-24, Related Party Disclosure is disclosed in annual report and given cross mark (x) if it is not disclosed. Bhuiyan and Kamal (2003) argued on using this method for determining disclosure checklist.

Findings of the Study

This study has found out scenario of related party disclosure in annual report by selected insurance companies. Surveying the annual report of selected insurance companies, there have identified their levels of disclosure regarding IAS-24, Related Party Disclosure:

1. **Disclosure of an entity shall disclose the name of its parent:** It can be seen Table 1 that 100% of selected companies have disclosed the name of its parent company.

2. **An entity shall disclose the name of its ultimate controlling party if different to its parent:** It can be seen Table 1 that the frequency of disclosure level is 0% out of 10 selected insurance companies in their annual report.

3. **Disclose the name of the next most senior parent (where**

Table 1. *Frequency of disclosure level of IAS-24, Related Party Disclosure.*

Sl. No.	Required Compliance Status	Sample company	Disclosed Companies	Disclosure Percentages (%)
1	Disclosure of an entity shall disclose the name of its parent.	10	10	100
2	An entity shall disclose the name of its ultimate controlling party if different to its parent.	10	0	0
3	Disclose the name of the next most senior parent (where neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use).	10	0	0
4	Disclose key management personnel compensation for each of the following categories.			
	(i) short-term employee benefits	10	8	80
	(ii) post-employment benefits	10	6	60
5	Disclosure of Related Party Transactions by separate category for each of the following:			
	(i) the parent;	10	0	0
	(ii) entities with joint control or significant influence over the entity	10	0	0
	(iii) subsidiaries;	10	8	80
	(iv) associates;	10	6	60
	(v) joint ventures in which the entity is a venturer;	10	10	100
	(vi) key management personnel of the entity or its parent; and	10	10	100
	(vii) other related parties.	10	5	50
6	Government-related entity taken exemption where the government-related entity applies the exemption in paragraph 25 of IAS 24 (2009) it shall			
	(i) disclose the name of the government;	10	0	0
	(ii) disclose the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);	10	0	0
	(iii) disclose the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:(a) the nature and amount of each individually significant transaction; and	10	0	100
	(b) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.	10	0	0

neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use): It can be seen Table 1 the item ‘the name of next senior parent or controlling party’ did not mention by any of the selected companies in annual report.

4. **Disclose key management personnel compensation for each of the following categories:**

   i. **Short-term employee benefits:** have been disclosed by 80% selected companies in annual report.

   ii. **Post-employment benefits:** have been disclosed by 60% of selected companies indicated in the Table 1.

5. **Disclosure of Related Party Transactions by separate category for each of the following:**

   i. **The parent:** company of selected companies did not mention separately under Related Party Transaction presented in the Table 1.

   ii. **Entities with joint control or significant influence over the entity:** did not show by selected companies separately in annual report.

   iii. **Subsidiaries:** 80% of selected companies have been disclosed Table 1 the information about subsidiaries company/companies.

   iv. **Associates:** 60% of companies have been disclosed their associates company in their annual report Table 1.

   v. **Joint ventures in which the entity is a venture:** only one company has been mentioned about its joint venture in the annual report.

   vi. **Key management personnel of the entity or its parent:** all of the selected company have disclosed except who have no subsidiary companies.

   vii. **Other related parties:** 50% of company have disclosed that they have other related parties.

6. **Government-related entity taken exemption where the government-related entity applies the exemption in paragraph 25 of IAS 24 (2009) it shall:** It has been presented in the Table 1 and shown that the level of disclosures of this item is 30% by among 10 insurance companies. And, under this category, there have some sub-headings of disclosures whereas;

   i. **Disclose the name of the government:** no company has been disclosed the name of the government who has operating their business jointly or not.

   ii. **Disclose the nature of its relationship with the reporting entity (i.e. control, joint control or**

significant influence): has presented Table 1 that no company has been disclosed and there have not mentioned relationship with government and about their control and significant.

iii. Disclose the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements: (a) the nature and amount of each individually significant transactions; have not been disclosed by selected insurance companies.

(b) For other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent: did not disclose Table 1 in the annual report.

Recommendations

In Bangladesh the insurance company follows the laws, rules, and regulations just to meet the requirements of national regulatory authority. So, due to following these rules, companies do not clearly to provide related parties adequate information and ignore international standards. There are needed to take steps to ensure the legal and regulatory requirements on accounting and financial reporting fully protect the public interest. Assessing the prospects of related-party disclosures of insurance company in Bangladesh [6-8], the following actions should be taken:

The IDRA should take steps of related-party disclosure mandatorily so that all of the companies publish required related-party disclosures in annual report.

Provide guidelines for corporate governance issued by IDRA, and independence requirements for the auditor reference should be made to the code of ethics for professional accountants as issued by the accounting regulator.

Companies should follow globally accepted standards for related-party disclosure to ensure quality financial reporting.

The companies should increase their concentration on disclosure of related-party to meet the demand of various stakeholders and other related parties.

Regulatory authorities have to be active in ensuring the related-party disclosure for maintaining the quality financial reporting by company.

To define what auditing standards will be utilized in the performance of an audit.

Insurance Act should to include the publishing of the statement of comprehensive income for members of the public to get a complete picture of insurance companies' performance in consistent with international standards.

Publishing in the daily newspapers of wide circulation, insurers should for effective disclosure also be required to make their audited financial reports readily available in their websites.

In addition, the professional bodies' engagement with stakeholders, the ICAB is responsible for accounting standards setting in Bangladesh [9-12] but does not engage the stakeholders in setting of standards; there has even been a lack of any published exposure drafts and/or consultation papers on standards.

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