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Financial Misreporting and Corporate Fraud: Strengthening Governance Mechanisms

Introduction:

In Bangladesh, corporate financial misreporting and fraud are rising concerns. Recent data show reported financial crimes jumped 45% between 2018 and 2023, with the banking sector losing over Tk 25,000 crore in the past decade[1]. High-profile scandals (e.g. the Basic Bank loan fraud, Hallmark Group embezzlements, and the Bangladesh Bank cyber-heist) have undermined public trust. These breaches "weaken investor confidence and market integrity" and even jeopardize Bangladesh's economic goals[2]. Stronger governance, transparency and internal controls are therefore essential to prevent fraud and restore confidence.

Key Discussion:

The Bangladesh Securities and Exchange Commission (BSEC) Corporate Governance Code (2018) requires each listed company to appoint independent directors and form board sub-committees (Audit, Nomination, etc.) to oversee risk and reporting[3]. The Code also mandates a Code of Conduct for board members and CEOs, and it requires top executives (CEO and CFO) to certify that annual financial statements are true, fair and "free of any material misstatement" or fraud[4]. These provisions bind management to transparent practices and create accountability at the top. Boards are expected to regularly monitor risk-management and internal control systems to ensure "the accuracy of financial results".

Under the Financial Reporting Act (2015), companies in Bangladesh are required to prepare IFRS/BFRS-compliant financial statements, which must be audited by qualified professionals. While the Companies Act (1994) and other laws prohibit fraudulent financial reporting, the requirement for CEOs and CFOs to certify the accuracy of financial statements applies specifically to listed companies under the BSEC Corporate Governance Code (2018). Auditors are expected to report significant irregularities in line with professional standards, though the extent of legal obligation may vary depending on the case. The mandatory CEO/CFO certification (noted above) and strict auditor independence rules help deter and detect misreporting. By law, any misleading or fraudulent entries are illegal; auditors are obligated to report irregularities. These legal standards aim to make corporate accounts transparent and comparable to global norms (though full implementation remains a challenge).

Bangladesh's laws (Penal Code, Companies Act, Prevention of Money Laundering Act 2012, SEC Act 1993, etc.) criminalize financial fraud and empower regulators (BSEC, Bangladesh Bank, Anti-Corruption Commission) to investigate abusers[5]. The Financial Reporting Council (created under FRA 2015) oversees accounting standards.

Despite these frameworks, enforcement gaps persist: one study notes only about 12–15% of corporate fraud cases lead to convictions, due in part to resource constraints and legal shortcomings. Strengthening investigation capacity, updating laws for digital finance, and improving inter-agency coordination are recommended to boost enforcement

Experts urge stronger whistleblower protections and reporting channels in Bangladesh[6]. Companies are encouraged to establish secure, anonymous hotlines and ethics training to enable employees to report fraud without fear. Embedding an ethical culture (with regular fraud-awareness training and clear penalties for misconduct) can deter managers from falsifying accounts. In short, combining a "tone at the top" ethical code with active whistleblower mechanisms is seen as a key preventive measure.

Concluding Remarks:

Bangladesh's experience shows that weak governance invites financial misreporting. To prevent corporate fraud, regulators and firms must rigorously apply existing rules and fill remaining gaps. This includes enforcing the SEC's governance code (audit committees, executive certifications, board responsibilities), fully implementing IFRS-based reporting under the FRA, and empowering internal audit. Capacity-building for regulators and encouragement of whistleblowing are also vital. In essence, the country's growth and investor trust will depend on building robust governance structures: by tightening controls and transparency, Bangladesh can protect its capital markets and economy

Source: Ai Generated

1. Professor Deng Lie and Doctor Manjurul Alam, 'The Rising Issues of White-Collar Crime in Bangladesh's Corporate Sector: Findings and Recommendations for Legal Gaps and Execution Barriers' (2025) 8(6) IJRISS.
2. ibid
3. Bangladesh Securities and Exchange Commission, *Corporate Governance Code 2018* (10 June 2018).
4. ibid
5. Deng and Alam (n1) 492
6. Deng and Alam (n1) 493

Corporate Tax Reforms and Their Impact on Business Growth in Bangladesh

Introduction:

Recent reforms to Bangladesh's corporate tax system have brought changes to tax rates, capital gains tax, and minimum tax structures. These measures are having an impact on investment, cash flow, and business confidence, in addition to increasing revenue. They are accelerating the country's transition to upper-middle-income status, as recommended by the IMF and the World Bank[1]

Key Discussion:

The interrelationship between international financial institutions, national budgets, and policy reforms is crucial in understanding the effectiveness of Bangladesh's recent corporate tax reforms. The IMF and the World Bank have been playing an active role in linking Bangladesh's tax policy to sustainable development and Bangladesh's tax-to-GDP ratio is below the South Asian average. The government has made corporate tax reform a key focus for increasing budget revenues. Some taxes have been increased (such as on capital gains), while tax collection and efficiency have been improved. Revenue growth has been given special emphasis in fiscal year 2024-25, in line with the IMF's ECF conditions[2]

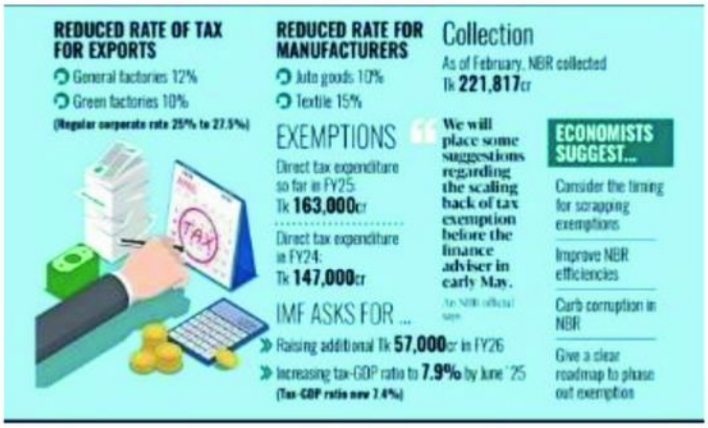
The IMF and the World Bank have repeatedly stated that Bangladesh needs to adopt a "revenue mobilization through structural reforms" strategy. The IMF, in its third and fourth reviews due in mid-2025, recommended digitalization of corporate tax administration, limiting tax exemptions, and strengthening transfer pricing controls[3]. The World Bank, in its Bangladesh Development Update (2024), also noted that bringing transparency to tax policies would ensure a stable investment climate[4]. The budget includes tax breaks and simplified online filing for the SME sector. According to the IMF and World Bank, these will gradually include small businesses in the formal financial sector, making it easier to access bank loans and other financing.

Predictability of tax policies is important for foreign investors. The World Bank noted that the tendency to change tax laws frequently must be reduced to maintain investment flows to the Bangladeshi market. The IMF also said that tax concessions or incentives announced in the budget should be linked to long-term industrial development strategies, not short-term political considerations[5].

The national budget 2024-25 calls for the introduction of e-filing, e-payments and automated risk management systems. The IMF report states that these will reduce taxpayer costs and increase the efficiency of the NBR (National Board of Revenue) in detecting tax evasion[6]. Overall, corporate tax reforms, national budget policies, and IMF and World Bank conditions or recommendations are interlinked and are taking Bangladesh's revenue administration to a new level. However, its success in the long run depends on political will, stable policy framework and effective implementation[7].

Concluding Remarks:

Corporate tax reform is a critical step towards sustainable economic development, which will generate revenue growth, business formalization, and growth opportunities. Its success will depend on effective implementation, dialogue between the NBR and the business community, and a strong commitment to tax compliance.



Source: Ai generated

1. International Monetary Fund, Bangladesh: Third and Fourth Reviews Under the Extended Credit Facility Arrangement and the Arrangement Under the Extended Fund Facility (IMF Staff Country Report No. 25/150, 26 June 2025) <https://www.elibrary.imf.org/view/journals/002/2025/150/article-A001-en.xml> (accessed 16 September 2025).
2. Ministry of Finance (Bangladesh), 'Budget Speech 2024–25' (Dhaka, June 2024) <https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/e3f239dc_f581_47c7_a32f_c18b075e0697/2024-25_Budget_Speech_English.pdf> (accessed 11 September 2025)
3. Supra Note 1
4. World Bank, ' Bangladesh Development Update: Strengthening Domestic Resource Mobilization' (World Bank, June 2025 <https://documents1.worldbank.org/curated/en/099615004102420624/pdf/IDU14676135518dc014e351951e1d5035459f49c.pdf> (accessed 11 September 2025).
5. World Bank, Press Release: World Bank Helps Bangladesh Improve Transparency, Public Sector Accountability and Financial Sector Stability (World Bank, 20 June 2025) <https://www.worldbank.org/en/news/press-release/2025/06/20/world-bank-helps-bangladesh-improve-transparency-public-sector-accountability-and-financial-sector-stability> (accessed 11 September 2025).
6. Supra Note 2
7. Sadiq Ahmed, 'Institutional Dimensions of Tax Reforms in Bangladesh' in Selim Raihan, François Bourguignon & Umar Salam (eds), Is the Bangladesh Paradox Sustainable? (Cambridge University Press 2024) 185-187

Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violation in Supply Chains

Introduction:
The German Act on Corporate Due Diligence Obligations in Supply Chains (also known as Lieferkettensorgfaltspflichtengesetz, or LkSG) was enacted on July 16, 2021, and came into effect on January 1, 2023. The LkSG contains an inclusive catalogue of eleven internationally recognized human rights conventions, and it is the first legally binding regulation of corporate responsibility for respecting human rights in supply chains. Specifically, the LkSG obliges companies to respect human rights and certain environmental due diligence obligations in their supply chains appropriately.

Key Discussion:
The LkSG defines human rights risks as imminent violations of specific prohibitions set out in section 2(2). These include, inter alia, child labor as prohibited under section 2(2)(1) with reference to ILO Convention No. 138, and the worst forms of child labor as prohibited under section 2(2)(2) pursuant to ILO Convention No. 182. The Act also addresses forced labor under section 2(2)(3), slavery and slavery-like practices under section 2(2)(4), and occupational health and safety deficiencies that may endanger workers under section 2(2)(5). Section 2(2)(6) covers restrictions on the freedom of association and the ability to organize trade unions, whereas Section 2(2)(7) deals with discrimination in employment and occupation. Section 2(2)(8) of the Act also names explicitly low wages that deviate from globally accepted norms as a risk.
Furthermore, under sections 2(2)(9) & (10), environmental harms that have a direct impact on human health or livelihoods are covered, such as the destruction of natural resources or the contamination of soil, water, or air that harms health. Section 2(2)(11) specifically forbids the abuse of private or public security forces, including the use of excessive force or violations of human dignity. Lastly, section 2(2)(12) serves as a catch-all clause that covers other grave human rights violations that are on par with the ones mentioned above.
In addition to human rights risks, the LkSG also identifies environmental risks under section 2(3). Section 2(3)(1) & (3) of the LkSG prohibits the violation of the prohibition of the manufacture of mercury-added products pursuant to Article 4 (1) and Annex A Part I of the Minamata Convention. In accordance with the Stockholm Convention, sections 2(3)(4) & (5) address persistent organic pollutants. Sections 2(3)(6) & (8) of the LKSG govern the handling of hazardous waste and cross-border movement.
Under Division 2, companies are required to fulfill due diligence obligations by establishing risk management systems under Section 4, conduct annual risk analyses of their own operations and direct suppliers under section 5, issue policy statements on human rights strategies under section 6(2), implement preventive measures such as training and supplier assurances under sections 6(3) and 6(4), take remedial actions to end violations under section 7, set up complaints procedures under section 8, address indirect supplier risks upon substantiated knowledge under section 9, and document and report activities under section 10.

Advantages
The LkSG improves sustainability and operational resilience by strengthening corporate governance through the requirement of risk assessments and preventive measures under sections 5 and 6. This allows for the early detection of problems like hazardous working conditions or environmental pollution. It promotes ethical supplier relationships through contractual assurances and training under section 6(4), which supports fair labor practices and lowers exploitation worldwide. In order to improve reputation and attract investors, digital tools for compliance can expedite procedures, accelerate transformation, and align with ESG standards.

Criticism
The LkSG's requirements include annual reporting under section 10(2) and extensive supply chain mapping. These requirements place a heavy financial and administrative burden on mid-sized businesses. The complexity of the global market makes it difficult to verify indirect suppliers under Section 9. There is concern about the potential negative economic impact of the Act and cautions against a "regulatory tsunami," especially with the impending EU Corporate Sustainability Due Diligence Directive (CSDDD).

Conclusion
Notwithstanding implementation challenges, the LkSG leads corporate accountability by integrating environmental and human rights due diligence into business operations. The September 2025 amendments signal a pragmatic shift to lessen bureaucracy while preserving the legislative core, potentially easing burdens but risking diluted safeguards as NGOs warn. To ensure a significant impact on global supply chains without causing undue economic strain, the future effectiveness of this approach depends on balanced enforcement and EU alignment.

Bangladesh Freight Forwarders' Association (BAFFA) vs. Registrar, Joint Stock of Companies (RJSC) & Ors

Company Matter No. 150 of 2021
Supreme Court of Bangladesh (High Court Division)
Decided on: 14 December 2021

Summary:
This case concerns the validity of Annual General Meetings (AGMs) held by BAFFA for the calendar years 2020 and 2021. Due to the COVID-19 pandemic, government restrictions, and logistical difficulties, BAFFA could not hold its 10th and 11th AGMs within the statutory timeframe. The association eventually conducted both AGMs virtually on 21 April 2021, without first obtaining permission from the Company Court as required under the Companies Act, 1994. BAFFA later sought ex-post facto validation of these meetings. The High Court held that the AGMs were illegal for being held in violation of mandatory provisions of the Companies Act, but exercised its discretionary power to direct that fresh AGMs be held under court supervision.

Fact of the Case:
BAFFA, a company limited by guarantee and the sole national trade body for freight forwarders in Bangladesh, was incorporated in 2010. Since incorporation, it regularly held AGMs as mandated by law. The 10th AGM, due in 2020, was initially scheduled for March but had to be postponed due to COVID-19 lockdowns. BAFFA sought extensions from the RJSC and the Ministry of Commerce, but the pandemic persisted, preventing the AGM from being held within the statutory deadline of 31 December 2020.
The 11th AGM, due for 2021, coincided with preparations for the delayed 10th AGM. Attempts to hold both AGMs in March 2021 were disrupted by national events, including the centenary celebrations of Bangabandhu Sheikh Mujibur Rahman and heavy security restrictions for visiting dignitaries. Finally, BAFFA organized both AGMs virtually on 21 April 2021, informing members via e-mail and short-notice letters. Members attended, quorum was met, and no objections were raised.
Subsequently, BAFFA filed an application under sections 81(2), 85(3), and 396 of the Companies Act, 1994 seeking court approval for the delayed AGMs and condonation of the technical defaults. The respondents opposed, arguing that (i) the Court had no power to condone delay after AGMs were already held, (ii) statutory notice requirements were violated, and (iii) BAFFA as a company lacked locus standi to file the application.

Issues:
- Whether an AGM held after the expiry of the statutory timeframe without prior court permission can be validated ex post facto.
- Whether the notices issued for the 10th and 11th AGMs satisfied the statutory requirement of at least 21 days' notice.
- Whether BAFFA, as a company, had locus standi to file the application under sections 81(2) and 85(3).
- Whether the Court has discretionary power to validate AGMs already conducted in breach of law.
- Whether an application under section 81(2) could be treated as one under section 85(3) by the Court.

Relevant Provision:
- Companies Act, 1994:
  - Section 81: Requirement to hold AGM annually, within 15 months of the previous AGM, but not later than 31 December of the year.
  - Section 82: Penalty for default in holding AGMs.
  - Section 85: Rules on notice, voting, and Court's power to order meetings.

Judgment:
The Court held that BAFFA's 10th and 11th AGMs, held on 21 April 2021, were illegal as they breached mandatory requirements of section 81 by being held after 31 December without court permission, and section 85(1) by giving only 14 days' notice instead of 21. The Court emphasized that government circulars during COVID-19 could not override statutory provisions of the Companies Act. It ruled that AGMs held beyond the statutory timeframe cannot be validated ex post facto, since the Court's power is confined to permitting future meetings, not ratifying past illegality.

Significant judgment
This judgment clarifies the strict mandatory nature of AGM requirements under section 81 of the Companies Act. The Court underscored that no AGM can be held after 31 December of a calendar year without prior permission of the Company Court, regardless of force majeure events such as the pandemic. It further confirmed that government circulars cannot override statutory obligations under the Act.

Concluding Remarks:
The BAFFA case reaffirms the supremacy of statutory provisions in corporate governance and the limited scope of executive directions during emergencies. While the Court could not legitimize AGMs held in violation of law, it innovatively used its inherent powers to provide a workable solution. The decision serves as a vital precedent, warning companies that statutory timelines for AGMs are strict, yet showing that bona fide errors made under extraordinary circumstances may still receive equitable relief through judicial discretion.

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