

BANGLADESH METEOROLOGICAL
DEPARTMENT
LOCAL TRAINING

MODULE 14: FINANCIAL MANAGEMENT

Project:

**Strengthening Meteorological Information
Services and Early Warning Systems
(Component-A)**

PREPARED BY:
**GRANT THORNTON CONSULTING
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AIMS AND OBJECTIVES

- To provide delegates with an appreciation of the fundamental concepts of Financial Management.
- We will use introductory and state-of-the-art lectures on the various subjects / area of financial management, by utilizing extensive practical exercises, demonstrations, workshop discussions for the participants for better understating.

DELIVERY AND DESCRIPTION

Methodology:

This module is designed in such a way that the participants get explicit idea regarding the various terms of financial management and concepts. Besides, we also wish that the participants will be enhance their official works. To achieve this objective, we have made the sessions based on the most important topics of financial management that are used on regular basis. We have included sufficient practical examples to ensure that the participants not only learn how to use various terms, but they can also implement them.

KEY LEARNING OUTCOMES

By the end of the course, delegates will have a knowledge and understanding of:

- Project Finance Management
- Understanding financial reports
- Budgeting and accounting
- Financial planning including Unit Cost Analysis and Cash Flow Analysis
- Reporting on financial issues
- iBAS++



Disclaimer

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CHAPTER 1: INTRODUCTION TO FINANCIAL MANAGEMENT

1.1 Accounts and Finance

Accounting

Accounting is the system for producing information about an entity.

- Accounting is the recording, maintaining, and reporting of an organisation's financial records.
- Accounting is an art of systematically keeping the record of business events and transactions, so as to ascertain the financial position of an entity at the end of a period.

Finance

Finance is the management of money

- Technically, **finance** is a part of economics which is concerned with resource allocation and management.
- Accounting is a part of finance; finance is not a part of accounting.

Definition of Accounting

Accounting is the complete process of identifying, recording, classifying, summarizing, reporting, interpreting and analysing the financial information. It is an art of systematically recording the transactions, for keeping a proper track of financial statements on the basis of Accounting Standard (AS). With the help of the financial statement of an entity, internal audit, and tax audit is conducted at the end of the financial year.

This financial statement is readable to the users after the audit, who can view the performance and position of the business for a particular period. The users of the financial statement include all the stakeholders such as creditors, debtors, lenders, suppliers, investors, shareholders, employees, etc.

Definition of Finance

Finance is the science of the acquisition and allocation (i.e. Spending or investment) of funds effectively. It is a broader term, which studies about money and capital market along with the **arrangement and management of funds by business. The major aspect of finance is the "time value of money" i.e. the value of money changes over time.**

It helps in analysing any budget for choosing an optimum investment plan, which lowers the risk factor for a firm.

1.1.1 Key Differences Between Accounting and Finance

- Accounting is a methodical record keeping of transactions of business while Finance is the study of the management of funds in the best possible manner;
- Accounting is a subset of Finance;
- The accounting information is helpful for the users of the financial statement for understanding the financial position of the business while Finance is useful in forecasting



the performance of the entity in the future;

- Accounting uses Income Statement, Balance Sheet, Cash Flow Statement, etc. as its tools. On the other hand, Leverage, Capital Budgeting, Ratio Analysis, Risk Analysis, Working Capital Management, etc. are financial tools.

Interdependency

Both accounting and finance are dependent on each other, accounting is a part of finance and finance is dependent on accounting. The financial analysis is done with the help of the financial statement, submitted by the auditor. In other words, they are very closely interconnected, or we can say, the end of accounting is the beginning of finance.

1.1.2 Accounting: Scope and Objectives

Accounting is a business language. We can use this language to communicate financial transactions and their results. Accounting is a comprehensive system to collect, analyse, and communicate financial information.

The origin of accounting is as old as money. In early days, the number of transactions were very small, so every concerned person could keep the record of transactions during a specific period of time. Gradually, the field of accounting has undergone remarkable changes in compliance with the changes happening in the business scenario of the world.

With the help of accounting process, we can determine the performance of an entity and plan the future courses of action.

Objectives and Scope of Accounting:

Main objectives of Accounting:

To keep systematic records: Accounting is done to keep systematic record of financial transactions. The primary objective of accounting is to help us collect financial data and to record it systematically to derive correct and useful results of financial statements.

To ascertain performance: With the help of accounting, we can evaluate performance of entity for a specific period. For example, profit/(loss) for a commercial entity, organisational performance for a non-profit entity.

To ascertain the financial position of the business: A financial statement indicates the financial position of an entity on a particular date. A properly drawn financial statement gives us exact position of class and value of assets, the nature and value of liability, and also the capital position of the entity. With the help of that, we can easily ascertain the soundness of an entity.

To assist in decision-making: To take decisions for the future, one requires accurate financial statements. One of the main objectives of accounting is to take right decisions at right time. Thus, accounting gives you the platform to plan for the future with the help of past records.

To accomplish compliance of laws and regulations; Entities such as corporates,



autonomous and public organisations, trusts, and societies are being run and governed according to different legislative acts. Similarly, different taxation laws (direct indirect tax) are also applicable to every entity. Everyone has to keep and maintain different types of accounts and records as prescribed by corresponding laws of the land. Accounting helps in running a business in compliance with the law.

1.2 Basic Financial Skills

Everyday managers and officers make decisions that affect their organisation's **financial** performance—whether it is scheduling operations, hiring and firing personnel, preparing a budget, approving a capital investment, or sending an invoice for payment.

If these officers and managers lack the basic financial skills to allow them to understand the financial implications of their decisions, resources will be wasted, poor decisions get made, and the ultimate performance of the organisation suffers.

Followings are five basic financial skills that any individual with management and supervisory responsibilities should have.

1. Cash versus accrual accounting

There are two methods of accounting used to record business transactions: cash and accrual basis accounting. Most medium to large private sector corporations use accrual accounting.

Understanding the difference between these two methods of accounting is important to manage your cash flow, spending levels, the obligations to your vendors, and the receivables due from your clients.

When does an expense get charged against your budget? When do you receive credit for a sale? Does a purchase order generate an accounting transaction?

In the public sector, the cash basis of accounting has been traditionally used, but there have been lot of discussions over the benefits to changing the accounting systems to accrual systems in the recent time.

2. The basic financial statements

Managers and officers should be familiar with the basic financial statements prepared for external users and what information is presented in each statement. An understanding of the financial statements will provide you with the basic terminology needed to communicate with your accounting and finance personnel.

What information is presented in the financial statements? How are my actions reflected in these statements and what line items do I affect? Does my company use a different format for internal financial reporting? Do I understand how to use this report to improve the financial and operational performance for my areas of responsibility?



3. Budget preparation

Managers and officers should know how to prepare a departmental budget. The budget is a quantification of those resources that you require to achieve the objectives and action plans for the next fiscal year. It is not a formality to satisfy the demands of top management, lenders, or investors.

The budget preparation process is a time to question how resources are being used and if they could be used more effectively or efficiently. Departmental spending should be directly tied to the objectives, strategies, and actions plans for the budget year and aligned with company's **strategic** plan.

Managers and officers should identify and document the operating assumptions that drive their spending levels. Each line item should have a reasonable basis of estimation such as sales or production volumes, number of employees, percentage of salaries, and cost per employee, among others.

4. Variance analysis

Managers and officers need to analyze the variances against the budget or forecast. All significant variances, favorable or unfavorable, should be examined.

Managers and officers should be able to relate the variances to what happened in their department or work area for the accounting period. Is this a one-time variance or will it be recurring for the remainder of the year? Do you need to include this variance, favorable or unfavorable in the financial forecast for the quarter or the fiscal year? If you cannot explain the budget variances based on your knowledge of the operations, you should contact the finance department immediately.

5. Financial analysis of capital investments and strategic initiatives

Managers officers often present and defend capital investments and strategic initiatives designed to improve operational and financial performance. The financial evaluation of these projects is key element of the approval process.

Managers and officers should know the assumptions that underlie the financial analysis of any project championed under their leadership and ask the hard questions. There are plenty of examples where, organisations waste millions of dollars in projects and initiatives based on a faulty financial analysis.

Managers and officers should also understand the concept of return on investment (ROI) and how to interpret the results of the common financial techniques used to measure ROI: payback, net present value (NPV), and internal rate of return (IRR). They should identify how a project will affect

particular line items on the balance sheet and the income statement and the impact on the financial performance of the site or the organisation if the financial objectives of the project are not met.



Financial skills are an integral part of the basic toolkit that any manager and officers should have. Managers and officers should understand the financial implications of their decisions and how to use financial information to improve their organisation's performance. **Training and development** organizations should ensure that their leadership development programs provide the basic financial skills that their leaders need to manage the business more effectively.

1.3 Importance of Cash Flow Management

Cash Flow management is very important

The cash flow statement is a financial report that records an **organization's** cash inflows and outflows at a given time.

Efficient cash management refers the availability of right amount of cash in the right place at the right time to meet necessary obligations. **"Cash is king"** is an expression often used by financial experts

Cash flow is as important to business/organizations as blood is to a body and fuel is to a flying aircraft.

Many businesses may continue to trade in the short- to medium-term even if they are making a loss. This is possible if they can, for example, delay paying creditors and/or have enough money to pay variable costs. However, no business can survive long without enough cash to meet its immediate needs.

Internal Controls and Checks

What is internal control?

Internal controls are the mechanisms, rules, and procedures implemented by an organization to ensure the integrity of financial and accounting information, promote accountability and prevent fraud. Besides complying with laws and regulations.

Internal controls can help improve operational efficiency by improving the accuracy and timeliness of financial and other information.

What is internal check?

Internal Check is an integral function of the internal control system. It is an arrangement of duties of the staff members in such a way that the work performed by one person is automatically and independently checked by the other.

Internal control activities – some examples

- Segregation of duties
- Authorization of transactions
- Retention of records
- Supervision or monitoring of operations
- Physical safeguards (e.g. cameras, locks, physical barriers)



- Top-level reviews
- IT Security
- Controls over information processing (e.g. edit checks)

Principles of Internal Check

- **Responsibility:** Allocation of business work amongst the various staff members should be done in such a way that their duties and responsibilities should be judiciously and clearly divided.
- **Automatic check:** Automatic checking of work of one employee by another forms part of a good Internal Check system.
- **Rotation:** Transfer or rotation of employees from one seat to another must be followed under good system of internal control.
- **Supervision:** Prescribed procedures and Internal Check should be strictly supervised.
- **Safeguard:** To safeguard files, securities, cheque books is also recommended in Internal Check.
- **Formal Sanction:** Without formal sanction, no deviation should be allowed from the established procedures.
- **Reliance:** Under good system, too much reliability on one employee should not be there.
- **Review:** From time to time, system of Internal Check should be reviewed to introduce improvement.

Important points

- internal controls and checks may exist in an organization but may not be effective, and
- effectiveness may change over a period time.

So, the assessment should not just evaluate the existence of internal controls but must assess their effectiveness.

1.4 Regulatory compliance

Taxation and VAT

Direct tax and indirect tax (VAT) compliance: The organization should always remain compliant for taxation, VAT and other regulatory issues.



CHAPTER 2: CORE FINANCIAL RULES AND REGULATIONS

2.1 Introduction

Government must ensure sound financial management system for public expenditure to establish good governance. But sound financial management demands discipline to be established by financial rules and regulations that are issued by government and various implementing agencies under parliamentary mandate from time to time.

Authorities in the government responsible to handle public fund need to be adhered to the rules and regulations to ensure accountability and transparency which is vital for good governance. Every person assigned with financial responsibility must be apprised of the core financial Rules to avoid mismanagement and indiscipline in the administration.

2.2 General Financial Rules (GFR)

General Financial rules comprise of rules and directives of the Ministry of Finance to ensure proper use of public fund. These rules deal with matters related to:

- Receipt of money into public account and consolidated fund and withdrawal from public account and consolidated fund;
- Control of expenditure;
- Budgetary allocations of expenditures under both revenue and development budget;
- Delegation of Financial power: Power delegated to the various level of subordinate officials by the competent authority for giving sanction of expenditure against budget provision;
- Responsibility for losses due to irregularity and negligence of duty;
- Writing off losses;
- Audit objections;
- Surrender of anticipated savings in the budget.

2.3 Public Procurement Regulations-2008

- The Public Procurement Regulations for work, infrastructure work supplies and services demand estimation cost;
- Tendering inviting process;
- Letter of intent, contract between the procuring and supplying parties. Finally, for failure to comply with the contract arbitration clause embodied in the contract. General conditions of contract for supply, work and service. Receipt and issue the stores.

2.4 Bangladesh Treasury Rules

Treasury rules were framed by the then central govt, in exercise of the powers conferred on the Governor General by section 151 of the Government of India Act 1935 and was adapted by the Government of Bangladesh.

Treasury rules deal primarily with procedure to be followed in treasuries, central Bank conducting cash business of the treasury. It also deals with the procedures Government officers to follow in dealing with treasury functions by account offices and bank. It also provides basis for the offices for



disbursements and custody of money in the public account.

TRs deal with maintenance of cash book, preparation and payment of bills, pension gratuity, issue of LPC etc.

2.4.1 Function of Treasury:

General instruction regarding preparation of bills

- Pay and allowances entitlement;
- Pay fixation;
- Traveling Allowances;
- Overtime allowances;
- Increment certificates;
- Arrear bill;
- Payment of bills of suppliers and contractors;
- Treasury function for remittances and withdrawals of fund by Railway posts and telegraph department. Public works department, Forest department
- Other government departments:
 - Expenses of the president
 - Survey of Bangladesh
 - Customs department
 - Broadcasting corporation.
- Other obligations
 - Provident funds;
 - Saving Bank Deposits;
 - Postal life insurance funds.
- Treasury inspection by the Accountant General once a year is a routine matter mandatory for smooth treasury function.

2.5 Bangladesh Service Rules:

East Bengal Service Rules (EBSR) was issued in two part under the provision of India Act. 1935. These service rules though issued in 1958 was given retrospective effect on August 1947.

On emergence of Bangladesh as an independent sovereign state under Bangladesh (Adoption of Existing Bangladesh Laws) order 1972 (P.O No. 48 of 1972 it was retrospectively effective in Bangladesh on 16th December 1971. Though it was formerly effective only for the employees of the provincial govt, in Bangladesh it was made effective for all govt, employees. It deals with matters relating to Government servants whose conditions of service is determined by the government under provision of law enacted by parliament

2.5.1 Bangladesh service Rules Part-1:

It deals mainly with service matters of the public servant:

A) General conditions of service of the government servants:

- Appointment in the pensionable service of the govt;
- Appointment in permanent post of a permanent incumbent on substantive or officiating,



capacity foreign service deputation, conditions of service;

- Rules governing pay and allowances, compensatory allowances;
- Conduct and discipline rules, dismissal, suspension, removal retirement;
- Leave rules, joining time, qualifying service, personable service;
- Granting of pension, Conduct of pensioner of grant and continuation of pension;
- Occupation of govt, accommodation, eligibility and entitlement criteria;
- Condonation of break of service power of the sanctioning authority;
- Admissibility of leave.

B) Retirement of Public Servants:

Qualifying service shortage up to 6 months automatic condonations on the basis of good conduct and another 6 months on the approval of the sanctioning authority.

- Pension: Public servants retirement Act 74
- Compensatory pension;
- Invalid pension;
- Super annuation pension.
- Retiring pension
- Life Long (family pension)
- Reappointment after retirement
- **Public servant's retirement Act. 1974** provides for such appointment by the president on contract.

2.5.2 Bangladesh service Rules Part-2:

Relates to rules regulating compensatory allowances. In discharging the duties of a post in the government, the government servant has to incur cost, compensatory allowance is given to compensate the cost incurred.

Criteria for termination of compensatory allowances are

- The Compensatory allowances should be so fixed that it does not become a source of profit to the recipient;
- Compensatory allowances attached to a particular post ceases on relinquishment of the post;
- Compensatory allowances during leave, temporary transfer or joining time is contingent on the certification authority sanctioning the leave, transfer or joining time as the case may be. Allowance must be embodied in the original order, the condition under which this may continue in this case;
- For temporary transfer for a period not exceeding 4 months the compensatory allowances may continue during temporary transfer and joining time.

The rules regarding compensatory allowances are discussed below:

- Traveling allowances
- Permanent traveling allowance
- Conveyance or horse allowance
- Daily allowance



- Moreover, for entitlement of daily allowance and road mileage the latest order issued by the Finance Division shows the rates and class of entitlements according to the classification of govt, servants.

2.6 Accounts code

It deals with general system of accounts keeping by Comptroller and Auditor General (C&AG) and various offices under of Controller General of Accounts. The Comptroller and Auditor General derives his power in matters of accounts keeping from article 131 of the constitution.

Article 131 of the constitution of Bangladesh requires government accounts to be kept by the C&AG and in pursuance of 3A of the Additional functions act 1974 govt, has relieved the C&AG of his responsibility of keeping accounts of the govt, and hence the responsibility of preparation of Accounts has been shifted to :

- CGDF for defense services
- FA&CAO for railway
- CGA for rest of the govt.

In addition to this accounts code, which is to be followed by the CGA, Railway, Defense, PWD Postal, T&T Board and forest department have their respective accounts code for preparation of their accounts.

As per respective accounts code CAOs will prepare Ministry/Division wise Appropriation Accounts and will send them to the CGA for approval. The CGA after audit by the respective directorate finalize audit reporting and certification.

- **Consolidated fund:** All revenues received by the government, all loan raised by the government, and all moneys received by it in repayment of any loan, shall form part of fund to be known as the Consolidated Fund.
- **Public Account:** All other public moneys received by or **on-behalf of** government shall be credited to the public account of the Republic.
- **Certification:** The instruction relating to the preparation and submission of this accounts has been laid down in the Audit manual issued by the authority of the C&AG.

Appropriation accounts relates to expenditure made with the provisions specified in the appropriation act. After Completing necessary scrutiny, the C&AG submits his report on the appropriation accounts for various Ministry/divisions to the President.

2.7 Bangladesh Bank and its agent

It is banker to the government. The cash business of the public accounts is performed by Bangladesh Bank. Article 20 of the Bangladesh Bank order 1972 provides for deposit of all cash and payment from govt, account with the bank. It a so manages public debt and Borrowings.

Bangladesh Bank issues statement of daily cash transactions along with supporting vouchers which are sent to the District / Upazila Accounts office, the Chief accounts officers office and CGA office.



In absence of Bangladesh Bank, Sonali Bank does this function as agent of Bangladesh Bank. The totals of such transactions are intimated to Public Accounts Department of Bangladesh Bank.

All transactions of Bangladesh Bank and Sonali Bank regarding Public A/Cs are consolidated in accounts department of BB. At the close of a month a statement of closing balance of the government is forwarded through BB Head Office.

2.8 Fundamental Rules and Supplementary Rules

Part-1 These rules are applicable to members of services under the rule making power of and whose pay and allowances are beholding to government estimates. The order interpretations and audit instructions by the govt, president and the auditor general respectively have been reproduced below the rule concerned. Fundamental Rules came into effect on the 1st January,1922. Any rule issued by govt, prior to this date found contrary to this rule were cancelled. But a govt, servants guided by the civil service rules if temporarily transferred and is allowed to draw his pay from defense estimates remains within the purview of Fundamental Rules (FR).

This Fundamental rule may be received in case of local government if president so desires and local govt, may delegate power under this rule to the officers under them subject to any condition as it may think fit.

- It deals with General conditions of service.
- Pay and pay elements.
- Dismissal removal suspension and compulsory retirement.
- Special and ordinary leave rules, grant of leave, leave salary.
- Joining time.
- Services in other organization.
- Deputation.
- Foreign Service under local funds.
- Supplementary rules.
- Medical fitness on first entry into service.
- Medical fitness on fitness in govt, services.
- Compensatory allowances so fixed by the govt, that it does not become a source of profit to the recipient, government may make rules under which they will be admissible.
- In case of transfer or leave but may continue during short leave for a period not exceeding 4 months. Local govt, may grant in full or in part during leave if the reason for entitlement continues during leave.
- Travelling allowances.

Responsibility of the controlling authorities.

- Leave rules:
 - Authorities empowered to sanction leave.
 - Prefixing and affixing of leave with holdings
 - Maternity leave admissibility

Part-II: Administrative instructors in connection with RRs.

- Entry into personable service of the govt.
- Grant of TA under rules.



- Latest version of delegation of financial powers 2003.
- Reemployment of government servants after retirement;
- Foreign TA rules
- Competent authorities under various supplementary rules issued by the govt



CHAPTER 3: BUDGETING: PREPARING BUDGET ESTIMATES FORECASTING APPROVAL AND EXECUTION

3.1 Introduction

The aim of the government is to spend public fund to ensure the best utilization of national resources authorized and passed by the Parliament in the form of budget for a financial year for the welfare of the citizens. Government formulates policies and strategies for running the administration and upliftment of the national economy. Mission is in the attainment of faster rate for economic growth and vision is the attainment of better quality of life.

Government fixes up its development strategies and broad policy guidelines to accelerate economic growth and poverty alleviation. Government has to set the goals to be achieved during a period of five years and yearly goals under the budget plan. Yearly goals are then set by the policy maker on the basis of national priorities. These national yearly goals are translated into money terms and set in the national budget.

3.2 Government Budget and its kind

It is a statement of estimated receipts and payments projected in the national plan for a fiscal year. Budget is the financial reflection of government activities emphasized in the national yearly plan. According to nature of incomes received and expenditure made budget may be of the following two categories.

Planning phases:

- Perspective -15 years
- Medium term - 5 years
- Annual Revenue 1 year
- Annual Development-1 year

Incremental / line item budgeting:

Traditional Line Item Budgeting is:

- Under this system budget is prepared on-line item basis.
- **Preceding year's figures are taken as the basis for incremental budgeting for next year's budget.**
- This system of budgeting does not allow measurement of performance and efficiency and economy.

Budget Structure:

Revenue and Development budget or current and capital budget. While Revenue or current budget is to meet the requirement of current administrative and overhead costs required to keep things in the present standing. It is met from the revenue of taxes received. Capital or Development budget is the receipt of proceeds from borrowing or surplus of revenue or trade.



Performance Budgeting

It relates inputs, outputs and unit's cost. Inputs are given in money terms in the budget and output unit costs are targeted and level **of attainment** measures performance

Zero-base budgeting System

It is a system of budgeting having zero revenue and expenditure **at the base, rather than last year's** figures. The organization concerned is taken for a new one having no previous figure. Each item of expenditure is to be re justified.

Program Budgeting

It emphasizes outputs and efficiency. It gives wide options of alternative program to the policy makers to allocate resources to reap the best benefit.

In the context of Bangladesh, no system of budget other than traditional line item budgeting system works due to various limitation in our socio-economic milieu. But to keep pace with the emergency challenges continuous perfection and improvement in the existing system is better than switching to an altogether new system.

3.3 Budget implementation

- Revenue or financial resources:
 - taxes: income tax, custom duties, VAT
 - non-tax: dividends, profits, fees, charge, interest amortization etc.
 - grants: Receipts from other govt, or institutions, all non-repayable receipts.
 - Borrowing:
 - DMBs, Commercial, Central Bank, non-bank
 - Foreign: Loan Portfolio; DFI, net lending (+) to employees, enterprises local bodies trade surplus.

- Budgetary expenditures
 - Current or revenue expenditures: Wages, salaries, goods and services for current consumption, interest payments, current transfers etc. Net lending (-) to individuals, employees, enterprises, Local bodies.
 - Capital expenditures:
 - ADP converted to Development budget by the Finance Division;
 - Non-ADP, FFWP;
 - Transfer's for various development non-ADP schemes and programmes.
 - Budgetary Deficit:

When govt, expenditures outweigh govt, revenue than the budget is deficit. The following methods are resorted to in bridging this gap is borrowing from within and without as detailed above.

3.4 Charged and other expenditure:

The annual financial statement submitted to the parliament with the recommendation of the president, shown separately the expenditures charged, upon the consolidated fund and other LOCAL TRAINING FOR STRENGTHENING METEOROLOGICAL INFORMATION SERVICES AND EARLY WARNING SYSTEMS (COMPONENT-A)
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expenditure on consolidated fund. Charged expenditures may be discussed in the parliament but not voted. The other expenditures are submitted as demand for grants and subject to vote or modifications.

The following expenditure are charged on the consolidated fund:

- Expenditure relating to President & his administration
- Speaker & Dy speaker
- The Judges of the Supreme court
- The Comptroller and Auditor General
- Member of the Public Service commission
- All debt services for which govt, is responsible
- Sums required to satisfy tribunal or court decree, judgment award etc. against the govt.
- any other expenditures charged upon the consolidated fund by any act of parliament.

▪ Other expenditures

The expenditures other than charged expenditures in the Annual Financial Statement are submitted to the Parliament in the form of demand for grants for voting and after the demand for Grants are approved then the demand for grants and changed expenditures are submitted in a bill called appropriation bill and when appropriation bill is passed by parliament it becomes Appropriation Act. Money from consolidated fund can be drawn only under provision for the expenditure is made in the act.

3.5 Preparation of budget estimates:

Resource Committee takes stock of budgetary resources available from domestic resources after meeting the requirement of revenue expenditure. The rest of the resources are put to meet development budget.

3.5.1 Revenue budget:

The Finance Division is responsible for preparation of the revenue budget. Finance Division receives the estimates of expenditure from the spending agencies through respective administrative heads and Principal Accounting Officers (Secretaries).

The spending units prepare the estimates on the basis of the past and current years expenditures and its trend. It also depends on expansionary development, normal growth of expenditure due to cost or price hike and the expected growth during the year.

GFR 74 states the procedure for preparation of expenditure estimates. According to the provision of this rule estimates confined to ordinary expenditure in the standing and expenditures approved for the ensuing year. But it should not include any unapproved expenditures.

- i) Proposals for new expenditures: Proposals for new items of expenditure deserved to be introduced in the ensuing financial year should be submitted to the Finance



Division by the administrative Ministry/Division in the form of schedules. Estimates are provided with sufficient justification in the relevant GFR form. Finance Division examines the estimates to find correctness and the scope for expenditure control so that the expenditures can match the available resources. FD prepares the draft budget on the basis of the estimates received.

- ii) It finalizes the budget in a joint meeting of FD and the spending units and their administrative Ministries.
- iii) **Then the budget is placed to the cabinet meeting. After approval of the cabinet the recommendation of the president is obtained for placing Demand for Grants and appropriation bills to the parliament**

3.5.2 Preparation of the Development Budget:

The Planning Commission is responsible for the preparation of the ADP. ADP is converted to ADB by the FD. It shows allocation for all ongoing development projects under different Ministries/Divisions. ADP also shows some lump provision for different development projects/purposes. According to the allocation of business Finance Division is responsible for the presentation of the budget to the parliament. It compiles together the Development and non-Development budget and prepares the Annual Financial Statement, Demand for grants and Appropriation bill to provide for appropriation out of the consolidated fund. The proposals for expenditure are defecto approved by appropriation act.

3.6 Monitoring

- Mobilization of financial resources
- Implementation of development project vis-a-vis spending
- Review and evaluation
- Review and evaluation of physical and financial targets month wise.
- Internal audit
- External and statutory audit

3.7 Budgetary Control

It forecasts the expenditure and receipt of the ensuing year. Revised budget more accurately forecasts these figures. The authority under whom the Grant is placed is responsible for controlling the progress of expenditure within the grant. This is called budgetary control mechanism. Secretary of the ministry/Division acts as Principal Accounting Officer (PAO) in respect of both receipts and expenditure.

According to GFR -96 the PAO must ensure that:

- Funds allocated to his ministry/Division/attached departments of the Ministry/Division /subordinate offices are spent for the purpose for which they are allocated in the grants.
- Funds are spent strictly in accordance with rules and regulations.
- Actual expenditure does not exceed the sanctioned budget allocation made for the item of work, service or purpose.
- No expenditure can be made in anticipation of sanction of extra-budget from the Ministry of Finance through supplementary Grants.



- All payments and receipts are correctly classified under appropriate codes of the classification chart. Correct coding is very important to monitor progress of expenditure and correct accounting.
 - Figures of expenditure should be reconciled by PAO with CGA & CAO
 - Audit objections should be promptly settled
 - Budgetary control mechanism is used by the management as a tool to check the performance against the budget allocation.
 - In the budgetary control function both the central and spending agencies are assigned with their separate responsibilities as shown below:
- Central agency:
 - Administering the release of fund.
 - Monitoring progress of expenditure against performance.
 - Supervising govt, bank, accounts.
 - Consolidating accounts received from different spending/operating units.
 - Reconciliation with Bangladesh Bank/ its agency bank.
 - Identifying the areas of policy revisions to avoid misuse of fund.
 - Re appropriation within limits of authorized Grants.
 - Spending units:
 - Allotment of funds among the subordinate units.
 - Procurement of goods and services and verifying the quality of goods and services procured.
 - Making payments on completion of due formalities.
 - Monitoring performance indicators and drafting revised budget proposal accordingly.
 - Keeping all the evidences of transactions and recording them in proper books of accounts.

Periodical review and evaluation of the programme and identifying problems and sorting out their best and economic solutions.



CHAPTER 4: BUDGETARY PRACTICE AND EXPENDITURE CONTROL MECHANISM IN GOB BUDGET PRACTICE

4.1 Introduction

According to the Constitutions of Bangladesh a government is required to get an approval of an annual estimate in the form of a budget from the Parliament to get authority for spending public fund. Any excess expenditure needs to be approved by Parliament through supplementary grants. Government prepares its plan to take up different development activities after assessment of various needs of the country. The planning commission after evaluation of the project proposals from different ministries finalize Annual Development Program (ADP) and also take decisions about the sources of fund to implement the projects. On the other hand, all the normal administrative expenses including grants-in-aid, repayment of loans etc., is reflected in the revenue budget. The combined development and revenue budgets of the government is prepared showing the expenditure for carrying out the activities undertaken, along with sources of raising sufficient fund to meet that expenditure for the ensuing financial year. This budget is ultimately passed by the parliament or state legislature. The authority to spend money is granted by parliament in the form of budget to the government. When budget is approved and passed by parliament, responsibility for control and use of the grants and appropriations vested with the principal accounting officer or secretary to the ministry or division. The principal accounting officer is responsible for safeguarding of and regularity of expenditure from the public fund. To ensure accountability and transparency in the budgetary process an appropriation account is prepared showing the classification code wise budget allocation and actual expenditure with explanation of variance at the end of each financial year. This appropriation account is audited by the Auditor General and placed before the parliament for consideration as part of accountability process.

4.2 Autonomous bodies budget as part of government budgetary system

The self-governed parastatal organizations of the government usually receive budgetary contribution in full or part from the government in the form of grant-in-aid in lump. These autonomous bodies receive their grants on installment from the government. They have their budgetary allocation from grant-in-aid and their own earnings if authorized to spend, and approved by competent authority with intimation to the government. There are some organizations who can spend their earnings for their own purpose within their budgetary framework, others may not be allowed to spend their earnings for own purpose, rather required to deposit their earnings in government treasury. But whatever be the way, it must have the process of budget allocation and expenditure there from. At the end of financial year, they refund the unspent balance of their budget to government treasury before placing demand for release of fund for next year grant.

4.3 Principles of spending government money

It requires to meet at least the following conditions for making payment out of government fund.

- a) Approved budget provision: There must have sufficient budget provision to spend money for a particular purpose. The authority competent to spend money provided for in the budget grant should carefully comply with the following points:
 - o Funds allocated to, are spent for the purpose, it was allocated.
 - o Funds are spent strictly in accordance with the rules and regulations framed by the



government.

- Actual expenditure must be limited within the allotted budget for respective items/units.
- No expenditure is incurred in anticipation of additional/supplementary grants, without prior concurrence of M/O Finance.
- All payments and receipts are correctly classified under appropriate code of the classification chart.
- Submission of accurate financial statements and accounts within the stipulated time must be ensured.
- Audit observations are to be promptly settled.
- **Each executing authority must reconcile his expenditure with the account's office.**

b) Sanction of competent authority

It requires sanction of appropriate authority for every expenditure against budget provision. To determine the level of authority for sanction of expenditure delegation of financial power is to be followed. The delegation of financial power contained the guideline and principle of determining the competent authority to accord sanction of expenditure against approved budget.

c) Financial rules & regulation

The rules, regulations and procedures as prescribed in General Financial Rule (GFR) issued by the Ministry of Finance, different government orders as well as the orders and guidelines issued by the board from time to time must be adhered to while exercising delegated power by the competent authority.

d) Standards of financial propriety

The authority making payment is responsible for safeguarding of public fund and for the regularity of expenditure from the public fund. He is accountable not only for the amount provided for in the budget but also for the propriety of each individual transaction. Every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety. Among the principles on which emphasis is generally laid are the following:

- the expenditure should not be prima facie more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money;
- no authority should exercise its power of sanction of expenditure to pass an order which will be directly or indirectly to its own advantage;
- public money should not be utilized for the benefit of a particular person or section of the community unless:
 - the amount of expenditure involved is insignificant; or
 - a claim for the amount could be enforced in court of law; or
 - the expenditure is in pursuance of a recognized policy or custom; or
 - the amount of allowances such as, traveling allowances granted to meet the expenditure of a particular type, should be so regulated that the allowances, are not on the whole a source of profit to the recipients.



4.4 Conclusion:

All organizations pure government as well as autonomous are within the administrative and financial control of the government. This organizations are to follow the overall government policy including rules & regulations within this budgetary framework. They submit their monthly and annual audited accounts to the government and are subject to audit by Office of the Auditor General of Bangladesh.



CHAPTER 5: BUDGETARY REFORMS PROCESS CURRENTLY UNDERWAY IN BANGLADESH: MTMF, MTBF, MDG & SDG

5.1 Medium Term Macroeconomic Framework (MTMF)

Definition:

A Medium-Term Macroeconomic Framework (MTMF) generally includes projections for several years of:

- The real sector (national income);
- The government sector (fiscal accounts);
- The external sector (balance of payments); &
- The monetary' sector.

MTMF is a tool for checking the consistency of assumptions or projections concerning economic growth, the fiscal deficit, the balance of payments, the exchange rate, inflation, credit growth and the share of the private and public sectors, external borrowing policies etc.

5.1.1 Advantages of MTMF:

- Ensures continuity of discipline of checking feasibility and sustainability of annual budget in terms of financial implications. MTMF helps avoid stop-go policies, which act as brake on business confidence.
- It affords building a consistent four sector coordinated framework to achieve desired economic fundamentals.
- It helps contain relevant accounts to stay within chartered course.
- It helps policy planners to understand the inter-linkages between four macroeconomic accounts and assess implications to any change.
- It helps in assessing how economy is performing.
- Projections of Year 1 and two outer years help in the development of a Medium-Term Expenditure Framework (MTEF) or MTBF.

5.1.2 Broad objectives of MTMF:

- Economic stability (low inflation, stable exchange rate etc.);
- Rapid economic development; and
- Poverty Reduction.

5.1.3 Specific objectives of MTMF:

- Sustained low inflation
- Maintaining adequate foreign exchange reserve
- Avoid excessive crowding out of the private sector
- Revenue raised with minimal distortion effect on the economy having the right balance between public service provision and private investment
- Public sector debt should be sustainable.

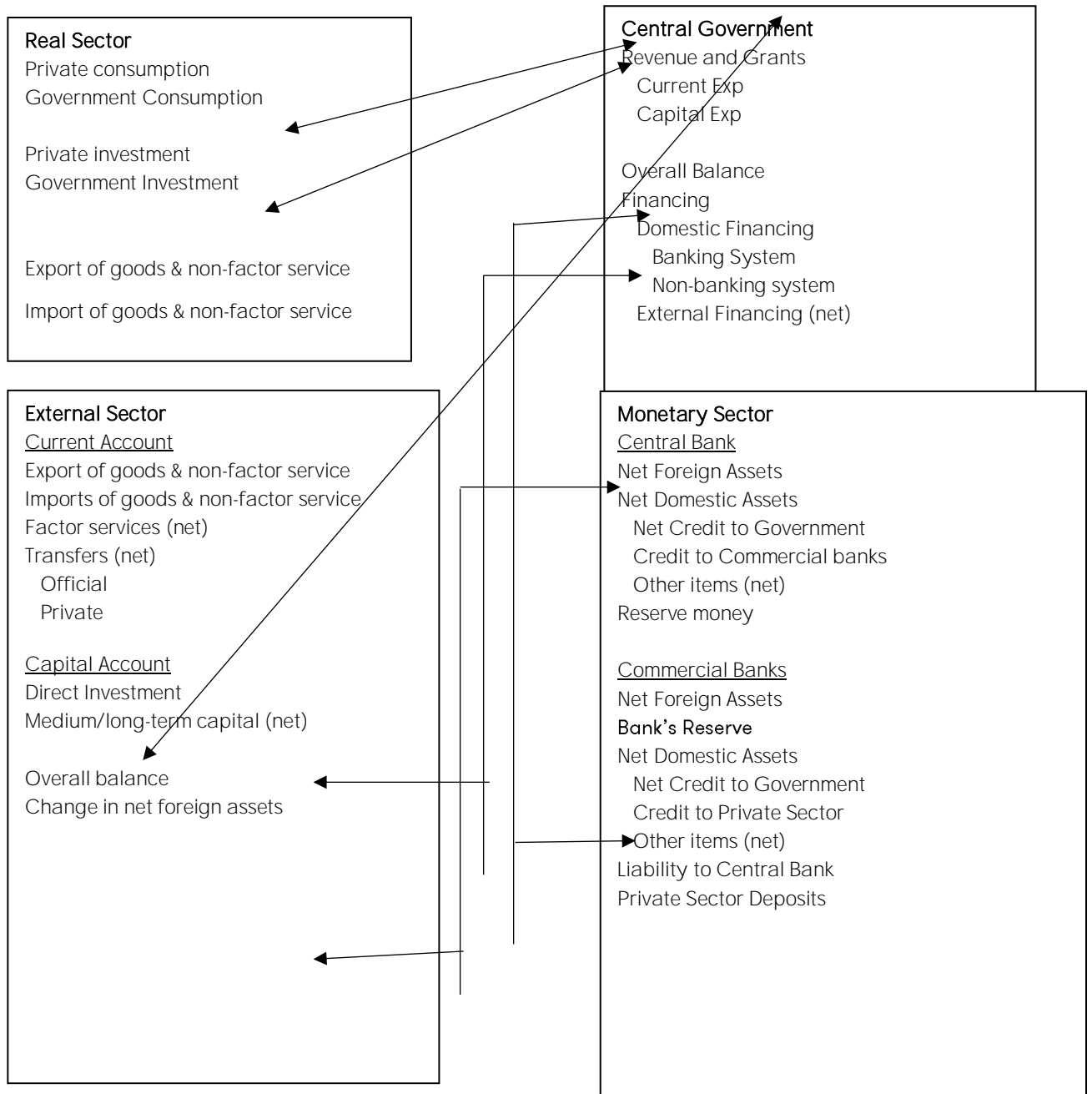


5.1.4 GOB MTMF: FY 2004 – 07

- Acceleration in GDP growth from 5.5% in FY05 to 6% in FY06 and 6.5% in FY07;
- Revenue-GDP ratio to rise by 0.5% of GDP annually during FY05 to FY07 reaching 12% of GDP in FY07 year through improved tax administration;
- Expenditure-GDP ratio will increase by 2% in FY05, 0.4% in FY06 and 0.4% in FY07; reaching 16.5% in FY07. Pro-poor expenditure will increase by about 1% of GDP every year;
- Budget deficit will remain below 5% of GDP in FY05 and decrease by 0.1 percentage points afterwards; Domestic financing of the deficit will be contained within 1.9% - 2% of GDP. External concessional financing will be used to finance the remaining budget deficit;
- Monetary and credit policy geared towards maintaining price and exchange rate stability and promoting low level of real interest rates;
- Credit to private sector grow by 14.5% in FY05, 14% in FY06 and 12.5% in FY07.
- Contain inflation rate below 5% over the next three fiscal years;
- Export will increase by 9% in FY05, 6% in FY06 and 7% in FY07. Imports will increase rather faster pace - by 14%, 9% and 9.5% respectively;
- Gross official foreign exchange reserves will remain above US\$3 billion.



Simplified Interrelationship among Macroeconomic Accounts





5.2 Medium Term Budgetary Framework (MTBF)

Definition:

- The Medium-Term Budgetary Framework (MTBF) is a new budgeting approach generally known as the Medium-Term Expenditure Framework (MTEF).
- Under the MTBF system, the budget is prepared for three to five years, instead of just one year, and it includes the estimates and projections of revenue receipts and expenditure.
- The MTBF links the spending plan and policy objectives of the government. One prime objective of this system is to prepare a reliable estimate of available resources, both domestic and foreign, in the medium term and establish a balance between policy priorities and overall availability of resources.
- Under the MTBF system line ministries are given enhanced responsibilities and authorities for allocation and utilization of resources.
- The MTBF consists of a top-down resource ceiling and bottom-up estimation of cost of current and medium term programmes /activities in line with the existing policy. Ultimately these estimates are matched with the available resources.

5.2.1 Difference between existing system and MTBF:

There are some fundamental differences between the existing budgetary system and The Medium-Term Budgetary Framework. These differences are summarized in the following table:

Existing budgetary system	Medium Term Budgetary Framework
Budget is formulated for only one year.	Instead of one year, it consists of the estimates for three to five years. However, only the first year's estimate is placed to Parliament for approval.
Non-development and Development budget are prepared separately, which results in duplication and overlapping in public expenditure planning.	As the budget is prepared within a single ceiling, duplication and lack of coordination can be avoided; and the demarcation between Non-development and Development budget is removed
Generally, the receipts and expenditure estimates are determined considering the actual for the previous year and by adding a margin on top of that. The linkage between strategic objectives or the policy priorities and resource allocation decisions is not explicit.	Instead of taking the previous year's actual receipts and expenditure as the basis, the resources are allocated considering' the priorities of programmes or projects necessary for achieving the strategic objectives of the government.



Existing budgetary system	Medium Term Budgetary Framework
Detailed information on the expected results from the allocated fund are not provided in the budget document nor is the output target fixed explicitly. Therefore, it is difficult to evaluate whether the targeted output is achieved or not.	It clearly indicates from the input for the relevant ministry and its subordinate departments/offices and provides an opportunity to know about the output achieved. Thus, it helps in developing performance indicators institutionalizing performance measurement.
Ministry of Finance and Planning play the dominant role in budget preparation. So, if fund is not allocated according to the need and priority of the ministries, the implementation of relevant project or programme may be hampered.	The line ministries and divisions are given enhanced authority and responsibility for budget preparation or resource allocation. Consequently, the relevant ministries have the opportunity to allocate and utilized the fund according to their specific need and priorities.

5.2.2 Objective of the MTBF

- Improving macroeconomic stability by matching expenditure and resources as projected in the Medium-Term Macroeconomic Framework (MTMF);
- Ensuring stability in budgetary management in the short term, keeping the public expenditure within a sustainable limit in the medium and long term and accelerating pro-poor economic growth at the same time;
- Enhancing the participation and role of the line ministries in the budget preparation process;
- Improving predictability of policy as well as funding by providing a medium-term view of policy objectives and resource availability, so that the line ministries can prepare plan for forward expenditure;
- Allocating resources between and within sectors/ministries according to the strategic priorities;
- Ensure proper, efficient and effective use of resources by establishing a more explicit linkage between the PRSP and other policy documents and line ministries' objectives, policies and resources allocation;
- Removing the demarcation between the development and non-development budget gradually by joint programming of development and non-development spending;
- Establishing a system for measurement of performance of ministries/ divisions and subordinate offices, so that a clear indication of the desired output from the inputs provided through the budget can be shown.

5.3 Millennium Development Goals (MDGs)

The United Nations has adopted, at its Annual Conference in 2000 (also known as Millennium Summit), an action plan to be achieved by the year 2015 that is known as the Millennium Development Goals (MDGs). Eight Goals and 18 targets have specifically been fixed in the MDGs which is as follows:

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Goal 1. Eradicate extreme poverty and hunger

- Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.
- Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2: Achieve universal primary education

- Target 3: Ensure that, by 2015, children everywhere, boys and girls alike will be able to complete a full course of primary schooling.

Goal 3. Promote gender equality and empower women

- Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.

Goal 4. Reduce child mortality

- Target 5: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5. Improve maternal health

- Target 6: Reduce by three quarters, between 1990 and 2015, (the maternal mortality ratio).

Goal 6. Combat HIV/AIDS, malaria and other diseases

- Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS.
- Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

Goal 7. Ensure environmental sustainability

- Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.
- Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and sanitation.
- Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8. Develop a global partnership for development

- Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development and poverty reduction - both nationally and internationally.
- Target 13: Address the special needs of the least developed countries.
- Includes: tariff and quota-free access for least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction.
- Target 14: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly).



- Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.
- Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth Target 17.
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
- Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.



CHAPTER 6: DELEGATION OF FINANCIAL POWER: REVENUE & DEVELOPMENT

6.1 Introduction

For efficient and quick implementation of Government policies as well as to bestow power to the subordinate offices for shouldering responsibility delegation of financial power has become indispensable for discharging public duties. The responsibility for financial operations of the Government rests on the President whose sanction, given either directly or by persons to whom the necessary power has been delegated, is necessary to all expenditure from the revenues of the Government. The extent to which powers to sanction expenditure have been delegated to various authorities is indicated in the following paras (GFR-40). In short, the delegation of financial power is to determine the level of authority for giving sanction of expenditure against budget provision for the purpose.

6.2 Delegation of Financial power (Non development)

For the dynamic, development oriented decentralized administration; The Government has delegated financial power in respect of non-development expenditure to the Ministries and Divisions, so that they can carry out their responsibilities in financial matters with minimum reference to the Finance Division. The Government has also prescribed 25 specific financial matters (Non-development), which have to be referred to the finance Division by the various Ministries / Division vide Finance Division, Office Memo No- FM/FD/ECI/DP-1/2000/12 Dated 3.2.05. All other Financial matters can be disposed of by the Administrative Ministry /Division themselves according to the provisions laid down in various code rules, instructions and orders issued from time to time subject to the availability of funds in the relevant sanctioned budget. Lists of items to be referred to Finance division are given in **Annex -A**.

6.3 Sub-Delegation of Financial power (Non-development)

The Government has prescribed a model Sub-Delegation of Financial power (Non-development) to ensure uniformity of sub delegation of Financial power by Ministries /Divisions to their attached departments and subordinate offices. The Administrative Ministries /Divisions are responsible for issuing necessary orders on sub- delegation of Financial power based on this Model. Office Memorandum No-MP/FD/ECI/DP-1/2000/13 Dated 3.2.05 by Finance Division provides the new model subject to amendment from time to time. In the new model, definite financial power has been delegated to the Head of the Departments and subordinate offices under the Ministries / Divisions. The Head of the Subordinate offices have been divided in three categories - Category 1, Category 2 and Category 3. The Divisional and Regional offices are in Category 1 District offices are in Category 2 and Upazilla offices are in Category 3. These Categories has been made only for exercising financial powers. It has no relation with the status of the officials.

The Administrative Ministries / Divisions will issue sub delegation order as per this model to the head of the Departments and subordinate offices under their control. It is to be worth mentioning that recently under the purchase policy and procedure reform programme, the Government has issued the Public Procurement Regulation 2003 and its implementation procedures. Consequent upon



introduction of a range of financial reforms programme including the introduction of new classification system in budget and accounts and also the inadequacies that exist in the financial power delegated earlier to the head of the departments and subordinate office, it is felt necessary that some amendment should be brought in the existing sub delegation. As such, in cancellation of the earlier model dated 7.3.2000, the above-mentioned model dated 3.2.05 is issued with a view to enabling the relevant officials to perform their duties more independently.

For Civil works and purchase agreement of Goods/ Commodities / Machineries / Equipment, the financial power delegated to the Administrative Ministry / Division/ Department is up to Tk 25 crore. The approval of Cabinet Committee on purchase is required for the amount above Tk 25 crores. Similarly, for consultancy services, the financial power of the Administrative Ministry / Division/ Department is up to Tk 5 crores and above Tk 5 crores will require the approval of Cabinet committee on purchase. It may be mentioned in this connection that if any special financial power is given to any official by any special order, he will continue to exercise that special power. But if in any case, the power given in this model is more than the special power, the power delegated in *this* model shall be applicable.

In exercising power given in this model, the concerned officer has the full power, but the relevant rules, regulations and Government orders/ instructions must be followed properly and there must be budget allocation in favor of this concerned item. In respect of exercising power delegated, the concerned officer must be careful about the following matters:

- Funds are spent for the purpose, for which they are allocated.
- Funds are spent strictly in accordance with existing applicable rules regulations and orders/ instructions.
- Care must be taken that the expenditure is not more than the actual need.
- Actual expenditure does not exceed the sanctioned budget allocation made for the respective items /codes,
- No expenditure is incurred in anticipation of authorization of an annual budget / supplementary grants, without the prior concurrence of the Ministry of Finance.
- All Payments and receipts are correctly classified under appropriate codes.
- Departmental accounts must be reconciled every month with Accounts offices
- Audit objections are promptly settled, and Financial and Accounting reports and returns as prescribed by the Ministry of Finance are furnished correctly and in time.

6.4 Delegation of Financial power for Development projects:

The Government prescribes from time to time separate schedules of delegation of financial power to Ministries / Divisions, Head of the Departments and Projects Directors of different categories of development projects to ensure smooth project implementation. Office memo. No MF/FD/DB-1/Mis-76/02/838 dated **2.12.04** by Finance Division provides the delegation of financial power for development projects subject to amendment from time to time. After careful consideration, the Financial power in respects of 36 items has been delegated to the No MF/FD/ **DRS/3/96/267** dated 22.2.2000

Power delegated under this memo shall be exercised subject to the provisions of Rules of Business,



code rules and instruction and orders issued from time to time. In the above circular, specific financial power has been delegated to the 3 Categories of Project Directors and Head of the Departments, so that they can discharge their responsibilities in financial matters with minimum reference to the Finance Division.

The Administrative Ministry/Division, Head of the Departments, Project Directors may sub delegate the financial power given to them under intimation to the Development Wing of Finance Division.

The Government expects that the concerned officials will exercise the power given to them with prudence and farsightedness following the relevant Government rules and instruction. The Government hopes that with wider scope resulting from the decentralization of financial powers, all concerned will ensure sound and speedy implementation of the projects and also the accountability of public expenditure.

List of items to be referred to the Finance Division in respect of Development projects: The Government determines list of items of development expenditure to be referred to Finance Division vide memo No MF/FD/DRS/3/360 Dated 2.6.94. List of items to be referred to Finance Division is given in **Annex-B**.

General Conditions for exercising the Delegated power: The General conditions for exercising the delegated power are as follows:

- The existing financial and other rules and procedures must be followed while incurring expenditure.
- The article / items must be included in the concerned PCP/PP/TAPP/DPP and there must be budget allocation for it.
- The quantity and number of services / items to be procured must be mentioned in the PCP/PP/TAPP/DPP.
- At least 85% of the advance drawn must be adjusted with necessary bills and vouchers, otherwise further advance cannot be sanctioned.
- All advances must be adjusted within 2 months of work done or within 30 June of the financial year.
- All accounts must be completed.
- In order to avoid sanction of higher authority purchase cannot be made part by part.
- Quarterly statement of actual expenditure and reimbursement must be prepared as per instruction issued from time to time and must be sent to concerned authorities.
- Rules and procedure relating to DOSA, CONTASA, SAFE, IMPREST must be followed.
- Instruction of the Development partners must be followed. If there is any contradiction between the instruction of the development partners and above-mentioned conditions, the policy, and procedures of Development partners will be applicable.
- In accordance with the circulars of Finance Division and the provision of Public Procurement Regulation 2003, the approval of Council Committee/Administrative Ministry/ Division must be obtained in respect of ceiling regarding tenders.

6.5 Delegation of Financial power -Non-Development vs. Development:

For Non-Development budget, the number of items to be referred to Finance Division is 25, whereas



for development budget, the number of items is to be referred to Finance Division is 12.

In respect of Non development budget, Divisional, District and Upazilla level subordinate offices is treated as Category 1, Category 2 and Category 3 for sub delegation of financial power, while for Development project, project Director are divided in to 3 on the basis of project costs for sub delegation of financial power.

In respect of Non-Development budget, the number of subjects for sub delegation is 48, whereas for development budget the number of subjects is only 36.

Delegation of Financial Powers to Corporation, Autonomous bodies, Semi-Autonomous bodies for civil works/Procurement of Goods/Selections of Consultancy services:

Under the reform programme for purchase policy and procedures, Government has issued the Public procurement regulation 2003 to make them consistent with the current need. In section 57(2) and (3) of the said Regulation, there is a provision for revision and updating of Financial Powers from time to time that are needed to approve purchase following Financial Powers required for civil works/procurement of goods, equipment's, machineries and consultancy services to make the procurement programme and the project execution speedier and more efficient vide Finance Division memo No. MF/FD/DBI/Mis76/02/682 dated: 11.09.2004.

Sl. No.	Nature of Purchase/Procurement & Approving Authority	Financial Power	
		Development	Non-development
A	For all civil works/purchase of goods/ Article/Equipment's/Machineries: (1) Board of Directors or Equivalent status of all small Corporation Autonomous/ Semi-autonomous bodies and all other organization except institutions/institutions mentioned in serial No.2.	Up to Tk. 10 crore.	Up to Tk. 10 crore.
	(2) Board of Directors or equivalent status of big Corporation/ Autonomous/ Semi-Autonomous bodies: BWDB/BPC/BSFIC/ Dhaka WASA/ Chittagong WASA/ Civil Aviation Authority/Chittagong Port Authority.	Up to Tk. 12 crore.	Up to Tk. 12 crore.
	(3) Administrative Ministry/Division (Minister Level)	Up to Tk., 25 crores.	Up to Tk., 25 crores.
	(4) Cabinet Committee on Purchase	More than TK. 25 crore.	More than TK. 25 crore.
B	Selection of Consultancy Services: Board of Directors or equivalent status of all small Corporation/Autonomous/Semi-	Up to Tk. 2 crore.	Up to Tk. 2 crore.



Sl. No.	Nature of Purchase/Procurement & Approving Authority	Financial Power	
		Development	Non-development
	Autonomous bodies and all other organization except institutions mentioned in serial No.2.		
	Board of Directors or equivalent of big Corporation/Autonomous/Semi-Autonomous bodies: BWDB, BPDB, Petro Bangla, BCIS, BSFIC, Dhaka WASA/ Chittagong WASA/ Civil Aviation Authority/ Chittagong Port Authority.	Up to Tk. 2 crore.	Up to Tk. 2 crore.
	Administrative Ministry/Division	Up to Tk. 5 cr.	Up to Tk. 5 crore.
	Cabinet Committee on Purchase	More than Tk. 5 crore.	More than Tk. 5 crore.

This financial power for civil works/purchases of goods/selection of consultancy services shall be exercised according to the implementation procedure, purchase processing procedures and **approval procedure as laid down in “The Public Procurement Regulation 2003” and the budget provision for the relevant works and following the relevant rules, regulation, instruction in this respect.**

Whatever the value of civil works/purchase of Goods/Selection of Consulting Services, in respect of **entering into any agreement under Concession contract (BOO, BOT, BOOT etc.), lease, suppliers’ credit and buyers’ credit, the approval of Cabinet Committee on purchase must be obtained.**

The financial power given to the Board of Directors or equivalent status may be sub delegated to executive head and his subordinate as per the model given at Annex-C. In pursuance of this model, the Corporation/Autonomous/Semi-Autonomous bodies will issue sub delegation order to all concerned officer entrusted with purchases. If needed, the financial power mentioned in the model may be sub delegated to other officers.

Where the Corporation/Autonomous bodies have already delegated financial power to the officer relating to purchase stands more than the power given in the model, in those cases, the existing financial power will continue.

The Corporation/Autonomous/Semi-Autonomous bodies who have not yet sub delegated the financial power or where the sub delegated power are less than financial power mentioned in the model, in those case, the Corporation/Autonomous bodies will upgrade or remodel the sub delegated powers according to the model.

If there is any disagreement/conflict with the policy/procedure relating to financial power of development partners with the policy/procedure mentioned in this model, the policy and procedure of the development partners will be applicable subject to prior concurrence of Cabinet Division and



IMED.

The Administrative Ministry/Division, Board of Directors, Chief Executive, Implementing Authority, Project Directors, Managers may sub delegate the financial power given to them, while sub delegating, authority may sub delegate more, if needed, financial power mentioned in this model.

The approval given by the Chief Executive of the Corporation /Autonomous bodies to the Annual procurement plan prepared at the beginning of the year shall be regarded as the administrative approval.



Annex-A

List of items to be referred to the Finance Division for non-development

- Any financial commitment beyond the particular financial year,
- Proposals for expenditure beyond budget provision,
- Proposals for non-recurring expenditure not covered by specific sanctioned budget provision
 - Re-appropriation from pays and allowances to other items.
 - Re-appropriation from charged expenditure to other expenditure or charged expenditure.
 - Creation of new posts.
 - Retention of posts.
 - Change of pay scale, status, and designation of any post.
 - Regularization of posts, and new appointment or regularization of work charged/contingent staff.
- All proposals for new expenditure on work not specifically provided for in the budget.
- Pre-liberation claims.
- Sanction of honorarium to Government servants for special and arduous type of work **exceeding one month's pay subject** maximum of TK. 2500/- or Sanction of more than one honorarium in the same Financial Year.
- Interpretation of Financial Rules, Regulations and orders, Government pay and allowance, pension gratuity, GP Fund, TA-DA.
- Change of service conditions regarding pay and allowances.
- Proposals affecting receipt of the Govt, including proposal on levy of taxes, duties, cases, or fees.
- Sanction of advance increment of pay other than those provided in the relevant Recruitment Rules for initial appointments.
- Payment of grants - in-aid beyond sanctioned budget provisions.
- Withdrawal of advance exceeding TK. 30, 000/- for contingent expenditure not covered by permanent advance or imprest.
- Local purchase of stationery articles beyond TK. 45,000/- Subject to availability of funds in the budget and non-availability certificate from the stationery Department.
- Light refreshment from contingencies for meeting/ conference/ training courses exceeding TK. 600 on each occasion, the expenditure being limited to TK. 12 per head.
- Proposal for writing off irrecoverable of stores or public money due to losses on account of fraud, theft, etc. exceeding TK. 5,00,000/18 Writing off irrecoverable loans and advance (including interest) to Government servants.

Sanction of foreign exchange to cover:

- Expenses on entertainment exceeding US \$ 500/- and contingencies exceeding US \$ 200/- by a Cabinet Minister while traveling abroad on official duty.
- Expenses on entertainment exceeding US \$ 400/- and contingencies exceeding US \$ 150/- by Secretary while traveling abroad as the head of a delegation.
- Fixation/revision of allowances of officials of the Government and of Autonomous Bodies posted abroad.
- Bilateral/international agreements / treaties having financial implications and finalization of import and export policy, investment policy, labour & customs policy.
- Alteration in the method of compilation of accounts of Ministry/ Division/ Department/



Directorate/ Subordinate offices.

- Matters relating to floatation of loan.
- Any other matter having financial implications (directly or indirectly) not covered by the approved budget.
- Break up of lump provisions until agreed guideline is issued by the administrative Ministry/Division in consultation with the Ministry of Finance.



Annex-B

List of items to be referred to the Finance Divisions for Development Projects:

- All item requiring concurrence of the Finance Division as per the procedure for Release of Fund issued by the Development wing of the Finance Division from time to time.
- Proposals for creation of posts for unapproved projects and for creation of posts for which no provision exists in the approved PP.
- Draft contract for appointment on contractual basis under a Development project (other than consultants).
- Proposal for modification of deduction/deposit of DSL, counterpart Fund, any other deduction determined by the Finance Division.
- Proposal for change of debt-equity structure, financing pattern, conversion of ADP loan into grant/equity in respect of ongoing/completed development projects.
- Change of designation, status and pay of any post mentioned in the approved PP and creation of posts not included in the Services (Grades, pay and Allowances) Order, 1977 and amendments there to made by Govt, from time to time.
- Fixing of new rate or change of approved rate of fees, allowances etc.
- Sanction of honorarium to Government servants or others for special or arduous types of work in connection with a development project.
- Sanction of advance increment of pay (except in the cases where the relevant Recruitment Rules provide for such increments on initial appointment).
- Sanction of Advance, Imparts and Revolving Fund (other than permanent advance, advances for TA/DA and advance provided under Delegation of Financial powers order No. MF/FD/DW/94/339 dated 12.04.1994.)
- Sanction of expenditure in excess of ADP provision except those covered under existing powers of appropriation.
- Purchase of vehicles under unapproved development projects.

Note: Reference to Finance Division would also be necessary in respect of following items as per requirement of the existing Rules of Business and other government relevant orders.

- All project proposals in the form of PCP/TAPP/PP for study and comments.
- All staff Appraisal Report from donor agencies, MOUs & DCAs for study and comments
- All summaries/proposals to the NEC/ECNEC/Cabinet Committees on development projects and issues related to financing (IMED s periodical review is excluded) of development projects.



Annex-C

Model sub delegation of Minimum Financial power to the Executive head and sub-ordinate of Corporation, Autonomous, and Semi-Autonomous bodies

1. Development Head:

Sl. No	Nature of civil works, purchase of goods, selection of Services and Approving authority.	Financial power (Applicable to both small and big Corporations/ Autonomous bodies).
a	In case of civil works: (Construction & installation): (1) Executive head of Corporation/ Organisation.	Up to Tk. 7 Crore.
	(2) Implementing Officer/Project Director/Project Manager (Project costing above Tk. 50 crore)	Up to Tk. 5 Crore.
	(3) Implementing Officer/Project Director/Project Manager (Project costing above Tk. 20 crore up to Tk. 50 crore.)	Up to Tk. 4 Crore.
	(4) Implementing Officer/Project Director/Project Manager (Project costing up to Tk. 20 crore)	Up to Tk. 3 Crore.
b	In case of procurement of Goods/Article/Equipment's:	
	(1) Executive head of Corporation/Organization.	Up to Tk. 5 Crore.
	(2) Implementing Officer/Project Director/Project Manager (Project costing above. Tk. 50 crore) -	Up to Tk. 3 Crore.
	(3) Implementing Officer/Project Director/Project Manager (Project costing above Tk. 20 crore up to Tk. 50 crore.)	Up to Tk. 2 Crore.
c	In case of selection of consultancy services:	
	(1) Executive head of orporation/Organization.	Up to Tk. 1 Crore.



	(2) Implementing Officer/Project Director/Project Manager (Project costing above Tk. 50 crore)	Up to Tk. 50 Lac.
	(3) Implementing Officer/Project Director/ Project Manager. (Project costing above Tk. 20 crore up to 50 crore.)	No power
	(4) Implementing Officer/Project Director/ Project Manager (Project costing up to Tk. 20 cr)	No power
d	In case of purchase through Quotation without Tender (following proviso 20(1) of PPR 2003). (1) Implementing Officer/Project Director/Project Manager (Project costing above Tk. 50 crore)	Up to Tk. 2 Lac.
	(2) Implementing Officer/Project Director/Project Manager ("Project costing above Tk. 20 crore up to Tk. 50 crore)	Up to Tk. 2 Lac.
	(3) Implementing Officer/Project Director/Project Manager (Project costing up to Tk. 20 crore)	Up to Tk. 2 Lac.
e	In case of direct purchase without Quotation/Tender (following proviso 18(2) of PPR 2008) (1) Implementing Officer/Project Director/Project Manager (Project costing above Tk. 50 crore)	Goods/Machinery up to Tk. 15 thousand. Physical Service up to Tk. 50 thousand
	(2) Implementing Officer/Project Director/Project Manager (Project costing above Tk.20 crore up to Tk. 50 crore)	Goods/Machinery up to Tk. 15,000 Physical Service up to Tk. 50,000
	(3) Implementing Officer/Project Director/Project Manager (Project costing up to Tk.20 crore)	Goods/Machinery up to Tk. 15,000 Physical Service up to Tk. 50,000

**(2) Non-Development Head:**

Sl No	Nature of Purchase/Procurement and approving Authority	Small Corporation/ Autonomous/Semi- Autonomous bodies.	Big Corporation/ Autonomous/ Semi- Autonomous bodies.
a	In case of Civil works (Construction/ Installation):		
	(1) Executive head of a Corporation/ Organization.	Up to Tk. 2 Crore.	Up to Tk. 4 Crore.
	(2) Regional Office/Unit head (5 th grade & above official).	Up to Tk. 50 Lac.	Up to Tk 1 crore.
b	In case of procurement of Goods/Machinery: (1) Executive head of Corporation/ Organization	Up to Tk. 1 Crore.	Up to Tk. 2 Crore.
	(2) Regional Office/Unit head (5 th grade & above official).	Up to Tk. 25 Lac.	Up to Tk. 50 Lac.
c	In case of selection of consultancy services: (1) Executive head of Corporation/ Organization	Up to Tk. 25 Lac.	Up to Tk. 50 Lac.
	(2) Regional Office/Unit head (5 th grade & above official).	Full power subject to budget provision.	Full power subject to budget provision.
d	Purchase through Quotation without Tender (Following proviso 20(1) of PPR 2003) (1)Executive head of Corporation/ Organization	Up to Tk. 2 Lac.	Up to Tk. 2 Lac.
	(2) Regional Office/Unit head	Up to Tk. 2 Lac.	Up to Tk. 2 Lac.
e	(1) Direct Purchase without Quotation/Tender (Following proviso 18(2) A PPR 2003) (1)Executive head of Corporation/ Organization	Goods/Machinery up to Tk. 15 thousand. Physical Service up to Tk. 50 thousand.	Up to Tk. 15 thousand. Up to Tk. 50 thousand.
	(2) Regional Office/Unit head	(a) Goods/Machinery up to Tk. 15 thousand. (b) Physical Service up to Tk. 50 thousand.	Up to Tk. 15 thousand. Up to Tk. 50 thousand.



CHAPTER 7: INTRODUCTION TO PUBLIC SECTOR FINANCIAL AND MANAGERIAL ACCOUNTING PRACTICES IN BANGLADESH

7.1 Historical Background

We inherited the amalgamated system of accounting and auditing from the colonial period of British India. This highly centralized system is based on Foster Whiffen Report of 1862 to serve the purpose of colonial administration. The concept of separation of accounts from audit through departmentalization of accounts was *first* introduced in 1924 in certain departments of the central government of India on experimental basis which was abandoned in 1931 on the ground that it was found to be more expensive.

The separation of accounts from audit was made effective in Pakistan Railway department in 1949 and Auditor General was relieved of the responsibility of compiling Railway accounts. The same system was adopted in independent Bangladesh for Railway Department. In 1974 the administrative and service Reorganization committee recommended the process of departmentalization with the facility of drawal of fund by the major spending departments through cheques like PWD, Forest etc. But it is found from the experience that having cheque issuing authority the Executive Engineers of PWD resorted to over-spending, government feels that spending authority and payment authority should not be exercised by the same person. On this consideration the recommendation of the committee was not implemented. Later on, the recommendation of Martial Law committee on Reorganizational set up for separation of accounts from audit through departmentalization was accepted by the government in 1983. It was decided that individual Ministry and Division would keep their own accounts. Under this new system the M/O Defence immediately has taken up their accounts function by creating the office of the Controller General Defence Finance. By a subsequent order of the M/O Finance in 1985 for complete departmentalization of accounts, the office the Accountant General (Civil), the Accountant General (W&W), the Accountant General (P.T&T) and Additional Accountant General (Foreign Affairs) had been reorganized with 20 Departmental Accounts office, 4 Directorate of Audit and the office of the Controller General of Accounts for preparation and consolidation of accounts of the republic and submission thereof to the government. With the establishment of the office of the Controller General of Accounts (CGA), the office the Accountant General (Civil), Accountant General (P.T&T) Accountant General (W&W), and Additional Accountant General (Foreign Affairs) ceased to exist and their auditing function were taken over by Directorate of Civil Audit, Directorate of works Audit, Directorate of P.T&T Audit, Directorate of Mission Audit.

This process of departmentalization and separation of accounts from audit relieved the Comptroller and Auditor General of the function of keeping accounts of the government. This new system established check and balance in financial administration to ensure accountability and transparency with the creation of following offices:

For, accounting function; there are three accounting circles:

- The office the Controller General of Accounts (CGA);
- The office the Controller General Defence Finance (CGDF);



- Financial Advisor and Chief Account Officer (FA&CAO), Bangladesh Railway;

For, audit function; there are nine audit directorates:

- Directorate of Civil Audit;
- Directorate of Works Audit;
- Directorate of P.T&T Audit;
- Directorate of Local & Revenue Audit
- Directorate of Defence Audit,
- Directorate of Commercial Audit,
- Directorate of Railway Audit;
- Directorate of Foreign Aided Project Audit;
- Directorate of Mission Audit

7.2 Purpose of govt. accounting

The main purpose and function of government is to govern the country and to administer the several departments of its activity in the best possible manner. The activity of any government is being determined by the needs of the country. When activities are known, budget is prepared showing the expenditure for carrying out those activities and also the sources of raising sufficient fund to meet that expenditure. This budget is ultimately passed by parliament or state legislature. After passing the budget in parliament the task of accounting starts. The govt, accounting simply follows the budget. The accounting records and information keep the government abreast of the trend of receipts and expenditure in relation with budget estimate. It is the most important basis for taking any priority decision for welfare of the people. The realistic planning and its successful implementation mostly depend on availability of timely and dependable accounting information before the decision-making authority.

7.3 Mandate of government Accountings

Government accounting system derived# its mandate from the constitution of the Peoples Republic of Bangladesh. The constitution empowered the Comptroller and Auditor General to prescribe the forms and manners of the government accounting. The Comptroller and Auditor General (Additional Functions) Act, 1974 and its amendment in 1983 form the basis and responsibilities of keeping the accounts of the Republic. This responsibility includes preparation of Annual Finance Account and Annual Appropriation Account.

7.4 Main features of govt accounts

The concept of consolidated of fund, cash basis of accounting, the limit of financial authority provided by the parliament through annual budget, maintaining books of accounts under single entry system and govt, accountability to parliament for the use of appropriation are the features of present government accounting. The constitution, the rules and instructions embodied in F.R, GFR and Treasury Rules provided a framework of govt, budgeting and financial control while account code used in four volume described the forms and manners of keeping public accounts. The main purpose of govt, accounting is to serve the requirement of parliament. Authority to spend money is **granted by parliament to the government in the form of “Appropriation”**, The annual appropriation which are granted through the passing of Appropriation Acts, lapse if any portion of Appropriated



amount is not spent within the year for which it was granted. When budget is approved and passed by parliament responsibility for the control and use of the voted moneys vested with the principal accounting officer or Secretary to the ministry or Division. The principal accounting officer is responsible for the safeguarding of public fund and for the regularity of expenditure from the public fund. He is accountable not only for the amount provided in the budget but also for the propriety of each individual transaction.

7.5 Budgetary Control & fund management

There are two types of fund at the disposal of the government.

- Consolidated fund: All money received by the government, all loan raised by the govt, and all money received by it in repayment of any loan shall form part of a fund known as consolidated fund. In consolidated fund, there are three major divisions namely (I) revenue and expenditure heads, (II) Capital receipts and disbursement heads, (III) Public debts, loans and advances.

The expenditure from consolidated fund can be of two kinds:

- Charge/non-voted: The expenditure charged upon consolidated fund, which may be discussed in but shall not be submitted to vote of parliament, such as salaries to President, Speaker, Comptroller and Auditor General etc.
- Voted: Other expenditure which needs the vote of parliament shall be submitted before the parliament in the form of **“Demands for Grants”**. **No demand for grants** shall be made except on the recommendation of the President.
- Public account: All other public account money received by or on behalf of the government shall be credited to the public account. In public account the main divisions are (I) Debt and deposit head and (II) Remittance heads.

7.6 Treasury system and cash management:

- a) Government Treasury: - There are three functions of a government treasury.
 - To maintain cash/bank account of the government;
 - To dispose of the claims against govt, and maintain account;
 - To manage and ensure safe custody of various kinds of stamps and other valuables.

The above functions of a treasury is now being segregated and entrusted upon three separate authority i.e. handling of cash with Bangladesh Bank, Passing bills and maintaining accounts, to account officer who is under administrative control of Controller General of Accounts (CGA) and safe custody of stamps and valuable with D.C who is under administrative control of cabinet division.

- b) Cash management

The responsibility of management and monitoring govt, cash position, monetary flow, investment and inflationary trend etc is entrusted with ministry of finance. There is no one sovereign remedy to combat inflation. Several monetary and non-monetary measures are to be initiated simultaneously, to fight it, in the overall economy of the country.

On the other hand, the cash management of the govt, is strictly related to smooth functioning of



govt, machinery and proper implementation of projects with available cash resources as per approved budget provision for the year. There are several ways of raising public debts as and when needed such as:

- Ways of means advances;
- Sale of securities under different savings scheme;
- Sale of Treasury Bills.

7.7 Different systems of Payments and receipts in government accounts

Payment through accounts offices: All pre-audit payments made through CAO, DAO and UAO's are under this system who prepare their accounts along with cash receipts through Treasury Challan in bank.

Departments having cheque issuing authority: -There are govt, departments who are authorised to make payment from govt, treasury through issuance of govt. Cheque. They can use cheque for payment of works expenditure and work contingencies, but salary of the officers and staffs are **drawn from the account's offices**. PWD, Roads & Highways and Public Health Engineering Department come under this category.

Departments having cash drawing authority: There are some govt, departments who can use cheque for drawing cash from treasury to meet their regular office expenditure including salary. This departments maintain their own departmental accounts and submit cash account within description of receipts and payments along with vouchers to their respective CAO Postal department, T&T Board and Forest Department come under this system.

Custom treasury: Custom departments are authorized to receive cash and make payments out of it within government approved budget provision. **In turn, they'* deposit excess balance of cash to govt,** treasury on periodical basis. Chittagong custom treasury has authority of payments out of receipts but Mongla custom maintain only receipts account. Both the custom treasuries submit their cash accounts to CAO-IRD each month along with voucher.

Bangladesh Missions abroad: All the missions get their cash impress from CAO - Foreign Affairs and submit their cash accounts along with voucher every month to above CAO office.

7.8 Exchange A/C and settlement account

The process of settlement of transactions between two accounting circle is disposed of through these accounts. Exchange A/C is in operation between CGA and CGDF. The settlement to transactions between these two circles requires exchange of accounts with supporting vouchers. On the other side, the transactions between railway and other two circles are settled in cash along with exchange of vouchers in the same process as followed in case of exchange account.

7.9 Flow and nature of accounts

The Upazila, District and Chief Accounts offices (CAO) record each and every transaction of the government under the relevant classification code. Upazila and District Accounts offices send accounts to their respective Divisional Controller of Accounts (DCA) office and DCA then classify it



under the respective code and send the compiled accounts to CGA.

The CAO offices classify and consolidate the accounts within the purview of the ministry in presidency and send it to CGA. On the other hand, self-drawing departments send their accounts to the CAO of their respective Ministry and CAO along with their own transactions consolidate the accounts for CGA. In turn, CGA prepare consolidated monthly accounts based on accounting data **supplied by the CAO's and DCA's.**

Similar procedure is followed in the accounting units of Defence finance and Railway so far as flow of accounts and preparations of monthly accounts are concerned. As part of accountability and transparency in the budgetary process there are following two different sets of public accounts of the government in Bangladesh.

Annual Finance A/C: - This account reflects the net cash balance of the government. All domestic and foreign loans, public account heads and balancing heads are reflected in this account. It is the annual account i.e. Balance Sheet of the government under cash-based accounting.

Appropriation Accounts: The Appropriation A/C is a comparative statement showing classification code wise final budgetary allocation and actual expenditure of different ministries and their subordinate offices with explanation of variance.

7.10 Conclusion

The financial information of the government is used not only by the government department, but also by different national and international organizations and Agencies for various purpose. Therefore, it is essential that accounting and financial information of the government represent reflect accurate and correct position of the ministries and departments regarding all sorts of transactions. In order to ensure this, it is of paramount importance to all concerned to keep correct and reconciled accounts of all receipts and payments. This will bring in reliability of the government financial management system.



CHAPTER 8: RECONCILIATION: IMPORTANCE AND PROCEDURES

8.1 What is Reconciliation?

Reconciliation means the determination of the receipts and expenses necessary to bring the balances of two or more related accounts or statements into one agreement. Revenue income collected from different sources and expenditure of the different unit are accounted for in the **respective account's offices**.

Reconciliation has the following connotation.

- Settlement
- Agreement
- Harmonizing
- Rapprochement
- Adjustment
- Reconcilement

8.2 Government Accounting System of Bangladesh

Like many countries, Bangladesh government's total financial activities resolve around constitutionally created provisions. Barring a few government departments whose accounts are departmentalized (such as Railway, Defence, Postal, T&T, etc.), all other departments performing particular function of government or a group of functions as per Allocation of Business under Rules of Business of the government, operate on centralized arrangement.

Government accounting system derived its mandate from the Constitution of Bangladesh. Article 131 of the Constitution empowered the Comptroller and Auditor General to prescribe the forms and manners of the government accounting. The Comptroller and Auditor General (Additional Functions) Act, 1974 entrusted the C&AG with the responsibilities of keeping the accounts of the Republic. These responsibilities of the C&AG include the preparation of the Annual Finance Accounts and Annual Appropriation Accounts. But from July 2002 Ministry of Finance made an attempt to departmentalize the accounts, giving responsibilities to CGA under Finance Division.

Offices of the Controller General of Accounts (CGA), Controller General Defense Finance (CGDF), Additional Director General Finance of Railway (ADGFR) and the Bangladesh Bank are the main sources of accounting information for the government.

Controller General of Accounts (the then Accountant General, Civil) plays the most important role in the government accounting function. CGA is responsible for keeping the accounts of the receipts and expenditure that are done by the government departments other than the departmentalized accounting Departments and the Defense and Railway Department. CGA is responsible for maintaining government Cash Book showing at any time government's cash balance in Bangladesh Bank.

CGDF maintains the accounts of the Armed Forces and the departments under the Ministry of Defense. ADGFR is responsible for keeping the accounts of Bangladesh Railway.



8.3 Accounting Framework

The form of accounting used by the Government of Bangladesh is based on the cash basis of accounting; that is, recording the transaction at the time when cash is paid or received. Cash basis of Accounting is a traditional basis of government accounting. There are following two different sets of published accounts in Bangladesh

Annual Finance Accounts: The Finance Accounts reflect total annual receipt and expenditure of the government together with relevant financial statements. The cash balance of the government is also shown in this statement. Preparation of the Annual Finance Accounts is vested with the C&AG according to Article 4 of the Comptroller and Auditor General (Additional Functions) Act, 1974.

Appropriation Accounts: The Appropriation Accounts is a comparative statement showing detailed head-wise/code-wise final budgetary allocation and actual expenditure of different ministries and their subordinate offices with explanations of variances (if any). With the separation of accounts from audit now the responsibility of preparing of appropriation account vested with CAO and other accounts offices and signed by the principal accounting officer. After preparation of the Appropriation Accounts by the concerned Accounts Offices, it is audited by the Directorate of Civil Audit, Directorate of Defence Audit and Directorate of PT&T Audit according to concerned portions and then certified by the C &AG with necessary comments.

8.4 Accounting Structure

The accounts are kept where the transactions take place. There are two branches of initial accounts, one kept by the government accounting departments; and the other kept by the self-drawing departments known as departmentalized accounts departments, like Public Works Department, Telephone and Telegraph Board, Postal Department, Forest Department etc. To keep consistency and for the convenience of administrative functions, government has set up accounting offices under the control of CGA, CGDF and ADGFR. Office of the CGA covers all ministries and departments except Defense and Railway.

The lowest tire of accounting unit under the CGA is the Upazila Accounts Office. Next unit is the District Accounts Office, which is located at the District Headquarter. For the accounting purposes, there are also 6 Divisional Controllers of Accounts (DCA) Offices at the greater district headquarters, which consolidate the accounts received from the District and Upazila Accounts Offices for onward transmission to the CGA Office.

The Chief Accounts Offices of the respective Ministries keep accounts of the presidency. There are 51 Chief Accounts Offices for the ministries and divisions of the government. They work directly under the administrative control of the CGA and indirectly under C&AG, and under the functional control of the Secretary of the concerned Ministry/Division. All these Accounts Offices and their activities facilitate the CGA Office to prepare the Monthly Accounts, the Finance Accounts and the Appropriation Accounts.

Considering the special nature of functions and activities of the Defense Service- and the Railway,



Government has established separate departments for their accounting functions, namely the CGDF and the ADGFR respectively. Accounting units of these Departments also prepare and maintain their monthly accounts, which facilitate the CGDF and the ADGFR to prepare the Monthly Accounts and the Appropriation Accounts.

8.5 Flow of Accounts

The Upazila, District and Chief Accounts Offices record each and every transaction of the government as the initial accounts where it is applicable. Initial accounts are recorded under the relevant head of accounts where the transaction is taken place. Upazila and District Accounts Offices send their detailed accounting information to their respective Divisional Controllers of Accounts Offices by the 10th of the following month. DCA Offices then classify the detailed accounting information under the respective head of accounts and send it to the CGA by the 20th of that month.

On the other side, self-drawing Departments send their accounts to the CAO of their respective ministries. Along with those, the CAO Office prepares initial accounts of the presidency, classify and consolidate the accounts within the purview of its ministry's and then send the accounts to the CGA by 20th of the following month. They also send the accounts to their respective Principal Accounting Officer/Secretary of the Ministry or Division. CGA prepares consolidated accounts based on the accounting data supplied by the CAOs and DC As.

Similar procedure is followed in the accounting units of the Defense Finance and the Railway so far as flow of accounts is concerned. In respect of preparation of the Appropriation Accounts of the Defense Ministry and the Railway Department the CGDF and the ADGFR respectively play the key role. But it is the responsibility of CGA to prepare the Finance Accounts of the Republic amalgamating all the data derived from CGA, CGDF and ADGFR.

The monthly Accounts prepared and maintained by the Accounts Offices of the government are the basis of Finance Accounts and the Appropriation Accounts. The flow of government accounts has been shown diagrammatically in the last page.

8.6 Role of Bangladesh Bank in the Accounting Flow

Bangladesh Bank in acting as the cashier and banker of the government records all money on behalf of the government in one account and shows as one balance of the government. It also furnishes the information and figures to the government accounting departments regarding foreign loans and aids provided by the International Development Partners to Bangladesh.

8.7 Reconciliation of Accounts between Executive Departments and Accounts Offices (Codal Rules)

Reconciliation of accounts between Executive Departments and Accounts Offices is an essential feature to ensure limiting the expenditure of each department within the budgetary allocation and also for keeping correct accounts.

Section - 5 of Chapter Five of the Compilation of General Financial Rules deal with responsibilities about Expenditure Control. Para 96 to 99 describe responsibilities of the Principal Accounting



Officers and the Departmental Heads regarding expenditure control and reconciliation of accounts that are very much relevant with the reconciliation of accounts between Executive Departments and Accounts Offices

Following are the relevant quotes/ annotations in this regard:

- **Para - 96 (1):** The Secretary (or the Secretary-in-charge) of Ministry/Division shall continue to be the Principal Accounting Officer of his Ministry/Division its attached Departments and subordinate Offices in respect of receipts as well as expenditure incurred from the budget grants controlled by his Ministry / Division.
- He shall be responsible for ensuring that -
 - funds allocated to his Ministry / Division, its attached Departments or subordinate offices are spent for the purpose for which they are allocated;
 - the funds are spent strictly in accordance with the rules and regulations, and the expenditure is not, prima-facie, more than the occasion demands;
 - actual expenditure does not exceed the sanctioned budget allocation made for the respective items/operating units, etc;
 - no expenditure is incurred in anticipation of authorization of an annual Budget/ Supplementary grants, without the prior concurrence of the Finance Division.
 - All payments and receipts are correctly classified under appropriate codes of the Classification Chart and the departmental accounts are reconciled every month with the figures communicated by the CGA and the Chief Accounts Officer.
 - Audit objections are promptly settled.
- **Para - 97:** The authority administering a grant is responsible for watching the progress of expenditure on public services under its control and for keeping the expenditure within the grant.
- **Para-98 (1):** The head of each department will be responsible for controlling expenditure from the grant or grants at his disposal, and will exercise his control through the controlling officers, if any, and the disbursing officers subordinate to him.
- **Para -98 (2):** It is the duty of the head of the department to distribute the grant as voted by the Parliament or the non-voted (charged) appropriation which is not done by the Finance Division. In so doing he must take into account lump sum cuts made by the sanctioning authority. He must similarly distribute any increases or reductions subsequently made in the grant or in any part of it by the competent authority, whether the alteration is due to a supplementary grant, to a lump reduction or to a reappropriation. When making his distributions, he must invariably communicate to the officer concerned the complete accounts classification of each item distributed.
- **Para-98 (4)(viii):** The head of department and the Accounts Officer will be jointly responsible for the reconciliation of the figures given in the accounts maintained by the head of the department with those that appear in the Accounts Officer's books. Unless in any case there are special rules or orders to the contrary, the reconciliation should be made monthly, the initial responsibility resting with the Accounts Officer.
 - The reconciliation need not be very close; its extent should be determined by



the following considerations:

- That the account figures finally published will be those maintained by the
 - Accounts Officer,
 - that the main object of the reconciliation is to ensure that the departmental accounts are sufficiently accurate to render an efficient departmental control of expenditure.
- **Para - 99:** The Chief Accounts Officer will warn the department concerned immediately of the first appearance of any excessive proportionate outlay under any grant or under any operating unit. It must be clearly understood however, that the authority administering a grant, not the Chief Accounts Officer, is ultimately responsible for the control of expenditure against a grant.

8.8 Necessity of Reconciliation

Reconciliation means the determination of the receipts and expenses necessary to bring the balances of two or more related accounts or statements into an agreement. Revenue income collected from different sources and expenditure of the different unit are accounted for in the **respective account's offices**. Sometimes the figures of executive departments may differ with accounts offices for the following reasons, which are required to be reconciled:

- Any direct payment of loan or loan interest through Bangladesh Bank by E R D for which the respective department may have no knowledge. Finally, this payment is recorded in accounts office through C G A or Bangladesh Bank.
- Any direct receipt through Bangladesh Bank that is sale of bond, international telephone receipts etc.
- There may be a discrepancy between the two balances due to an error or omission of entry **on the part of the executive department or by the account's office**.
- International receipts and disbursements made through the CAO on behalf of another CAO.

8.9 Objectives of Reconciliation

- To establish Parliamentary control and accountability over Tax-Payers' money. The Parliamentary Committees thoroughly discuss the Finance Accounts, Appropriation Accounts, and Audit Reports and evaluate proper utilization of public money and activities of the government departments.
- To assist the government machinery in controlling the budget and expenditure and thus ensure best utilization of public money. Monitor the revenue receipts so as to keep track between revenue and expenditure
- To detect fraud and error and establish good internal control.
- To identify the measures to be taken for controlling expenditure and increase in the revenue income.
- To provide true and correct information for the government and the donor agencies.
- To assist the govt, machinery in controlling the budget & expenditure and thus ensure best utilization of public money.
- To have correct accounts.
- To establish strong internal control.
- To identify the measures to be taken for controlling expenditure and increase revenue



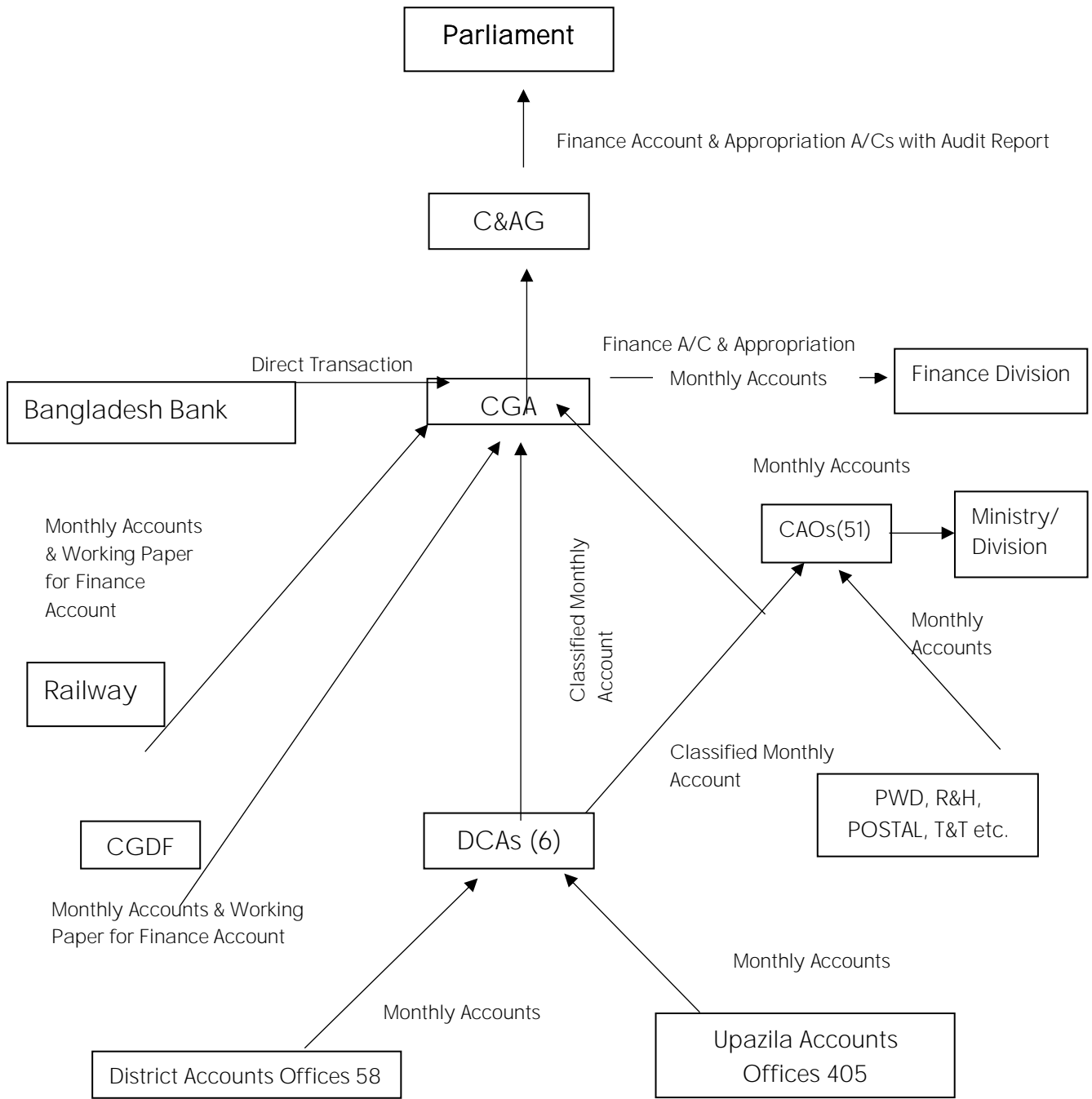
- income.
- To provide true and correct information for the government, public, researcher and donor agencies.
- To help in decision making process.
- To create reliability on the national accounts.

8.10 Conclusion

Financial Information of the government is used not only by the government departments, but also by different national and international organizations and agencies for various purposes. Therefore, it is essential that accounting and financial information of the government represent/reflect accurate and correct position of the ministries and departments regarding all sorts of transactions. This will bring in reliability of the government financial management system.



The following diagram outlines the flow of accounting and financial data:





CHAPTER 9: INTERNAL CONTROL AND CASH MANAGEMENT

9.1 Introduction

Efficiency of an organization depends much on the management of its internal control mechanism being followed by the authority. The Governments all over the world attach great importance in achieving maximum efficiency in the mobilization, allocation and use of public resources. Internal control systems provide a very important tool for government managers to ensure efficient, effective and economic utilization of public resources.

Management process should necessarily comprise sound methods and procedures of internal control to assure that resources are obtained and used effectively and efficiently in the accomplishment of the **organization's objectives**.

Internal control as a system is involved in every activity - financial, accounting and operational. It should comprise the plan of organization and all the coordinated methods and procedure needed to

- safeguard the resources of the entity;
- check the accuracy and reliability of financial and management data;
- promote operational efficiency; and
- encourage adherence to prescribed policies and achievement of pre-established plans, goals and objectives

9.2 Public accountability

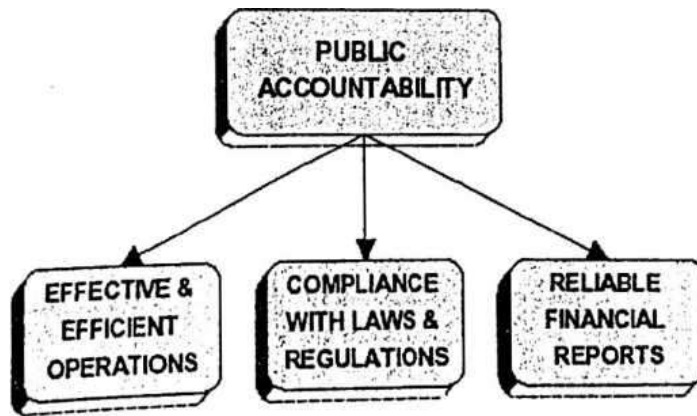
Every public servant in charge of public fund is accountable for their activities to the people and stakeholders. The Minister and other elected officials are accountable to the Parliament. The Secretaries of the ministries and department and agency heads are similarly accountable to the Minister as well as to the Parliament.

These various levels of accountability contain the same core elements, which form the essence of **public accountability**:

- Effectiveness and efficiency of operations.
- Compliance with applicable laws and regulations.
- Reliability of financial reporting.
- Public servants can obtain reasonable assurance that public accountability is achieved by maintaining strong internal controls within the government.

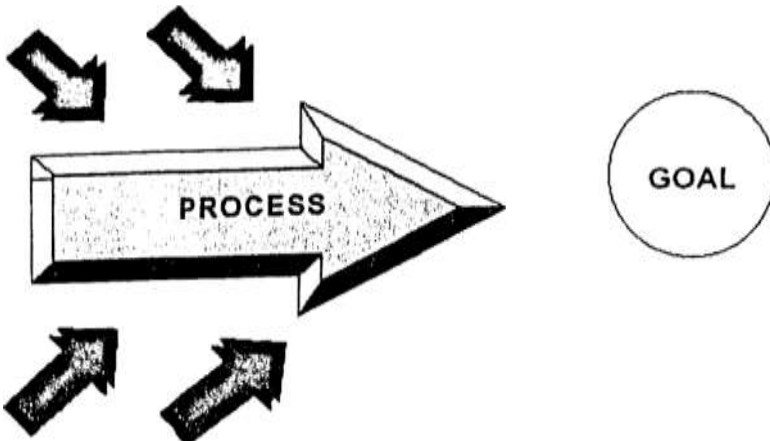
9.3 Internal Control Standards

An internal control helps to achieve the goal of a process without being a necessary part of the process - in much the same way as the white and yellow bands delineating highway lanes help to keep traffic orderly without being necessary for traffic.



A control is labeled internal control to signify that it is an internal mechanism of an entity, as different from one that is imposed by another entity or external element. As a general rule, when **“internal” control is adequate, external regulatory forces are less likely to impose “external” controls.**

CONTROLS



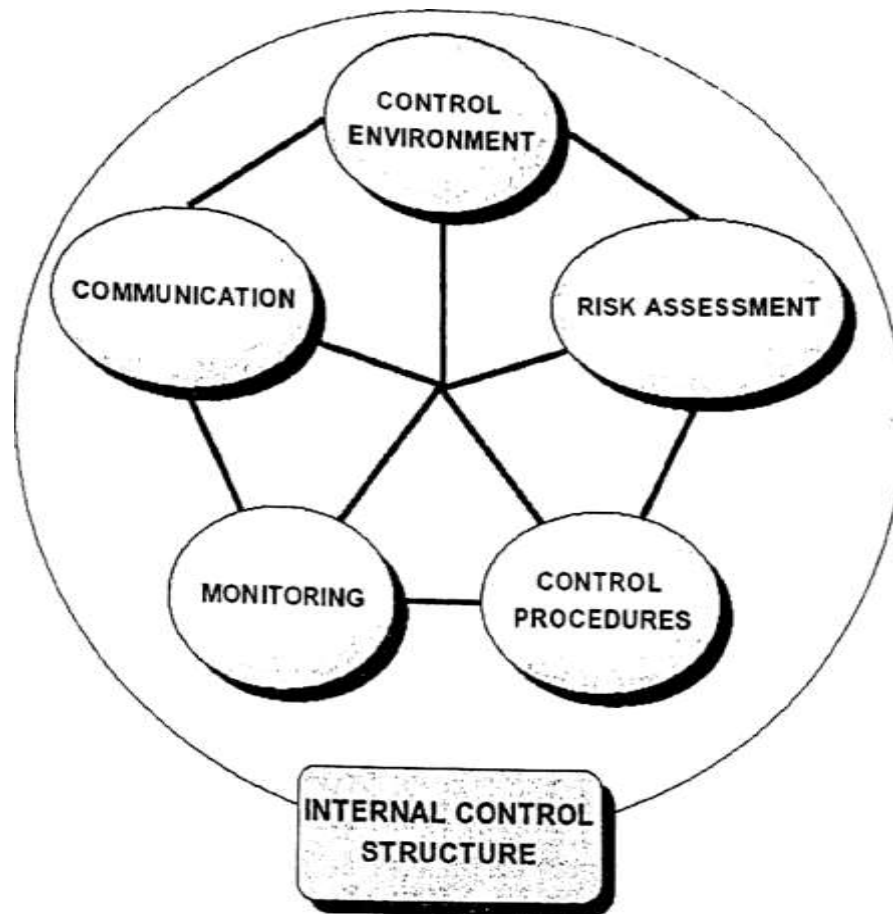
CONTROLS

In the context of the public sector, internal control is any activity undertaken by public officials that increases the degree of public accountability. In other words, it is any activity that increases assurance that:

- Operations are effective and efficient.
- Applicable laws and regulations are complied with.
- Financial reports are reliable.
- Internal control can be viewed by a department head as insurance against the effect of adverse operating conditions.



- In a department, an adequate internal control structure must contain the following five interrelated elements:





Control environment

This refers to the general environment in which employees carry out their responsibilities. It includes the ethical values set by management, management operating philosophy and style, the organizational culture and structure. The tone set at the top pervades all other activities in the department.

Standard: Management should support and promote a control environment that is conducive to public accountability.

Risk assessment

This is the identification and analysis of all possible risks relevant to the achievement of management objectives: given management objectives, the effect of "what can go wrong" scenarios is evaluated.

Standard: Management should periodically assess the risk exposures that threaten public accountability.

Control procedures

These are the policies and procedures that are established by management to mitigate the effect of the risks identified. These procedures include performance measurements, benchmarks, authorizations, approvals, reviews, reconciliations, verifications, restricted access and segregation of duties.

Standard: Management should establish the control procedures that reduce the risk exposures to a level that is reasonable to a prudent and informed manager in public service.

Communication

Relevant information about the organization and its operation should be identified, captured and communicated to appropriate personnel to ensure that they carry out their responsibilities effectively. This is done through meetings, memoranda, policies and procedures manuals and management reports.

Standard: Management should establish adequate information systems and communicate relevant information to the appropriate personnel

Monitoring

The functioning of internal control should be monitored to ensure its effectiveness over time. This is accomplished through: (1) on-going monitoring activities such as regular review of performance results or continual quality assurance programs, or (2) periodic evaluations such as control self-assessments, management audits and performance audits.

Standard: Management should regularly evaluate internal control and ensure its proper operation

The next four sections recommend methods for applying these standards.



9.4 Assessing Risk

In order to ensure that an adequate accountability system exists in the department management should be aware of the risk factors that threaten accountability.

Those risk factors are of three types:

- Factors that affect the effectiveness and efficiency of operations: poorly defined goals, procedures based on antiquated technology, inadequate staff training, etc.
- Factors that affect compliance with laws and regulations: lack of monitoring of new laws, lack of enforcement policy, etc.
- Factors that affect the reliability of financial reports: weak audit trail, lack of reconciliation procedure, lack of authorization procedure, etc.

The method to assess the potential effect of such risk factors involves five steps.

- Identify the key operational processes.
- Determine what can go wrong (risk exposures) at each step of the processes.
- Estimate the likelihood of the threats materializing.
- Estimate the potential effect of each threat.
- Determine the materiality of the risk exposures based on their likelihood and potential effect.

An organization can perform risk assessment at three levels:

- General: Perform a quick assessment using generic tools to get a general feel for the risk exposures. The control questionnaire may be used for this purpose.
- Specific: Perform an in-depth assessment with help from Internal Audit staff.
- Expert consulting: Engage an outside expert to perform a management audit or review on specific areas. Internal Audit staff can help the department to determine the specifications for such management audit or review.

The next step after assessing risk is to design controls to mitigate it.

9.5 Designing internal control

- The purpose of an internal control is to reduce the risk exposures that threaten public accountability to a reasonable level. There are four steps for designing an effective and efficient internal control:
 - Understand the risk to be mitigated: this is accomplished through a risk assessment as described in Section IV.
 - Identify the activity (i.e. the control) which would reduce the risk to an acceptable level.
 - Estimate the cost of implementing and maintaining the control to ensure that it does not outweigh the expected benefit.
 - Establish that activity as an internal control.
- Internal control design can be approached at two levels:
 - General: The appropriate control procedures can be selected from a generic list such as the internal control questionnaire and modified as required.
 - Specific: Control procedures are custom designed to address the specific risks identified in the risk assessment.



9.6 Implementing internal control

Once an internal control has been designed it should be implemented through two mechanisms:

- **Communication:** The control should be documented and communicated to all employees and managers concerned. Typically, a high-level manager informs employees of the new control through memorandum and the control is incorporated into a policy and procedure manual. Any information related to the operation of the control (such as performance measures, results of audits, etc.) and any subsequent modification to the control should be similarly communicated to staff. Internal control fails most often when the proper information is not communicated to the appropriate personnel.
- **Monitoring:** Internal control deteriorates over a period of time if not properly maintained. Therefore, management should periodically check the functioning of internal control through various mechanisms such as:
 - Continual monitoring through a quality assurance unit.
 - Periodic "check-up" of the internal control structure through a self-assessment process facilitated by Internal Audit staff.
 - Focused reviews of specific operational areas through management audit or performance audit.
 - The involvement of top-level management in internal control matters is crucial to the effectiveness of the internal control. Management involvement sets the tone at the top and determines whether the control environment is conducive to the effective functioning of the internal control.

9.7 Evaluating internal control

The best time to evaluate internal control is when everything seems to run smoothly. The worst time is during or after a crisis. A crisis tends to distort normal perspective and the ensuing reaction will normally result in the installation of inefficient controls.

- Is it valid, that is, would it reduce the risk identified?
- Is it established, that is, is it established as a formal activity by management?
- Is it effective, that is, has it been operating as intended?
- Is it efficient, that is, does the risk reduction provided by the control justify the cost of maintaining the control?

The answers to these questions should be based on:

- Examination of current and past records;
- Observation of activities;
- Interviews with knowledgeable and reliable personnel

A negative answer does not always mean that the control activity fails or should be modified; there may be other compensating factors that work to shore up control.

The evaluation can be done for each specific control through specially designed Control Evaluation Method. The evaluation can also be done expeditiously through the use of generic questionnaires.



9.8 Improving internal control

The next step after evaluating internal control is to find ways to improve it. Control activities are often interrelated and the combine effect of a group of control activities may be greater than the sum of the effects. Because of this optimum improvement often requires considering groups of controls rather single control activities.

Therefore, the best way to improve internal control after an evaluation is to develop a plan for improvement that packages the new controls into coherent groups of activities.

9.9 Internal control for cash transaction

The following internal control questionnaire (a typical example) can be used to evaluate internal control system for cash transactions of an organization. On analysis of responses received through the questionnaire, a conclusion should be drawn for installation of appropriate internal control system or improvement of existing one.

9.10 Collections

- Are the following duties segregated among at least two individuals?
- Authorize cash receipts
- Record cash receipts
- Deposit case receipts
- Reconcile case receipts
- Are there guidelines for accepting remittances that do not agree to amounts owed to the organization?
- Are unidentified case remittances immediately returned to the payers or deposited into a suspense account for further research?
- Is supporting documentation required to indicate the purpose of the remittance to the organization?
- Are electronically transmitted remittances confirmed in writing with identification of payer, amount and purpose?
- Is cashing of personal cheques against collections prohibited?
- Are currency and cheques accounted for separately?
- Are cheques restrictively endorsed immediately upon receipt?
- Are cheques reviewed for accuracy and authenticity before acceptance?
- Are cheques showing suspicious alterations immediately returned to payers?
- Are cash collections recorded immediately upon receipt by means of cash registers or similar devices?
- Does the information recorded include: date, payer, amount, method of payment, purpose of payment, cashier's name?
- Is a receipt issued for every remittance in currency?
- Are receipt forms pre-numbered and periodically accounted for?
- Are cash collections balanced to receipts daily?
- Is cash shortage for each cashier documented?
- Are cash shortages made up from a cash difference fund rather than being offset against overages?



- Is a Board-approved fee levied for all returned cheques?

Based on the above answers, are controls adequate to ensure that cash collections are properly authorized, supported and accounted for?

- How can controls be improved?

9.11 Disbursements

- Are the following duties segregated among at least two individuals?
 - Authorize disbursements
 - Have custody of cash
 - Record disbursements
 - Reconcile cash disbursements
- Is there a policy which clearly defines authorized disbursements?
- Are disbursements supported by properly approved claims or vouchers?
- Are cash advances prohibited unless specifically authorized by the designated official?
- Are disbursements made only from authorized cash funds, bank accounts or through warrant requests?
- Are disbursements by warrants specifically authorized by the designated official?
- Are blank cheques, warrants and signature plates safeguarded in physically secure areas? .
- Do only authorized personnel sign cheques and warrant requests?
- Do cheque and warrant request signers review supporting documentation before signing?
- Are signed warrants and cheques immediately mailed out by someone who did not prepare them?
- Are disbursements by means of electronic transmission specifically authorized by the designated official?
- Is each electronic disbursement confirmed in writing with the intended recipient?
- **Are disbursements immediately recorded with all relevant detail? (date, payee, amount, purpose)**
- Are claims and invoices immediately canceled when paid?

Based on the above answers, are controls adequate to ensure that cash disbursements are properly authorized, supported and accounted for?

How can controls be improved?

9.12 Cash in hand

- Is cash in hand safeguarded in a physically secure area?
- Are cash collections deposited promptly into bank accounts if appropriate?
- Are bank accounts authorized by laws, the Board of Director or by any assigned authority?
- Are bank accounts established in the names of authorized officials?
- Is cash in bank within the protection range of FDIC insurance, i.e. does not exceed \$100,000 per account?
- Are cash losses promptly identified and reported to the proper authorities according to organization guidelines?
- Based on the above answers, are controls adequate to ensure that cash on hand is



safeguarded?

- How can controls be improved?

9.13 Transmitted to Central Treasury/Central Bank Account Office

- Are collections transmitted from branch offices to head office through secure means within a reasonable time?
- Is the money transmitted verified at both ends of transmission?
- Is the money collected deposited intact and promptly (at least weekly) into Central Treasury/Central Bank Account?

Based on the above answers, are controls adequate to ensure that cash collected at various offices is promptly placed in the custody of the Treasurer?

How can controls be improved?

9.14 Accounting for cash Transactions

- Are daily collections promptly summarized and recorded in a cash receipt journal?
- Are deposits promptly recorded?
- Are deposits reconciled to collections?
- Are disbursements promptly summarized and recorded in a cash disbursement journal?
- Is an authorized chart of accounts used to apply cash collections and disbursements? 0 Are collections reported to the head office on monthly Collection Reports?
- Are deposit records reconciled to BACIS ledger?

Based on the above answers, are controls adequate to ensure that cash transactions are accurately recorded and reported?

How can controls be improved?

9.15 Cash Funds and Trust Funds

- Are cash funds and trust funds established only pursuant to Code, Board resolution or government Order?
- Is an inventory of all cash funds maintained, showing location, amount and custodian?
- Are procedures for use of cash funds clearly established and do they include:
 - Clear definition of authorized uses
 - Prior approval of expenditures
 - Restriction on amount and type of purchase
 - Reimbursement only upon submission of receipt
 - Cancellation of receipt upon reimbursements
- Are trust funds used only to hold assets temporarily for a third party or to discharge a fiduciary obligation?
- Is an authorized chart of accounts used to charge disbursements?
- Are replenishment requests based on actual expenditures?
- Are book balances reconciled monthly to bank statements?
- Are trust fund balances reconciled monthly to subsidiary ledger balances?
- Are cash funds periodically counted and verified by supervisors?



- Is the level of usage monitored to detect and close inactive funds?

Based on the above answers, are controls adequate to ensure that all cash funds and trust funds are properly maintained?

How can controls be improved?

9.16 Investments

- Is cash in excess of operating needs invested in accordance with laws and regulations?
- For invested funds, is an approved investment policy followed to ensure a prudent and average return on capital?
- Are investment results monitored for compliance with laws and policies?

Based on the above answers, are controls adequate to ensure that excess cash is prudently invested?

How can controls be improved?

Conclusion on cash:

- Based on the conclusions for 1.1, 1.2, 1.3, 1.4, 1.5, 1.6 and 1.7, are controls adequate to ensure proper accountability for cash and cash transactions?



CHAPTER 10: PROSPECTS OF INTRODUCING ACCRUAL ACCOUNTING IN PUBLIC SECTOR OF BANGLADESH

10.1 What is accounting

Accounting is the art of controlling a business by keeping accurate book-keeping records, measuring and interpreting the financial results for the business by using the information in these records and communicating the results to management and other interested parties.

10.2 Accounting methods

There are following three distinct model of accounting reporting systems in operation.

- **Cash basis accounting:** The cash basis recognizes revenues, when collected rather than when earned and expenses when paid rather than incurred. In this method revenues and expenses are taken into account only with the movement of cash. Here assets are not capitalized and hence no depreciation or amortization is recorded. Also, no liabilities or accruals are made for and no assets and prepayments are recorded.
- **Accrual basis accounting:** In accrual basis accounting transactions and other events are recognized when they occur. It recognizes, the transactions when they occur irrespective of cash movement or not. Thus, the events are recorded in accounting records and recognized in the financial statements of the periods to which they relate. This is a method of accounting that recognizes expenses when economic benefits have been consumed and revenues for benefits have been generated. The reasonable and rational adjustments of transactions are being made in the financial statements tracking economic benefits related to that particular accounting period. It gives proportionate weightage of economic impact on each transaction to related period. This process of spreading benefits over the periods in financial records is also called adjusted accounting. This method presents a logical and dependable accounting framework in modern competitive economic environment, so that true financial results of an entity reflected in the records for the owners and other interested group.
- **Modified cash basis accounting:** This method is a hybrid which combines features of both the cash basis and the accrual basis. It is a moderate dilution of the features of both accrual and cash basis accounting. Modification to the cash basis accounting includes such items as the recording of cash receipts plus receivables, cash disbursement plus payables, cash and near cash blanches.

10.3 Accounting in practice

The term accounting to the commoners mean the process of determining the financial results and presenting true and fair view of the entity i.e. accrual-based accounting. The purpose and function of a commercial concern is to make profit, which is the reward for enterprise and risk. The profit motive of a commercial concern prompted them to embrace accrual basis accounting. On the other side, today's welfare concept of a government is to govern the country and to administer the several departments of its activities in the best way possible. In the absence of profit motive of the government, most of the countries of the world are predominately following cash-based accounting because of its simplicity and objectivity.



10.4 Change of outlook

It is now a frequently asked question among the accounting practitioners, which one i.e. cash basis or accrual basis accounting is more appropriate or public sector to ensure accountability and transparency. The modern democratic form of government accelerated the pace of change in the minds of the citizens to see more accountable and credible government resources entrusted to them. The existing system, in the changed environments is not capable of meeting the national and international requirements of fiscal reporting. It does not provide timely, accurate, comprehensive and reliable information for decision making and enforcing effective controls and accountability. To address the shortcomings in their financial reporting system and ensuring good governance through improved public accountability, various governments have moved or in the process of moving towards modern accounting and financial reporting system. The cash on its own provide adequate information to meet the needs of the government. Cash based reporting is credited with being useful for assessing complains with case budgets and for monitoring estimating governments case resources. However, it fails to show a proper picture of financial position and performance and to enable decision makers to look ahead on the basis of full cost information. Public sector managers are more conscious for better accountability without leaving burden on future generations. This inherent demand or compel govt. to usher changes in their age-old cash-based accounting system. The adoption of accrual accounting for public sector is intended to retrieve information about financial position, that is stock of wealth or change in the stock of wealth and performance in terms of economy, efficiency and effectiveness in the use of public resources.

10.5 Why accrual accounting in public sector

Accrual accounting is a tool, not an end in itself. It is a tool for decision makers that can help them to make better decisions and improve the allocation of scarce resources. Accrual based reporting means recognizing assets and liabilities in existence at the reporting date. Accrual based reporting offers the opportunity for governments to improve their management of assets and liabilities. Government cannot hope to govern in a sustainable way unless they are made aware of the liabilities created by the impact of current decisions. It helps to focus governments on management by results as well as management of resources. It is expected from the introduction of accrual accounting to improve financial transparency, improving the integrity and reliability of reported information.

10.6 Present practice of accrual accounting in public sector

It is observed that most of the governments who have successfully implemented best practiced standards of government accounting and financial reporting, moved towards modified cash/ accrual-based accounting before adopting the full accrual-based accounting. In fact, New Zealand government is the single examples of successful application of accrual accounting in recent past. All other examples are phase wise shifting initiative in the process towards accrual accounting such as Australia and U.K.

10.7 Accrual accounting and public sector in Bangladesh

Our public sector accounting is being maintained on pure cash basis. We have inherited & are habituated with this system for centuries the idea of introducing accrual accounting in the public sector in Bangladesh is already under discussion. We are aware of the government initiative of overall financial sector reform through FMRP project. The project has already initiated various steps to improve financial recording system for ensuring improved financial management. It is expected that with the



successful completion of the project more reliable information flow and accountable management would be ensured in the public sector. The following impediments should be taken care of before moving for accrual basis accounting in our public sector:

- To move from a cash-based system to an accrual-based system, changes are needed throughout the government from the agency or departmental level to the top government level. Changes also involve human resources. People tend to **resist** change because it involves an effort to move them from the familiar to the unfamiliar.
- The shift from cash basis to the accrual basis accounting needs a massive change both in the accounting culture and pattern. It would be prudent to have macro level evaluation of the existing system to identify the weakness and take remedial measures to make it effective and responsive to the codal rules.
- Accrual accounting system has its inherent intricacies which necessitate deployment of human resources with accounting background. In our present civil service recruitment process there is no scope of encadrement from specific discipline for a particular service. It requires professionalism in accounting discipline for practice & use of accrual concept in public sector accounting.

Without ensuring sufficient manpower with accounting background it would be risky and even might be detrimental for our public sector accounting as well as goodwill of the department to shift from present system to accrual basis accounting.

- Our neighbouring countries India and Pakistan inherited the same system from colonial administration. We should not be faster than them for initiating trial & error in this respect. Rather we can closely observe their steps and use their experience in our decision making in the process of changing accounting practice.

10.8 Conclusion

Evaluation of the prospect of introducing accrual accounting is a very common agenda in all developed as well as developing countries of the world during last few years. It is clear from the above analysis that accrual basis accounting would provide a sustainable management of resource; improve financial transparency, integrity and reliable information flow. To reap these benefits, it needs a lot of preparatory field work as well as legal change for quick grasp with the new environment. It would not be wise to jump from the top of a mountain to the river down the hill having strong current to get rid of scorching heat of the sun, if you do not know how to swim.



CHAPTER 11: MANDATE OF SAI: THE ROLE OF CAG AND PAC IN THE GOVERNMENT ACCOUNTABILITY PROCESS

11.1 Supreme Audit Institutions and its Mandate

It is an institution envisaged in the constitution or other law which is responsible to audit public expenditure for ensuring accountability and transparency in utilization of public fund and report it to the Parliament.

This is a body of a State which, however designated, constituted or organized, exercises by virtue of law the highest public auditing function of that State is called Supreme Audit Institution (SAI). The auditing responsibilities, powers, discretions and duties conferred on the SAI under the constitution or other lawful authority of a country is called mandate of SAI.

Constitutional Provisions: The office of the Comptroller and Auditor General (CAG), the Supreme Audit Institution (SAI) of Bangladesh derives its authority for exercising its function from the constitution of **the people's republic of Bangladesh (article 127-132)** and the **Comptroller and Auditor General (Additional Functions) act 1974, C&AG's (Additional Functions) (Amendment) Act 1975**.

The basic provisions of the authority are embodied in:

- Article 127(1) of the Constitution provides that there shall be a Comptroller and Auditor General of Bangladesh who shall be appointed by the President.
- Article 128 (1) of the constitution provides that the public accounts of the Republic and all courts of law shall be audited and reported on by the C&AG and for that purpose he or any person authorized by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other government property in the possession of any person in the service of the Republic.
- Article 128(4) provides that the Comptroller and Auditor General, in the exercise of his functions under clause 128(1), shall not be subject to the discretions or control of any person or authority.
- Article 131 of the Constitution provides that the public accounts of the Republic shall be kept in such a form and in such manner as the Comptroller and Auditor-General may, with the approval of the president, prescribe.
- Article 132 of the Constitution provides that the reports of the Comptroller and Auditor-General relating to the public accounts of the Republic shall be submitted to the President, who shall cause them to be laid before Parliament.
- The Additional Function Act 1974 enables him to exercise some more functions which include, among others keeping of government accounts, preparation of appropriation and finance accounts, audit of accounts of statutory public authorities, autonomous and semi-autonomous public sector enterprises, preparation of commercial accounts and financial statements.
- The Additional Functions Amendment Act 1975 has given provisions for audit of nationalized banks and financial institutions.
- **The constitution of the People's Republic of Bangladesh gives the CAG wide discretionary powers in interpreting and applying his mandate in deciding what to audit, how to audit and when to audit.**



11.2 Accountability process

Democracy rests on an elaborate structure of accountability at all levels of government. Though accountability as a concept and practice in a democratic environment has a much wider coverage, the objective here is to focus on a particular aspect of accountability, i.e. accountability in management of public expenditure. The need for accountability regarding management of public expenditure has caused a demand for more information. Public officials, legislators, citizens and other users of audit reports want and need to know whether public funds are managed properly and in compliance with laws and regulations, whether programmes and services are achieving their purposes and whether they are operating economically, efficiently and effectively.

Public officials who are responsible for management of public resource are accountable to the public for the stewardship of that resource. These responsibilities include:

- Maintaining accounting records;
- Preparing statements of accounts;
- Safeguarding the assets;
- Taking reasonable steps for the prevention and detection of fraud or other irregularities;
- Managing affairs having due regard to financial and other related rules and regulation to secure economic, efficient and effective use of resources.

So, resource managers are assigned with the guidelines and responsibilities they are required to perform and to comply with. The process of government accountability could end up at this point. But if the resource manager goes beyond the prescribed rules and regulations and results inefficiency and indiscipline in the management of public expenditure, the government would be identified as liable. So, government is required to assign some other organisations as the verifier and watchdog of the management of the whole activities in this line. Here comes the very important role of audit in the government accountability process. Independent audit by the Comptroller and Auditor General is one of the ways to ensure that public- money is accounted for, well managed and propriety is ensured by the custodian of public assets. Parliamentary control and supervision specially the role of Public Accounts Committee another-important way to ensure this accountability.

11.3 Role of CAG in ensuring accountability

The Mandate of SAI i.e. independent audit by the Comptroller and Auditor General is being executed through some operational guidelines. These guidelines are Government Auditing Standards, Code of Ethics and Audit Code etc. Some elaboration of basic points of these guidelines will give us idea about the way the Comptroller and Auditor General of Bangladesh ensures government accountability.

Government Auditing Standards: The Constitution of the People's Republic of Bangladesh places the Office of the Comptroller and Auditor General in a unique position of trust which requires that all works of the office be carried out in accordance with the highest professional standards. The standards known as Government auditing standard constitute the criteria or yardstick against which the quality of the results of audit is evaluated. The general standards that apply to all types of audit are the following:

- a) Independence:** In all matters relating to the audit work, the auditor and the Office should be free from personal and external impairments and be organizationally independent. Such



impairment could include:

- Official, personal or financial relationship with the staff or the entity being audited;
- Previous responsibility for decision-making or managing an entity being audited and
- Previous responsibility for maintaining the accounting records of an entity being
- In such situation, the Office should reassign the audit staff to other duties.

b) Competence: The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

- Whatever the nature of the audits to be undertaken, the audit work should be carried out by persons whose qualifications, skills and experience are commensurate with the nature, scope and complexities of the audit task.
- It is not necessary that each auditor possesses competence in all aspects of the audit mandate. However, the team involved in a particular audit should collectively possess the necessary skills and expertise.

c) Due Care: The auditor and the Office must exercise due care in conducting the audit and preparing related reports.

- Due care entails that auditors must apply the auditing standards established by the Office. This embraces due care in setting the scope of the audit, choosing the audit criteria, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.
- Auditors need to be alert for situation of weaknesses in internal controls, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operation, waste, inefficiency or lack of probity.

d) Quality Control

The Office should have in place an internal quality control system to review the efficiency and effectiveness of its internal standards and procedures.

Maintaining and continuously improving the quality of its work is of critical importance to the credibility of the Office. In this regard, the Office should pay particular attention to assessing the quality of its audit work on an ongoing basis.

The Office should establish a separate quality control review cell, and systems and procedures to conduct systematically an in-depth review of the planning, conduct and reporting of a sample of audits with the objective of verifying that auditing standards are being adhered to and used consistently; internal quality assurance processes have operated satisfactorily; ensuring the quality of the audit report; and improving current practices.

The adoption and application of these Government Auditing Standards will contribute in a major way in raising the standard and quality of government auditing in Bangladesh. As a result, the office of the CAG will be able to play a more effective and enhanced role in promoting greater transparency, accountability and good governance.



e) Code of Ethics

Office of the Comptroller and Auditor General of Bangladesh has adopted Code of Ethics as guidelines of conduct reflecting moral standards and ethical values that would ensure a credible environment of professionalism. It is of fundamental importance that the SAI is looked upon with trust, confidence and credibility by the stakeholders of the SAI, who can be classified in the following manner:

- The parliament,
- The executive authorities of the Republic,
- The general public and the audited entities,
- The international bodies like, UN agencies that may come under SAI audit.
- Any other entity that may come under the purview of SAI on request.

All of them are entitled to expect the **SAI's conduct and approach to be above suspicion reproach and worthy of respect and trust**. The auditor can promote this by adopting and applying the ethical requirements enumerated in this Code while performing their responsibilities.

General principles: The following general guidance and moral standards are necessarily be adhered to:

Integrity: Integrity is the core value of a Code of Ethics. Auditors have a duty to adhere to high standards of behaviour (e.g. honesty, fairness, candidness, and truthfulness) in course of their work and in their relationship with the officials of audited bodies. Integrity can be measured in terms of what is right and what is just. Integrity requires auditors to observe both the form and spirit of auditing and ethical standards.

Independence: Independence from the audited entity and other interest groups is indispensable for auditors. This means that auditors should behave in a way that enhances and in no way diminishes their independence.

Objectivity and Impartiality: Auditors should try to be objective and impartial in dealing with the issues and topics under review.

Competence: Auditors should use methods and practices of the highest possible quality in conducting audit.

Mandate: Auditors should keep all of their audit activities **within the Office's audit mandate**.

Economy, Efficiency and Effectiveness of operations: Like any other department of the **Government, SAI's operations are also funded by the taxpayers. Since the principle objective of SAI is to ensure economy, efficiency and effectiveness the financial activities of the, Government, it has an even bigger obligation to follow these principles.**

Political neutrality: It is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way.

Constructiveness: The main thrust of audit is to ensure improvements in Government activities. So, auditor should perform a constructive and positive role, which should be reflected in their audit reports.

Professional secrecy: Disclosure of official information shall only be done through proper authorization by competent authorities. Due should be taken by the auditors not to disclose audit findings and conclusions in an improper and premature way that can harm the audit entity and embarrass the audit office.

The findings and reports CAG have impact in ensuring effective oversight policy and on the functions,



policies, and programs of the audit entities. The activities of the audit departments are designed to ensure the executive branch's accountability to the Parliament under the constitution and the government's accountability to the taxpayers. It is therefore imperative that the auditors exercise utmost care by following ethical standards while carrying out their audit.

f) Audit Code

All essential audit directions of the Auditor General have been set out in this code. Audit code incorporates the Comptroller and Auditor General's view of the best professional practice with respect to the standards; procedures and techniques with which his auditors are expected to comply while doing audit work.

Definition of audit: Audit includes an examination of books of accounts, other documents, stores, and assets etc. relating to the receipts and expenditure of the Government, statutory public authorities and public enterprises with a view to ensuring that:

- Rules and orders framed by the competent authority in regard to financial matters have been followed;
- Sums due have been properly assessed, realized and brought to account;
- Expenditure has been incurred with due regularity and propriety;
- Asset have been properly utilized and safeguarded;
- Public resources have been used economically, efficiently and effectively and
- Accounts truly represent facts.

Auditors should take reasonable care and exercise appropriate skill in each audit, where the determination of what is reasonable can be a matter of judgment. This Code cannot cater to all situations and circumstances, but auditors should carry out such enquiries, analyses, checks and tests as they consider necessary, for example, by:

- Taking sufficient steps to obtain information which would be relevant to the audit;
- Having regard to past audit experience, at this and other audits, and to good practice in devising the audit approach;
- Taking into consideration unusual circumstances, characteristics or relationships and giving special attention to such features;
- Looking out for and recognizing unfamiliar situations;
- Taking reasonable steps to resolve unanswered questions;
- Keeping up to date with developments in professional matters, audit techniques, standards, guidelines, practice notes and bulletins;

Jurisdiction of the audit directorates: In order to carry out his audit responsibility the Comptroller and Auditor General will organize the audit directorates and assign their functional duties, as he deems appropriate. The existing ten audit directorates are now functionally organized as follows:



Directorate	Functional Areas
Commercial Audit	Government Parastatals State-Owned Enterprises including Nationalised Commercial Banks and Financial Institutions
Local and Revenue Audit	Revenue collecting agencies and other government departments Local and statutory bodies, including municipalities, city corporations and universities
Defence Audit	All units and formations of armed forces, inter services organisations and offices of the defence finance department Certification of Appropriation Accounts relating to defence
Works Audit	Expenditure relating to public works and public utilities of different ministries
Post, Telephones and Telegraph Audit	All establishments of postal, telephone and telegraph departments Certification of Appropriation Accounts of these departments
Foreign Aided Projects Audit	All foreign aided projects Certification of accounts of all foreign aided projects -
Mission Audit	All overseas Bangladesh Missions, Nationalized Banks, Shipping Corporation Offices situated abroad
Civil Audit	Audit of the accounts of the Republic maintained in all the offices of the Controller General of Accounts Certification of Finance and Appropriation Accounts of the Government
Railway Audit	All establishments of the Bangladesh Railway Certification of Appropriation Accounts of Railway
Performance Audit	The main function is to conduct Value for Money Audit (VFM) or performance audit to provide an assessment of whether the economy, efficiency and effectiveness is achieved in the utilization of public resources.

The audit directorates are conducting regularity and compliance audit, financial statement audit and performance audit under the guidance of the office of the Auditor General. All audit work should comply with the established standards to ensure consistently high quality which foster sound financial management practices. Audit contributes by providing factual, objective and timely information to Parliament on the performance of Government by highlighting waste, system weaknesses, deficiencies and the economic efficient and effective use of public resources. This is the way audit ensures the achievement of the vision (of the C&AG office) of promoting accountability and transparency in public financial management for achieving good governance.



11.4 The Role of Public Accounts Committee in the Government accountability process

Public Accounts Committee (PAC) is a parliamentary standing committee provided in article 76(i) of the constitution and details of its information, scope and responsibilities are prescribed in regulation 233 of the Rules of Procedure of the Parliament.

The fundamental object of PAC's consideration is the audit reports prepared by the C&AG by auditing the accounts of the Republic and certifying the Annual Finance Accounts and Appropriation Accounts.

Provisions given in the Rules of Procedure of the Parliament are the following.

- There shall be a Committee on Public Accounts for the examination of accounts showing the appropriation of sums granted by the House for the expenditure of the Government, the annual finance accounts of the Government and such other accounts laid before the House as the Committee may think fit. Upon examination of irregularities and lapses of institutions, the Committee shall report to Parliament with recommendations of remedial measures.
- In scrutinizing the Appropriation Accounts of the Government and the -report of the Comptroller and Auditor. General thereon, it shall be the duty of the Committee to satisfy itself-
 - That the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied or charged;
 - That the expenditure conforms to the authority which governs it; and
 - That every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.
- It shall also be the duty of the Committee-
- To examine the statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, concerns and projects together with- the balance-sheets and statements of profit and loss accounts which the President may have required to be prepared under the provisions of the statutory rules regulating the financing, of a particular corporation, trading or manufacturing scheme or concern or project and the report of the Comptroller and Auditor-General thereon;
 - To examine the statement of accounts showing the income and expenditure of autonomous and semi- autonomous bodies the audit of which may be conducted by the Comptroller and Auditor-General of Bangladesh either under the directions of the President or by a statute of Parliament; and
 - To consider the report of the Comptroller and Auditor General in cases where the President may have required him to conduct an audit of any receipts or to examine the accounts of stores-and stocks.
 - If any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose, the Committee shall examine with reference to the facts of each case, the circumstances leading to such an excess and make such recommendation as it may deem fit.
 - The Committee shall consist of not more than fifteen members who shall be appointed by the House.
- Provided that a Minister shall not be appointed a member of the Committee, and that if a member, after his appointment to the Committee, is appointed a Minister-he shall cease to be a



member of the Committee from the date of such appointment.

The main spirits of examination by the PAC are:

- Whether money spent or unspent beyond or below the Parliamentary grants are appropriately justified by the executive
- Whether money has been spent observing economy, efficiency and effectiveness to ensure value for money.
- Whether individuals engaged in public spending have resorted to misappropriation, fraud, corruption and misuse of public money

PAC gives due consideration to:

- **CAG's recommendations, executive's replies, explanations** and clarification, hearing individuals responsible for misdeeds etc.

11.5 Conclusion

We can see that both PAC and CAG play very dominant role in the process of government accountability. Infact effectiveness of one depends on the effective role of other, thus complementary to each other.

PAC is the highest authority for examining audit report of the CAG. PAC may resolve the audit observations 100% on the basis of consensus among the members. Some observations are fully settled on the basis of different actions taken as per the recommendations of the audit report like recovery, adjustments, departmental actions, write-off etc. **On the other hand, sometimes executive's reply is rejected & responsibility is fixed up.** Sometimes directives are given for subsequent compliance and time is allowed for rectification of error.

The role of PAC is very important for making the role of CAG effective. If the reports of the CAG are discussed in the PAC meeting regularly and frequently in the presence of Chairman of PAC, CAG, the Secretary, the head of the department & recommendations are given promptly, everybody involved in the accountability process becomes aware of their responsibility. Finally, all the steps and efforts starting from the audit up to the recommendations by PAC will be meaningful if an effective follow up of those can be exercised. Prompt action on the report of the CAG by PAC will encourage auditor to produce more and more quality audit reports, which in turn will make PAC more active and more contributing. **This way, both PAC and CAG would be able to reinforce each other's strength and play their desired role in the government accountability process.**



CHAPTER 12: AUDIT PRACTICE IN BANGLADESH

12.1 Definition

Audit means an independent examination on the financial statements of an entity for expression of opinion by an appointed auditor. According to audit code issued by Auditor General, audit includes an examination of the books of accounts and other documents relating to the receipts and expenditure of the government, statutory public authorities and public enterprises with a view to ensuring that rules and orders framed by the competent authority in regard to financial matters have been followed, that sums due have been properly assessed; realized and brought to account; that assets have been properly utilized and safeguarded and that the accounts truly represents facts.

The companies Act made auditing of a limited company's account by a chartered Accountant compulsory. The Act contained specific provisions relating to maintenance of proper books of accounts and contents of the balance sheet and its authentication.

12.2 Types of audit

The following different kinds of audit are in practice to serve the needs of stakeholders.

- Pre-audit: The audit which is conducted before the payments are made.
- Concurrent audit: The audit which is conducted at the time of making payments.
- Post audit: The audit which is conducted after the payments are made. The post audit may be of following two kinds:
 - Internal audit: Internal audit is an appraisal function established within an organization to examine and evaluate its activities as a service to the organization or management. It is carried out by the employees of the organization. It is an integral part of the internal control system.
 - External audit: This audit is independent of the organization and carried out by the outside auditor to look into the financial reports and statements. The auditor also reviews internal audit reports. This audit is usually conducted as per law, act or ordinance. In government sector this audit is normally performed by Supreme Audit Institution (SAI) of the country and in private sector it is the responsibility of professional Auditors, namely, Chartered Accountants on behalf of the owners.
- Special Audit: The Parliament or C&AG may feel the necessity of an audit being made public by press or media which creates public opinion for proper accountability on specific irregularity in an organization.

12.3 Audit practice by SAI's

There are three types of audit in practice in the SAI's of the world. These are discussed in detailed in the following paragraphs one by one:

- **Regularity audit:** A regularity or compliance audit is an examination of the management of expenditure and receipts, and financial systems and transactions of the audited entity to determine whether the entity has complied with specific applicable laws, rules, regulations, procedures etc. that apply to it. The main principles for auditors to consider are:



- that the provision of funds has been authorized by competent authority e.g. in setting budgets and ensuring that expenditure has been incurred within budget limits.
- that expenditure is in accordance with financial rules and regulations framed by competent authority; and
- that expenditure is authorized by special or general sanctions issued by competent authority.

This work of audit in relation to rules is of a quasi-judicial character. It involves the interpretation of rules and orders with reference to case law of previous decisions and precedents. The public sector audit conducted by SAI of Bangladesh is mostly confined to regulatory audit. The audit reports submitted by Auditor General to the parliament is related with financial irregularities of not following any specific rules, regulations, or applicable laws. The term audit in public sector to the auditors as well as auditees are referred to compliance or regulatory audit only. The Auditor General of Bangladesh has ten audit directorates to conduct regulatory audit.

- **Performance audit:** A performance/audit is an objective and systematic examination of public sector organizations programme, activity function or management systems and procedures to provide an assessment of whether the entity, in the pursuit of predetermined goals has achieved **economy, efficiency** and **effectiveness** in the utilization of its resources. This audit is also called value for money (VFM) audit in many countries.
 - economy means acquiring input resources of the appropriate quality and quantity, at the lowest cost that is spending economically.
 - efficiency means ensuring maximum output of goods and services from a given set of input that is spending well
 - effectiveness means ensuring that the desired results, objectives, targets policy have been successfully achieved that is spending wisely.

The Supreme Audit Institutions (SAIs) of the developed world and a good number of developing countries are moving from financial audit to VFM audit. This shift can be seen as moving from the role of an observer to a more proactive role as an improved. In the public sector, VFM audit provides relevant feedback to managers, legislators and citizens on the efficiency and effectiveness of measured activities. For example, in the case of a public health system, the VFM audit enables three groups (managers, legislators citizens) to evaluate whether Medicare was delivered at the lowest cost, whether it was the best of what was available, and whether the public is benefited from the expenditure.

Accountability is ensured when both parliament and the public at large are assured that public funds are being spent efficiently and economically on programmes that are effective. VFM audit assists this process by reporting on managements performance. In the democratic environment, **SAI's can be seen as the taxpayers and professional watchdog**. The SAI of Bangladesh is seriously trying to prepare its work forces to conduct VFM audit. A good number of officers have been trained in VFM audit over the last couple of years in the U.K. and Pakistan on the job training program. Besides five CCAF fellows were trained from the office Of Auditor General



(OAG) of Canada. In the mean while Auditor General have conducted a good number of VFM audit on experimental basis which were highly acclaimed by the concerned authority. Learning through experience rather than waiting for perfection is the immediate strategy of Bangladesh Audit Department. Recently, Auditor General got approval of the government to establish separate Performance Audit Directorate which would accelerate the process to cope-up with the needs of the time. The office of the Comptroller and Auditor General of Bangladesh human resources problem having very limited professional accountant in the department.

- **Certification audit:** The discovery of fraud, errors and misappropriation are supposed to be the main objective of audit. But nowhere in the Act the question of discovery of fraud, in relation to **the auditor's responsibility is discussed, although failure to discover it would normally render him liable.**
 - A financial Audit/certification audit is the examination of financial statements of an audited entity with the primary objective of expressing an opinion on whether the financial statements truly present the expenditure and receipts in the case of accounts prepared on cash basis (Government Accounts).
 - In the case of accrual accounts, the opinion shall be whether financial statements present a true and fair view of the financial position, results of operations and cash flows.
 - The main purpose of certification audit is to form an opinion on the financial statements **of the audited entity. The auditor's opinion on the books of account may be of following four kinds:**
 - Unqualified/clean opinion: A Clean report is given when the auditor is satisfied in all. material respect that the financial statements have been prepared using acceptable accounting standards, provide adequate discloser of all material matters, and presents fairly the financial position, results of operation and changes. The auditor may not be able to give an unqualified opinion if there has been a limitation on the scope of the audit, the statements are incomplete or misleading or there is departure from acceptable accounting standards.
 - Qualified opinion: Where auditor disagree with or uncertain about one or more items in the financial statements, a qualified opinion is given. The report should clearly state the matters of disagreement giving rise to the qualified opinion and provide adequate explanation with respect to the disagreement.
 - Adverse opinion: where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement, which is so fundamental that a qualified opinion would not be adequate, an adverse opinion is given. Such an opinion makes clear that the financial statements are not fairly stated, specifying clearly all the matters of disagreement.
 - Disclaimer; A disclaimer is given when the auditor is unable to form an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction, which is so fundamental that a qualified opinion would not be adequate. A disclaimer makes clear that an opinion cannot be given, specifying clearly all matters of uncertainty.



It is an important pre-condition for certification audit to have professional competence of the auditor to certify the financial statements of an entity. The financial audit requires sufficient manpower with accounts and audit background for certification of books of accounts of audited body. But SAI of Bangladesh is still lacking professionally qualified auditors to meet the requirement for certification audit. The accounts of autonomous organizations and public enterprises are still being audited by Chartered Accountant Firms in the absence of CAG's audit in this regard where CAG Audit only concentrates on regularity / compliance audit



CHAPTER 13: VFM AUDIT PURPOSE, PROSPECT AND PROCESS IN SAIS OF THE WORLD

13.1 Introduction

The taxpayers want the best possible value from the use of public funds. Members of parliament, in turn, look to the Auditor General to help them find out whether that value is being obtained by the government. Parliament, the government, and the public service are the guardians of public funds, entrusted to them for delivering programs and services to the benefit of the people. The people have their belief and confidence that public funds are spent wisely and effectively. There must **BE VALUE FOR MONEY** spent in compliance with authority and accountability by the government for its performance. The Auditor General aids accountability by conducting independent audits of government operations. The audits provide members of parliament with objective information to help them examine the **government's activities and hold them to account. The Value for Money (VFM) audit can play a pivotal** role in establishing good governance through ensuring accountability and transparency in dealing with the public funds. The VFM audit is a new dimension in the public sector auditing system in the most of the SAIs of the world. Many SAIs of the developed and even the developing countries of the world introduced this new approach of audit long before but the journey of VFM audit in Bangladesh has already started, through the experience and initiative are still at the embryonic stage.

13.2 Meaning of performance or VFM audit

A performance audit is an objective and systematic examination of public sector organization's program, function or management systems and procedures to provide an assessment of whether the entity, in the pursuit of predetermined goals, has achieved economy, efficiency and effectiveness in the utilization of its resources. Performance audit, therefore, involves an independent assessment of whether economy, efficiency and effectiveness have been achieved by the organizations concerned. These three key elements of VFM audit is explained below:

- economy: economy means acquiring impute resources of the appropriate quality and quantity, at the lowest cost i.e. spending economically.
- efficiency: efficiency means ensuring maximum output of goods and services from a given set of input i.e. spending well.
- effectiveness: effectiveness means ensuring that the desired results, objectives, targets or policy have been successfully achieved i.e. spending wisely.
- environment: The modern and latest emphasis is on the overall impact on environmental aspect with the implementation of a project.

The subject of VFM audit can be a government entity or activity (business line), a sectoral activity or a government wide functional area. In VFM audit it is generally looked up on whether the end results are consistent with the desired goal. The VFM audit deals with the results of operating decisions by top management. A well performed and reported audit serves is an essential instrument for developing and promoting good governance, by improving public sector management.

13.3 Performance indicators

The fundamental precondition for meaningful comment on the performance of an audited organization is having a clear and easily quantifiable benchmarks or performance indicators. In cases where objectives are not quantifiable or performance indicators are not available, the tasks of the auditors



become very difficult They may have to look for the generally accepted norms or industry standards or work out performance criteria in consultation with the management.

13.4 Shifting towards VFM audit

The Supreme Audit Institutions (SAI) of the developed world and a good number of developing countries are moving from regulatory audit to VFM audit. In the public sector, VFM audit provides relevant feedback to managers, legislators and citizens on the efficiency and effectiveness of measured activities. It is important to identify the priority areas in selecting issues for VFM audit. It is also essential in VFM audit to have a perspective and tactical plan for examining the issues and completing reports within timeframe.

13.5 VFM Audit mandate for SAI Bangladesh

Under Article 128 of the constitution and clause 11 of the Comptroller and Auditor General's Additional Functions Act, 1974, the Auditor General may make rules and give directions in respect of all matters pertaining to the audit of any account he is required to audit. The constitution of the country gives the C & AG wide discretionary powers in deciding what, how and when to audit particular areas. Pursuant to the above-noted legal mandate, the Auditor General of Bangladesh issued the performance Audit Manual with detailed guidance and procedures to conduct VFM audits.

13.6 An overview on performance audit system

There are following three phases to be followed before finalizing VFM audit report:

- a) **planning phase:** Prior to starting field work, a process of setting priorities, developing strategic and long-range plans, submitting audit proposals, rationalizing resources and assessing anticipated audit work is taken place. This process results in the approval to begin an audit, a broadly defined audit scope, a preliminary audit objective and sufficient resources to begin the audit in planning a VFM audit stages below are followed.
 - i) **Overview stage:** Understanding the subject of audit i.e. department, agency, sector or function etc.
 - ii) **Survey stage:** The purpose of survey is to develop an audit plan that will provide a basis for orderly, efficient and cost-effective conduct of audit.
 - iii) **Survey report:** The results of survey are documented in survey report.
 - iv) **Audit objectives:** There must have a clear objective consistent with the achievement of **results of the entity, compatible with the office's mission.**
 - v) **Audit scope;** In early planning stage activities are often considered **in** broad term. Scoping the audit involves narrowing the audit to relatively few matters of significance, keeping in view the timing and auditability.
 - vi) **Audit criteria:** This is the benchmark against which the achievements are to be evaluated.
 - vii) **Audit approach:** The audit team need to design an audit approach that will produce the most meaningful audit result for the client, in a most cost-effective manner.
- b) **Examination phase:** The purpose of this phase is to gather necessary and sufficient information and audit evidence. The stages followed in this phase are:
 - i) **Audit evidence:** Audit must have necessary and sufficient evidence to support observations.



- ii) **Reliance on other audits and evaluations:** The audit team can rely on internal auditors or program evaluators with substantiation and reference.
 - iii) **Developing audit observations:** Audit must involve objective evaluation of the evidence against the criteria to develop observations.
 - iv) **Developing recommendations:** Audit must include recommendations to guide necessary corrective actions when deficiencies are reported.
 - v) **Departmental response:** The response of the department on the observations is to be collected.
 - vi) **Audit conclusion:** audit must have necessary and sufficient observations to support conclusions made against each audit objective.
 - vii) **Audit report:** audit must result in a report that meets the reporting standard.
- c) **Reporting phase:** The findings in the examination phase must result in a report. The report shall have to meet the highest attainable standards for content and presentation.

13.7 VFM audit in Bangladesh

The major concern in Bangladesh like developing countries are to improve efficiency for establishing accountability and transparency in every stage of government activity. The SAI of Bangladesh is making progress in implementing the concept and practice of VFM audit in our public sector that auditing. It is felt across the government that auditing should be made more effective and useful and should play an important role in promoting accountability and transparency in public spending. The process of conducting VFM audit has already started in a limited scale in SAI Bangladesh. We have many things to learn from the operational experience and it will take time to reach the target of a quality VFM audit. We have the advantage of seeing the Canadian experience through the CCAF fellowship program and applying the skills and experience from the program to guide the process of audit in our country. The Auditor General has already conducted a few performance audits with some trained official including Canadian Comprehensive Auditing Foundation (CCAF) fellows.

In the prevailing economic, social, cultural and political atmosphere of our country, it is undoubtedly the right approach to continue developing VFM audit rather than wait for more skills, power and authority. The ideas of learning from practice and building on experience will pave the path for future support. The way we have started seems to be the right approach in achieving proficiency in the field. The Auditor General is actively pursuing some initiatives to remove the roadblocks in accelerating successful implementation of VFM audit. The government of Bangladesh very recently approved a separate VFM audit directorate for the Auditor General. This success of Auditor General in convincing the government of the necessity of VFM audit is a positive sign to the needs and priorities for promoting and ensuring good governance.

13.8 Peer review

The Auditor General aids in the process of establishing good governance and ensuring accountability and transparency in the public sector by conducting independent audits of government operations. It is important and desirable to ensure that a Quality Management System (QMS) exists in the office of the Auditor General. The stakeholders expect the auditor general to have extensive quality control procedure to ensure that a high standard is maintained in performing his core function for parliament.



The practice of conducting audits of the Quality Management System (QMS) in the office of the auditor general by an **independent auditor has already started in the major SAI's of the world. In OAG of Canada**, such a peer review of its QMS for annual attest audits was conducted by an external audit firm Pricewaterhouse Coopers LLP in the year 2000. It is now a necessity to establish a QMS and an internal practice review of its operating effectiveness in our SAI. It is thus felt that after the suitable design and period of effective operation of a QMS in our SAI, an independent audit or peer review within a reasonable time period be considered.

13.9 Conclusion

The present emphasis of VFM audit makes it imperative on the part of the office of the Auditor General to develop its capacity to perform such functions. The stress now is not only on examination of financial propriety in expenditure of public funds but more on the result in the context of predetermined goals. This change of attitude necessitates to equip our VFM auditors with the proper tools, including methodology and training. In spite of limitations and constraints, a reform agenda is going on to improve the support service and quality of manpower in the Audit Department.



CHAPTER 14: SETTLEMENT OF AUDIT OBSERVATION: VARIOUS STEPS

14.1 Introduction

Audit is a systematic analysis of receipts and expenditure on the basis of different financial rules, regulations and government orders. It examines whether the books of accounts, other documents, stores, assets etc. are maintained properly and that expenditure has been incurred with due regularity and propriety. It is the responsibility of field auditors to prepare a Local Audit Report (LAR) on the basis of their findings and submit it to the audited entity. The LAR is refined at different stages and categorized into normal para and advance para. There are stages for settlement of those audit observations. The settlement of audit observations requires imitative and effective participation of auditee organization. It requires seriousness and sincerity of the audit entity in submitting broad sheet reply explaining the grounds and reasons of relevant expenditure with reference to financial rules, government orders and administrative reality.

Four phased present C&AG's strategic Plan: It is a phased-out reform program. The phase is short, medium, long and tenure term reform program.

1.	Short Term:	To improve discipline. Office Management and office environment.
2.	Mid-Term:	Central Strategic plan by C&AG and to formulate work operational & strategic plan by the Audit Directorate in conformity with CAG Plan and implement it through audit briefing, inspection and monitoring of the audit teams resulting in production of quality local Audit Report (LARI)
3.	Long Term:	To develop FIMA as a center of excellence through capacity building and infrastructural development.
4.	Tenure Term:	Production of quality audit report through enhanced capacity and gradual shift towards value for money audit.



14.2 Audit process of C&AG

The C&AG has wide areas to conduct his statutory functions. The audit area includes:

- All government offices including local government bodies;
- All statutory public authorities that have been formed by statute, acts and ordinances;
- All public enterprises where the government has at least 51% share or interest.

The C&AG has ten audit Directorates who assist him in discharging his statutory duties. The Director Generals are responsible for conducting audit on behalf of the C&AG. The C&AG organises the audit directorates and assign their functional duties, as he deems appropriate. These functionally organised audit directorates are:

1. Commercial Audit;
2. Local and Revenue Audit;
3. Works Audit;
4. Foreign Aided Project Audit;
5. Civil Audit;
6. Defence Audit;
7. Railway Audit;
8. Mission Audit;
9. Post and T & T Audit;
10. Performance Audit.

Total auditable units under the audit jurisdiction of the C&AG now stand approximately at 22500.

The Audit Directorates mentioned above conduct audit by considering materiality and risk of their auditable units. In conducting their duties, they prepare different types of audit plans. Those are strategic plan, annual plan and operational plan. These plans are prepared under the central guidance of the C&AG to maximize their achievement with minimum audit resources (manpower and time). After finalization of plan audit directorates prepare their audit programme (party formation, office allocation, time allocation etc.) and send intimation letter to the auditee organization. Before audit party's departure briefing sessions are commenced in the audit office to give proper guidance to the auditors about their duties and responsibilities in the field.

14.3 Field responsibilities

The field responsibilities of the auditors are:

1. To meet with head of the entity before starting audit work;
2. To issue requisition letter to the entity for submitting relevant papers and registers to the audit party;
3. To issue query in writing;
4. To develop observation in writing after thorough study of the subject matter and relevant documents;
5. After finalization of the **Local Audit report (LAR) commencement of 'seen and discuss'** session with the head of the entity;
6. Submission of Local Audit Report (LAR) to the audited entity.



The LAR has got three parts now, new system introduced by the present C&AG. The three parts of LAR are as follows:

- **First part** is the executive summary, which gives stakeholders a brief idea about the whole audit report in a summarized form. This includes brief description of the audited entity, budget, objective, activities and management failure to achieve those objectives and recommendations for future remedies.
- **Second part** includes audit findings (observations) in details, which should be supported by relevant rules, orders. These are the serious irregularities that demand attention of the Principal Accounting Officer (PAO) i.e. the Secretary of the concerned Ministry. These findings should be written in one page with a heading, subject matter of audit, reply of the concerned local office, audit opinion against the reply of the entity and recommendation.
- **Third part:** Contains the annexure. (detail working paper).

14.4 LAR to audit report

The LAR is the initial stage of the audit report. There are different other stages to refine the audit observation contained in the LAR for their inclusion in the final audit report. Those stages are as follows:

- Editing of the LAR at the Head Quarter of the audit directorate is a very important working stage in the audit directorate. Here the auditors normally scrutinize thoroughly the audit observations contained in the second part of the LAR, They **first** consider the **validity** of the para according to relevant criteria/rules with necessary language and numerical corrections At this stage the propose audit observations are categorized in to normal para and advance para with the approval of Director General.
- **Normal Para:** It involves normal financial irregularities where monetary involvement is not very high, and the merit of the observation is not that serious in nature.
- **Advance Para:** It involves serious financial irregularities where monetary involvement is very high, and the audit observation is very serious in nature. Since this kind of observation falls under serious financial irregularities this is required to intimate the Ministries in advance That is why, it is termed as advance para. But in reality, it goes to the Ministry after issuance of Local Audit Report to the concerned auditee/authorities. Normally after the issuance of LAR if no Broad Sheet Reply comes or if the reply does not seem to be satisfactory then the audit directorate issue the advance para to the concerned Ministries for their reply. In case of no reply two reminders (fifteen days interval) are given seeking their reply about the audit observations. If the auditee still remains non-responsive the concerned Director General send a Demi Official (D O) letter seeking reply within 4 weeks to the concerned Principle Accounting Officer i.e. the **Secretary of the Ministry or Division. Then the Quality Assurance Team (QAT)'s meeting is held in the Audit Directorate for making an audit observation fault free. After the QAT's clearance the Director General send it to the C&AG office. Presently the QAT meeting also held before issuance of advance para to the concerned Ministries. There is a Central Quality Assurance Team (CQAT) now in the C&AG office, which scrutinizes the report of the concerned DG office before submission it to the C&AG. If every' thing goes correctly and consistently the C&AG approves the draft report (three parts) and returns it to the concerned DG office for taking necessary measures for printing. The DG offices send those reports to B.G. press for printing. After printing the C&AG submits those reports to the Honorable President of Bangladesh to place those to the Parliament.**



14.5 Steps in settlement of audit observations

An audit observation can be settled in different stages. Settlement of observations requires initiative and effective participation of the auditee organization. It requires some sort of seriousness and sincerity from the audited entity. The steps are elaborated below:

- a) **Spot settlement:** A para can be settled on the spot by giving proper replies or rectifying the point of objection instantly raised by audit parties. It is the first chance for the audited entity to utilize for settlement of audit observation before its inclusion in the LAR. When the auditor issues his query sheet the auditee can take necessary measures to settle the query by giving proper reply or by depositing money and producing document to the audit parties. Here the role of the head of the entity is very important. If he takes the opportunity of 'seen and discuss' meeting very sincerely some observations may be settled on that meeting by producing proper document. During their audit work audit parties sometimes conduct physical verification against the reply of the previous audit reports. Here the auditee can remain prepared in advance for producing relevant documents and evidences of recovery etc. to the audit team to settle those audit observations.
- b) **Settlement in the Audit Directorate:** Para can be settled by examining the Broad Sheet Reply (BSR). Broad sheet replies are the initial replies sent by the auditee with comments of their higher authorities. If audit directorates give proper attention and if the replies can meet up the requirements of audit observation, then a para may be settled.
 - i) The audit directorates examine whether the BSR contains relevant office order, explanation etc.
 - ii) It examines the documents of recovery of government, money by verifying treasury challan in the District and Upazilla Accounts offices.
 - iii) If relevant supporting paper of adjustment and write off sanction paper etc. submitted with the BSR as per requirement then the para may be settled in the audit office. The auditee may be intimated thereafter.
- c) **Settlement by physical verification:** Normally it is done by giving the responsibility to the next audit parties. But sometimes, special verification team is sent for physical verification involved in an important audit observation. After submission of their verification report if the concerned audit authority finds it correct, they settle the audit observation.
- d) **Para disposal in the meeting:** There are audit para settlement committees in the Ministries headed by Joint Secretary for serious irregularities and Deputy Secretary for normal irregularities. The Ministries have audit cell for conducting and coordinating audit work. The provisions of audit review meetings at the level of Principal Accounting Officer i.e. the Secretary where representative from the concerned audit office remain present- is another way to dispose of unsettled audit observations.
 - Bi-lateral meeting: To settle minor audit observations these types of meetings normally arranged between audited entity and audit Directorate.
 - Tripartite meeting: To settle serious financial irregularities or advance para the Ministries usually arrange this type of meeting. The three parties involved here are the Ministry, audited entity and the concerned audit Directorate.
- e) **Para settlement starting from the time of developing an advance para till the stage of final audit report preparation:** It takes approximately 180 days or more to prepare a



final report. During this time a para can be settled by giving proper reply with relevant documents.

- f) **Settlement before printing of the report: Even after CAG's approval of the draft report** a para can be settled by the CAG if proper reply is given.
- g) **Settlement by the Public Accounts Committee (PAC):** The PAC normally arrange meeting in c consultation with the Comptroller and Auditor general of Bangladesh. In the office circular of the meeting PAC mentions the Ministry, year and number of audit observations to be discussed. Ministry gives their reply with the working paper and submits those to the CAG. Concerned audit Directorates put their reply/comments on the working paper of the respective Ministry, taking approval from the CAG. Working papers should be sent to PAC well ahead of the meeting. The PAC examines whether money has been spent observing economy, efficiency and effectiveness to ensure value for money. While taking decision about an audit observation the PAC gives due **consideration to C&AG's recommendations, executive replies and hearing of Principal Accounting Officer.** The PAC may solve an audit observation in the following manner:
 - totally on the basis of consensus among the members;
 - partially pending specific directives for subsequent compliance;
 - after full satisfaction about the recovery of money;
 - satisfaction about the adjustment made by the auditee;
 - satisfaction about the departmental action taken;
 - satisfaction about the write off sanction given.

14.6 Hindrance to para settlement

Different kinds of problems remain in settling audit observations. Here comes the importance of auditor and auditee relations. The C&AG has given due importance about improvement of auditor- auditee relations and has convened several seminars for improving the relations between the two parties. The problems of para settlements are as follows:

- a) Non-producing relevant documents to the audit party;
- b) Reluctance of audit parties to verify previous audit observations;
- c) Non-attaching proper document with the Broad Sheet Reply by the auditee-
- d) Absence of concern by the audit directorates about BS reply;
- e) Same reply given again and again by the auditee;
- f) Direct sending of reply of advance para and draft para without routing through the ministry;
- g) Delayed settlement of disciplinary cases by the Ministries;
- h) Proposal of meeting without sending working paper;
- i) Huge para placed for discussion in one meeting - improper document does not help to settle those;
- j) PAC meeting not regular;
- k) Follow up action not done regularly. Non-response of the institutions to the recommendations of the PAC meeting delays para settlement.

14.7 How to solve the problem

- a) **Responsibilities of the auditee organizations:**



- i) To take audit as an aid to management
 - ii) To furnish required documents to the audit parties
 - iii) To send appropriate person in the bi-lateral and tri-partite meeting so that they can produce relevant papers in the meetings.
 - iv) To establish effective audit cell in the Ministry/ Division/ for exercising appropriate control over their entities
 - v) To stop frequent transfer posting in the audit cell / section
 - vi) To attach proper documentary evidence with the BSR.
 - vii) To arrange training facilities for the officers of the audit section of the Ministry and audited entity.
 - viii) To establish effective internal control system in the auditee organization
 - ix) To introduce departmental action for neglecting and unnecessary delaying audit work.
- b) Responsibilities of the audit offices:**
- i) Audit report should be correct and precise.
 - ii) To send audit findings to the controlling offices in time.
 - iii) To check the BSR without delay.
 - iv) To send special audit team for physically verifiable audit observations.
 - v) To send appropriate representative in the para settlement meeting. As he has to take final decision about para settlement.
 - vi) To avoid raising insignificant and meaningless audit observation like fixation o pay if audit party is not totally sanguine about the correctness of the fixation.
 - vii) **Auditor's role should not only be the detection of irregularities, but also to suggest mechanism to prevent the recurrence of irregularities in future. So, mentality of an auditor needs to be changed in the changed circumstances.**
- (c) Role of the Public Accounts Committee (PAC):** The PAC is the highest authority for examining audit reports of the CAG. The standard of audit highly depends on the effective execution of the audit recommendations. The executive department will be truly accountable if the PAC can effectively run its activities. In settlement of audit observation, the PAC's effective role can be the following:
- i) To convene meeting regularly and give recommendations.
 - ii) To review the follow up of those recommendations.
 - iii) To establish a strong secretariat of the PAC with all amenities i.e. adequate personnel, equipment etc. It will help the PAC to strengthen the monitoring capability of its recommendations.
 - iv) If the secretariat can review properly the implementation status/progress of the **PAC's recommendations, then all audit entities will give adequate attention on audit para settlement.**

14.8 Conclusion

Settlement of audit observation totally depends on the sincerity, devotion and morality of an auditor and the auditee. It is a two-way traffic. An auditor needs to be very careful while raising an audit observation. He should keep in his mind that he is representing the Comptroller and Auditor general of



Bangladesh, which is a constitutional post. If an auditor raises meaningless and insignificant audit observation it hampers the image of the Supreme Audit Institution. On the other hand, if the auditee does not pay due importance to audit it will damage their internal control system and ultimately the whole institutional capacity will be very vulnerable. If the parties concerned perform their work in their respective domain sincerely, it will help to solve audit observation very promptly- which will ultimately help all of us to establish accountability and transparency to ensure good governance.



CHAPTER 15: iBAS++

15.1 Introduction

iBAS⁺⁺

a brief introduction

iBAS++ (Integrated Budget and Accounting System) is an integrated financial management information system for the Government of Bangladesh. It is a centralised, Internet and Oracle based software, which allows budget preparation, budget distribution to the field offices, fund release, reappropriation, online submission of pay and other bills, payment processing through EFT, cheque and payment order, accounting of all receipts and payment of the government, automated bank reconciliation, etc. The system will provide a complete picture of financial assets and liabilities of the government at a given point of time, after complete implementation of the system. iBAS++ has the following four key modules:

- Budget Preparation
- Budget Execution
- General Ledger
- Accounting

Budget Preparation Module

iBAS++ allows preparation of national budget using Medium Term Budget Framework (MTBF) paradigm with the following key activities:

1. Implementation of resource ceilings for different levels of organisation;
2. Capturing detailed estimation and projection for operational units and field-level offices;
3. Generation of various financial statements and analysis for presentation to the parliament;
4. Multidimensional analysis of budget versus actual.

iBAS++ offers design flexibility which will allow incorporating Forward Baseline Estimation (FBE) and other future changes in budget preparation.

The module is being used down to Directorates for preparing budget for 2016-17. DDO (budget holder) level budget preparation will be introduced in 2017-18.

Key Users of the Module

- Finance Division
- Line Ministries/Divisions
- Directorates/Departments
- Field Offices
- Autonomous Bodies



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Budget Execution Module

Operation of budget execution module starts after budget is approved by the parliament. The module helps perform the following activities:

1. Budget distribution to the subordinate/ field offices;
2. Breaking of development budget from summary to detail economic codes;
3. Release of fund for development projects and development programmes financed by revenue budget in order to help cash management;
4. Re-appropriation based on delegation of financial power;
5. Recording of quarterly Budget Implementation Plan (BIP) and corresponding actual progress.

This module is being piloted in a directorate.

Key User of the Module

- Finance Division
- Line Ministries/Divisions
- Directorates/Departments
- Autonomous Bodies

Accounting Module

This module provides the following facilities:

1. Online submission of all types of bills by field offices;
2. Online budget control registers for budget holders;
3. Online bill status query;
4. Bill and payment (EFT, cheque, payment orders) processing in accounting offices and automatic update of various registers and ledgers;
5. Automatic update of sub-ledgers for GPF, and loans and advances, and access of the employees to those ledgers;
6. Automated service records and Last Pay Certificate (LPC);
7. Automatic calculation of employee salary based on an employee database maintained in iBAS++, and loans and advance records;
8. Electronic interface with treasury banks and automatic bank reconciliations



9. Pension payment through Electronic Fund Transfer (EFT) using a pension database;
10. Statutory reports like Finance Accounts and Appropriation Accounts;
11. A wide range of financial analysis based on classification codes.

This module is being rolled out to accounting offices after successful parallel-run.

Key Users of the Module

- Controller General of Accounts
- Chief Accounting Offices
- District Accounting Offices
- Upazila Accounting Offices
- Drawing and Disbursement Officers
- Self-drawing Officers

General Ledger (GL) Module

Budgetary and accounting controls (e.g. budget checking) is enforced by this module at the backend. It helps provide an updated picture of financial assets and liabilities, as well as financial flows.

Key improvements from iBAS

- iBAS is a distributed system running with the WAN of Finance Division, whereas iBAS++ is a centralised and Internet based system;
- iBAS is a transaction capturing system without a General Ledger, as a result lacks essential budgetary and accounting controls. On the other hand, iBAS++ is a General Ledger based system with budgetary and accounting control provisions;
- iBAS does not have provision for budget distribution, fund release and re-appropriation, which iBAS++ provides.

iBAS++ Implementation Plan

- Budget preparation live operation started in January 2016; budget execution will start from July 2016 and rollout of accounting module will be completed in 2016-17 based on the existing classification;
- New classification will be the basis for budget preparation, execution and accounting for fiscal year 2017-18;
- Full commitment control and asset management by 2019-20;



15.2 iBAS, iBAS++ & iBAS2 - As a tool of keeping Accounts

GENESIS

- ▶ CORBEC report
- ▶ Automation of government financial management system started in 1996-97 through accounts consolidation system.
- ▶ Transaction accounting system (tas) was introduced in 2005
- ▶ Integrated budget and accounting system (ibas) started in 2007
- ▶ Ibas has some critical short-comings (distributed, lack of gl facility, hard-coded for 13-digit classification)
- ▶ Dmtbf undertook development and implementation of ibas++, and completed some design documents
- ▶ Pemsp started in January, 2015 to complete ibas++ and new classification.
- ▶ Budget preparation module piloted & rolled out successfully
- ▶ Budget execution module piloted in ministry of education and now rolling out to other ministries
- ▶ Accounting module successfully parallel-run in all caos, dca's, daos and uaos
- ▶ Under cgdf, sfc (air) successfully implemented rolled out ...

15.3 iBAS Functionalities

BUDGETING

- ▶ Budget Planning and Preparation by Line Ministries and Finance Division
- ▶ Online Budget Estimate and Projection Submission by Line Ministries
- ▶ Resource Ceilings for Ministries and Departments
- ▶ Implementation of Medium Term Budgetary Framework
- ▶ Printing of Budget Documents from iBAS
- ▶ Budget Variance Analysis at Various Levels and with a wide range of parameters

BUDGET EXECUTION

- ▶ Bill Processing Workflow Capturing through Electronic Tokens
- ▶ Recording of all bill and cheque payments down to district levels
- ▶ Electronic Fund Transfer
- ▶ iBAS Extensions for Treasury Banks for capturing govt. cheque payments and Challan receipts
- ▶ Optional facility for fund checking

ACCOUNTING AND FINANCIAL REPORTING

- ▶ Interface with banking systems for electronic import of debit scrolls and credit scrolls
- ▶ Automated bank reconciliation
- ▶ Interface with other systems like CGDF
- ▶ Finance Reports
- ▶ Appropriation Reports
- ▶ Management Reports
- ▶ Budget Variance Analysis at Various Levels and with a wide range of parameters



15.4 iBAS++

KEY FEATURES OF IBAS++

- ▶ Centralised
- ▶ Access to all (citizens, DDOs, departments, line ministries, CAOs, DAOs, DCAs, UAOs etc)
- ▶ Internet based
- ▶ International standard Government Financial Management Information System (GFMIS)
- ▶ Consolidation of iBAS towards a modern, integrated budget and accounting system

IBAS++ COVERAGE

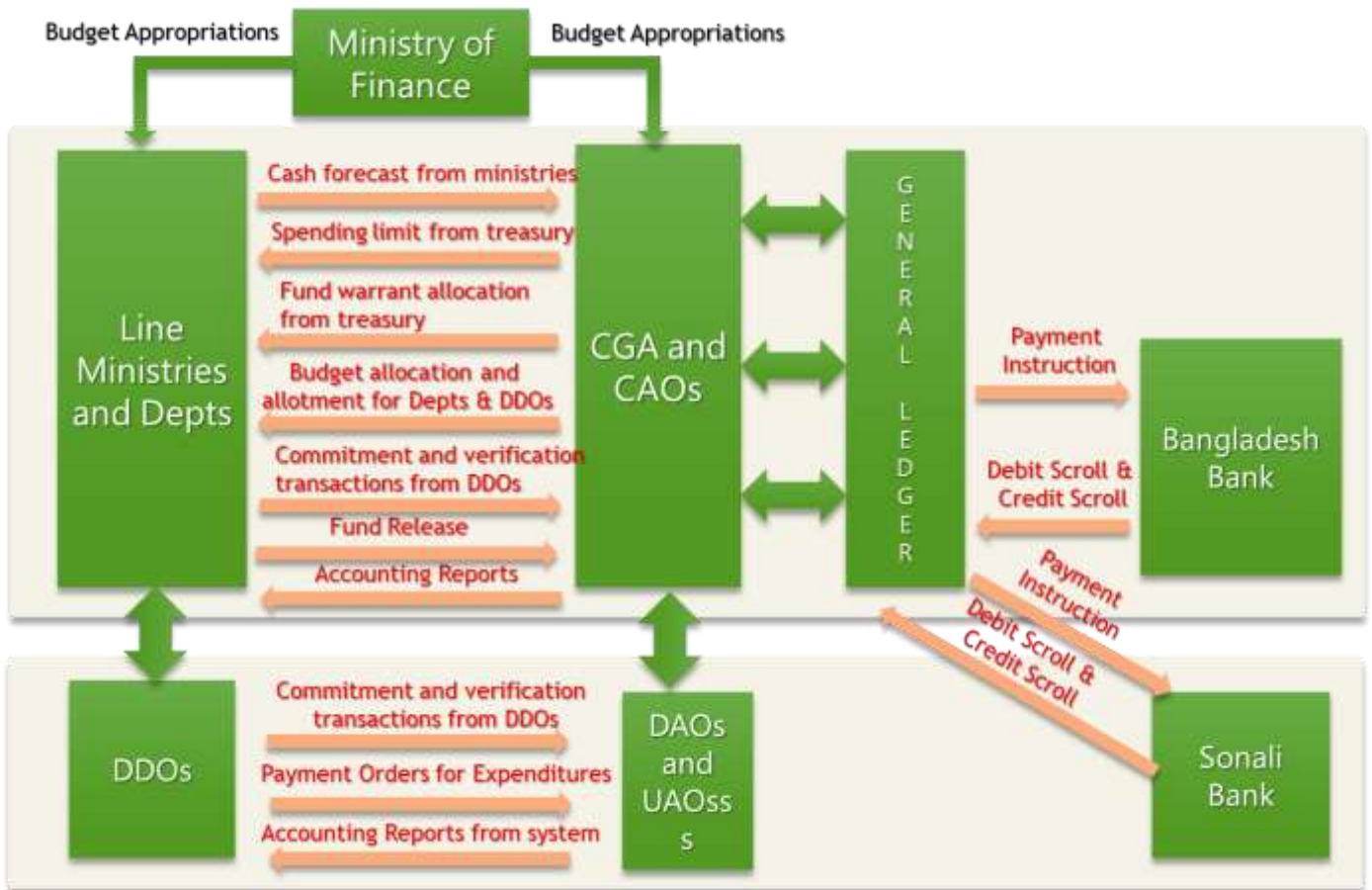
- ▶ Citizens
- ▶ Ministry of Finance
- ▶ All line ministries
- ▶ Controller General of Accounts
- ▶ 49 Chief Accounts Offices
- ▶ 6 Divisional Controller of Accounts
- ▶ 58 District Accounts Office
- ▶ All Upazila Accounts Offices
- ▶ Self Accounting Entities
- ▶ Drawing and Disbursement Officers

15.5 Key accountability features of iBAS++

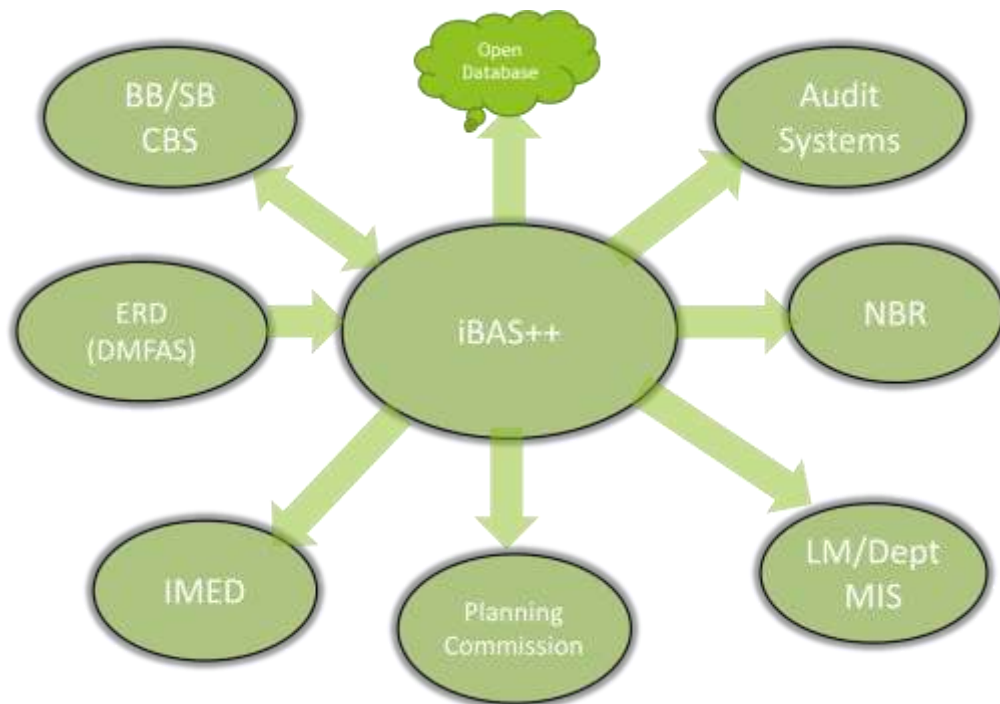
- ▶ Centralized and web based
- ▶ Access by all stakeholders – line ministries, DDOs, gazetted officers, accounting offices, Finance Division, SAEs etc.
- ▶ Online bill submission for DDOs and gazetted officers, and online bill status query
- ▶ Automated reconciliation between accounting offices and DDOs
- ▶ Instant cash position of the government
- ▶ General Ledger based system
- ▶ Enhanced fiscal discipline in budget management – budget distribution, fund release, re-appropriation
- ▶ Budgetary control in expenditure management, full integration between budget and accounts
- ▶ GL will provide a complete picture of the financial assets and liabilities of the government as well as financial flows
- ▶ Other
 - ▶ Provision for commitment accounting
 - ▶ Automatic calculation of GPF sub-ledger and tax certificate
 - ▶ Automatic calculation of loans and advance sub-ledger
 - ▶ Accommodation of new classification and future changes
 - ▶ Treasury accounting for SAEs
 - ▶ Robust technology – Oracle, digital signature, enhanced authentication



15.6 Accounting Flow in IBAS++



15.7 Interfaces with Other Systems





15.8 iBAS++ Reporting Modules

The Government of Bangladesh started the journey of automating its financial management system back in 1995, and from then it has been steadily moving towards a complete Government Finance Management Information System (GFMS). Integrated Budget and Accounting System (iBAS++), is designed to reach that goal, which is previously termed as iBAS.

iBAS++ is the integrated budget and accounting system of Bangladesh government, based on internet technology, allowing online access. iBAS++ captures expenditure and receipt transactions, including non-cash generated (approved book transfer) transactions for the purposes of control, analysis, accounting and reporting. iBAS++ Assists in effective budgetary monitoring and control, budget preparation, fund allocation, fund release, budget execution, budget re-appropriation, online bill submission, payment through cheque or EFT (Electronic Fund Transfer), automatic bank reconciliation and accounting, including statutory reporting obligations for Annual Financial Accounts. It is the recording and control mechanisms for managing the receipts and expenditures of Government.

iBAS++ is linked with the Employee Database and Pensioner Database. The system has interfaces with the Core Banking Systems (CBS) of Bangladesh Bank and Sonali Bank. These banks send debit scrolls (listing of bank payments) and credit scrolls (listing of bank receipts) to the respective accounts office from where scrolls are upload in iBAS++ and make those available for Accounting Offices to perform bank reconciliation and to include in the accounts.

The system will also have interface with DMFAS (Debt Management and Financial Analysis) for collecting information like loans and grants disbursement schedule, loan repayment schedule, interest payment schedule, loan and grant disbursement transaction etc. iBAS++ will use that information for cash forecasting, reconciliation of project accounts etc.

There are four (4) modules of iBAS++:

15.8.1 Budget Preparation

iBAS++ allows budget preparation through combination of top-down and bottom-up approach by capturing budget requirement from field offices and matching it with the policy level distribution of resources. The module allows budget preparation in various phases (e.g. strategic phase and **estimation phase**), using “**resource envelop**” or **Forward Baseline Estimation (FBE)**. After preparing budget step by step subordinate office, departments/ directorates and ministry/division can submit budget to the Finance division through online by using this module. The documents, reports and analysis related to budget preparation have been prepared from iBAS++.

After budget is finalised, the system can print various budget documents for presenting in the

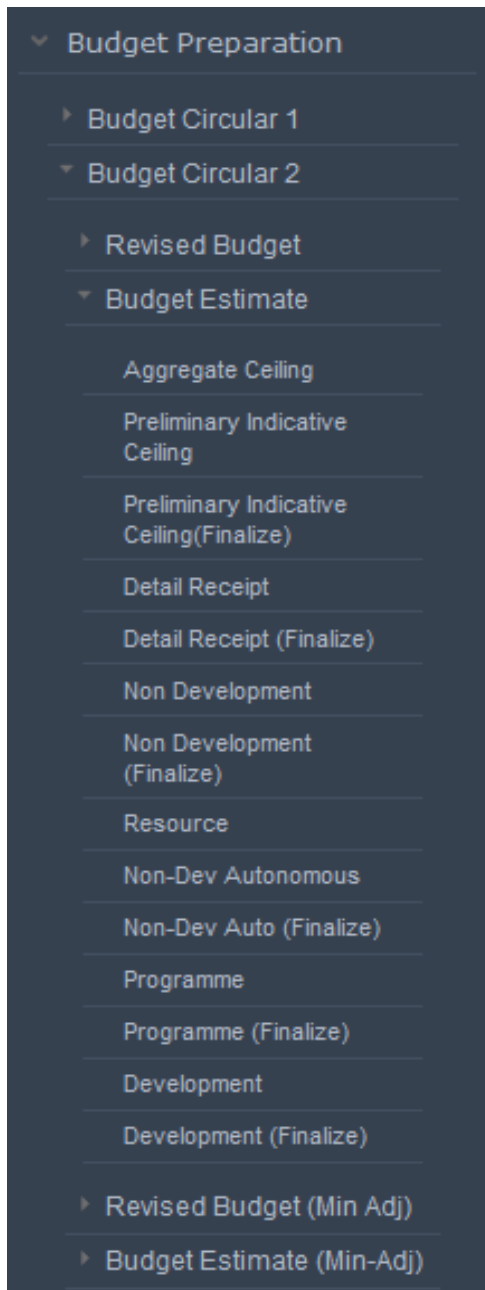


Figure: Menus of Budget Circular -2

parliament which will be followed by the appropriation process in iBAS++. It creates budgetary journals and populate budget column of the General Ledger. As the Demand for Grant, which is approved by parliament, is at the national level, budget distribution among field offices is required before expenditure can be made. iBAS++ helps the directorates to perform the job. Distributed budget is the basis of fund checking during issuing work order or creating bills. The system also records fund release and budget re-appropriation.

Aggregate Ceiling:

All the Ministries/Divisions can enter the estimated non-development / development expenditure and revenue estimation and projection.

Preliminary Indicative Ceiling:

Ministry-wise total non-development / development expenditure on and revenue targets can be estimated and projection.

Preliminary Indicative Ceiling (Finalize):

Ministry-wise total non-development / development expenditure on and revenue targets can be finalized. After finalization, the Ministry / Department will be able to enter detailed estimation and projection.

Detail Receipt:

The targeted estimation and projection of total revenue receipt on the basis of office code under the Ministry can be entered.

Detail Receipt (Finalise):

The targeted estimation and projection of total revenue receipt on the basis of office code under the Ministry can be finalized. After finalization, Data cannot be changed by ministry/Departments

Non-Development:

The targeted estimation and projection of non-development expenditure on the basis of office code under the Ministry can be entered.

Non-Development (Finalise):

The targeted estimation and projection of non-development expenditure on the basis of office code under the Ministry can be finalized. After finalization, Data cannot be changed by ministry/Departments.

Resource:



Contrary to the Office code, approved and existing manpower (male and female), establishment, staff, vehicles, office equipments, number of beneficiaries can be entered.

Non-Development Autonomous:

The targeted estimation and projection of non-development expenditure of autonomous organization on the basis of office code under the Ministry can be entered.

Non-Development Autonomous (Finalize):

The targeted estimation and projection of non-development expenditure of autonomous organization on the basis of office code under the Ministry can be finalized.

Programme:

Estimates and projections of the expenditure of development programs funded from the revenue budget can be entered.

Programme (Finalize):

Estimates and projections of the expenditure of development programs funded from the revenue budget can be finalized. After finalization, Data cannot be changed by ministry/ Departments

Development:

Estimates and projections of the development expenditure of project can be entered.

Development (Finalise):

Estimates and projections of the development expenditure of project can be finalized. After finalization, Data cannot be changed by ministry/ Departments.

Total budget limit entry (Aggregate Ceiling)

All the Ministries will be able to enter the estimated and projected total non-development / development expenditure and revenue

15.8.2 Budget Execution Module

This module is used by the budget holders. Approved budget is loaded in general ledger module by budget execution module. As a result, fund allocation, fund release; purchase order and sanctioned budget for expenditure can be controlled.

iBAS++ have option for implementing commitment accounting through allowing Drawing and Disbursement Officers (DDOs) to enter work orders. It also allows creation of bills by DDOs and submitting those electronically to the respective Accounts Offices. Accounts Offices electronically acknowledge the receipt of the bill, perform necessary auditing and checking, and then approve (or return) through iBAS++.

iBAS++ checks that fund is available to make the transaction before bill can be approved. Cheque or EFT will then be issued against approved bills. iBAS++ transmits EFT orders to Bangladesh Bank and



electronic bank advice to Bangladesh Bank or Sonali Bank. The system will also have option to configure the workflow and it will be customisable for Self Accounting Entities (SAEs).

Fund Allocation:

Fund Allocation can be done properly through iBAS++. Extra allotment of fund or excess expenditure of budget is controlled automatically by this software. The software is capable to provide verities essential analysis of budget vs allotment.

Fund Release:

There is a process in iBAS++ to release fund quarterly of development projects and program as a result excess fund release of budget and excess expenditure of released fund can be controlled. In the same way a significant analysis can be made in this connection which plays a vital role in cash management.

Re-Appropriation:

Re-Appropriation is done by administrative ministry or finance division according to the necessities around the whole year. The work can be accomplished through budget execution module.

Online Pay Bill Submission:

- Employee information will be imported from Employee Database to iBAS++
- iBAS++ will maintain sub-ledgers for Employees, GPF and Loans Advances.
- An officer will be able to submit pay bill electronically through iBAS++ to the accounting office.
- iBAS++ will generate a pay bill considering the pay and allowances, GPF subscription, loan and interest repayment etc.
- 2FA authentication will be used for added security.
- After the pay bill is submitted online, it will be available in iBAS++ for respective accounting office.

15.8.3 General Ledger (GL) Module

The General Ledger (GL) is the heart of iBAS++ and integral part of accounting module which is controlled in backend and no visible existence in frontend. It records all financial transactions—starting with budget appropriation through budget distribution to field offices, fund release, re-appropriation, commitments to the payment of goods and services. It provides a complete picture of asset and liabilities of the government as well as associated financial flows.

The GL module has a strong reporting facility, with drill-down option, to produce all types of financial reports, both for use by internal management and external agencies. The system has been designed to accommodate future changes in the classification structure.

15.8.4 Accounting Module

Through this module in online purchase order and beginning the bill submit bill audit and each step of sanction, payment of cheque or EFT of customers, sending of electronic advice in the bank, receiving electronic debit and credit scroll system from bank adjustment of bank account automatically by upload etc. activities will be completed. Since this module controlled by general ledger is will be



justifying the budget and reduce the extra expenditure of budget where necessary.

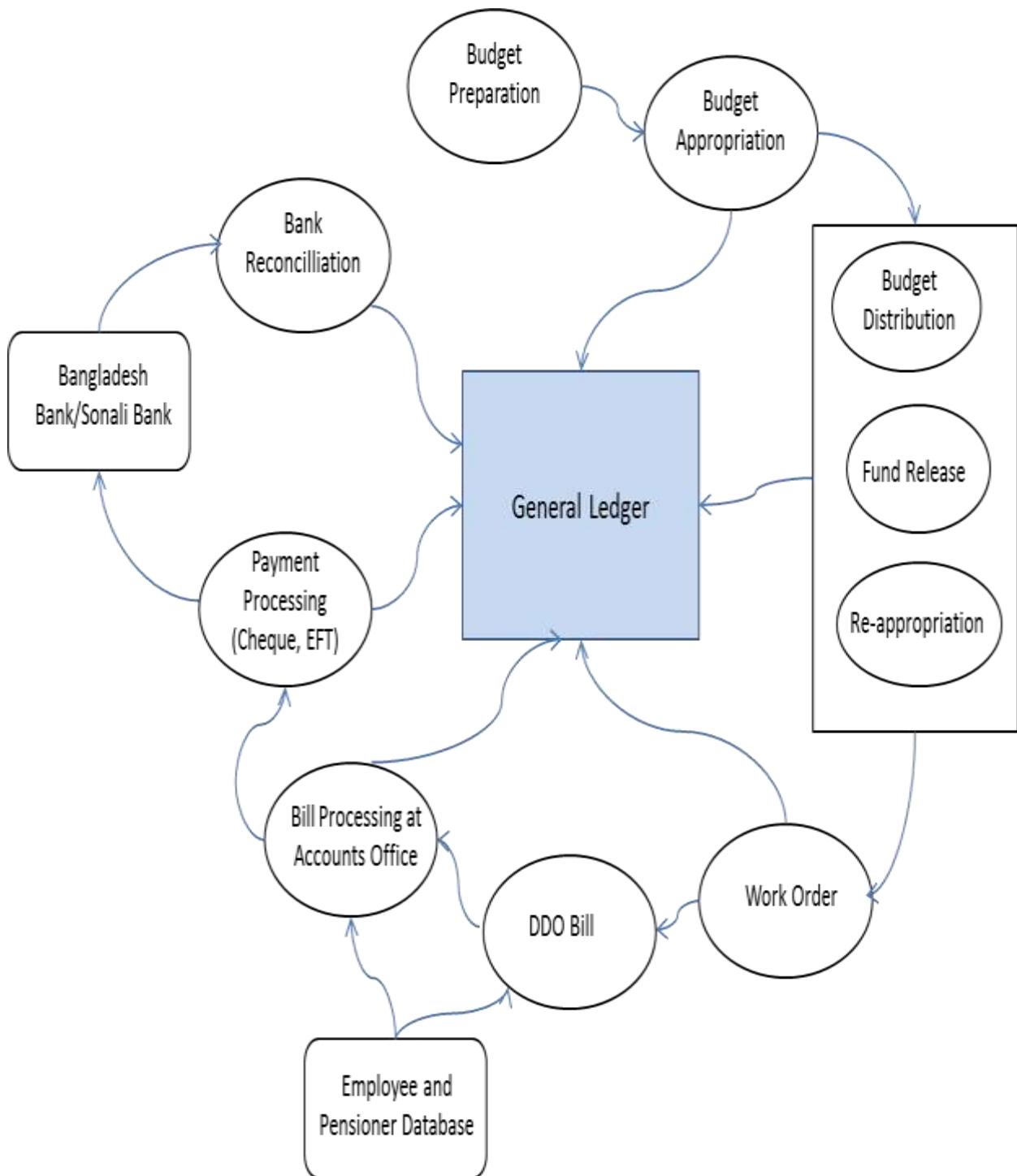


Figure: iBAS++ Business Model



iBAS	iBAS ⁺⁺	Remarks
Home	Reports	
CGA Management	Token Reports for CGA	
System Maintenance	EFT	
Equity	GPF Reports	
Transactions	Loans and Advances Reports	
Journals		
Remittance		
Pension Payment Monitoring	Management Reports	
Bangladesh Bank	CGA Registers	
Fixed Reports	GFS Reports	
Special Statement	GFS Reports	
IUFR And Others		
CAO Registers		
DAO/CAO Bank Reconciliation		
CAO Monthly Accounts (consolidation)		
EFT	GPF Consolidation Reports	
CAO Token Register	Monthly Accounts Reports	
CAO CDR	Appropriation Accounts (CGA)	
CAO GPF		
Dept Reports		
CAO Others		
Journal Reports		
CRU Reports		
CGA Consolidation Reports	CGA Consolidation Reports	
Monthly Management Reports	Monthly Management Reports	
Quarterly Management Reports	Quarterly Management Reports	
Management Reports-Financing		
Management Reports- Monitoring	Management Reports- Monitoring	
Appropriation Accounts	Appropriation Accounts	
Finance Reports	Finance Reports	
GFS Reports		
CGA Registers		
Budget Distribution Reports		
UAO Consolidation Reports		
UAO Registers		
Remittance Reports		
Validation		
Data Maintenance		
Security		
CGA Management		
Debit Credit Status		



Trial Balance		
Accounts Payable Token Summary		
Closed Months Report		
Unclosed Months Report		
Daily Bank Reconciliation (DAO Dhaka)		
User Stated Report		
List of Classification Chart (Economic)		
List of Classification Chart (Operational)		
System Maintenance		
Populate Dimensions		
Dept Cheque Intimation		
Map Data Dimensions		
Manage Index		
Payee Bank Account		
EFT Office Pay point Mapping		
Payee Bank Account Edit		
Payee Bank Account-Transfer		
EFT 0-Value File Transmit		
Officer ID Edit		
Payee Bank Account Activate		
Budget and Code Update		
EFT Order Entry		
Book Adjustment Entry		
UAO Consolidation Bill/BA		
EFT Cancellation		
EFT File Transmit		
Summary Receipt and Payment Entry		
Credit Scroll		
EFT Return Entry		
UAO Sub Ledger		
EFT Re-Order Entry		
EFT File Resend		
EFT SMS Send		
Debit Scroll (Post Audit) Search		
EFT Return Import		
Credit Memo		
Debit Memo		
UAO Consolidation Account- Challan		
UAO Consolidation-Bank Window Summary		
UAO Consolidated Accounts-Railway		



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Excess Payment Adjustment		
Appropriation Accounts Note (Unicode)		
EFT Officer ID Correction		
Book Adjustment (June Final)		
Data Maintenance		
Security		
Bill/BA Journal Entry		
Credit Scroll journal		
Debit Scroll (Post Audit) Journal		
Debit Scroll (Pension) Journal		
Consolidated Journal		
Consolidated Journal All		
Consolidated Journal (Dept)		
Remittance		
Remit. Challan		
Remit. Cheque		
Challan Dep Division Update		
Pension Payment Monitoring		
Pension Sanction Entry (Officer)		
Pension Sanction Entry (Staff)		
Pension Sanction Objection		
Pension Sanction Order (PPO)		
Pension Cheque Entry		
Pension Monitoring Report		
Bangladesh Bank		
CAO Advice Export		
Validation		
Data Maintenance		
Security		
CGA Consolidation Reports		
Progressive Reports		
Ministry		
PayPoint		
Source Reports		
Comparative Reports		
Monthly Accounts		
Monthly Website Reports		
Finance Reports		
Accounts Summary (CGA)		
Detail Schedule (CGA)		
CGA Bank Accounts Details		
Windowwise Memo Detail		
Detail Schedule (CGA by type)		



Accounts Summary (CGA by Type)		
Monthly Management Reports		
Management Reports		
Management Reports – Ministry		
Management Reports –Operational		
Management Reports – Economic Summary		
Management Reports- Economic Details		
Management Reports - Actual Economic Details		
Monthly Management Economic Details		
Quarterly Management Reports		
Management Reports- Economic Details		
Reports-Revenue and Capital Expenditure		
Reports Economic Summary		
Quarterly Management		
Func Wise (Without Negative)		
Management Reports- Financing		
Management Reports- Financing		
Management Reports- Monitoring		
Monitoring of Project Aid Economic Detail Souce Report- Month Wise		
Economic Detail Souce Report- Upto Month		
Receipt and Payment (Ministry Wise) DAO		
Receipt and Payment (Ministry Wise) UAO		
Receipt and Payment (Detail) DAO		
Receipt and Payment (Detail) UAO		
Receipt and Payment (Monthly) DAO		
Receipt and Payment (Main by Date) CAO		
Receipt and Payment DAO		
Receipt and Payment UAO		
Receipt and Payment (Upto) UAO		
Economic Wise Souce Report		
Month Closure Exception Report		



Expenditure without Budget All Summary		
Period Close Monthwise Report		
Appropriation Accounts		
Ministry Detail Non-Dev		
Ministry Detail Dev		
Ministry Sum Non-Dev		
Ministry Sum Dev		
Appropriation Accounts		
Ministry Detail Non-Dev (2007-08)		
Ministry Detail Dev (2007-08)		
Ministry Detail Non-Dev (Unicode)		
Ministry Detail Dev (Unicode)		
Ministry Sum Non-Dev (Unicode)		
Ministry Sum Dev (Unicode)		
Finance Reports		
Finance Reports		
Finance Reports (New)		
GFS Reports		
GFS Reports		
GFS Code Mapping Reports		
GFS Location (Agriculture)-In Thousand		
GFS Location (Agriculture)-In Billion		
CGA Registers		
CGA 06		
CGA 02		
CGA 03		
Budget Distribution Reports		
Sanction Wise Budget Detail		
Budget Utilisation Report		
Sanctoin Report (Horizontal)		
UAO Consolidation Reports		
Accounts Summary (UAO)		
Detail Schedule (UAO)		
Monthly Comparison with Bank (UAO)		
Month wise Detailed Accounts (UAO)		
Economic Summary		
Accounts Summary (UAO Monitoring)		
Month wise Detailed		
Accounts (UAO Monitoring)		
Economic Summary (UAO Monitoring)		
UAO Registers		



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Remittance Reports		
Challan Remittance Mismatch		
Chepue Remittance Mismatch		
Chepue Remittance Outstanding		
Validation		
Manage Global Rule		
Data Maintenance		
Cloes Month		
Open New Month		
GFT Balance Transfer Paid Chepue-Correct		
Cheque Number (DAO Dhaka)		
Paid Cheque - Correct		
Window (DAO Dhaka)		
CGDF Data Import		
Transfer Func Opunit from Budget DB		
Transfer Func Opunit to DAO		
All FuncOpunit Budget		
Upazilla Data Import		
Download Without Budget Code		
Security		
Chepue User Password		
Transaction Permissions		
Lock Usere		
Audit Trail		

- Controller General of Accounts (CGA) has full access in accounting module of iBAS++
- iBAS++ should capture, process and reports transaction Controller General Defense Finance (CGDF), Railway, Self-Accounting Entity (SAE) and foreign Mission/Embassy online
- Password should be logged off automatically in every three months
- Financial information should be encrypted
- There should be a Help desk at CGA end
- Pop-up report should be user friendly
- Reconciliation with initial accounts of budget holders/ executive
- All transactions through iBAS++
- Online auditing



CHAPTER 16: PROJECT ACCOUNTING SYSTEM

16.1 What is Project

A set of interrelated activities implemented through a unified management to achieve a specific purpose(s) within a timeframe through mobilization of clearly defined resources (human, physical and financial). In other words, we can say that it is a vision of a thing we want to translate into reality.

It must have the following elements:

- A name
- Purpose or objectives
- A timeframe
- Required resources
- Action plan to implement the objectives
- A management set up to monitor and guides the activities
- Monitoring mechanism and coordination

16.2 Project Implementation Problems

There are many problems from project formulation to implementation. Some of the problems are listed here to have an idea on the varieties and range of problems.

- Frequent reference to the ministry for decision
- Weak monitoring mechanism
- Inability to furnish information
- Lack of required support
- Improper selection of PD and staff and frequent transferred
- Lack of initiatives.
- No desire to study relevant papers
- Lack of knowledge about donor requirements and procedures
- Absence of capacity building
- **Contradiction in donor's document not challenged**
- Delay in fund release
- Lack of inter/intra agency coordination
- Delay in appointment of consultant and failure of consultants in completion of assigned task in time
- Lengthy tendering process and influence of rent seeker at different stages
- Delay in the preparation and approval of PCP/PP/TAPP
- Lack of proper assessment of a project needs and the project culture of our country.

16.3 Project Accounting Principle

The fundamental basis of accounting of Government of Bangladesh is CASH.

a) Fundamental Rules:

Record receipts when cash is received.

Record disbursements when payment is made, not when liability arises.

General Rules: Transactions of field offices must be consolidated within the main books of



accounts. Bank reconciliation must be carried out regularly. Month end procedures must be carried out.

- b) Accounting for Transactions: All government transactions have to be accounted for from the smallest to the largest. All transactions have to be classified in accordance with government rules and regulations and CGA compiles this information into the government monthly accounts.

On 1 July 2002, a new system was introduced with 6 Divisional Controller of Accounts (DCA), replacing the 20 RAOs. UAO and DAO offices send their accounts to the DCA offices for data entry into the accounts system. Information entered at DCA level is transferred electronically to the CDPU for inclusion with the monthly CGA accounts. The CGA will ultimately upgrade the computer system at all 6 DCAs enabling them to act as Divisional Data Processing Units, where data from all UAOs and DAOs in that division will be entered before being electronically transferred to the central system in the CGA.

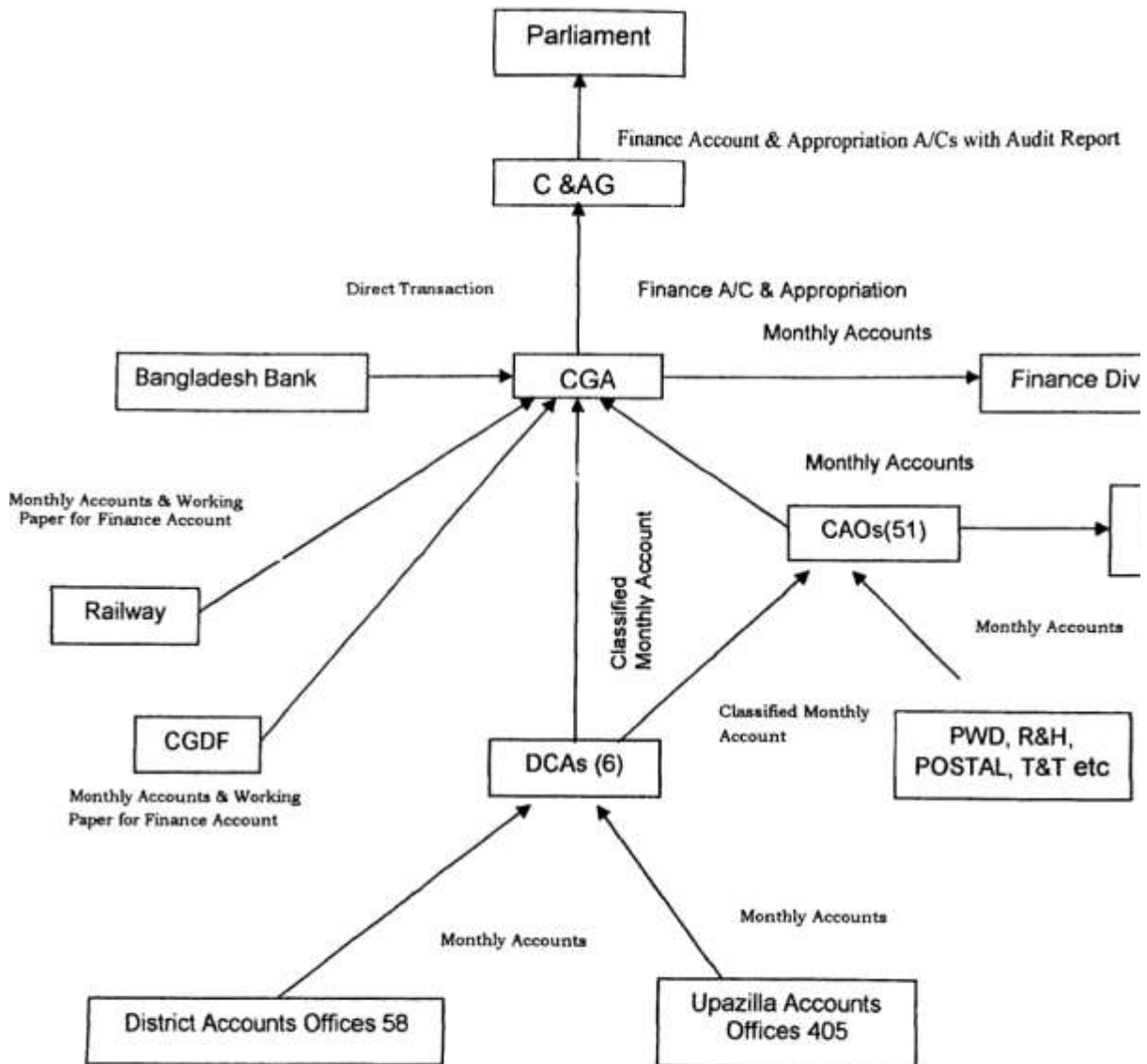
Self-drawing departments send their accounts to the concerned CAO. The CAO's offices prepares initial accounts of the presidency, classifies and consolidates the accounts within the purview of its ministry's boundaries and then send them to the CGA by 20th of the following month. There are both Local Area Networks (LAN) and Wide Area Network (WAN) between the CGA and CAO's by which CGA can receive accounting information from the CAOs and enable them to prepare monthly accounts. In addition, CGA also receives information from:

- ▶ Controller General, Defense Finance- Summary accounts
- ▶ Railway-Summary accounts
- ▶ Bangladesh Bank on direct transactions



16.4 Flow of Financial Data Output

The following diagram outlines the flow of accounting data



(c) Ledgers to be maintained: According to the Project Accounting manual following two categories of ledgers to be maintained for keeping proper accounts:



ii) Desirable:

- Memorandum Supplier Ledger
- **Bill Register**
- Withdrawal Application/ Requisition of Fund Register
- Fixed Asset Register
- Measurement Book
- Inventory Register
- Others (if any)

16.5 Reporting Requirements

Reports are mainly required by the following:

- **Project Management:** to monitor the routine expenditure against the budget provision. Good quality information should be both accurate and timely, making a more useful for decision making and for claiming for fund release.
- **Donors:** The types of reports required by donors are largely donor specific and usually in donor specific formats.
- **Financial Management Unit (FMU):** The reporting requirement of an FMU within a ministry is standardized and is a statutory requirement where a FMU has been set up. The information received from the projects has to be reconciled with the figures recorded by CGA system.
- **Chief Accounts Officer:** Projects are required to make monthly returns to the CAO in accordance with the prescribed format.
- **Government of Bangladesh- Ministry/ Planning Commission/ IMED:** The information collated by an FMU will ultimately serve the reporting needs of the GOB, in particular reports to the Principal Accounting Officer, the planning cell of the ministry, and the Planning Commission. These reports are currently used as the basis of the monthly review meetings.
- **Foreign Aided Project Audit Directorate:** Projects are required to submit an annual project financial statement to this directorate for conducting their audit.

16.6 Sources of Funds

Currently there are four main types of funding mechanism for disbursements from the development budget:

a) **Projects funded by GoB:**

GoB bears project expenditure either partly or entirely. The Project Director (PD) withdraws the amount of expenditure by submitting bills in the CAO/DAO offices for approval of payments. Once the bill has been passed the cheque is forwarded to either PD or the payee. Fund release order of the competent authority is required to incurring any expenditure from allocation provided in the development budget. The detailed procedures for release of fund are contained in the fund release procedures issues by the development wing of the Finance Division from time to time.



b) **Reimbursable Project Aid (RPA) through GoB:**

The expenditures of these types of projects are initially incurred by GoB and is subsequently reimbursed by the donor and credited to the government bank account (Account 4B-Bangladesh Bank). The claim for reimbursement is prepared by the PD. When the Withdrawal Application has been approved by the donor the replenishment amount is credited to the government account directly.

c) **Reimbursable Project Aid (RPA) through others:**

RPA is a revolving accounting arrangement under which the donor provides funds into a special bank account at the Bangladesh Bank or at a commercial bank.

d) **Special Bank Accounts under RPA**

Following Four types of accounting mechanism are in operation for Reimbursable Project Aid

- **SAFE:** Special Account in Foreign Exchange was introduced in 1985 to facilitate funding of IDA project aid (inoperative after 1993). Under this system Bangladesh Bank operates a bank account for the project after getting an authority from FD. The project opens a commercial bank account with approval from FD. FD issue authorization order and then BB disburse fund on a quarterly basis. Concerned CAO will ensure that the adjustment govt, order is issued 30 June every year.
- **CONTASA:** Convertible Taka Special Account was introduced in 1992. This is also intended to facilitate IDA assisted project funding.
- **DOSA:** Dollar Special Account was introduced in 1993 to facilitate funding of Technical Assistance Project -6 under IDA credit 2393. BB will open a special account in US dollar biown as DOSA with the approval of FD in accordance with the credit agreement. At the beginning of each financial year FD will issue an authorization order in accordance with ADP and credit agreement. On the basis of this authorization project authority may draw necessary funds from their operating bank accounts with a commercial bank.
- **IMPREST:** IMPREST Account is used for funding development projects by ADB. Initially it was introduced in 1993, revised subsequently and introduced again in 1996. Executive agency applies through Administrative Ministry/Division to FD for permission to open an Imprest account with a commercial bank. Then executing agency open bank account, which is interest bearing and interest so earned will be deposited to a govt, account every year on bi-annual basis. At the beginning of each financial year FD will issue an authorization order in accordance with ADP and credit agreement. On the basis of this authorization project authority may draw necessary funds from their operating bank accounts.

Opening Bank Account: As per the Credit Agreement Project Director opens a CONTASA or IMPREST Account in a commercial bank or a DOSA Account in Bangladesh Bank with prior approval of the Finance Division. Donor places an initial deposit on request of the Project Director (PD). PD withdraws funds from CONTASA/ IMPREST Account through cheques and



from DOSA Account through Advices to the Bangladesh Bank. PD submits Withdrawal Applications to the donor for reimbursement of the expenditure made from the special account. Donor replenishes the amount into the special account.

e) Direct Project Aid (DPA)

The donor has direct control over project expenditure and usually disbursements are incurred outside Bangladesh directly by the donor. The project is not always aware of the expenditure incurred in this manner. The DPA expenditure, if informed by the donor to the project, transactions must be recorded in project accounting records.

f) Month End Procedure

There are month end procedures, which must be carried out to ensure completeness and accuracy of the accounting records. In carrying out the month end procedures it is important that the sequence is strictly adhered to as an earlier step. Steps to be taken:

- Bank reconciliation
- Petty cash reconciliation
- Month End Ledger close off
- Receipts and Disbursement Ledger reconciliation

Standard Reporting Format and Objectives:

- Enable FMU to produce improved financial information for the ministry to meet its financial planning requirements.
- Will form the basis towards long term goal of ministry operating with a degree of autonomy in terms of resource allocation, budgeting and financial decision making.
- Based on new classification.
- Similar to the call notice used by the Finance Division.
- To be submitted to FMU every month.
- Two sections of the format:
 - Project Expenditure (Summary)
 - Project Expenditure (Detail)

16.7 Project Auditing

a) Mandate:

As per provisions of Articles **127-132** of the Constitution of Bangladesh, the C&AG (Additional Functions) Act, **1974** and the C&AG (Additional Functions Amendment) Act, **1975** Comptroller & Auditor General of Bangladesh is responsible for Auditing the project and report accordingly to the Parliament.

b) Dual role of audit:

- On behalf of the Executive
- On behalf of the Legislative

c) Objectives of Audit:

- (i) Immediate objective is to ensure
 - Correctness of accounts
 - Compliance with rules, regulations and orders



- Budgetary control
- Money has been spent for the purpose for which it was allocated
- (ii) Long term objective is to ensure
 - Financial discipline
 - Help to ensure Accountability & Transparency
 - Promote Good Governance
- d) Procedure of Audit:
 - Auditor must have knowledge about the accounting system of the organization
 - Check the internal control system
 - Examine evidence
 - Issue queries
 - Examine replies of queries
 - Hold discussion
 - Audit observations must be based on rules and regulations

16.8 Settlement of Audit Observations

Project authorities should start proper initiative after getting audit report from the audit party, to resolve the audit observations immediately. So that after completion of the project **no complains arises from the govt, and also from the donor's side. The project authorities** should be kept in mind the following steps:

- Immediate response to queries
- Send BSR reply
- Settle through bipartite and tripartite meetings
- Relevant project officials should know financial rules thoroughly
- All officials should know the audit process
- Follow up regularly

