



# Public financial Management

## Public Financial Management (PFM) in Bangladesh

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### Abstract

A government mobilizes both domestic and external financial resources and spends public money for the benefit of the people and the country. A reliable system for the effective and transparent management of the government's receipts and payments and a comparable and easily understandable high quality public accounting reports of international standard can satisfy all the stakeholders to reflect the government's accountability to the people and boost the national economy. As such, Public Financial Management (PFM) is a part of good governance, transparency and accountability of the government's receipts and payments. But the PFM system differs across nations due to different government systems, values and culture. Bangladesh's current PFM system does not match with the requirements of International Public Sector Accounting Standards (IPSAS) and needs further improvements. The paper addresses the current status of PFM system in Bangladesh and gives emphasis on the adoption of Accrual basis IPSAS phase by phase and recommends how the Institute of Cost and Management Accountants Bangladesh (ICMAB) as a leading professional accountancy body of the country could assist the government in the implementation of accrual basis accounting in the Public Sector Entities (PSEs) of the country. Overall, the paper calls for the engagement of all stakeholders including Professional Accounting Organizations (PAOs) for the improvement of the PFM system.

**Keywords:** Public Financial Management (PFM), International Public Sector Accounting Standards (IPSAS), Comptroller and Auditor General (C&AG), Supreme Audit Institutions (SAIs), International Organization of Supreme Audit Institutions (INTOSAI).

### 1. Introduction

Governments around the world give more emphasis on national economic prosperity and well-being of the people. For this purpose, a government mobilizes both domestic and external financial resources and spends public money for the benefit of the people and the country. On the other hand, the citizens and the taxpayers of the country have the right to know where the tax receipts of the government have been utilized. The donors

want also to see the transparent uses of public money and the international lending agencies want to know the public financial management activities and see the public financial statements and reports to ascertain the government's ability to honor its financial commitments. International credit rating agencies also need reliable public financial information to assess the government's credit worthiness. Prospective foreign investors analyze the financial statements of the government and tax matters for taking investment decisions. All these issues are addressed and managed by the concerned authorities of the government under well-defined laws, rules, regulations, systems and procedures, which is known as **Public Financial Management (PFM) or Public Sector Financial Management (PSFM)**. As such, PFM or PSFM may be defined as the activities of the government related to the effective and transparent management of funds collected and spent by it that includes mobilization of revenue, budget cycle, public expenditure, government audits and preparation of public financial reports.

Needless to say that a reliable system for the management of the government's receipts and payments and a comparable and easily understandable high quality public accounting reports of international standard can satisfy all the stakeholders to reflect government's sincerity to protect public interest and boost national economy. As such, PFM is a part of good governance, transparency and accountability of the government's receipts and payments.

## 2. Definition and Main Objectives of PFM

The system of PFM differs from one government to another across the world due to different government system, values and culture. The definition of PFM also differs from one country to another and from donor to donors. Nevertheless, the core financial management activities of the governments around the world basically aim to the inclusive economic development of the country and gain trust and confidence of the citizens, development partners and foreign investors.

### 2.1 Definition

**The Chartered Institute of Public Finance & Accountancy (CIPFA)** defines PFM as follows:

“Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals”.

As per World Bank, PFM refers to the government's budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements by which they (countries) receive fund, allocate them and record their use.

However, all definitions of PFM includes four major government activities as follows:

1. Policy formulation for resource mobilization: Planning and policy formulation for mobilization of both domestic and external financial resources to increase government's earnings and effectively allocating public funds to achieve socioeconomic targets of the government.
2. Budget and budgetary control: Preparation of annual budget to estimate government's income and spending (both revenue and development expenditure) and get it approved by the Parliament. Also deal the matters of budget implementation, budget monitoring, budgetary control, **Mid-term Budgeting Framework (MTBF)** etc.
3. Execution of public expenditure and preparation of public financial reports: Establishing financial discipline and ensuring efficient, effective and transparent uses of public money in the matters of public procurements and other government spending. Also preparing financial statements and reports of the government by the **Controller General of Accounts (CGA)**.
4. Financial accountability of the government: Checking the transparency, accuracy and compliance issues of the receipts and payments of the government organizations by the Comptroller and Auditor General (C&AG) through audits and certification of accounts.

In addition, the **Public Accounts Committee (PAC)** of Bangladesh Parliament also examines and discuss on the audit reports of C&AG; particularly the observations and comments of the audit reports. They monitor financial accountability of the government and overseas whether the funds appropriated have been used efficiently and effectively for the purposes for which these were allocated. PAC also takes appropriate action to make the top executives of the government organizations accountable to

the Parliament. In the process, the PAC brings the Principal Accounting Officers (the Secretaries of the Ministries and Divisions) or any one for hearing. Recommendations of PAC are usually accepted by the executive departments.

Besides, **Public Undertakings Committee (PUC)** of the Parliament also examines the accounts and audit reports and the **Estimates Committee (EC)** of the Parliament examines the budget estimates, allocations etc. and also suggests alternative policies and form in which the estimates shall be presented to the Parliament.

## 2.2 Main Objectives

PFM mainly deals the financial activities of the PSEs and keeping their accounting records and the whole PFM activities are focused on government's receipts and payments. The main objectives of PFM, among others are as follows:

- Plan and formulate policies for best utilization of resources to increase government's earnings and achieve economic prosperity of the country.
- Establish financial discipline and accountability in the government's financial activities.
- Ensure efficient, effective and best utilization of public money for the benefit of the people and the country.
- Promote good governance, accountability and transparency in the financial transactions of the PSEs.
- Comply with the constitution of the country as well as financial rules, regulations, systems and procedures. Also safeguard the resources against financial misuse, misappropriation, corruption, fraud, irregularities, wastes and selfishness of the individuals; and uphold national interest as well.
- Ensure better financial decisions, better value for money (VFM), better delivery of public services and better public accounting system.
- Prepare better public financial statements and reports and make those available for public access.
- Gain trust and confidence of the citizens, tax payers, donors, development partners, international credit rating agencies and foreign investors.
- Ensure financial accountability of the government and make the government executives accountable to the Parliament to protect public interest.

## 3. Types of Government Entities

The government entities are mainly two types; namely, **Budgetary Entities (BEs)** for which direct budgetary allocations are needed and **Extra Budgetary Entities (EBEs)** which are independent of the government's **Ministries/ Divisions/ Agencies (MDAs)**, engaged in extra budgetary transactions and have their own governance structure.

The BEs include central government's MDAs and their departments, constitutional bodies and the entities for which the government is liable to meet the expenditures, interest etc. MDAs function under the **Public Service Act 2018**. Before the enactment of this act, MDAs were established by the executive authority of the bureaucracy following the Rules of Business.

The EBEs include following entities:

- **The local governments and their departments:** These are not part of government's Consolidated Fund. They maintain their own fund and supposed to operate with their own fund. If any financial support is provided by the government to them, those are called Transfer Payments.
- **Autonomous or statutory bodies/authorities/institutions/trusts/societies/state owned entities, non-profit organizations and company limited by guarantee:** These bodies have their own fund and operate independently; though they get financial assistance from the government and follow government rules and regulations where necessary.
- **Government Business Entities (GBEs):** These are the state-owned commercial and industrial business entities like sector corporations and government-owned commercial companies. These are also known as State Owned Commercial Entities/ Government Commercial Undertakings. Purpose of GBEs are to produce marketable goods or services; and focus on profit oriented activities.

### 3.1 Public Sector Entities (PSEs)

**Public Sector Entities (PSEs)** under the purview of **PFM**, include all organizations of the central government under the Budgetary Entities as well as the local governments and their departments under the Extra Budgetary Entities. Purposes of PSEs are to provide non-marketable services, that is, public

service. This article mainly focuses on the issues of PFM of the PSEs and adoption of **International Public Sector Accounting Standards (IPSAS)** in those entities.

## 4. Constitutional Mandate and Law for PFM

The Constitution of Bangladesh prescribes the matters of PFM and there is also a law to further explain the constitutional mandates.

### 4.1 Constitutional Mandate

The fundamental principles, procedure and financial authority and responsibility for PFM has been prescribed in Chapter-II: Legislative and Financial Procedures of the constitution of Bangladesh. **Articles 81-92** of the constitution prescribe the legal framework of the basic public accounting and financial management system.

Articles 81 prescribes the different aspects of the “Money Bill” including government’s borrowing or giving of any guarantee, Consolidated Fund, Public Account etc.

Articles 83 gives the most important direction to the government regarding revenue earnings. It says, “No tax shall be levied or collected except by or under the authority of an act of Parliament”.

Articles 84 gives the definition of Consolidated Fund and Public Account.

Articles 85 prescribes that the payment and withdrawal of public money from the Consolidated Fund or Public Account shall be regulated by the Act of Parliament.

Articles 87 describes the contents of the annual financial statement (budget) and prescribes that the same shall be laid before the Parliament.

Articles 90 describes the Appropriation Account of the government.

Articles 91 prescribes the power of the President of the republic to authorize excess expenditure than the approved limit which caused to be laid before Parliament as a supplementary financial statement.

### 4.2 Law

The Public Money and Budget Management (PM&BM) Act, 2009 further elaborates and defines core PFM elements. It elaborately explains and describes the

matters of custody of public moneys, deposit and withdrawal of money from the Consolidated Fund or deposit and withdrawal of money from the Public Account of the Republic and other related issues. It describes the fund transfer and re-appropriation from one grant to another grant or from charged expenditure to other expenditure. It also describes the authorities, duties and responsibilities of C&AG, Finance Division of the Ministry of Finance, Principal Accounting Officers, and government’s borrowing and guarantee issues as well as punitive measures for financial misconducts etc.

As per section 15(4) of the PM&BM Act, 2009, the trends of actual revenue receipts and expenditures against the budget shall be reviewed by the Finance Minister quarterly and a statement on this shall be submitted to the Parliament.

According to section 21 (2) of the PM&BM Act, 2009, only the authorized Ministries or Divisions can borrow on behalf of the government and no ministry or Division can issue any guarantee on behalf of the government other than the Finance Division (section 22).

## 5. Responsible Authorities for PFM

**Office of the Comptroller and Auditor General (OC&AG), Ministry of Finance (MoF)** and the **Office of the Controller General of Accounts (OCGA)** play most important roles in the matters of PFM in Bangladesh. The other key players are: **National Board of Revenue (NBR)**, Bangladesh Bank (central bank), and Bangladesh Planning Commission. Bangladesh Parliament also plays very important role to establish financial accountability in the whole PFM system of Bangladesh.

MoF deals the matters of state finance including economic policy, budgeting, taxation, budgetary control and MTBF etc. It is also involved in formulation of financial rules and regulations and doing reforms in PFM. Besides, it is responsible for debt management; both local and foreign debts and does the debt sustainability analysis. In addition, it prepares monthly, quarterly and yearly debt reports.

The Finance Division keeps records of its holdings in major categories of financial assets arise from on-lending to the GBEs and these are reported under the Debt Service Liability Management Reports of the Finance Division which also publishes reports in this



regard through its website titled 'Debt-Service Liability (Lending-On lending) Accounts and Guidelines'.

**Economic Relations Division (ERD)** of MoF deals the matters the management of external aid, loans etc. and the matters of external debt management and foreign aid are dealt by the **Foreign Aid Budget and Accounts (FABA)** Wing of ERD.

The Monitoring Cell of MoF monitors the financial flows and liabilities of most public sector corporations but no financial statements are published.

The OC&AG deals the matters of post-audits, mainly financial audit and compliance audit. C&AG is also responsible to certify the Finance Accounts of and Appropriation Accounts and to maintain financial propriety.

The OCGA deals the matters of pre-audits. The **Controller General of Accounts (CGA)** prepares Annual Financial Accounts. He keeps records financial assets (financial assets are recorded as capital expenditure). He is also responsible for preparation of Consolidated Fund (all revenues, and loans receipts by the government) and the Public Account (all other money receipts by or on behalf of the government).

**MDAs** deal the matters of internal control and internal audits and the heads of MDAs sign the Appropriation Accounts. They also keep the records of non-financial assets; but do not publish any report. However, internal audits are not in practice in all MDAs as yet.

**Ministry Planning (MoP)** deals the matters of financial policies, socioeconomic planning and statistical management. The Planning Division, the Statistics and Information Division and the **Implementation, Monitoring, and Evaluation Division (IMED)** work under MoP. IMED is the central and apex entity of Bangladesh government for monitoring and evaluation of the PSEs. It monitors and evaluates the implementation of development projects included in the **Annual Development Program (ADP)** and also works on public procurement act and rules through its **Central Procurement Technical Unit (CPTU)** and provides interpretation of the related rules.

**Bangladesh Planning Commission** is the economic policy institution of the government of Bangladesh (GoB) and works in association with MoF in respect of Annual Development Program (ADP), mid-term plan (5 years' plan) and long-term perspective plan (15-20 years' plan). It acts as expert adviser on development matters of the country by appraising the project

proposals prepared by the implementing agencies and submitted to it by the line ministries. The line Ministry sends the approved project proposal to the Finance Division of MoF for the issue of a project number. Usually as part of the budget process, Finance Division allocates a sequential project number from the series reserved for ADP projects. This number is retained for the life of an activity/scheme/project and may not be re-used until at least three years after completion of the same.

## 6. Management and Execution of Public Expenditures

As per Bangladesh Constitution, people of the country authorize the Parliament and the Parliament gives the authority to the government to execute the matters of raising and spending public money. As such, the government itself cannot do anything in this regard without the approval of the Parliament. Matters related to public trust and financial accountability of the government are ensured by the constitution as well as related laws and rules.

Public money is spent as per budget provision and subject to pre-audit and fulfilment of financial rules and regulations. Public Procurement Act, 2006 and Public Procurement Rules (PPR), 2008 are being followed for government's procurements. Bangladesh has implemented E-governance procurement (e-GP) system to increase transparency and credibility in government's purchases.

The financial powers are exercised by the PSEs in accordance with the Bangladesh Constitution, Public Money and Budget management Act, 2009, Rules of Business, General Financial Rules (GFR), Treasury Rules (TR), Supplementary Rules (SR), Manuals (Public Expenditure Manual and Internal Control Manual), Executive Orders and relevant rules including delegation and sub-delegation of powers.

The Secretary of a Ministry or Division acts a Principal Accounting Officer of the offices under his/her control and exercises financial powers as prescribed in the 'Delegation of Financial Powers' by the Finance Division of the MoF from time to time.

All Public Accounts Offices of the country under CGA are fully automated by the integrated accounting and budgeting system. The public accounts are prepared under a computerized, internet-based system and those are connected with CGA office through wide

area network (WAN). Public accounts offices of districts, Upazila and Bangladesh Bank and Sonali Bank are connected through digital platform.

### 6.1. Internal Control System

MoF deals the matters of the internal control policies and procedures and as an external control measure, the Implementation, Monitoring and Evaluation Division (IMED) of Planning Ministry continually evaluates the progress of government works; particularly development works.

The Finance Division has provided an Internal Audit Manual, which, in most cases, do not act properly. Few large ministries like Planning, Roads and Highways, Health, Education, Housing and Public Works etc. practice internal control and internal auditing. The overall effectiveness of internal audit is limited and the overall internal control system in the PFM system remains weak as yet.

## 7. Financial Reporting Framework (FRF) in Bangladesh

Article 84 of the Constitution of Bangladesh defines both Consolidated Fund and the Public Accounts. All financial transactions of the government are reflected in the Consolidated Fund and the Public Account. Consolidated Fund includes all revenue receipts of the government, all loans raised by the government and all money receipts by it in repayment of any loan. All other money receipts by or on behalf of the government (advances, savings certificates, provident fund, security deposits against supplies and construction works etc.) shall be credited to the Public Accounts. Money deposited in government account and credited to the Public Accounts are liabilities for the government and government acts as custodian of those money.

The FRF of Bangladesh includes preparation and presentation of two sets of audited accounts reports in each year; namely, Annual Financial Accounts and Annual Appropriation Accounts. Finance Accounts show the annual receipts and payments of the government while the Appropriation Accounts show head-wise comparative statement of final budget allocation and actual expenditure and budget variance (if any) of different ministries and their subordinate

offices. All receipts on behalf of the government are deposited to Bangladesh Bank (central bank) which acts as Government Treasury. Money receipts are reconciled with CGA. All payments on behalf of the government also are made by Bangladesh Bank or by the state-owned Sonali Bank which acts as an agent for Bangladesh Bank.

### 7.1 Present Status of the Accounting System in the PSEs and GBEs of Bangladesh

Bangladesh is in a process of strengthening PFM through effective budget management and pursuing high quality accounting and auditing practices but the current accounting practices in the PSEs of Bangladesh does not match with the requirements of IPSAS issued by **International Public Sector Accounting Standard Board (IPSASB)**. IPSASB is a non-UN entity and an independent organ of **International Federation of Accountants (IFAC)**.

Accounting records of the PSEs of Bangladesh are kept in accordance with the **Account Code of Bangladesh and Formats issued by C&AG** and the financial statements maintain consistency. There is a **Budget and Accounting Classification System (BACS)** which provides logical framework for classifying the government's financial transactions in a variety of ways without duplication. There is also a Chart of Accounts which is being continuously developed to overcome the limitations. However, the current Classification Chart cannot accommodate the IPSAS and Classification of the Functions of the Government (COFOG) and as such, a new Budget and Accounting Classification System (BACS) has been designed to accommodate both existing needs and to meet the demands of the foreseeable future under the on-going PFM reforms. The government is also in a process of implementing the **Integrated Budgetary and Accounting System (iBAS++)** which is configured to accommodate changes in coding, additional digits within segments and the addition of new segments as required. This will be more user-friendly and the users will not be required to remember or enter the digits of the accounting code.

IPSAS addresses both cash basis and accrual basis public accounting. Bangladesh's public accounting system neither follow the Accrual basis IPSAS; nor fully the Cash basis IPSAS; because there is a perception among the key players of PFM that neither the cash basis; nor the accrual basis accounting can satisfy the

whole desire of the government. **As such, modified cash basis accounting are being practiced in PSEs of Bangladesh mainly to keep provision for pension fund, provident fund, gratuity fund, welfare fund etc.**

PSEs of Bangladesh now follow Cash basis accounting and 100% Cash basis IPSAS is yet to be adopted. Under the present system, issues of receivables, payables, contingent assets, contingent liabilities etc. are ignored in most public accounts offices and matched with next budget. Government of Bangladesh issues guarantees against the loans receipts by the state-owned financial and non-financial entities, which may lead to contingent liabilities. If any unpaid budget allocation remains at the closing date of the fiscal year, that become lapses, and the same are allocated and approved in the next year's budget.

MoF, C&AG and all stakeholders understand the necessity and benefits of IPSAS and accrual based financial reports. They also advocate to implement IPSAS; but in reality, it is very difficult because public accounts offices in Bangladesh lack **qualified accountants (QAs)**. As such, **they prefer to adapt with IPSAS; but not to adopt.**

Since, the PSEs function for not to earn profit, there is a general perception among the officials of the public accounts offices to follow the easy way of the cash basis accounting system. However, Bangladesh Railway (BR), a self-accounting entity under PSEs is an exception because it has commercial activities. BR follows both cash basis and accrual basis accounting principles and prepares accounting reports as a GBE to meet the needs of the government and the monthly accounts are prepared based on cash receipts and withdrawn from the treasury. It maintain its accounts under a separate accounts manual

**Moreover, since, Bangladesh declares deficit budget, it gives more attention to monitor the cash flow ignoring the issues of accrued income and expenditures.**

In Bangladesh, the central as well as local government organizations including National Board of Revenue (NBR), City Development Authorities, Local government bodies like City Corporations, Municipalities and other local government authorities, non-tax revenue collectors like land and property registry offices, Bangladesh Road Transport authority (BRTA) etc. practice cash basis accounting.

The city corporations and other local government

bodies have huge fixed assets but due to the nature of non-profit and having non-saleable assets, they keep records of the fixed assets under historical cost without charging any depreciation. There are also huge non-saleable assets in the PSEs, a part of which have been impaired or have lost economic life and efficiency but the value of those asset remain same as historical cost in the books of accounts until those become obsolete or disposed. On the other hand, there are huge appreciation in the value of few assets considering the present market value. As such, those assets also show historical cost in the books of accounts.

**GBEs** usually follow accrual accounting system under **International Financial Reporting Standards (IFRS)** as those are similar to private sector. The government owned companies and almost all sector corporations have implemented accrual basis accounting system. Statutory audits of the Annual Financial Statements of those entities are conducted and certified by the Chartered Accountants.

## 7.2 Budget Estimates and Annual Financial Statements

GoB lays before the parliament Annual Financial Statements (budget) every year as per Article 87 of the constitution as follows:

- 1) Estimated receipts and expenditures (Budget) of the government for the year.
  - a) The sum required to meet the expenditure charged by; and
  - b) The sum required to meet other expenditure proposed (shall distinguish revenue expenditure from other expenditure).

The Finance Division of the MoF prepares 11 Annual Financial Statements showing a comparison of the budget estimate of the year with the budget and revised budget of the previous year which are as follows:

- (Statement-1) Consolidated Fund - Receipts: Economic Analysis Summary;
- (Statement-2) Consolidated Fund - Receipts: Summary by Ministry/Division;
- (Statement-3) Public Accounts of the Republic – Receipts;
- (Statement-4) Consolidated Fund: Non-Development Expenditure - Economic Analysis Summary;

- (Statement-5) Consolidated Fund: Development Expenditure - Economic Analysis Summary;
- (Statement-6) Consolidated Fund: Non-Development Expenditure (Ministry/Division Wise);
- (Statement-7) Consolidated Fund: Expenditure (Ministry/Division Wise);
- (Statement-8) Consolidated Fund: Development Expenditure - Ministry/Division Wise;
- (Statement-9) Public Accounts of the Republic – Payment;
- (Statement-10) Demand for Grants. Operating expenditure, development expenditure and the sum as total expenditure; and
- (Statement-11) Demand for Grant and Appropriation. Charged expenditure, demand for grant (other expenses) and the sum as total.

### 7.3 Status of IPSAS Adoption in Bangladesh

IPSASB has issued a Cash basis IPSAS for preparation **General Purpose Financial Reporting (GPFR)** and, thirty eight IPSAS standards (out of 42 standards, standard 6,7,8 and 15 has been suspended) for accrual basis accounting. In addition three **Recommended Practice Guidelines (RPG)** have been issued by IPSASB, which are not mandatory but promotes good accounting practice.

The IPSAS are applicable to PSEs which meet all the following three criteria:

1. Delivers services for the benefit of the public and/or redistribute income and wealth;
2. Mainly finance their activities by means of taxes, social contribution, debt or fees; and
3. Do not have a primary objective to earn profits.

Financial reporting based on IPSAS or IPSAS-similar standards facilitates best accounting practices and ensures transparency and accountability of the government and also helps in decision making. It improves the consistency and comparability of the public financial reports which facilitates the international development partners to compare the same with the other countries. As a result, IPSAS acts as a catalyst in receiving foreign grants and attracting

foreign investments as well. Besides, accounting for all assets and liabilities under IPSAS improves the internal control of the PSEs and provides more comprehensive costing information to support result-based management. As such, good **PFM** looks forward to enable the PSEs to progress and gradually adopt IPSAS or IPSAS-similar standards and work under **Whole System Approach (WSA)** to increase the image of the country.

Cash basis IPSAS encourages disclosing third party transactions separately in a sub-classification; but the financial reports of the government do not separately show the transactions made by third parties on behalf of the PSEs.

The financial reports of the government show the gross amounts of the external assistance received in the statement of 'Consolidated Fund Receipts' but other details (both in total and by significant classes of providers of assistance) of external assistance as required by IPSAS are not shown.

As per Cash basis IPSAS, GPFS should be prepared at least annually. Bangladesh fulfils this requirement but the reporting date is not certain. The reporting date of the annual accounts is not mentioned on the face of public financial reports; though it is understood that the annual GPFS are prepared for July to June as per fiscal year of the country.

### 7.4 Barriers in Implementing IPSAS and Accrual Basis Accounting in Bangladesh

Many actors and factors work together for not implementing full IPSAS and accrual basis accounting in the PSEs of Bangladesh. Those are as follows:

- Lack of strong will and formal commitment and defined implementation framework from the decision makers, politicians, legislators and key stakeholders for adopting IPSAS and accrual basis accounting.
- Low stakeholders' engagement.
- Lack of trained, skilled and experienced accountants and staff members in the PSEs.
- **Self-accounting entities (SAEs) like Bangladesh Railway, Roads and Highways Department (RHD), Public Works Department (PWD), Telecom Department, Forest Development, Postal Department, Public Health Engineering (PHE) Department and Defense Accounts** as well many other government offices have no or very few professionally qualified accountants.



- Lack of adequate knowledge and experience on IPSAS and accrual basis accounting among the field level workforce in the PSEs.

## 8. Office of the C&AG (OC&AG)

OC&AG is the **Supreme Audit Institution (SAI)** of Bangladesh having a vision of attaining accountability and transparency in PFM for achieving good governance. It was established under 'The Comptroller and Auditor General (Additional Functions) Act, 1974' and subsequent amendments. Bangladesh inherits the public sector auditing and accounting of the British regime as a legacy of colonial administration. Viceroy of the then British India Lord Cornwallis introduced public sector auditing and accounting in 1793 which was followed and developed by the then Pakistan and subsequently after achieving independence in 1971 Bangladesh also has been doing the same. Both pre-audit and post-audit systems was established by Lord Cornwallis and those audits were being conducted by Accountant General (AG). In Bangladesh, post-audits are now being done by the C&AG and the pre-audits are done by CGA.

Bangladesh's OC&AG is a member of **International Organization of Supreme Audit Institutions (INTOSAI)**. It has also been elected to the Board of Governance of ASOSAI (Asian Organization of Supreme Audit Institutions) for several times. ASOSAI is an INTOSAI working group for Asian region. INTOSAI is an autonomous, independent, professional, non-political and non-government international organization having special consultative status with the **Economic and Social Council (ECOSOC)** of the **United Nations (UN)**. Founded in 1953 in Havana, Cuba, INTOSAI was established as a permanent institution with the motto "**Mutual experience benefits all**". INTOSAI sets standards for public sector auditing, promote public governance and supports SAIs in capacity building and performance improvement for ensuring independence and effectiveness of government auditing. It acts as a global umbrella organization of SAIs of the countries across the world as UN acts for their member states. It held a number of UN/INTOSAI Symposia and the UN appreciates the work of INTOSAI. UN general assembly has also recognized the principles specified in the Lima and Mexico declaration of INTOSAI.

OC&AG is in a process of adopting International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI Guidance for Good Governance ((INTOSAI GOV) and has made satisfactory progress in this regard. ISSAI are benchmark for external auditing of the government entities that ensure the quality of audits, and also strengthens the credibility of the audit reports, enhance transparency of the audit process and specify the auditor's responsibility and audit engagements. INTOSAI has also released ISSAI for Financial Audit, ISSAI for Performance Audit and ISSAI for Compliance Audit and the OC&AG has taken steps to implement those phase wise. Bangladesh has also its own Code of Ethics which are equivalent to INTOSAI standards. The new INTOSAI Framework of Professional Pronouncement (IFPP) has been structured in three parts as follows:

- **INTOSAI Principles (INTOSAI-P)**
- ISSAIs
- **INTOSAI Guidance (GUID)**

However, implementation of INTOSAI standards still remain a big challenge because of many actors and factors, which vary from one country to another. It is really difficult to **implement similar standards** all over the world. Moreover, depending on the form of government and different political system and culture there are political and legislative interferences as well as administrative constraints in different SAIs.

### 8.1 Comptroller and Auditor General (C&AG)

C&AG is the chief of the **Supreme audit Institution (SAI)** of Bangladesh. It is a constitutional post under the **article 127-132 (Part-VIII) of the Constitution of Bangladesh**. C&AG is appointed by the Honorable President of the republic as per the advice of the Honorable Prime Minister. He holds the office for five years or up to the age 65 years, which is earlier. Before expiry of his tenure he may resign; bur he cannot be removed except in like manner and on the like ground as a judge of the Supreme Court. He shall also not be eligible to further hold office of the republic on ceasing the OC &AG. However, in spite of the constitutional mandate, C&AG's authority is limited at times regarding certain administrative and personal matters where he needs the approval of the Finance Division of the MoF.

**Article 128 (1)** prescribes the functions of the **Comptroller and Auditor General (C&AG)** and **Article 132** prescribes his reports to the Honorable

President of the Republic. It also empowers him for full and unrestricted access to all records and documents of the government offices under his jurisdiction.

**Article 131** has given mandate to the C&AG to prescribe the form and manner of public accounts of the republic, which says “The public accounts of the Republic shall be kept in such form and in such manner as the Auditor General may, with the approval of the President, prescribe”.

C&AG performs his duties and responsibilities through 17 different Audit Directorates under his control to ascertain whether the government’s receipts and public spending have been done in accordance with applicable rules and procedures. He follows government audit standards that comply with the **International Standards of Supreme Audit Institutions (ISSAIs)**.

The scope of C&AG’s audit includes the accounts of the central and local government offices under his jurisdiction, the ministries, government departments, local government authorities, statutory bodies, autonomous organizations and public enterprises where the Government of Bangladesh (GoB) has at least 50% share or interest.

The compliance audits conducted by the C&AG examines the accuracy of the receipts and payments of the PSEs, GBEs and Nationalized Commercial Banks (NCBs) and ascertains whether the provisions of the constitution of the country and the applicable financial rules, regulations and procedures have been complied or not. His audit engagement mainly focuses on collection of government’s revenue, public procurements and contracts, major capital works, and other government spending. The audit report also includes suggestions and recommendations for improving PFM operations.

C&AG conducts Compliance Audit to ascertain following matters:

- Whether the money shown as expenditure in the accounts were authorized for the purpose for which they were spend;
- Whether the expenditure incurred was in conformity with the laws, rules and regulations framed to regulate the procedure for spending public money;
- whether the expenditure was done with the approval of the competent authority;

- whether the government’s receipts and allocation of revenue were done in accordance with law; and
- Whether there was any leakage of revenue.

The financial/certification audit evaluates whether the Annual Finance Accounts and Annual Appropriation Accounts of the government organizations are fairly stated in accordance with the set accounting standards and formats and his certification confirms that the final accounts have been prepared properly.

Today, the scope of the works of the C&AG has expanded in many-fold. Apart from playing the role of gatekeeper or watchdog, C&AG also monitors the matters of waste and misuses of public money. In addition to the main thrust on financial and compliance audit, C&AG also conducts performance or Value for Money (VFM) audit in selective areas (public sector operations, forestry aspects, environment aspects, investment in ICT, public procurements, civil works, medium term budgetary framework (MTBF), social safety net programs, public debt management, public private partnership, social and gender equity etc.) to ascertain the efficiency and effectiveness in implementing the rules, regulations, policies and set guidelines.

C&AG submits the **General purpose Financial Statements (GPFS)** to the Honorable President of the Republic who shall cause them to be laid before the parliament as per Article 132 of the constitution of Bangladesh. GPFS are those intended to meet the needs of the users who are not in a position to demand report to meet specific information. C&AG’s audit reports are routed through the office of the Honorable Prime Minister to President prior to lay to the Parliament.

The public accounts offices of the republic works under the guidance C&AG. These are:

- Office of the Controller General of Accounts (CIVIL),
- Office of the Controller General of Defense Finance; and
- Office of the Additional Director General (Finance) of Bangladesh Railway.

However, the reality is that in spite of constitutional mandate, C&AG suffer from lack of financial and administrative independence in respect of recruitment of staff members and budgetary allocations to meet

the expenses of his office. As such, the C&AG of Bangladesh is not fully independent; he is largely dependent on legislature and administration and there are also undue political influences and interferences. So, his functions remain a complex and constant struggle in real sense.

## 8.2. Controller General of Accounts (CGA)

CGA acts under the administrative control of the Finance Division of the Ministry of Finance; but functionally works under C&AG. All the Public Accounts Offices under CGA ensure that the rules, regulations and standards have been followed in the transactions of public money.

CGA maintains the government's Cash Book. He keeps records of the receipts and payments of the government and does necessary reconciliation with the central bank and also conducts pre-audits of government payments.

CGA prepares the monthly, periodical and annual financial reports of all departments of the government under his control. He is also responsible for compilation and preparation of consolidated accounts of the government as a whole incorporating the accounts of the executive, legislature and judicial.

## 9. Reforms in the PFM of Bangladesh

The Bangladesh government has formulated **Public Financial Management (PFM) Reforms Strategy 2016-21**. Reforms programs has been undertaken based on actual demand and also based on 'PEFA assessment' done by the World Bank. The government has a target to establish paperless PFM gradually. The reforms program also aims to implement Integrated Budgetary and Accounting System (iBAS++) which is being implemented to include new **Budget and Account Classification System (BACS)** to facilitate budget preparation, budget execution (distribution and release of funds, and appropriation/re-appropriation), accounting, reporting, and payroll functions. IBAS++ is managed by the **Public Expenditure Management Strengthening Program (PEMSP)**.

MoF of the GoB has successfully implemented few reforms programs in PFM which are as follows:

- Key Performance Indicator (KPI) have been set for financial reporting of the government entities. Annual Performance Agreement (APA) and Annual Performance Report (APR) are also being implanted.

- Government Financial Management Information System (GFMIS) has been established to comply with the international standards to improve the quality of PFM. GFMIS also addresses the issues of right to information and protect public interest.
- Medium Term Budgetary Framework (MTBF) was introduced to have a better management and better utilization of public money, under which MDAs lay down priorities and medium term strategies.

## 10. Public Expenditure and Financial Accountability (PEFA) in Bangladesh

PEFA is a thorough, consistent and evidence based analysis of PFM at a specific point of time aiming to assess the status of the PFM of a country. It is also a tool for performance assessment of the PSEs under the PEFA framework to provide the full picture of the PFM. It also provides recommendations for taking future reforms programs and set priorities by the government through dialogue within the government itself and with the development partners.

Following the request of the GoB, the World Bank performed a PEFA assessment on PFM of Bangladesh in May to September 2015 and published a report titled 'Public Financial Management Performance Report (PFM-PR)' in June 2016. Bangladesh's financial years 2011-12, 2012-13 and 2013-14 were covered in the said PEFA assessment.

As per the PFM-PR, Bangladesh's PSFM is gradually improving. The said PEFA assessment done by World Bank, shows some positive progress in the PFM regime of Bangladesh though there are weakness in the internal control and internal audit environment and tax reconciliation. It recognizes that Bangladesh gives continuous emphasis in improving the overall PFM system. There are some improvements as well as weakness in the budgeting and budgetary control system.

Bangladesh has made improvements in fiscal risk oversight, medium term perspective to budgeting and inclusion of performance information with budget documents. However, there are weakness between the annual development budget and non-development budget process and in revenue and expenditure controls. Other significant improvements are: well performance in preparing comprehensive budget

documents and quality budget, publishing key fiscal information in the website for public access, accurate information on debt and guarantees etc.

Other main weaknesses are: lack of efficiency in implementation of the overall budget and in using public fund, lack of ability to achieve government's financial objectives, lack of strong commitment to control public expenditures, lack of coordination between C&AG and the line ministries on follow up of audit observations, lack of man-power in OC&AG etc.

## 11. Public Access to the Information of PFM of Bangladesh

General public of Bangladesh have access to key fiscal information provided in the website of MoF and C&AG. The Finance Division of MoF publishes Debt Service Liability Management Reports (financial assets arise from on-lending to the GBEs) through its website titled 'Debt-Service Liability (Lending-On lending) Accounts and Guidelines'.

The reports of public accounts are made available to the Members of Parliaments (MPs), media, civil society tax payers and the people of the country to let them know about public money collections by the government and utilization of the same. Public procurement information are also available in the CDPU website. C&AG keeps the annual audit report in the website of the OC&AG.

## 12. Future Outlook for the Adoption of IPSAS in the PSEs of Bangladesh

Bangladesh recognizes the importance of improving and strengthening PFM system in the country and good progress has been done in PFM reforms, though the progress is uneven. Reforms for automated integrated accounting and budgeting system, the Integrated Budgetary and Accounting System (iBAS), IBAS++ and Government Financial Management Information System (GFMIS) etc. are considered welcome steps; but Bangladesh's PSFM has to go a long way to implement Accrual basis IPSAS.

However, GoB has started a process of IPSAS adoption and it is known that the World Bank has also agreed to provide funding for a project on IPSAS adoption. The World Bank helps Bangladesh and finance the reforms programs under its Strengthening Public Expenditure Management Program (SPEMP).

IPSASB has issued the IPSAS for both cash basis and accrual basis accounting under the auspices of IFAC which is applicable for PSEs; not for GBEs. The Accrual basis IPSAS have been issued based on IFRS with additional special financial reporting issues applicable to PSEs which are not in IFRS.

IPSAS are international bench marks for comparing and evaluating public accounts of the governments around the world. Adoption of IPSAS are needed to provide more transparent, accurate and high quality public accounts in line with international best accounting practices. Today's reality is that cross-border financial transactions are increasing day by day. International trade, commerce as well as financial and economic cooperation among the governments around the world are also increasing. Needless to say that the increasing global economic cooperation can be further strengthened by providing uniform and easily comparable financial statements and reports so that the financial reports of the PSEs become relevant and convene the same information to the users across the world. The similar and harmonized reports of public accounts will also act as a catalyst in strengthening global cooperation and partnership.

It is well understood that cash basis accounting system cannot ensure consistency and comparability; but donors, development partners and prospective foreign investors work globally and they want a comparable, verifiable, similar and harmonized understandable version of public accounts and financial reports of public accounts on which they can rely and take decisions on financial assistance and investment. In this regard, Bangladesh is running behind in implementing the global standards of PFM. In view of this, they often give some conditions to improve PFM which may be considered by the government with a positive approach.

Bangladesh needs to implement the Cash basis IPSAS fully at first, and then gradually move forward under a comprehensive future action plan to adopting the Accrual basis IPSAS phase by phase under phased-out method like Sri Lanka. For this purpose, the C&AG under its constitutional mandate of Article 131 may take an initiative to develop **Bangladesh Public Sector Accounting Standard (BPSAS)** like IPSAS for few pilot projects. These standards will be recommendatory at the initial stage and gradually will be made mandatory for the pilot projects. In addition, all stakeholders including the MoF, OC&AG, OCGA, concerned



regulators and standard setters and **Professional Accountancy Organizations (PAOs)** need to work together under a meaningful and effective partnership to develop a **New Public Management (NPM)** to adopt IPSAS and harmonize the public accounting system in line with the international best accounting practices. It is also necessary to share experiences of the member PAOs of the regional and global apex organizations of the **professional accountants (PAs)** for providing high quality **Integrated Reports (IR)** on PFM on which the general public, the donors and the development partners like bilateral and multilateral lending agencies can rely.

## 12.1 Role of the Government

Every government has the responsibility to protect public interest, ensure best utilization of public money, reduce poverty and achieve inclusive socioeconomic growth. The member states of the United Nations (UN) have a new responsibility to achieve Sustainable Development Goals (SDGs) by 2030. PFM has a major role to achieve success in this regard. In spite of all limitations, PFM system is gradually improving in Bangladesh though there are many shortcomings.

The first step on the part of the government is to recognize and acknowledge that change is required. Strong commitments of the policy makers and stakeholders are also needed to effect the necessary reforms in PFM. Among others, adoption of international standard budgeting, accounting and auditing systems are also vital for improving the quality of PFM system and making it accountable. This sophisticated work cannot be done without engaging the professionally qualified accountants in PFM and developing the skills of the government employees working in the field level of the PSEs. In order to address this problem, government may take the assistance of the PAOs.

However, the government needs to take following steps for making the PFM effective, transparent and acceptable to all stakeholders:

- Formulate policy and legal framework and develop systems in line with global standard.
- Educate and train government employees on accounting, auditing and transparent management of public money and public procurements through the training institutes of the government as well taking assistance of PAOs.

- Develop the PFM system into international standard and as per the requirement of the donors, development partners and global standard setters.
- Engage skilled and efficient man-power and **Professional Accountants (PAs)** in the government offices of PFM offering lucrative salary and position.

## 12.2 Role of the Professional Accountancy Organizations (PAOs)

The main objectives of PAOs, among others, are providing education and training to create **PAs** and also arranging **Continuous Professional Development (CPD)** programs and trainings to keep them updated with the international standards of accounting, auditing and financial management practices. Their professional commitments also include the matters of protecting public interest and discharging their duties under ethics and integrity. PAOs and PAs have the professional obligation and responsibility to promote high quality accounting and auditing practices both at private and public sector. They should advocate for the implementation of IPSAS to improve the PFM system.

The regional and global apex organizations of PAOs describes specific roles of PAOs for giving technical support and assistance and provide reference materials to the government in improving PFM system as well as developing skilled man-power in the PSEs through providing necessary education and trainings.

As part of the professional obligation and responsibility, PAOs and PAs need to come forward to assist the government in developing the PFM system to effectively manage public money and also play positive role for supplying **QAs** to the government.

PAOs are working within their capacity to assist the government to establish a transparent and accountable accounting and auditing regime. But in reality, a very few numbers of PAs (only about 4-5% in Bangladesh and 8% globally) work in the public sector. This is mainly because of the lower government pay scale which is applicable for all government employees and a different pay scale for PAs cannot be declared in general. There are few instances of offering contract services under a different lucrative salary structure but implementation of those remain difficult. Moreover, high officials of the bureaucracy hold the top position

in the PSEs and they are normally reluctant to offer higher salary than their own entitlements. As such, appointing and retaining the PAs in public sector is a difficult task but not impossible.

In view of the above, PAOs should take positive decisions to be engaged with public sector. They should understand and assess their supporting roles to be played in PFM, design course of action and then implement those phase by phase. In order to assist the government in strengthening the PFM system, PAOs may take following steps:

- Engage more with PFM as part of professional commitment to protect public interest and take leading role to develop professional skills of the accountants working in the PSEs.
- Develop relationship with policy makers, high government officials, donors and development partners to perform professional duties and uphold professional image.
- Meet the decision makers and politicians including **Members of Parliament (MPs)** to convince them to employ more PAs in public sector offering attractive remuneration because effective systems cannot be implemented without skilled manpower.
- Develop new module for providing education and training to government employees.
- Include a dedicated subject on PFM in the syllabus.
- Do a survey for assessing the viability of opening a separate wing for awarding specialized membership on PFM and introduce the same, if it is viable.
- Offer a short-period certificate course on PFM.
- Create awareness among the decision makers and disseminate the benefits of IPSAS.
- Arrange training on PFM for both members and non-members.
- Arrange CPD on PFM for both members and non-members.
- Act as a trusted partner of the government for adopting Accrual basis IPSAS.

### 12.3 PAOs of Bangladesh

The **Institute of Cost and Management Accountants of Bangladesh (ICMAB)** and the **Institute of Chartered Accountants of Bangladesh (ICAB)** are the two PAOs constituted under act of

parliament and functions under the administrative control of the Ministry of Commerce (MoC), GoB. Both the PAOs are providing education and training for creating professional accountants in the country and developing financial accounting, cost accounting and auditing standards. Both ICMAB and ACAB are members of **SAFA (South Asian Federation of Accountants)**, **CAPA (Confederation of Asia and Pacific Accountants)** and **IFAC (International Federation of Accountants)**.

### 12.4 Role of ICMAB

ICMAB has a professional obligation to assist the government in implementing IPSAS and accrual basis accounting system in the PSEs of Bangladesh. ICMAB has formed a Public Sector Financial Management Advisory Committee to identify the areas of developments and reforms in PFM and take effective steps to implement those. This committee is now working to prepare a detailed curriculum for including a dedicated subject in the syllabus of ICMAB's education and also offering a short-period Certificate Course on PFM. This committee also works to arrange CPD and short training courses on PFM, IPSAS, Public Procurement Act, 2006 and Public Procurement Rules (PPR), 2008.

## 13. Conclusion


Adopting IPSAS in the PSEs is an international agenda for economic cooperation and financial assistance. This is also important to uphold the image of the country and make the government more accountable to the people. Bangladesh has only central government and local government; but no provincial/state government and the country has two-tier government system; the policy-tier and the general administration-tier. So, adoption of IPSAS will be easier than the big countries like India having too many provincial/state governments.

Bangladesh has already automated the public accounting system and the government is really very sincere to digitize the whole government operations including PFM system. Covid-19 has also given a wakeup call to the whole world including Bangladesh to work more under digital platform. As such, MoF, OC&AG, OCGA, NBR and other key players of PFM should speed up the reforms on automation; because scope of corruption, errors and misdeeds largely minimize with the development of automation

and paperless works and public interest are better protected under digital services. However, there are also possibilities of cyber-attacks in conducting online remote audits. So, efforts should be taken to conduct the government audits and prepare public financial statements and reports under digital platform as much as possible on one hand and take cyber security measures against possible cyber threats on the other.

Issues of protecting public interest are gaining importance in the political culture of the countries around the world. For this, Bangladesh needs a transparent, accountable, effective and efficient PFM system as well as pro-active and inspired workforces in the PSEs who really believe the economic vision of the government and sincerely want to achieve the goals and targets of the government's vision 2021, 2030 and 2041. As such, the SAI of the country should consider the issues of IPSAS adoption as soon as possible under a pragmatic approach. Side by side, the workforces of the SAI should also consider their independence together with their own accountability to the public. They must know and understand that independence and responsibility run hand in hand. Legal mandate is not enough; their mind set and the political and administrative culture of the country are also very crucial for effective functioning of the PFM.

In order to improve the PFM and implement international standards, all stakeholders should be allowed to be engaged in the reforms of PFM of Bangladesh. They should also play their due role and perform their shared responsibilities to make the PFM system of the country more effective, efficient, accountable and acceptable to all stakeholders. In this

regard, engagement of the PAOs are very important for the implementation of the accrual basis accounting in line with international best accounting practices. So, both the professional accounting bodies of the country, the ICMAB and the ICAB should come forward to make unique contribution for the adoption of IPSAS through providing technical supports to the government and trainings on accrual basis accounting to the concerned government employees. 

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