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INTRODUCTION

1. The purpose of this assessment of public sector accounting and auditing is primarily to help implement more effective Public Financial Management (PFM) in Bangladesh, through better quality accounting and public audit processes and at the same time, to create greater stimulus for more cost effective outcomes of the government's spending. The main objectives in this regard are (a) to provide the country's accounting and audit authorities and other interested stakeholders with a common, well-founded knowledge regarding the status of local practices as against the international standards of financial reporting and auditing; (b) to assess the prevailing variances; (c) to chalk out ways of improving their accordance with international standards; and (d) to provide a continuing basis for measuring improvements.
2. As part of the general support program in South Asia for assessment and improvement of public sector accounting and auditing, the World Bank with the cooperation of member governments is conducting a Review of Public Sector Accounting and Auditing Practices in member countries. In conducting this assessment, diagnostic questionnaires were developed with appropriate references to the PFM Performance Measurement Framework⁴ designed by the Public Expenditure and Financial Accountability (PEFA) Program⁵. These questionnaires were used to gather substantial insight into country performance with regard to the external auditing and financial statement reporting using PFM indicators. Annex A discusses the methodology used for conducting the assessment in this report.
3. The diagnostic questionnaire was used to gather information on national standards and practices for accounting, financial reporting, and auditing in the government budget sector and in the state-owned enterprise sector. Conducted in cooperation with country authorities, the diagnostic questionnaires incorporate the principles contained in the public sector accounting and auditing standards promulgated by International Organization of Supreme Audit Institutions (INTOSAI) and International Federation of Accountants (IFAC). Annex B summarizes the frameworks that were used in this assessment. The responses in these questionnaires stimulated further discussions among the World Bank team and country authorities. These discussions examined accounts and audit reports and working papers as a means to explore the quality of processes and products.

⁴ The PFM Performance Measurement Framework has been developed as a contribution to the collective efforts of many stakeholders to assess and develop essential PFM systems, by providing a common pool of information for measurement and monitoring of PFM performance progress, and a common platform for dialogue.

⁵ The PEFA Program is a partnership among the World Bank, the European Commission, the UK Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the International Monetary Fund, and the Strategic Partnership with Africa. A Steering Committee, comprising members of these agencies, manages the Program. A Secretariat is located at the World Bank in Washington, DC.



4. Historically, the system of maintenance of public accounts in Bangladesh, dates back to the mid-1800s, the days of British-occupied India. Since its independence in 1971, Bangladesh has started a series of reforms in the accounting and auditing fields in association with donor agencies. The Accounts Code was revised and updated in September 1996 with the assistance of the United Kingdom Department for International Development (DFID). During 2000 and 2001, the Audit Code, Audit Standard, Code of Ethics, and manuals for the various audit directorates were developed and updated with the assistance of United Nations Development Program (UNDP), DFID, and The Netherlands Government.

5. The analysis in this report has been conducted concurrently with the PFM reform program, including the Financial Management Reform Program that started in April 2003 with the following aims:

- To strengthen auditing practice and information for improved parliamentary scrutiny of public financial management;
- To enhance aggregate fiscal management and to develop the regulatory framework for financial and performance management;
- To enhance resource allocation, utilization and financial management, resource management, and performance management capacity in line ministries;
- To enhance financial management reporting systems;
- To build the capacity of the Financial Management Academy (FIMA) as a sustainable center of excellence for financial management training in governance.

6. The five-year Financial Management Reform Program is funded by the DFID and the Royal Netherlands Government. Its logical framework will assist Bangladesh in adopting IPSAS and INTOSAI Auditing Standards in the following ways:

- Financial management reporting capacity will be strengthened in line ministries and CGA.
- A plan will be implemented for cash-based financial reporting in conformity with international standards with disclosure on accrual elements.
- Audit work will be re-ordered around evidence-based opinion in line with INTOSAI Auditing Standards.
- The CAG will audit ministries as entities and express an audit opinion as required by the INTOSAI Auditing Standards.
- The systems-based audit manual will enable the CAG to audit ministries as entities.

7. There needs to be a more comprehensive plan for Bangladesh to adopt the Cash Basis IPSAS as part of a longer-term program to adopt accrual-based reporting for each government entity in accordance with the IPSAS. There should be a plan for the CAG to adopt the International Standards on Auditing (ISA), as well as the more high-level INTOSAI Auditing Standards in the day-to-day auditing work.