

A. Institutional Framework

8. The institutional framework should include adherence to International Accounting Standards (IAS) and the use of qualified accounting staff to provide timely, relevant, and reliable financial information that is needed to support all fiscal and budget management, decision making, and reporting processes. The diagnostic questionnaires that were used in this assessment have facilitated the collection of information on the current arrangements, and the apparent gaps in the present accounting laws and regulations of Bangladesh; education and training of public sector accountants; application of a code of conduct; and numbers and characteristics of public sector accountants.

(1) Accounting Laws and Regulations

9. **Bangladesh accounting laws and regulations should make mention of International Accounting Standards.** Current regulations are prescriptive about the maintenance and compilation of accounts, but there is no current prescription for the adoption of IPSAS. There is a need for the finance legislation to be brought up to date, including the requirements for the general budget sector to develop a consolidated financial statement on an accrual basis (with a time-bound road map to first adopt the Cash Basis IPSAS and move gradually to a full accrual basis) in accordance with IPSAS.

10. **Better technology and an integrated financial management system are needed for improved public sector accounting.** The basic technology currently available in Bangladesh does not support the accurate accounting that is needed for reliable reporting. Accounts are primarily compiled manually; mistakes and miscoding are common and reconciliations rare. Audit reports by the CAG show substantial accounting deficiencies and major difficulties in rectifying the problems identified. Many audit objections remain outstanding for long periods. Oversight agencies expend substantial time and effort in following up audit discrepancies, often to little effect. Computerization is proceeding slowly under the Financial Management Reform Program. A more expanded reform of the accounting system is needed to be effective. A more integrated financial management system that combines the core functions—budget, treasury, payroll and human resources, debt management, pensions, and the provident fund—would be a major step toward effective financial management in the public sector.

11. **Bangladesh should adopt the Cash Basis IPSAS.** Bangladesh has not adopted the cash basis IPSAS but discussions with relevant authorities have indicated a capability and also a willingness to do so if further expert advice verifies that it is practical. Under the 2003 standard for financial reporting



under the cash basis of accounting, the International Federation of Accountants (IFAC) Public Sector Committee now called the International Public Sector Accounting Standards Board (IPSASB) recognizes the right of governments and national standard setters to establish guidelines and accounting standards for financial reporting. The IPSASB considers that the Cash Basis IPSAS is an important step forward in improving the consistency and comparability of financial reporting and encourages its adoption. As a first step, the CGA has advised that the data is available to present a summary of the annual accounts in the form of the Cash Basis IPSAS. The ICAB should cooperate with CAG to form a consultative committee to provide guidance on issues relating to certification audit and to adopt accounting and auditing standards in the public sector.

12. All government departments should eventually use the Cash Basis IPSAS in preparing financial statements, and then move toward the accrual IPSAS. Preparing financial statements, first in accordance with the Cash Basis IPSAS, and then in accordance with the Accrual IPSAS, would make the administration and each department more accountable for transparent reporting; the budget sector and in due course each department should follow this path.⁶ The requirements of Section 7 of the CAG (Additional Functions) Act for an annual general financial statement do not meet the requirements of IPSAS and the legal accountability requirements are impaired. An extract of the CAG (Additional Functions) Act is given in Annex C.

13. The Government of Bangladesh can be assisted in moving in an appropriate timeframe from the Cash Basis IPSAS to the Accrual IPSAS by utilizing an IFAC study on the transitional path to accrual IPSAS.⁷ The study has four main parts:

- *Introduction: Chapters 1-3 address general planning and project management issues.*
- *General Financial Reporting Issues: Chapters 4 and 5 deal with the selection, development, and approval of accounting policies and issues associated with the definition and identification of reporting entities.*
- *Financial Elements: Chapters 6-8 outline the broad steps required for the identification, recognition, measurement, and disclosure of assets, liabilities, revenues, and expenses. The broad approaches discussed could be adapted and applied to particular items.*
- *Specific Topics: Chapters 9-15 highlight implementation issues associated with four specific accrual IPSAS, and provide guidance in relation to a selection of topics not addressed, or only partially addressed, by existing IPSAS.*

(2) Education and Training

14. Current practices for selection and training of government accountants do not provide accounting staff with satisfactory skills. It is important that accounting staff be adequately skilled at their functions. The recruitment and training arrangements should provide for this in the most efficient and effective manner. Accounting and audit specialist recruitment should require special criteria for selection, rather than the current standard general entry into the Bangladesh Civil Service. Also,

⁶ *Quality and timeliness of annual financial statements is performance indicator No. 25 in the PFM performance measurement framework supported by the Bank and other development agencies.*

⁷ *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities, International Federation of Accountants Public Sector Committee Study 14, December 2003.*

considering the substantial private sector in this field, there are many opportunities for interchange and intake at all levels through a more open service. Details of the selection and training processes are discussed in Annex E.

15. A more focused recruitment process designed to meet the separate knowledge needs of the CAG and the CGA would be more efficient and more effective. The current practices of general recruitment to different cadres are not conducive to the development of professional services. Expert recruitment practices are common in developed Supreme Audit Institutions (SAI) and can readily be adopted by a more independently structured Bangladesh Supreme Audit Institution. This would need the Accounts and Audit Cadre and the Subordinate Accounts Service to be considered separately within or outside the Bangladesh Civil Service. The CGA noted that skills development through professional training of the Audit and Accounts Service is preferred within the Bangladesh Civil Service to convert the Audit and Accounts Service into a professional body. This will require a long term program of training. It also requires recruitment of staff with appropriate accountancy qualifications to build expertise more efficiently in the longer term.

16. More effective in-house training requires curricula more attuned to international standards. The syllabus of the Financial Management Academy (FIMA) does not cover all areas recommended by INTOSAI and IFAC. One corrective option could be for FIMA to link with public sector-oriented professional accountancy institutions, like the UK Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA has developed an international public sector audit and accountancy qualification program designed to meet public sector training needs in developing countries. The training arrangement is meant to bring qualified staff up to more productive working levels as quickly as possible. The learning materials, the initial training support, and the quality control arrangements would be provided by CIPFA; but the qualification would be provided from the outset jointly with the local institution, perhaps FIMA. The learning materials take into account international audit and accounting standards as required for adoption by public sector organizations. Both the UK Association of Certified Chartered Accountants (ACCA) and the UK Chartered Institute of Public Finance and Accountancy (CIPFA) could be considered for the provision of the skills development program.

17. A phased and progressive education program combined with practical experience is needed. Following the CIPFA program, a certificate could be offered on partial completion of the program, with a diploma being awarded on its full completion. The students would enter with varied levels of experience. Some students would be newly appointed staff with a suitable educational achievement; they should ideally enter the program after one year's practical experience. Other staff with an appropriate range of experiences but not the required level of formal educational attainment would also benefit from the program. Vocational-based approaches should be used. Before students are awarded the diploma (but not the certificate) they would be required to complete specified work experience and earn workplace accreditation for demonstrated applied skills and knowledge.

(3) Code of Conduct

18. A code of conduct for accountants based on IFAC or ICAB codes is needed. Issued on April 3, 2001, the CAG Code of Ethics is directed toward government auditors. There are disciplinary rules and a general code of conduct for public servants under which disciplinary actions are taken. However



a code for accountants based on the fundamental principles of the IFAC-issued Code of Conduct for Professional Accounts needs to be implemented and observed. There should be arrangements to ensure that accountants confirm on a regular basis that they are operating in accordance with the code.

(4) Public Sector Accountant Arrangements

19. **The Chief Financial Officer (CFO) function needs upgrading.** For each public sector body that prepares annual accounts, there should be a responsible CFO function for maintaining systems of internal financial controls that manage risks and for preparing the accounts for signature by the Chief Accounting Officer (CAO). Current audits are not effective in ensuring that the management's systems of internal financial controls work well. The audit results are not being translated into remedial action sufficiently well, and the CFO function needs to be upgraded in line departments and other agencies to make this necessary control possible. The CAO system is currently under development through the computerization program and the MOF and CGA provides administrative control. The extent to which these developments enable the CFO functions to be implemented effectively without identifying specific officers as CFOs should be examined in due course.

B. Accounting Standards as Practiced

20. The diagnostic questionnaires collected information on the current arrangements and the apparent gaps in Bangladesh for setting public sector accounting standards and for presenting financial reports. Out of this exercise came recommended activities that will help bring local standards in line with international standards.

(1) Setting Public Sector Accounting Standards

21. **More formalized arrangements are needed for setting accounting standards for the public sector.** The Accounts Code sets out the detailed rules for the cash-based system of accounts. It is issued and amended from time to time by the CAG under his constitutional function of prescribing the form and manner in which public accounts are to be kept (Annex C). With the promulgation of IPSAS by IFAC, it would be appropriate for the CAG, who has constitutional responsibility for the form of accounts, to adopt IPSAS as the standard for the public sector.

22. Table 1 identifies the current position and the steps required if the Cash Basis IPSAS are to be adopted.

TABLE 1. REQUIRED STEPS FOR ADOPTING CASH BASIS IPSAS

<i>Requirements</i>	<i>Current deficiencies</i>	<i>Activity required to adopt Cash Basis IPSAS</i>
Financial statements presented in the IPSAS	The Bangladesh reporting structure focuses on consolidated fund and public accounts and the Cash Basis IPSAS for financial statements is not followed.	A statement of cash receipt and payment as per the Cash Basis IPSAS can be prepared using existing information from the accounting records. Also, for each entity (i.e. ministry and department), an additional statement in accord with the Cash Basis IPSAS can be prepared. This would require some restructuring of the CGA computerized reporting formats.

Requirements	Current deficiencies	Activity required to adopt Cash Basis IPSAS
Information to IPSAS in statement of cash receipts and payments	All this information is available on the government reporting system, but is in formats inconsistent with IPSAS.	This work requires restructuring of the CGA computerized reporting formats.
Accounting policies and explanatory notes	Statements of accounting policy are not provided in the budget or accounts documents.	There is a need to state the accounting policy and the basis on which the accounts are prepared.
General considerations <ul style="list-style-type: none"> ■ Reporting period ■ Adequacy of information about the entity ■ Presentation of comparative information 	Financial statements are not available within 6 months of the reporting period, cash balances that are available for use and cash balances that are subject to external restrictions and undrawn borrowing facilities are not disclosed, and presentation does not meet certain transparency requirements.	It would be necessary to reduce the reporting lag; and to disclose further information.
Correction of errors disclosed <ul style="list-style-type: none"> ■ Nature of error ■ Amount of correction ■ Comparative information restated 	The nature of errors, the amount of the correction, and the fact that comparative information has been restated or that it is impracticable to do so, is not disclosed.	Further training and better supervision of accounts officer would be needed to correctly classify expenditures and disclosure of errors and restatement of comparative information where practicable.
Consolidated financial statements	The government budget sector is a reporting entity, as well as an economic entity.	A statement of cash receipt and payment as per the Cash Basis IPSAS can be prepared. Further steps will be needed to include controlled entities as per IPSAS and as per Section 7 of the CAG (Additional Functions) Act.
Treatment of foreign currency cash receipts, payments, and balances treated in compliance with IPSAS	The government largely follows IPSAS except for the disclosure aspects.	Need to comply with the disclosure aspects of the treatment of foreign currency.
Effective date of Part I and transitional provision compliance.	The government has not formulated a migration path and timeline for achieving cash basis IPSAS, Part I, compliance.	Need for the CAG to formally adopt IPSAS and for the CGA to prepare an implementation plan and timeline, setting out specific steps to be taken including disclosure, if necessary, of application of the transitional provision (i. e. full compliance achieved within 3 years) for reporting periods beginning on a date within 3 years of first adoption of IPSAS.

(2) Financial Reports in State-Owned Enterprises

23. Audit reports from a sample of state-owned enterprises were examined for the purpose of this assessment (Table 2). The examination revealed that all but one (Bangladesh Chemical Industries Corporation) had qualified and another (Bangladesh Power Development Board) disclaimed audit opinions. The following accounts were examined:

TABLE 2. STATE-OWNED ENTERPRISES EXAMINED

<i>State-owned enterprise</i>	<i>Year end for independent audit</i>
Bangladesh Chemical Industries Corporation (BCIC)	2004
Chittagong Urea Fertilizer Limited (Unit of BCIC)	2004
Bangladesh Sugar and Food Industries Corporation	1997/8
Bangladesh Oil, Gas & Mineral Corporation (Petrobangla) - entity	2004
Bangladesh Oil, Gas & Mineral Corporation – consolidated	2004
Titas Gas Transmission & Distribution Company Ltd. (unit of Petrobangla)	2004
Bangladesh Petroleum Corporation (BPC)	2001/2
Eastern Refinery Limited (Unit of BPC)	2004
Dhaka Water Supply and Sewerage Authority	2004
Bangladesh Power Development Board	2003
Chittagong Port Authority	2001/2
Agrani Bank	1999/0
Bangladesh Biman	2001/2

24. **Corporate governance in the statutory authority sector needs to be improved through more effective audit committees.** Reporting for state-owned enterprises (SOEs) is delayed, not transparent, and not in accordance with International Accounting Standards. Oversight should be improved for SOE reporting.

25. **The proposed Financial Reporting Council (FRC) should include commercial government authorities in its scope.** These accounts were reported upon by independent chartered accounting firms and then reviewed by the CAG. The Government audit reports did not mention that the annual accounts were qualified by the independent auditors. It was not apparent that accounts were made public. Action is needed to ensure that state-owned enterprises amend their accounts in accordance with audit findings so that true and fair accounts may be issued for general public scrutiny within a stipulated period consistent with that of listed enterprises. The FRC proposed by the Bank's Report on Observance of Standards and Codes of Accounting and Auditing (ROSC Accounting & Auditing) would be able to monitor these matters.