

# Bangladesh

## Public Sector Accounting and Auditing

A Comparison to International Standards



**The World Bank**

South Asia Region Financial Management Unit  
May, 2007



**Government of Bangladesh**

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**BANGLADESH**  
**PUBLIC SECTOR ACCOUNTING AND**  
**AUDITING**  
**A Comparison to International**  
**Standards**

**Country Report**



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## ABBREVIATIONS AND ACRONYMS

ASOSAI	Asian Organization of Supreme Audit Institutions
CAG	Comptroller and Auditor General
CAO	Chief Accounts Officer
CGA	Controller General of Accounts
CFO	Chief Financial Officer
CIPFA	Chartered Institute of Public Finance and Accountancy, United Kingdom
CONTASA	Convertible Taka Special Account
DFID	Department for International Development, UK
DOSA	Dollar Special Account
FIMA	Financial Management Academy
FMRP	Financial Management Reform Project
FRC	Financial Reporting Council
FY	Fiscal Year
GOB	Government of Bangladesh
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
ICAB	Institute of Chartered Accountants of Bangladesh
ICMA	Institute of Cost and Management Accountants
IES	International Education Standards for Professional Accountants
IFAC	International Federation of Accountants
IFAC-PSC	International Federation of Accountants – Public Sector Committee
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPSASB	International Public Sector Accounting Standards Board (of IFAC)
IPSAS	International Public Sector Accounting Standards (of IFAC)
ISA	International Standard on Auditing



MOF	Ministry of Finance
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SAFE	Special Account Foreign Exchange
SAI	Supreme Audit Institution
SOE	State-Owned Enterprise
ROSC	Report on Observance of Standards and Codes
TOR	Terms of Reference
UNDP	United Nations Development Program

## ACKNOWLEDGMENTS

This assessment of accounting and auditing standards and practices in a public sector review was carried out in active collaboration with the Government of Bangladesh and various stakeholders, particularly the offices of the Comptroller and Auditor General and the Controller General of Accounts. Discussions were also held with senior officers of the Ministry of Finance, the Financial Management Academy, and the Financial Management Reform Project. A workshop was held in Dhaka on August 14, 2006 by the Government of Bangladesh (GoB), and the participating donors, to review the draft report and decide on actions to be taken.

In particular, the following individuals provided their time and expertise to this assessment:

*Asif Ali, Comptroller and Auditor General*

*Rezauddin M. Chowdhury, Controller General of Accounts (retired on May 3, 2006)*

*Salauddin Ahmed Chowdhury, Director General, Financial Management Academy*

*Arastoo Khan, Joint Secretary (Budget) MOF and Project Director, FMRP*

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*Al-Mamoon Md. Sanaul Huq, Director General, Mission Audit Directorate (appointed Controller General of Accounts since May 4, 2006)*

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*Md. Nurun Nabi Khan, Director General, Directorate of Commercial Audit*

*Mohammed Moslem Uddin, Director General, Foreign Aided Project Audit Directorate*

*Md. Abdul Baset Khan, Director General, Railway Audit Directorate*

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*Md. Zakir Hossain, Director General, Defence Audit Directorate*

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*Niaz Rahman, Director IT, C&AG's office*

*Mike Frazer, Team Leader, Financial Management Reform Project (FMRP)*

*Claude Lalonde, Component Leader FMRP Audit Component*

The review was conducted through a participatory process that involved these stakeholders whose responses to the diagnostic questionnaires were especially useful, as were the reports and information available from the Financial Management Reform Project (FMRP) and recent World Bank assessments of public financial management. The draft report developed after a consultative workshop was provided to the Government of Bangladesh for comment. The Comptroller and Auditor General found the draft report to be a well thought presentation on the current status and future needs of the accounting and auditing practices in Bangladesh and provided comments to improve the practicability of the report for adoption

in Bangladesh. The Controller General of Accounts agreed with the need for the gradual adoption of IPSAS and provided corrective comments for adoption. The various detailed comments provided by the agencies have been incorporated in to this final version of the report

The team of advisors and development partners also contributed greatly to the early stages of the concept note and framework development, as well as drafting of earlier reports for this study, which ultimately is intended to cover all the countries of the South Asia Region: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Two experienced local consultants were heavily involved in the assessment: Nasim Hyder, a former Senior Deputy Comptroller and Auditor General with an extensive background as a senior-level government accountant in Bangladesh and other countries; and Iftekhar Hossain, who has a strong commercial sector background as a partner in ACNABIN & Co., Chartered Accountants.

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# EXECUTIVE SUMMARY

1. This assessment of public sector accounting and auditing is meant generally to help implement more effective Public Financial Management (PFM) through better quality accounting and public audit processes in Bangladesh and to provide greater stimulus for more cost effective outcomes of government spending. More specific objectives are (a) to provide the country's accounting and audit authorities and other interested stakeholders with a common well-founded knowledge as to where local practices stand against the internationally developed norms of financial reporting and auditing; (b) to assess prevailing variances; (c) to chart paths for improving the accordance with international standards; and (d) to provide a continuing basis for measuring improvements.

2. Adoption of international standards for accounting and auditing provides the basis for competent financial reporting and transparency. The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) has developed a core set of accrual-based International Public Sector Accounting Standards (IPSAS) and also a comprehensive IPSAS on the cash basis of accounting. These IPSAS establish an authoritative set of independent international financial reporting standards for governments and others in public sector organizations. The study has taken the international standards as axiomatic with any acceptable options incorporated in the standards. The study has not assessed whether Bangladesh should adopt a limited version of the standards, as the processes of developing those standards have already considered any acceptable options, but they do not override authoritative national standards issued by governments, regulatory or professional accounting bodies. Application of IPSAS by national authorities will support developments in public sector financial reporting directed at improving decision-making, financial management, and accountability, and it will be an integral element of reforms directed at promoting social and economic development. The IPSASB has also developed guidance on the transition from cash- to accrual-based reporting. The traditional emphasis on cash accounting has been found inadequate through failure to recognize true costs, and all assets and liabilities. Cash accounting can too easily neglect asset management, accumulating arrears, future liabilities (e.g. pensions), and contingent liabilities (e.g., guarantees).

3. Annex A explains the methodology used for the assessment. The actions that need to be taken as recommended by this assessment are summarized below.

4. **Bangladesh Should Adopt International Public Sector Accounting Standards.** Along with the adoption of IPSAS, the Cash Basis IPSAS accounting standard should be applied first, with subsequent gradual implementation of the accrual IPSAS. The International Federation of Accountants issues the IPSAS. Annex B gives a general description of IFAC and a listing of the IPSAS. At the present



time, Bangladesh does not comply with the Cash Basis IPSAS, Part I, in its annual accounts. The Government of Bangladesh (GoB) needs to restructure the present cash basis reporting to conform fully to the Cash Basis IPSAS. Appropriate authorization from the Comptroller and Auditor General (CAG) would be sufficient since no legislation is necessary. A transition path should be developed to moving towards gradual presentation of the full accrual information that would best serve the general financial statement required by Section 7 of the CAG (Additional Functions) Act. Annex C includes the text of the CAG Act. Benefits from adopting accrual reporting are set out in Annex D.

5. A Supplementary Table of Standards and Gaps of this report provides a matrix detailing the current standards, the present position, and options for improvement. A summary of the accounting issues is shown in Table ES I.

**TABLE ES I. SUMMARY OF ACCOUNTING STANDARDS ISSUES IN BANGLADESH**

<b>Standard</b>	<b>Current status</b>	<b>Action to move towards the international standard</b>
1. Does the Public Sector Accounting Law adopt IPSAS?	No. There is an accounts code.	<p>Ministry of Finance (MOF) has issued an order requesting the Controller General of Accounts (CGA) to do the needful to prepare GOB financial statements in accordance with IPSAS Cash Basis.</p> <p>The first set of IPSAS-based statements for the core ministries (excluding specialized organizations) will be produced for (fiscal year) FY07-08.</p> <p>The first set of IPSAS-based statements for the specialized organizations will be produced for FY09-10. Action will be taken by early 2007 to form a committee including the CAG, CGA, MOF, and Professional Accounting Institutes, to work on an action plan to adopt accrual accounting in an appropriate timeframe as well as the legal formalities to be complied with.</p>
2. Is the education and training of accountants in accord with IES?	No Training in Accounts is provided by FIMA.	MOF in consultation with CGA and CAG is to set up an Education Standards Working Committee (including relevant service cadres, academicians and professional accounting institutions) to chalk out the education and training requirement for public sector accountants and auditors. Action is to be taken by MOF by March 2007 together with a Terms of Reference (TOR) for the Committee.
3. Does the ICAB Code of Ethics match international standards?	Partially. CAG Code is consistent with the International Organization of Supreme Audit Institutions (INTOSAI) Code.	The IFAC Code should be a basis for a code specifically suited to public sector accountants. The CGA is to form a committee by March 2007 to examine this.

<b>Standard</b>	<b>Current status</b>	<b>Action to move towards the international standard</b>
4. Is there a body to prescribe public sector accounting standards?	There is no dedicated body. CGA does this but not as a Standards Board. CAG is responsible for prescribing the form and manner of maintaining the public accounts.	CAG, CGA and ICAB are to use the same committee established for accounting standards for this purpose. Audit Committees in public sector entities should assure compliance. The Financial Reporting Council should monitor state-owned enterprises.
5. Are the financial statements in accord with the IPSAS standard?	No. The Cash Basis IPSAS for financial statements is not followed.	<p>The CGA component of the Financial Management Reform Project can take care of this matter.</p> <p>As the Govt. moves towards adoption of the IPSAS Cash Basis standards, the cash flow statement will be consistent with the standards.</p> <p>The concept of CFO managing the financial management function in each government entity will be examined by MOF. MOF to come up with a policy paper on implementation by June 2007.</p> <p>The FMRP might be able to provide assistance after completion of the logical framework tasks of the project. A study is needed for the application of International standards for the departmental accounts and their integration into the civil accounts in accordance with IPSAS.</p>
6. Is the statement of cash receipts and payments in IPSAS form?	No. This information is currently presented in formats inconsistent with the IPSAS.	As the Government moves towards adoption of the IPSAS Cash Basis standards, the cash flow statement will be consistent with the IPSAS forms.
7. Are accounting policies and explanatory notes required?	No. 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. The current notes will be reviewed and made consistent with IPSAS as implementation proceeds.
8. Are other disclosures in accord with IPSAS?	Partly. Financial statements are not available within 6 months of the reporting period; some items are not disclosed, and presentation does not meet some transparency requirements.	<p>It would be necessary to reduce the reporting lag; and to disclose some further information. Need to comply with the disclosure aspects of the treatment of foreign currency. This will be reviewed and made consistent with IPSAS as implementation proceeds.</p> <p>A study of how to incorporate DOSA, CONTASA, SAFE and IMPREST system project accounts is needed for their integration into the civil accounts in accordance with IPSAS and to enable effective auditing.</p>

<b>Standard</b>	<b>Current status</b>	<b>Action to move towards the international standard</b>
9. Does the government issue a consolidated financial statement which consolidates all controlled entities?	No.	MOF has issued an order requesting the CGA to do the needful to prepare GOB financial statements in accordance with the IPSAS Cash Basis. The first set of IPSAS-based statements for the core ministries (excluding specialized organizations) will be produced for FY07-08.  The first set of IPSAS-based statements for the specialized organizations will be produced for FY09-10. A committee will be formed by March 2007 including CAG, CGA, MOF, and Professional Accounting Institutes, to work on an action plan to adopt accrual accounting as well as the legal formalities to be complied with.

**6. There is a need to adopt the IFAC-issued International Standards on Auditing (ISA) in addition to the INTOSAI Auditing Standards already adopted and auditing manuals and procedures should meet these standards.** The CAG of Bangladesh has already adopted an auditing standard that was developed on the basis of the INTOSAI Auditing Standards. (See Annex B for a general description of INTOSAI and a listing of the INTOSAI and IFAC auditing standards). Application of ISA can be improved by the preparation of a more modern audit manual as per the current reform program. Implementation of the standards by the CAG Office needs improvement. These standards require adequate professional competence, organizational independence and adequate resources and systems. Inadequacies in resourcing will need to be dealt with if skills are to be made adequate to meet these standards. Provision of greater discretion to the CAG in the areas of financing and personnel policies will be needed and this will require a new National Audit Act. There is a need to improve audit impact. Audit recommendations and observations go unheeded in far too many instances. The application of the audit findings needs to be greatly improved through a mix of strategies. Greater transparency through more interaction with the media along with more focused and effective report-writing and report follow up processes would increase the incentives for auditees to take action on audit findings.

7. The Supplementary Table of Standards and Gaps at the end of this report shows the consequences of the present position for each component of the standards, and the options for improvements that would bring Bangladesh into closer conformance with the international standards. A summary of auditing issues are shown in Table ES2.

**TABLE ES2. SUMMARY OF AUDITING STANDARDS ISSUES IN BANGLADESH**

<b>Standard</b>	<b>Current status</b>	<b>Action to move toward international standards</b>
1. Is the SAI statutory framework in accord with the needs of the INTOSAI Auditing Standards?	Partially. Some additional powers need to be established by legislation as set out below.	A draft of a new audit law is expected from the CAG by early 2007.
2. Is there a body to prescribe public sector auditing standards?	Not an exclusive one. The CAG does this rather than a prescribed body.	The CAG and ICAB are to form a consultative committee to provide guidance on issues relating to the implementation of auditing standards.
3. Have INTOSAI and IFAC audit standards been adopted?	The CAG has adopted the INTOSAI Auditing Standards.	The consultative committee will be used to consider ISA and develop formal implementation notes for guidance. <sup>1</sup> The CAG has noted that INTOSAI has adopted the ISAs and will follow this in Bangladesh.
4. Has a code of ethics equivalent to the INTOSAI standards been adopted?	Yes	
5. Is the accountability process in the SAI in accord with INTOSAI Auditing Standards?	Yes.	
6. Does the SAI legal framework meet the INTOSAI Auditing Standards for independence and powers?	No. The SAI needs improved legislation, especially for its personnel policies, funding arrangements, reporting processes, offence clauses, and the procedures for appointing an Auditor General.	The National Audit Law should match international models. <sup>2</sup> CAG should note that INTOSAI has adopted the ISAs and will follow this in Bangladesh
7. Does education and training of auditors accord with INTOSAI and IES?	No. Staff needs more professional training. The current recruitment criteria for the financial auditors in the CAG Office do not give sufficient attention to accounting qualifications and as a result there is too much pressure on government training institutions to provide specialist knowledge.	Recruitment should require an accounting degree for auditors. Training programs should lead to professional certification. The CAG is to set up an Education Standards Working Committee (including relevant service cadres, academicians and professional accounting institutions) to chalk out the education and training requirement for public sector auditors. This will be done by June 2007 together with Terms of Reference.

<sup>1</sup> Bangladesh should nominate individuals to the Reference Panel of the INTOSAI Working Group on Financial Audit Guidelines, which is a subcommittee of the INTOSAI Auditing Standards Committee.

<sup>2</sup> Guidance is provided by *A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004.*

<b>Standard</b>	<b>Current status</b>	<b>Action to move toward international standards</b>
8. Is the SAI equipped with the audit methods and technologies to meet the INTOSAI standards?	No. Improved methodologies are in process of development. There is a lack of appropriate technology to support a management information system for the SAI.	The SAI needs improved technologies for audit office management as well as audit processes and reporting. The reform program for the CAG that is being provided under the Financial Management Reform Program will support the necessary improvements in this area, and the items 9 through 18 below.
9. Does the SAI have the quality assurance programs to meet international standards?	Partly. Implementation is a problem.	A Quality Assurance Function is being established under FMRP to provide improved research facilities.
10. Does the process to plan the audits meet international standards?	Partly. Improved methodologies are in process of development.	Systems-based audit techniques are being developed under FMRP which will enable the CAG to audit ministries as entities. Training is being piloted from June 2006. Auditors will be trained in preparing planning files that meet INTOSAI standards by June 2007.
11. Does the process to supervise the audits meet international standards?	No. Working paper systems and audit methodologies do not currently enable effective supervision. Improved methodologies are in process of development.	The systems-based audit techniques being developed under FMRP will do this.
12. Does the process to evaluate the reliability of internal control meet international standards?	No. Improved methodologies are in process of development.	The systems based audit techniques being developed under FMRP will do this.
13. Does the process used in audits to assess compliance with laws meet international standards?	Partly. The testing for compliance should be more statistically based. Improved methodologies are in process of development.	The systems-based audit techniques being developed under FMRP will do this.
14. Does the audit process, used to obtain evidence for supporting conclusions, meet international standards?	Partly. The evidence needs to be better organized.	The audit work is to be re-ordered under FMRP around an evidence based opinion in line with INTOSAI Certification audit standards.
15. Does the audit analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with?	No. Current financial accounts are not in a form to allow this.	The FMRP opinion related audit methodology will be implemented and completed by July 2007 around evidence based opinion.

<b>Standard</b>	<b>Current status</b>	<b>Action to move toward international standards</b>
16. Does the auditor prepare an audit opinion on the financial statements in a form that accords with international standards?	No. The CAG signs the accounts but does not provide an opinion in the form required. The audit methodology needs to change so as to support an opinion that meets international standards and provide specific assurance about the adequacy of the accounts. The audit work must be planned to meet the confidence level that is implicit in the audit opinion, and which underpins the level and extent of audit testing required in order to express that opinion.	The FMRP will have developed processes for the CAG to audit ministries as entities and express an audit opinion as required by the INTOSAI standards by July 2007.
17. Does the consideration of fraud and error in an audit of financial statements accord with international standards?	Partly. Audits focus on examining transactions for discrepancies and regulatory breaches but not in a sufficiently systematic way.	The FMRP will arrange for audit work to report on propriety and effectiveness of public expenditure. Forensic audit training is needed.
18. Is the process for taking action on audit recommendations sufficiently effective to meet international standards?	Partly. Governance requirements are inadequate. For State Owned Enterprises (SOEs), there are major delays in issuing audit reports, long standing unresolved audit queries, and general lack of response to audits. There is dissatisfaction with the audit reports going to the PAC. CAG reports could be improved in terms of communicating clear objectives, addressing more relevant problems, making more effective recommendations and involving more extensive audit work.	Under FMRP there is a goal for Ministries responding to audit reports more promptly with corrective measures implemented. Better quality reports are to be produced with more meaningful observations by June 2007.

8. **Public Financial Management (PFM) should be improved through a more ambitious and comprehensive reform program.** Public financial management relies on a comprehensive and timely accounting and financial reporting system that is supported by competent assurance from a professional audit function, certifying that the system is working properly and that the information is reliable. Current enforcement of adequate compliance with financial regulations in the general budget sector and corporate governance in the public enterprise sector falls well short of satisfactory standards. The PFM Indicators Review conducted by the World Bank showed the need for a fully coordinated reform strategy for the full cycle of PFM, from budget formulation to legislative scrutiny and remedial action. The Financial Management Reform Program reported that:

The ongoing financial management reforms and broader public sector reforms in Bangladesh have received strong support and advocacy from the Finance Division of the Ministry of Finance arising from a need to improve macroeconomic management and budget planning and execution, as well as a desire to move from detailed scrutiny of ministries' spending activities to an emerging focus on performance and other budgetary reforms. This is intended to lead to an increased delegation of authority to line ministries and a greater focus on public expenditure outcomes and value for money.

Accountability, based on the formal adoption of international accounting and auditing standards, is a timely step for the Government to take now, and their implementation needs to be supported by a much more comprehensive PFM reform program, if any substantial impact on the problems in Bangladesh is to be gained. In addition, a modern integrated government financial management system needs to be implemented to support a comprehensive PFM reform program.

9. **Improve accounting and auditing skills.** Improvements in compliance with international standards needs properly trained staff. Current programs are providing some support for this. However, significant structural changes in recruitment and training arrangements are essential to move toward adequate standards.

10. **Prepare a PFM survey.** The preparation of a PFM indicators survey provides the basis for monitoring progress in adopting and applying international standards. The World Bank has prepared an update as of June 2005<sup>3</sup> and occasional updates will enable progress to be assisted if required by the Government of Bangladesh.

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<sup>3</sup> *Bangladesh Review of Institutional Arrangements for Public Expenditure, Financial Management and Procurement*, World Bank, Dhaka, June 2005.

# 1

## 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 Framework<sup>4</sup> designed by the Public Expenditure and Financial Accountability (PEFA) Program<sup>5</sup>. 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.

<sup>4</sup> 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.

<sup>5</sup> 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.

## 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.<sup>6</sup> 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.**<sup>7</sup> 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,

<sup>6</sup> *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.*

<sup>7</sup> *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.

<b>Requirements</b>	<b>Current deficiencies</b>	<b>Activity required to adopt Cash Basis IPSAS</b>
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"> <li>■ Reporting period</li> <li>■ Adequacy of information about the entity</li> <li>■ Presentation of comparative information</li> </ul>	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"> <li>■ Nature of error</li> <li>■ Amount of correction</li> <li>■ Comparative information restated</li> </ul>	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.

## A. Institutional Framework for Public Sector Auditing

26. Effective scrutiny by the legislature to ensure effective implementation of fiscal and expenditure policies needs comprehensive and competent external audits that are underpinned by International Standards on Auditing.<sup>8</sup> The environment for an effective supreme audit institution requires a comprehensive approach to public financial management. Supreme audit institutions are not stand-alone institutions. They are part of a PFM architecture that includes budgeting, accounting, internal control, audit and legislative oversight, and appropriate government response. Improving the way the SAI functions is integral to providing information for improving the overall PFM system. All of these requirements are supported by the INTOSAI and IFAC standards. These should be utilized by the Comptroller and Auditor General.

27. The diagnostic questionnaires collected information describing current arrangements and the apparent gaps in the country for the following areas:

- Institutional framework for the supreme audit institution,
- Process for setting auditing standards,
- Use of code of ethics or conduct,
- Arrangements to ensure accountability in the supreme audit institution,
- Arrangements to ensure independence,
- Arrangements to ensure adequate skills and qualifications for the auditors,
- Arrangement for providing training,
- Arrangements to ensure a desired level of competence for the auditors,
- Arrangements for quality assurance.

Those areas with significant scope for improvement are discussed below.

### (1) Institutional Framework

28. **A National Audit Act providing a better statutory framework in accord with INTOSAI auditing standards would be needed for a modern audit function.** The Constitution establishes the Comptroller and Auditor General. Annex C gives the relevant extracts from Part VIII of the Constitution

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<sup>8</sup> *Scope, quality, and follow-up of external audit is performance indicator No. 26 in the PFM performance measurement framework supported by the Bank and other development agencies.*



relating to the Comptroller and Auditor General. The CAG Additional (Functions) Act 1974 and the CAG (Additional Functions) (Amendment) Act 1975 provide for the Comptroller and Auditor General to certify appropriation and finance accounts, and audit the accounts of statutory public authorities. The Comptroller and Auditor General is appointed by the President for a term of five years or until the appointee attains the age of sixty-five, whichever is earlier. The Bangladesh Supreme Audit Institution is seeking to enhance its independence by having improved legislative authority for its personnel policies and funding arrangements. Both of these measures would significantly enhance independence. The Bangladesh Supreme Audit Institution is currently under-resourced for conducting the level and extent of auditing to meet its statutory obligations. Although the diagnostic questionnaire did not assess this issue, any resource problems will only be exacerbated as the Bangladesh Supreme Audit Institution endeavors to audit all of the entities under its mandate, and to appropriately respond to the challenges of improved financial reporting over coming years. More efficient auditing processes can alleviate the problem.

29. **A new National Audit Act should contain an adequate Offences Clause.** Full cooperation by auditees and ethical behavior by auditors are essential for effective audit. Current legislation is inadequate to respond to significant lack of cooperation. A culture of impunity must be strictly guarded against.

## (2) Setting Auditing Standards

30. **The new National Audit Act should adopt International Standards on Auditing.** The CAG has adopted INTOSAI Auditing Standards. These standards are too general for adequate guidance. The International Standards on Auditing are needed for effective guidance for the audit staff to improve the audit work. The IFAC International Audit and Assurance Standards Board (IAASB) is progressively rolling out International Standards on Auditing. INTOSAI is moving from maintaining its own auditing standards toward supporting IAASB in the development of its auditing standards, especially so that the IAASB Auditing Standards appropriately reflect the interests of the international public sector audit community.

31. International Standards on Auditing represent best international practices for the auditing profession, particularly in areas of fundamental auditing practice such as:

- audit evidence,
- documentation,
- audit materiality,
- fraud,
- audit errors,
- audit opinions,
- audit planning,
- control environment assessments, and
- supervising the work of audit staff.

32. The Comptroller and Auditor General has decided that Bangladesh can benefit from adopting the INTOSAI Auditing Standards as the core of its own auditing standards, as these are internationally

recognized, credible and readily available. However, it is generally recognized that INTOSAI Auditing Standards need the underpinning support of the more detailed International Standards on Auditing. With the decision by INTOSAI to adopt ISA and to prepare public sector practice notes where necessary to support each ISA, the way is open for Bangladesh to use the more comprehensive ISA to guide its work. This is quite appropriate as Bangladesh is a member of INTOSAI and its regional group, the Asian Organization of Supreme Audit Institutions (ASOSAI).

### (3) Ensuring Independence

33. **A new National Audit Act is needed to provide effective independence.** Some of the core principles of SAI independence that were set out by INTOSAI are only partially, if at all, met by the current legislative and administrative framework:

- financial and managerial autonomy and the availability of appropriate human, material, and monetary resources;
- independence of the SAI Heads, including security of tenure and legal immunity in the normal discharge of their duties;
- sufficiently broad mandate and full discretion in the discharge of SAI functions; and the freedom to decide on the content and timing of their reports, and to publish and disseminate them; and
- existence of effective follow-up mechanisms on SAI recommendations.

34. **More statutorily independent arrangements for staffing and for establishing the budget should be put in place by legislation.** The CAG officers and staff are under the administrative control of the Finance Division of the Ministry of Finance, which controls the appointment, promotion, and disciplinary action for the CAG employees. The CAG independence as upheld in the Constitution has been jeopardized by this practice. The CAG should be separated from the executive branch of the government and be attached with the Parliament. The Comptroller and Auditor General should be vested with more financial powers. Also in practice the annual budget of the audit department needs to be placed and approved by the Ministry of Finance, like other ministries. The more preferable arrangement, is for budget approval to involve a Parliamentary Committee considering the CAG budget and audit plans prior to approval by the Parliament.

35. **A more open appointment process for the post of Comptroller and Auditor General, which addresses term of service and ranking status, is preferred by modern audit legislation.** The Comptroller and Auditor General is appointed from among senior officers of the Audit and Accounts Cadre. The Comptroller and Auditor General is appointed by the President for a term of five years or until the appointee attains the age of sixty-five, whichever is earlier. Canada and the United States provide for 10-year terms to professionally qualified persons. In Bangladesh, the current practice of a CAG tenure of five years does not provide a long enough term to initiate and implement reforms. In the Bangladesh Warrant of Precedence, the Comptroller and Auditor General is ranked sixteenth, which is below the rank of Cabinet Secretary. In many countries, including Canada, this position is of an equivalent rank to that of a minister or a federal justice. Model legislation for an audit office prepared in the United Kingdom recommends the same status of chief justice.<sup>9</sup>

<sup>9</sup> *A Model National Audit Office Act. The Association of Chartered Certified Accountants, London, 2004.*

**36. Legislation should provide an environment in which resources are adequate for the full regularity and performance audit mandate.** The Comptroller and Auditor General enjoys full power to conduct audits and prepare reports. However available capacity is such that the office mainly conducts regularity and compliance audits. In this type of audit, vouchers and records of the financial transactions of public officials or organizations are verified one by one. A more explicit authority for the full range of current and prospective types of audit conducted by INTOSAI members would be more appropriate in authorizing functions and funding. The scope of the CAG audit is narrowly focused. Supreme audit institutions normally conduct audits on the overall financial management performance issues of state bodies.

**37. Legislation should provide an environment in which the Comptroller and Auditor General is free to arrange for appropriate involvement with the media on audit reports.** In Bangladesh, the audit report is never discussed with the media, unlike the practice in other countries. The Legislature's Public Accounts Committee (PAC) discusses the report but the press or media are not invited. Some public sector rules have been cited as restricting civil servants from making comments to the press. The model legislation reads, "The Auditor General or his/her authorized staff may provide comments and interviews to the press or other media on the subject of any published audit reports."<sup>10</sup> This communication may need to be in Bangla, the national language.

**38. Improved PAC and departmental administrative processes are needed for following up audit reports.**<sup>11</sup> There is an enormous backlog by the Public Accounts Committee in hearing the audit objections. To some degree, improved audit methodology and report writing skills will help, but the fundamental processes for scrutiny need reform. Audit Committees and corporate governance arrangements for departments and agencies need to be reformed along with improvements to the audit processes. Better protocols may be useful between the Comptroller and Auditor General and departments to ensure that access to the relevant records for auditors is made easy, and disruption to departments is kept at a minimum. In addition, better protocols would help ensure that draft audit reports are reviewed quickly by departments for accuracy and fairness and that the CAG and departments, as far as possible, reach agreement on reports before they are made public. Similar protocols are needed between Parliament and the CAG covering, for example, how audit reports will be handled.

#### **(4) Qualifications and Skills of the Auditors**

**39. When recruiting, qualifications should include an accounting degree for all appointees.** The current recruitment criteria for financial auditors in the CAG Office do not give sufficient attention to accounting qualifications. As a result there is too much pressure on government training institutions to provide specialist knowledge. This has not been effective. Since there is a comprehensive tertiary education sector in Bangladesh, which includes accounting, as well as a professional accounting body, these resources should be used. A PAC survey found that both professional qualifications and training programs were ways of improving auditors' competence.<sup>12</sup>

<sup>10</sup> *A Model National Audit Office Act. The Association of Chartered Certified Accountants, London, 2004.*

<sup>11</sup> *Legislative scrutiny of external audit reports is performance indicator No. 28 in the PFM performance measurement framework supported by the Bank and other development agencies.*

<sup>12</sup> *Chowdhury, Innes, Kouhy, 2005. "The Public Sector Audit Expectations Gap in Bangladesh. Managerial Auditing Journal Vol. 20 No. 8, page 900.*

## (5) Training

40. **The CAG Office should operate a continuing professional development program for the professional personnel.** Improved facilities are needed and the adequacy of proposals in the Financial Management Reform Project should be reviewed.

## (6) Auditor Competence

41. **It is necessary to strengthen the technical and professional competence of the CAG Office and improve its operational capacity to produce and disseminate quality audit reports that meet international standards and serve the need of the stakeholders.** The CAG Office has historically concentrated mainly on the compliance audits needed to support proper execution of the budget. It now needs to improve resources and training to build in-house capacity for financial, performance, forensic, environmental, and information technology audits. The CAG Office needs to create a core group of professional accountants for the certification of public accounts. Substantially enhanced technology support is needed both in hardware and software terms. Attention needs to be paid to ethical behavior. A 2005 study of PAC expectations found that PAC members saw room for improvement in the ethical standards of the CAG auditors.<sup>13</sup>

## (7) Quality Assurance

42. **Improved structures and indexing of more comprehensive audit working papers would help audit supervisors to ensure that audits meet specified standards of quality.** The Comptroller and Auditor General periodically issues directions to the Audit Directorates for quality assurance, mentioning supervision, review, and other requirements of the audit standards. The Bangladesh Audit Standards cover audit planning, compliance with laws, internal control, audit evidence, and others which are being followed by the Audit Directorates. Findings, conclusions, and recommendations have been given importance, taking into consideration the materiality and significance of the audit findings. But due to lack of trained personnel and inadequate training facilities, the audit standards cannot be implemented properly, and audit working papers do not come up to the standards required. A robust quality assurance regime needs to be in place and operating effectively. Such a scheme should ensure that audit reports are systematically reviewed for quality by line managers before being released. There should be a subsequent internal independent review process, operating on a sample basis, to ensure that the work of all auditors is reviewed on a regular basis. Such a system can be further enhanced through the use of external reviewers.

## B. Auditing Standards as Practiced

43. The diagnostic questionnaires have collected information about the current arrangements for the audit methodology and the apparent gaps in the country in the following areas:

- audit planning,
- audit supervision,

<sup>13</sup> Chowdhury, Innes, Kouhy. 2005. "The Public Sector Audit Expectations Gap in Bangladesh. *Managerial Auditing Journal* Vol. 20 No. 8, page 900.



- reviewing internal controls,
- reviewing compliance with laws,
- ensuring adequate audit evidence is collected,
- analyzing whether the financial statements accord with accounting standards,
- preparing audit opinions,
- reporting on fraud, and
- reporting on compliance.

Out of this exercise came recommended activities that will help bring local standards in line with international standards.

### (1) Audit Planning

44. **In the final results of an audit, the company's chief executive should be accountable for the fiscal and expenditure policies and their implementation.** Consultations between the auditor and the senior management of the auditee are helpful at the planning stage to provide senior level focus. Engagement with the auditors and their results is likely to assist with implementation of audit findings. More consultation is needed.

45. **The new audit methodology manual should introduce more comprehensive planning requirements based on the specific objectives of the audits.** The current introduction of improved audit methods under the Financial Management Reform Project will make the audit process more meaningful. The present process appears to be driven by the 'necessity of issuing reports' and is not having enough impact on (a) strengthening internal control, and (b) dealing with the malpractices. Generally the planning for compliance audit that is focused on assessing regularity needs to be more systematic when conclusions are drawn about the relative frequency of errors or the correctness of an overall figure for expenditure.

### (2) Audit Supervision

46. **A more comprehensively structured working paper system is needed for the audit to attain the normal audit objectives regarding the validity of transactions.** Current supervision is hampered by inadequate working paper systems and an outdated audit methodology.

### (3) Reviewing Internal Management Control Procedures

47. **Introduce a modern audit manual that includes the audit risk model.** Bangladesh has had some earlier projects to develop its auditing methods with the assistance of specialist consultants and supreme audit institutions in other countries. However, it is apparent that there is a lack of an adequate audit methodology. This manifests itself in a number of ways: It is not clear what kind of audit opinion is being sought. There is insufficient assessment of audit risk and the appropriate level and extent of audit responses necessary in order to address those risks. Also, there is no concept of audit confidence—the confidence level that is implicit in the audit opinion and that underpins the level and extent of audit testing required in order to express that opinion.

48. **An audit methodology should clearly outline the following points:**

- the audit confidence level;
- the requirements for audit planning, audit work papers, and audit reporting;
- how audit materiality is determined and what is an acceptable level of audit risk and confidence;
- how to develop an appropriate mix of audit work to address the audit risks.

The audit should be completed by a process which provides a method for summarizing audit errors and evaluating them against audit materiality.

#### (4) Audit Evidence

49. **The audit methodology and necessary supporting working papers should be more precisely defined in a manual of procedures.** Audit evidence is crucial to an effective audit and currently is poorly documented, filed, and referenced. The technical assistance under the Financial Management Reform Project is aimed at improving this.

#### (5) Analyzing Financial Statements

50. **Audit testing needs to be more directed toward forming an audit opinion.** There is a need to expand testing to undertake full financial attest audits covering all financial assertions. A financial audit should result in an audit opinion being expressed on the complete set of financial statements rather than solely an identification of the deficiencies found in the transactions scrutinized. Audit reports currently reflect the scope of the work undertaken in the audit. The audit report is heavily compliance based, identifying regulatory breaches in the compilation of the financial reports. Reports focus on discrepancies found and regulatory breaches. There is little systems work and control testing. Thus, recommendations for systems or control improvements do not appear. Although significant deficiencies are noted, the underlying causes of these deficiencies are not explored so that the remedies can be recommended. Such audit reports do not give much assurance.

#### (6) Reporting on Financial Statements

51. **Audits of State-owned enterprises need to improve their impact.** Independent chartered accounting firms examined the audit reports of 9 state-owned enterprises and reviewed the audit reports of the Commercial Audit (CA) Department of the CAG that had been submitted to Parliament. The following problems emerged in the reviewed reports:

■ **Delayed issuance**

The table shows typical delays:

<b>Ministry</b>	<b>Year</b>	<b>Issue date</b>
Industries	2001/2	January 2004
Energy and MR Division	2000/1	April 2003
Finance Division	1999/0	January 2002
Civil Aviation & Tourism	2000/1	April 2003

### ■ **Long outstanding audit objections**

The reports below refer to unresolved audit objections, dating as far back as 1973-74 in the case of Finance Division.

<b>Ministry</b>	<b>Period</b>	<b>Audit objections</b>		
		<b>Total</b>	<b>Resolved</b>	<b>Unresolved</b>
Industries	1971/72 to 2000/01	351	7	344
Energy and MR Division	1985/86 to 1999/2000	82	1	81
Finance Division	1973/74 to 1998/99	367	04	363
Civil Aviation & Tourism	1981/82 to 1999/2000	83	0	83

### ■ **Late preparation of independent audited accounts**

The relevant Ordinance or Memorandum and Articles of Association sets a time limit for submission of annual audited accounts, but this is not being complied with by many enterprises as per the table below.

<b>Ministry</b>	<b>Number of CA audit reports required</b>	<b>Number of CA audit reports not received</b>
Energy and MR Division	62	27
Finance Division	36	31
Civil Aviation & Tourism	17	14
Civil Aviation & Tourism	2000/1	April 2003

### ■ **Lack of response by auditees/ministries**

SOEs do not respond to the audit queries.

### ■ **Need for technically qualified audit staff**

All the SOEs are of a specialized nature and the quality of the audit work would be considerably improved if technically qualified personnel were made part of the audit team, or provide training to the CAG auditors. The latter approach would also require the CAG auditors to be grouped by industry specialization.

### ■ **Need for more revenue audit**

The CAG audit is limited to expenditures and does not include audit of the sales and revenue cycle. Given the importance of the revenue cycle of the public utilities revenue should be in the scope of audit work.

52. **The requirements of ISA 700, The Auditor's Reports on Financial Statements, for the form of the audit opinion should be adopted in full.** The audit scope and audit opinion paragraphs for the Consolidated Financial Statements 2004 do not contain the degree of detail set by ISA 700 in paragraphs 12 to 15. This creates doubts as to the auditing standards used for the work. It also does not categorically state whether the audit provides a reasonable basis for the opinion, and if the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. The scope statement notes the limitations of staff, other resources, and time available. This would normally be read by a user of the accounts as an indication that the audit opinion on the accounts is thereby qualified although this is not clearly stated in the opinion paragraph.

### **(7) Reporting on Fraud**

53. **There is a need for forensic audit training.** Much of the audit reporting seems to relate to fraudulent behavior. The Bangladesh Supreme Audit Institution does not focus on fraud in a sufficiently systematic way. The International Standards on Auditing provide guidance for the auditor on tests for fraud. ISA 240, The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements, requires the auditor to perform procedures to obtain information that is used to identify the risks of material misstatement due to fraud. In addition, it requires the auditor to evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. The ISA 240 also requires the auditor to inform the auditee's management and its Board of any fraud and of the failure in its internal control that led to the fraud. The auditor's report should identify the action that the entity is taking about the fraud. A PAC study found that both the CAG auditors and the PAC members agreed that the audits did not confirm that no material fraud exists<sup>14</sup>

### **(8) Reporting on Compliance**

54. **Improve the effectiveness of the audit report by more efficient action on enforcement of corporate governance requirements through the Public Accounts Committee and agency audit committees.** Under the present process, the CAG submits a yearly report to the President. The Public Accounts Committee of the Parliament calls the auditee/ministry for response to the unresolved audit findings. To reduce the number of unresolved audit objections to be submitted to the President, it would be helpful if the CAG could work with the Establishment Division to identify measurable violations and introduce financial and administrative penalties that can be used to correct the violation and reduce repetition. The PAC survey found that CAG reports could be improved in terms of communicating clear objectives, addressing more relevant problems, making more effective recommendations, and involving more extensive audit work. The CAG Office and Public Accounts Committee should review current reporting arrangements, including consideration of the legal requirements governing reporting. It may be possible for the CAG to produce a more balanced portfolio of reports during the year and/or only bring to the attention of the PAC major concerns which can not be dealt with at the departmental level or which appear to have system-wide implications. This process could involve staff retraining. The staff would need to shift from a focus on identifying cases when rules have not been followed correctly, to suggesting ways in which control systems can be affordably strengthened, thus reducing the risks of errors – accidental or deliberate.

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<sup>14</sup> Chowdhury, Innes, Kouhy, 2005. "The Public Sector Audit Expectations Gap in Bangladesh. *Managerial Auditing Journal* Vol. 20 No. 8.



# 4

## ACTION PLANS

<b>Accounting Standards Issue</b>	<b>Current status</b>	<b>Action to be taken to move towards international standards</b>
1. Has the Public Sector Accounting Law adopted IPSAS?	No. There is an accounts code.	<p>There is need for a financial management law adopting IPSAS full accrual on a gradual basis and for the CGA to develop a transition path<sup>15</sup> first adopting IPSAS Cash and then full IPSAS. The accounting software and hardware infrastructure needs to be upgraded to support the accounting system needed.</p> <p>MOF has issued an order requesting the CGA to do the needful to prepare GOB financial statements in accordance with IPSAS cash basis.</p> <p>The first set of IPSAS based statements for the core ministries (excluding specialized organizations) will be produced for FY07-08.</p> <p>The first set of IPSAS-based statements for the specialized organizations will be produced for FY09-10.</p> <p>Form a committee including CAG, CGA, MOF, Professional Accounting Institutes, to work on an action plan to adopt accrual accounting as well as the legal formalities to be complied with.</p>
2. Does education and training of accountants accord with IES?	No. Training in Accounts is provided by FIMA.	<p>Recruitment and education and training standards should be revamped to match the need for qualified accountants.</p> <p>MOF in consultation with the CGA, CAG is to set up an Education Standards Working Committee (including relevant service cadres, academicians and professional accounting institutions) to chalk out the education and training requirement for public sector accountants and auditors. Action is to taken by MOF by March 2007 together with a TOR for the Committee.</p>

<sup>15</sup> IFAC Public Sector Study 14 provides transition guidance.



<b>Accounting Standards Issue</b>	<b>Current status</b>	<b>Action to be taken to move towards international standards</b>
3. Does the ICAB Code of Ethics match international standards?	Partially. CAG Code is consistent with the INTOSAI Code.	The IFAC Code should be a basis for a code specifically suited to public sector accountants after thorough examination by the CAG.  The CGA is to form a committee to do this by March 2007.
4. Is there a body to prescribe public sector accounting standards?	There is no dedicated body. The CGA does this but not as a Standards Board. CAG is responsible for prescribing the form and manner of maintaining the public accounts.	Audit Committees in public sector entities should ensure compliance. The Financial Reporting Council should monitor state owned enterprises.  The CGA, CAG and ICAB should establish a public sector committee to establish standards. The CAG, CGA and ICAB are to use the same committee established for accounting standards for this purpose.
5. Are the financial statements in accord with the IPSAS standard?	No. 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.  CFO with accounting qualifications should manage accounting functions in each government entity. The CGA component of the Financial Management Reform Project can take care of this matter.  As the Govt. moves towards adoption of the IPSAS Cash Basis standards the cash flow statement will be consistent with the standards. The concept of CFO managing the financial management function in each government entity will be examined by MOF. MOF to come up with a policy paper on implementation by June 2007.
6. Is the statement of cash receipts and payments in IPSAS form?	No. This information is currently presented in formats inconsistent with the IPSAS.	This work requires restructuring of the CGA computerized reporting formats.  As the Government moves towards adoption of the IPSAS Cash Basis standards the cash flow statement will be consistent with the IPSAS forms.
7. Are accounting policies and explanatory notes required?	No. 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.  The current notes will be reviewed and made consistent with IPSAS as implementation proceeds.



<b>Accounting Standards Issue</b>	<b>Current status</b>	<b>Action to be taken to move towards international standards</b>
8. Are other disclosures in accord with IPSAS?	Partly. Financial statements are not available within 6 months of the reporting period; some items are not disclosed, and presentation does not meet some transparency requirements.	It would be necessary to reduce the reporting lag; and to disclose some further information. Need to comply with the disclosure aspects of the treatment of foreign currency. This will be reviewed and made consistent with IPSAS as implementation proceeds.
9. Does the government issue a consolidated financial statement which consolidates all controlled entities?	No.	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. Presently all government receipts and expenditures are being incorporated into the Annual Financial Accounts with the exception of assets and liabilities.  MOF has issued an order requesting the CGA to do the needful to prepare GOB financial statements in accordance with the IPSAS cash basis. The first set of IPSAS based statements for the core ministries (excluding specialized organizations) will be produced for FY07-08. The first set of IPSAS based statements for the specialized organizations will be produced for FY09-10. A committee will be formed by March 2007 including CAG, CGA, MOF, and Professional Accounting Institutes, to work on an action plan to adopt accrual accounting as well as the legal formalities to be complied with.

<b>Auditing Standards Issue</b>	<b>Current status</b>	<b>Action to be taken to move towards international standards</b>
1. Is the SAI statutory framework in accord with the needs of the INTOSAI Auditing Standards?	Partially. Some additional powers need to be established by legislation as set out below.	The draft of a new audit law is being prepared and is expected from the CAG by early 2007.
2. Is there a body to prescribe public sector auditing standards?	There is no dedicated body. The CAG does this rather than a prescribed body.	The CAG and ICAB are to form a consultative committee to provide guidance on issues relating to the implementation of auditing standards, especially in relation to certification audit and asset accounting and audit.

<b>Auditing Issue</b>	<b>Standards</b>	<b>Current status</b>	<b>Action to be taken to move towards international standards</b>
3. Have INTOSAI and IFAC audit standards been adopted?		The CAG has adopted the INTOSAI Auditing Standards.	The consultative committee will be used to consider ISA and develop formal implementation notes for guidance. <sup>16</sup> The CAG has noted that INTOSAI has adopted the ISAs and will follow this in Bangladesh.
4. Has a code of ethics equivalent to the INTOSAI standards been adopted?		Yes	
5. Is the accountability process in the SAI in accord with INTOSAI Auditing Standards?		Yes.	
6. Does the SAI legal framework meet the INTOSAI Auditing Standards for independence and powers?		No. The SAI needs improved legislation, especially for its personnel policies, funding arrangements, reporting processes, offence clauses, and the procedures for appointing an Auditor General.	The National Audit Law should match international models. <sup>17</sup> CAG should note that INTOSAI has adopted the ISAs and will follow this in Bangladesh.
7. Does education and training of auditors accord with INTOSAI and IES?		No. The staff needs more professional training. The current recruitment criteria for the financial auditors in the CAG Office do not give sufficient attention to accounting qualifications and as a result there is too much pressure on government training institutions to provide specialist knowledge.	Recruitment should require an accounting degree for auditors. Training programs should lead to professional certification.  The CAG is to set up an Education Standards Working Committee (including relevant service cadres, academicians and professional accounting institutions) to chalk out the education and training requirement for public sector auditors. This will be done by June 2007 together with Terms of Reference. It should be noted that the matter requires Parliamentary and Government policy decisions.
8. Is the SAI equipped with the audit methods and technologies to meet the INTOSAI standards?		No. Improved methodologies are in the process of being developed. There is a lack of technology to support a management information system for the SAI.	The SAI needs improved technologies for audit office management as well as audit processes and reporting. The reform program for the CAG that is being provided under the Financial Management Reform Program will support the necessary improvements in this area and the items 9 through 18 below.

<sup>16</sup> Bangladesh should nominate individuals to the Reference Panel of the INTOSAI Working Group on Financial Audit Guidelines, which is a subcommittee of the INTOSAI Auditing Standards Committee.

<sup>17</sup> Guidance is provided by *A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004.*

<b>Auditing Issue</b>	<b>Standards</b>	<b>Current status</b>	<b>Action to be taken to move towards international standards</b>
9. Does the SAI have the quality assurance programs to meet international standards?		Partly. A QA Committee is working at the CAG Office and the Audit DG Offices. Implementation is a problem.	Improved working paper guidance and automation combined with more effective supervision and quality review processes are needed.  A Quality Assurance Function is being established under FMRP to provide improved research facilities.
10. Does the process to plan the audits meet international standards?		Partly. Improved methodologies are in the process of being developed.	The testing for compliance should be more statistically based to enable valid conclusions to be drawn about systems of control and specific system defects to be identified for remedy.  Systems-based audit techniques are being developed under FMRP which will enable the CAG to audit ministries as entities. Training is being piloted from June 2006.  Auditors will be trained in preparing planning files that meet INTOSAI standards by June 2007
11. Does the process to supervise the audits meet international standards?		No. Working paper systems and audit methodologies do not currently enable effective supervision. Improved methodologies in the process of being developed through the entity wide audits being piloted.	A revised working paper structure should be implemented together with revised rules for audit supervision.  The systems-based audit techniques being developed under FMRP will do this.
12. Does the process to evaluate the reliability of internal control meet international standards?		No. Improved methodologies are in the process of being developed..	The methodology needs to be risk and systems based. The Government has issued an Internal Controls Manual that can be used to improve the situation.
13. Does the process used in audits to assess compliance with laws meet international standards?		Partly. The testing for compliance should be more statistically based. Improved methodologies are in the process of being developed.	The methodology needs to be risk and systems based.  The systems based audit techniques being developed under FMRP will do this.
14. Does the audit process used to obtain evidence to support conclusions meet international standards?		Partly. The evidence needs to be better organized.	More rigorous plans for audit testing need to be developed.  The systems-based audit techniques being developed under FMRP will do this. The audit work is to be re-ordered around an evidence based opinion in line with INTOSAI Certification audit standards

<b>Auditing Standards Issue</b>	<b>Current status</b>	<b>Action to be taken to move towards international standards</b>
15 Does the audit analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with?	No. Current financial accounts are not in a form to allow this.	The adoption of Cash Basis IPSAS would enable the CAG to do this.  The FMRP opinion related audit methodology will be implemented and completed by July 2007 around an evidence-based opinion.
16 Does the auditor prepare an audit opinion on the financial statements in a form that accords with international standards?	No. The CAG signs the accounts but does not provide an audit opinion in the form required. The audit methodology needs to be changed to support an opinion that meets international standards and provides specific assurance about the adequacy of the accounts. The audit work must be planned to meet the confidence level that is implicit in the audit opinion, and which underpins the level and extent of audit testing required in order to express that opinion.	The methodology needs to be aimed at forming an opinion on the truth and fairness of the financial statements so that the CAG can sign an opinion in accordance with ISA 700 'The Auditor's Reports on Financial Statements'.  The FMRP will have developed processes for the CAG to audit ministries as entities and express an audit opinion as required by the INTOSAI standards by July 2007
17. Does the consideration of fraud and error in an audit of financial statements accord with international standards?	Partly. Audits focus on examining transactions for discrepancies and regulatory breaches but not in a sufficiently systematic way.	The testing needs to be more statistically based. Forensic audit training is needed.  The FMRP will arrange for audit work to report on propriety and effectiveness of public expenditure.
18. Is the process for taking action on audit recommendations sufficiently effective to meet international standards?	Partly. Governance requirements are inadequate. For SOEs there are major delays in issuing audit reports, long standing unresolved audit queries, and general lack of response to audits. There is dissatisfaction with the audit reports going to the PAC. CAG reports could be improved in terms of communicating clear objectives, addressing more relevant problems, making more effective recommendations and involving more extensive audit work.	Governance requirements in the SOEs need to be upgraded. The PAC needs additional support and the audit reporting needs to be improved to suggest ways in which control systems can be affordably strengthened to reduce the risks of errors – accidental or deliberate.  Under FMRP there is a goal for ministries responding to audit reports more promptly with corrective measures implemented. Better quality reports are to be produced with more meaningful observations by June 2007.



# Annex - A

## METHODOLOGY OF THE ASSESSMENT

As part of the general support program in South Asia for the assessment and improvement of public sector accounting and auditing against international standards, the World Bank, with the cooperation of member governments, is conducting a Review of Public Sector Accounting and Auditing Practices in member countries. The development of the PFM Performance Measurement Framework<sup>18</sup> by the Public Expenditure and Financial Accountability (PEFA) Program<sup>19</sup> has opened the way for a diagnostic tool to be developed, that is referenced to the accounting and auditing standards of IFAC and INTOSAI, and other relevant international benchmarks. This exercise provides substantial insight into country performance in regard to the external auditing and financial statement reporting FM indicators.

A set of 6 questionnaires are used to collect relevant information on country practices:

1. **The public sector accounting environment**-collecting basic information about financial laws and standards-setting arrangements, educational requirements for accountants compared with IFAC International Education Standards, ethical requirements compared with the IFAC Code of Ethics for Professional Accountants.
2. **Public sector accounting practices for the general budget sector if using the cash basis of accounting**- compared with the requirements of the Cash Basis International Public Sector Accounting Standards (IPSAS).
3. **Public sector accounting practices for the general budget sector if using the accrual basis of accounting**-compared with the IPSAS requirements that govern accrual reporting for the public sector.
4. **Public sector auditing environment** compared with the provisions of the INTOSAI Code of Ethics and the INTOSAI general standards.
5. **Public sector auditing practices** compared to the requirements of the INTOSAI field standards and reporting standards, and the IFAC International Standards on Auditing.

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<sup>18</sup> 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.

<sup>19</sup> The PEFA Program is a partnership among the World Bank, the European Commission, the UK's 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 in the World Bank in Washington, DC.

6. **Accounting and auditing practices for state-owned enterprises**-compared with the requirements of the International Financial Reporting Standards (IFRS) and International Standards on Auditing that govern commercial reporting.

The responses to the diagnostic questionnaires, prepared by the relevant country authorities with the help of in-country experts retained by the World Bank, are supplemented by a due diligence review conducted by members of a World Bank task team.

Various documents are examined as part of the review, including relevant laws, codes of conduct, national accounting and auditing standards, accountant selection and promotion processes, training needs assessments, accountancy training course outlines, curricula and accreditation methods, sample accounts, and sample audit reports and working paper sets.

A country report on the assessment is prepared for each country and reviewed by an expert panel of advisors before examination by the World Bank country team. The draft is then shared with the Government for response before finalization. Discussions will also be held with the relevant stakeholders to devise an implementation plan to address the way forward with a view to minimizing deviations from international standards.



# Annex - B

## ACCOUNTING AND AUDITING STANDARDS

This contains a summary of the frameworks that have been used for the public sector accounting and auditing assessment.

These have been compiled by the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI) which are cooperating in setting international standards for accounting and auditing.

The IASB is an independent, privately funded accounting standard-setter based in London, UK. The Board members come from nine countries and have a variety of functional backgrounds. In the public interest, IASB is committed to developing a set of high quality, understandable, and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world. The IASB issued International Accounting Standards (IAS) from 1973 to 2000. Since 2000, they have issued International Financial Reporting Standards (IFRS).

IFAC has its headquarters in New York, USA and is comprised of 163 member bodies, mainly the national professional accountancy bodies of most countries around the world. The IFAC Board established the International Public Sector Accounting Standards Board (IPSASB) to develop high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. These are the International Public Sector Accounting Standards (IPSAS). The full text of Standards and Exposure Drafts currently on issue is available at <http://www.ifac.org/publicsector>. The first 20 IPSAS are based on IAS to the extent appropriate for the public sector. IFAC also has established the International Auditing and Assurance Standards Board (IAASB) to prepare and promulgate International Standards on Auditing (ISA) and is now working in cooperation with INTOSAI on preparing public sector guidance on the use of ISA.

INTOSAI includes the Auditors General from almost all national government audit departments around the world and has its Secretariat in the Vienna offices of the Auditor General of Austria. Its Auditing Standards Committee, chaired by the Auditor General of Sweden, produces the INTOSAI Code of Ethics and Auditing Standards, a set of standards at a higher and more generic level than the IFAC-issued ISA. The Auditing Standards Committee is working with the IAASB to prepare practice notes explaining the application of each ISA in the public sector.<sup>20</sup>

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<sup>20</sup> Working Group on Financial Audit Guidelines, INTOSAI Auditing Standards Committee, Swedish National Audit Office, 2004.

The various standards are listed on the following pages.

## International Public Sector Accounting Standards

- IPSAS 1, *Presentation of Financial Statements*
  - IPSAS 2, *Cash Flow Statements*
  - IPSAS 3, *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*
  - IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*
  - IPSAS 5, *Borrowing Costs*
  - IPSAS 6, *Consolidated Financial Statements and Accounting for Controlled Entities*
  - IPSAS 7, *Accounting for Investments in Associates*
  - IPSAS 8, *Financial Reporting of Interests in Joint Ventures*
  - IPSAS 9, *Revenue from Exchange Transactions*
  - IPSAS 10, *Financial Reporting in Hyperinflationary Economies*
  - IPSAS 11, *Construction Contracts*
  - IPSAS 12, *Inventories*
  - IPSAS 13, *Leases*
  - IPSAS 14, *Events after the Reporting Date*
  - IPSAS 15, *Financial Instruments: Disclosure and Presentation*
  - IPSAS 16, *Investment Property*
  - IPSAS 17, *Property, Plant and Equipment*
  - IPSAS 18, *Segment Reporting*
  - IPSAS 19, *Provisions, Contingent Liabilities and Assets*
  - IPSAS 20, *Related Party Disclosures*
  - IPSAS 21, *Impairment of Non-cash Generating Assets*
- Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*

## International Education Standards

- IES 1, *Entry Requirements to a Program of Professional Accounting Education*
- IES 2, *Content of Professional Accounting Education Programs*
- IES 3, *Professional Skills*
- IES 4, *Professional Values Ethics and Attitudes*
- IES 5, *Practical Experience Requirements*
- IES 6, *Assessment of Professional Capabilities and Competence*
- IES 7, *Continuing Professional Development*
- IES 8, *Competence Requirements for Audit Professionals*



## International Financial Reporting and International Accounting Standards

IFRS 1,	<i>First-time Adoption of International Financial Reporting Standards</i>
IFRS 2,	<i>Share-based Payment</i>
IFRS 3,	<i>Business Combinations</i>
IFRS 4,	<i>Insurance Contracts</i>
IFRS 5,	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
IAS 1,	<i>Presentation of Financial Statements</i>
IAS 2,	<i>Inventories</i>
IAS 7,	<i>Cash Flow Statements</i>
IAS 8,	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10,	<i>Events after the Balance Sheet Date</i>
IAS 11,	<i>Construction Contracts</i>
IAS 12,	<i>Income Taxes</i>
IAS 14,	<i>Segment Reporting</i>
IAS 16,	<i>Property, Plant and Equipment</i>
IAS 17,	<i>Leases</i>
IAS 18,	<i>Revenue</i>
IAS 19,	<i>Employee Benefits</i>
IAS 20,	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 21,	<i>The Effects of Changes in Foreign Exchange Rates</i>
IAS 23,	<i>Borrowing Costs</i>
IAS 24,	<i>Related Party Disclosures</i>
IAS 26,	<i>Accounting and Reporting by Retirement Benefit Plans</i>
IAS 27,	<i>Consolidated and Separate Financial Statements</i>
IAS 28,	<i>Investments in Associates</i>
IAS 29,	<i>Financial Reporting in Hyperinflationary Economies</i>
IAS 30,	<i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i>
IAS 31,	<i>Interests in Joint Ventures</i>
IAS 32,	<i>Financial Instruments: Disclosure and Presentation see also: See also Financial Instruments - other issues</i>
IAS 33,	<i>Earnings per Share</i>
IAS 34,	<i>Interim Financial Reporting</i>
IAS 36,	<i>Impairment of Assets</i>
IAS 37,	<i>Provisions, Contingent Liabilities and Contingent Assets</i>

IAS 38,	<i>Intangible Assets</i>
IAS 39,	<i>Financial Instruments: Recognition and Measurement see also: See also Financial Instruments - other issues</i>
IAS 40,	<i>Investment Property</i>
IAS 41,	<i>Agriculture</i>

## INTOSAI Code of Ethics and Auditing Standards

### Code of ethics

**Integrity.** Auditors have a duty to adhere to high standards of behavior (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities.

**Independence, objectivity and impartiality.** The independence of auditors should not be impaired by personal or external interests. There is a need for objectivity and impartiality in the work and the reports, which should be accurate and objective. Conclusions in opinions and reports should be based exclusively on evidence obtained and assembled in accordance with the SAI's auditing standards.

**Professional secrecy.** Auditors should not disclose information obtained in the auditing process to third parties except for the purposes of meeting the SAI's statutory responsibilities.

**Competence.** Auditors must not undertake work which they are not competent to perform.

### Basic postulates for the auditing standards

- (a) The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organized as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality.
- (b) The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.
- (c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so there is a need for the accountability process to be in place and operating effectively.
- (d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. The Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.
- (e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets.
- (f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.



- (g) The existence of an adequate system of internal control minimizes the risk of errors and irregularities. It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision-making. The auditor should submit proposals and recommendations where controls are found to be inadequate or missing.
- (h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- (i) All audit activities should be within the SAI's audit mandate.\*
- (h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- (j) SAIs should work towards improving techniques for auditing the validity of performance measures.
- (k) SAIs should avoid conflict of interest between the auditor and the audited entity.

\* The full scope of government auditing includes regularity and performance audit.

**Regularity audit embraces:**

- Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- Attestation of financial accountability of the government administration as a whole;
- Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- Audit of internal control and internal audit functions;
- Audit of the probity and propriety of administrative decisions taken within the audited entity; and
- Reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.

**Performance audit entails the audit of economy, efficiency and effectiveness and embraces:**

- Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- Audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact

## General auditing standards

The auditor and the SAI must be independent.

The auditor and the SAI must possess the required competence.

The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

The SAI should adopt policies and procedures to recruit personnel with suitable qualifications.

The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff.

The SAI should adopt policies and procedures to prepare manuals and other written guidance instructions concerning the conduct of audits.

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI's internal standards and procedures.

## Field standards

- (a) The auditor should plan the audit in a manner that ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.
- (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by a senior member of the audit staff.
- (c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control.
- (d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

## Reporting standards

- (a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.
- (b) It is for the Auditor General to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.



## International Standards on Auditing

### Framework:

*International Framework for Assurance Engagements*

### General Principles and Responsibilities:

- 200 *Objective and General Principles Governing an Audit of Financial Statements*
- 210 *Terms of Audit Engagements*
- 220 *Quality Control for Audits of Historical Information*
- 230 *Documentation*
- 230R *Audit Documentation*
- 240 *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*
- 240A *Fraud and Error*
- 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*
- 260 *Communications of Audit Matters with Those Charged with Governance*

### Risk Assessment and Response to Assessed Risks:

- 300 *Planning an Audit of Financial Statements*
- 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- 320 *Audit Materiality*
- 330 *The Auditor's Procedures in Response to Assessed Risks*
- 402 *Audit Considerations Relating to Entities Using Service Organizations*

### Audit Evidence:

- 500 *Audit Evidence*
- 501 *Audit Evidence -- Additional Considerations for Specific Items*
- 505 *External Confirmations*
- 510 *Initial Engagements -- Opening Balances*
- 520 *Analytical Procedures*
- 530 *Audit Sampling and Other Means of Testing*
- 540 *Audit of Accounting Estimates*
- 545 *Auditing Fair Value Measurements and Disclosures*
- 550 *Related Parties*
- 560 *Subsequent Events*
- 570 *Going Concern*
- 580 *Management Representations*

### Using the Work of Others:

- 600 *Using the Work of Another Auditor*
- 610 *Considering the Work of Internal Auditing*
- 620 *Using the Work of an Expert*

### Audit Conclusions and Reporting:

- 700 *The Auditor's Reports on Financial Statements*
- 700R *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*
- 701 *Modifications to the Independent Auditor's Report*
- 710 *Comparatives*
- 720 *Other Information in Documents Containing Audited Financial Statements*

### Specialized Areas:

- 800 *The Auditor's Report on Special Purpose Audit Engagements*

# Annex - C

## BANGLADESH AUDITING ACCOUNTING LEGISLATION

### (A) Auditing Legislation

Extracts from Part VIII of the Constitution of Bangladesh relating to the Comptroller and Auditor General

#### **Section 1. Establishment of Office of the Auditor-General**

(1) There shall be a Comptroller and Auditor-General of Bangladesh (hereinafter referred to as the Auditor-General) who shall be appointed by the President. (2) Subject to the provisions of this Constitution and of any law made by Parliament, the conditions of service of the Auditor-General shall be such as the President may, by order, determine.

#### **Section 2. Functions of the Auditor-General**

(1) The public accounts of the Republic and of all courts of law and all authorities and officers of the Government shall be audited and reported on by the Auditor-General 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.

(2) Without prejudice to the provisions of clause (1), if it is prescribed by law in the case of any body corporate directly established by law, the accounts of that body corporate shall be audited and reported on by such person as may be so prescribed.

(3) Parliament may by law require the Auditor-General to exercise such functions, in addition to those specified in clause (1), as such law may prescribe, and until provision is made by law under this clause the President may, by order, make such provision.

(4) The Auditor-General, in the performance of these functions under clause (1), shall not be subject to the direction or control of any other person or authority.

#### **Section 3. Term of office of the Auditor-General**

(1) The Auditor-General shall, subject to the provisions of this article, hold office for five years from the date on which he entered upon his office, or until he attains the age of sixty-five years, whichever is earlier.



(2) The Auditor-General shall not be removed from his office except in like manner and on the like ground as a judge of the 84[Supreme Court].

(3) The Auditor-General may resign his office by writing under his hand addressed to the President.

(4) On ceasing to hold office the Auditor-General shall not be eligible for further office in the service of the Republic.

#### **Section 4. Acting Auditor-General**

At any time when the office of Auditor-General is vacant, or the President is satisfied that the Auditor-General is unable to perform his functions on account of absence, illness or any other cause, the President may appoint a person to act as Auditor-General and to perform the functions of that office until an appointment is made under article 127 or, as the case may be until the Auditor-General resumes the functions of his office.

#### **Section 5. Form and manner of keeping public accounts**

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.

#### **Section 6. Reports of the Auditor-General to be laid before Parliament**

The reports of the Auditor-General relating to the Reports of public accounts of the Republic shall be submitted to the President, who shall cause them to be laid before Parliament.

### **(B) Accounting Legislation**

Extracts from CAG (Additional Functions) Act 1974, and Amendment Act 1975

#### **Section 7. Keeping of Government accounts**

The Auditor General shall be responsible for keeping of the accounts of the Government.

*Note - subsequently modified to give the Controller General of Accounts (and others) this function*

#### **Section 8. Preparation of appropriation and finance accounts**

The Auditor General shall ... prepare annually appropriation and finance accounts showing annual receipts and disbursements ... and shall submit those accounts to the President on such dates as he may, with the concurrence of the President, determine.

#### **Section 9. Audit of accounts of statutory public authorities, etc**

...the Auditor General may audit the accounts of any statutory public authority, public enterprise and local authority

#### **Section 10. Preparation of general financial statement**

The Auditor General shall prepare annually, in such form as he may, with the concurrence of the President, determine, and submit to the President, a general financial statement incorporating a summary of the

accounts of the Government, statutory public authorities, public enterprises and local authorities for the last preceding year and the particulars of their balances and outstanding liabilities and containing such other information as to their financial position as the President may direct to be included in the statement.

*Note - subsequently modified to give the Controller General of Accounts this function*

### **Section 11. Making of rules**

The Auditor General may make rules and give directions in respect of all matters pertaining to audit of any accounts he is required to audit.



# ANNEX - D

## BENEFITS OF ACCRUAL ACCOUNTING

Extract from Study No. 14 “Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities”, IFAC Public Sector Committee, December 2003

- 1.18 The PSC has commented extensively on the benefits of accrual accounting for governments and individual public sector entities in previous Studies (Studies 5, 6, 8, 9, 10 and 11) and Occasional Papers (Papers 1, 3, 5, 6 and 7). In order to provide some context for readers who are not familiar with the PSC’s other publications, this section contains a summary of the benefits of reporting on the accrual basis.
- 1.19 The information contained in reports prepared on an accrual basis is useful both for accountability and decision-making. Financial reports prepared on an accrual basis allow users to:
- assess the accountability for all resources the entity controls and the deployment of those resources;
  - assess the performance, financial position and cash flows of the entity; and
  - make decisions about providing resources to, or doing business with, the entity.
- 1.20 At a more detailed level, reporting on an accrual basis:
- shows how a government financed its activities and met its cash requirements;
  - allows users to evaluate a government’s ongoing ability to finance its activities and to meet its liabilities and commitments;
  - shows the financial position of a government and changes in financial position;
  - provides a government with the opportunity to demonstrate successful management of its resources; and
  - is useful in evaluating a government’s performance in terms of its service costs, efficiency and accomplishments.

### Financial Position

- 1.21 Accrual accounting provides information on an entity’s overall financial position and current stock of assets and liabilities. Governments need this information to:
- make decisions about the feasibility of financing the services they wish to provide;



- demonstrate accountability to the public for their management of assets and liabilities recognized in the financial statements;
  - plan for future funding requirements of asset maintenance and replacement;
  - plan for the repayment of, or satisfaction of, existing liabilities; and
  - manage their cash position and financing requirements.
- I.22 Accrual accounting requires organizations to maintain complete records of assets and liabilities. It facilitates better management of assets, including better maintenance, more appropriate replacement policies, identification and disposal of surplus assets, and better management of risks such as loss due to theft or damage. The identification of assets and the recognition of depreciation help managers to understand the impact of using fixed assets in the delivery of services, and encourage managers to consider alternative ways of managing costs and delivering services.
- I.23 Accrual accounting provides a consistent framework for the identification of existing liabilities, and potential or contingent liabilities. The recognition of obligations meeting the definition of a liability and the criteria for recognition:
- compels governments to acknowledge and plan for the payment of all recognized liabilities, not just borrowings;
  - provides information on the impact of existing liabilities on future resources;
  - means that it is possible to allocate responsibility for the management of all liabilities; and
  - provides necessary input for governments to assess whether they can continue to provide current services and the extent to which they can afford new programs and services.
- I.24 Accrual accounting highlights the impact of financing decisions on net assets/equity and may lead governments to take a longer term view when making financing decisions than is generally possible when relying on cash or modified cash reports. Information on net assets/equity also means that governments may be held accountable for the financial impact of their decisions on both current and future net assets/equity. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements. Under the accrual basis of accounting, the financial statements will include a Statement of Financial Position which discloses information about assets and liabilities. Where assets and liabilities are not equal, a residual figure for net assets/equity will be reported. Where this figure is positive it can be interpreted as the net resources that may be applied for the provision of goods or services in the future, and therefore the community's investment in the reporting entity. Where the figure is negative, it may be viewed as the amount of future taxation or other revenues which are already committed to paying off debt and other liabilities. Net assets/equity can comprise some or all of the following components:
- contributed capital;
  - accumulated surpluses and deficits; and
  - reserves (for example revaluation reserve; foreign currency translation reserve).



## Financial Performance

- I.25 Accrual accounting provides information on revenues and expenses, including the impact of transactions where cash has not yet been received or paid. Accurate information on revenues is essential for assessing the impact of taxation and other revenues on the government's fiscal position, and in assessing the need for borrowing in the long term. Information on revenues helps both users and governments themselves to assess whether current revenues are sufficient to cover the costs of current programs and services.
- I.26 Governments need information about expenses in order to assess their revenue requirements, the sustainability of existing programs, and the likely cost of proposed activities and services. Accrual accounting provides governments with information on the full costs of their activities so that they can:
- consider the cost consequences of particular policy objectives and the cost of alternative mechanisms for meeting these objectives;
  - decide whether to fund the production of services within government sub-entities, or whether to purchase goods and services directly from non-government organizations;
  - decide whether user fees should cover the costs associated with a service; and
  - allocate responsibility for managing particular costs.
- I.27 Accrual accounting can provide financial information on whether sub-entities are delivering specified services, and delivering them within agreed budgets. The same information, at a more detailed level, can also be used within sub-entities for the management of activity and program costs.
- I.28 Accrual accounting allows an individual entity to:
- record the total costs, including depreciation of physical assets and amortization of intangible assets, of carrying out specific activities;
  - recognize all employee-related costs and to compare the cost of various types of employment or remuneration options;
  - assess the most efficient way of producing their goods and services and of managing the resources over which they have been delegated authority;
  - determine the appropriateness of cost-recovery policies; and
  - monitor actual costs against budgeted costs.

## Cash Flows

- I.29 Accrual accounting provides comprehensive information on current cash flows and certain projected cash flows, including the cash flows associated with debtors and creditors. It can therefore lead to better cash management and may assist in the preparation of more accurate cash budgets.

# ANNEX - E

## SELECTION AND TRAINING FOR ACCOUNTANTS AND AUDITORS

1. There are two categories of accounting officials for the Ministries and subordinate departments: (a) cadre officers in the Bangladesh Civil Service Audit and Accounts Cadre, and (b) non-cadre officers in the Subordinate Accounts Service.

### Accounts and Audit Cadre

2. Cadre officers are recruited by the Public Service Commission and assigned in the Bangladesh Civil Service, including the officers assigned to work under the Controller General of Accounts (CGA) and the Comptroller and Auditor General (CAG). These officers are under the administrative control of the Ministry of Finance which controls promotion and disciplinary action. Functionally the officers work under the CGA or the CAG. There is frequent interchange of officials between the accounts department and the audit department. Thus the separation of accounts and audit has been put into effect at the functional level but not so much at the staffing level.

3. All cadre officers are trained in the Bangladesh civil service training academy for six months in a foundation course after appointment. After the training, the cadre officers are assigned to the different cadres to join the training academy of their respective departments for departmental training. The audit and accounts cadre officials join the Financial Management Academy (FIMA). The cadre officers remain probationary for two years. They are then posted to Assistant Accountant General. They may also receive advanced training at home and abroad during their continued service.

4. The cadre officers in the training academy go through the following courses:

- (a) Accountancy, elementary to advance;
- (b) Book-keeping, government accounting;
- (c) Fundamental rules of government, civil service rules, treasury rules;
- (d) Economics, budgeting, constitution;
- (e) Computer knowledge;
- (f) Auditing;
- (g) Précis and drafting, report writing;
- (h) Manuals, codes, rules of different audit directorates.



## Subordinate Accounts Service

5. The departmental officers who may be recruited as Auditor and Apprentice are eligible to appear at the Subordinate Accounts Service Examination conducted by the CAG and finally approved by the Public Service Committee. They are called Superintendents and later on promoted as Audit & Accounts Officers to the District and Thana accounts offices. The departmental candidates go through basic training in FIMA on different subjects (e.g., accounting, auditing, budgeting etc). There is no provision for any higher level training course for them. The course duration ranges from two months or three months. The auditors must be a graduate (generalized or specialist) to be appointed to the post and learn on-the-job, supplemented by occasional refresher courses in the training academy.

6. The Accounts and Audit department has no qualified or professional accountants on its rolls except for three or four staff members with the qualification from the Institute of Cost and Management Accountants (ICMA). The CAG, under Constitutional mandate, certifies the accounts of the Republic, although no fully qualified Chartered Accountants are available in that department to certify the accounts, which, as per INTOSAI standards, is a must. Appointment of Chartered Accountants to groom a core group of professional accountants in-house has been discussed many times but never implemented due to funding constraints.

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## Assessment of the National Public Sector Accounting Environment

Timely, relevant, and reliable financial information is required to support all fiscal and budget management, decision making, and reporting processes.

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<b>The Accounting Law</b>		
<p>1. For reliability, the requirements for public sector accounting and reporting should be specified by law, cover all government-owned entities, specify the methods by which accounting and auditing standards are to be set for the public sector, specify the reporting requirements and lay down timetables for the publication of audited annual accounts.</p>	<p>Public sector accounting and reporting are governed by the accounts code and several laws and government instructions separating appropriation accounting from audit:</p> <ul style="list-style-type: none"> <li>■ Constitution parts 7 and 8;</li> <li>■ CAG (Additional Functions) Act 1974,</li> <li>■ CAG (Additional Functions) Amendment Ordinance 1984;</li> <li>■ The General Financial Rules and Regulations (GFRR), and</li> <li>■ Treasury Regulations and Audit Code.</li> </ul> <p>These rules were reissued in 1998, but were not rationalized or revised.</p> <p>Accounting for the general government budget sector is centralized through the CGA but the Railways and Defense departments are self-accounted. The CGA produces monthly consolidations.</p> <p>Section 4 of the CAG (Additional Functions) Act 1974 requires annual appropriation accounts and finance accounts, and Section 7 requires an annual general financial statement. In the absence of instructions for the use of IPSAS the requirements of Section 7 are not met and the legal accountability requirements are impaired.</p>	<p>There is a need to provide statutory guidance for the general budget sector to conform to Cash Basis IPSAS in the short term and IPSAS in general in the longer term. It needs to be recognized that the basic technology currently available in Bangladesh provides a poor platform for accurate reporting. At present accounts are compiled manually and mistakes and miscoding are common. Computerization is proceeding slowly under FMRP and to be effective a much expanded reform of the accounting system is needed through rationalization and redesign for a computerized system.</p>
<p>2. Compliance with IPSAS for non-commercial bodies and IAS for commercial bodies is needed for consistent transparency.</p>	<p>The government of Bangladesh is maintaining the appropriation accounts on a cash basis in accordance with detailed instructions to relate expenditure to authorization. Instructions are set out in the Accounts Code, and IPSAS reporting standards have not yet been</p>	<p>A transition path to reporting the general budget sector under IPSAS is needed.</p> <p>As a first step the CGA has advised that the data is available to present a summary of the</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>adopted. The annual financial statements do not conform to the Cash Basis IPSAS. This requires the preparation of a summary statement of cash receipts and payments which recognizes the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes. SOEs are required to conform to IASs.</p>	<p>annual accounts in the form of the Cash Basis IPSAS. Authorization is required from the CAG who has constitutional authority to prescribe the form and manner in which public accounts are to be kept, but no legislation is necessary for this step to be taken.</p> <p>Supplementary information on assets and liabilities such as loans, advances, national savings, and the general provident fund would also be included. The summary should be intended to meet the requirements of Section 7 of the CAG (Additional Functions) Act 1974 for a general financial statement of the Government, statutory public authorities and local authorities, including particulars of their balances and outstanding liabilities.</p>

### Education and Training of Public Sector Accountants

<p>3. For reliability, the curriculum requirements for the accounting qualifications of public sector accountants should accord with internationally recognized standards of accounting training as established in the International Education Standards for Professional Accountants (IES).</p>	<p>Government accountants are recruited without accounting qualifications. The Financial Management Academy (FIMA) provides accountancy training at a standard not in accord with professional standards. There are very few accountants with professional qualifications. FIMA's training faculty is mainly composed of relatively junior officials who are not professional trainers. For FIMA's non-traditional courses, the Academy depends on serving GoB officers trained as trainers under previous phases of the financial reforms.</p>	<p>Recruitment and training plans need to be re-developed to meet the professional accountancy needs of the public sector. Recruits should already have an accounting degree. Further public sector training is provided by FIMA, which is hampered by limited resources and infrastructure, and by the need to deliver the traditional training courses required by the CAG department. Linkage with an international institution such as the UK CIPFA to introduce its Diploma in public sector accounting and auditing through a local institution is needed, a much upgraded FIMA, or perhaps the Institute of Cost and Management Accountants</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
		<p>of Bangladesh (ICMAB) which is attached to the Ministry of Commerce. The ICMAB training curriculum includes topics relating to IAS, but its capacity is hindered by the shortage of well-trained instructors and resources, leaving ICMAB unable to deliver high-quality training programs on the practical application of international standards, and with diminished capacity for providing training in line with the IES for Professional Accountants.</p> <p>A study by CIPFA of the options would be valuable.</p>
<p>4. For reliability, public sector accountants should be provided with continuing professional training requirements that accord with internationally recognized standards of accounting training.</p>	<p>There are about 9000 staff members in the accounts cadres. Most of them have a generalized education and need extensive training in basic and advanced courses in accounting.</p> <p>Before the separation of the Audit and Accounts functions, meeting the training needs of the CAG and the CGA offices was the responsibility of the CAG. Now that these two functions have been separated, with CGA effectively being moved under the control of the Ministry of Finance, there is no individual or wing responsible for ensuring that the training needs of the CGA department are met.</p>	<p>The extent of continuing education that is needed depends on the qualifications at intake. Recruitment of staff with accounting degrees is an essential first step. Only then can continuing education be a practical option. Otherwise progressive full training of significant numbers of current staff as per the above proposal is needed. In the absence of a training strategy the longer-term training needs should be considered by Ministry of Finance through a re-examination of the functions of the various levels of staff in the proposed new accounting environment and the conduct of a comprehensive training-needs analysis.</p>

### Code of Ethics for Public Sector Accountants

The INTOSAI code covers integrity; independence, objectivity and impartiality; professional secrecy; and competence.

5. For reliability, public sector accountants should be required to adhere to the

The CAG's Code of Ethics developed in 2002 for audit staff is in accord with the INTOSAI code. However, a specific code

Develop and enforce a code of conduct, based on IFAC or ICAB codes.

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>principles laid down in a code of ethics that are at least in accord with the internationally recognized standards for professional accountants. This may be based on IFAC or INTOSAI codes.</p>	<p>in accord with IFAC is needed for public sector accountant. Public officials are rarely penalized for infringement of financial rules and regulations and fiduciary risk is medium to high. A code is needed to correct these concerns.</p>	
<p><b>Public Sector Accountant Arrangements</b></p>		
<p>6. For timeliness, relevance and reliability, there should be a professionally qualified CFO function to be responsible to the Principal Accounting Officer (PAO), for maintaining systems of internal financial controls that manage risks, and for preparing regular financial accounts for each government entity.</p>	<p>The CFO concept is not fully in place. The provision of a CAO for each ministry provides the groundwork for a full CFO function when expertise and organization arrangements are adequate. For some years FMRP and its predecessors have been introducing pilot Financial Management Units with limited success partly because the FMU itself created an additional ‘unit’ without a clear and precise organizational fit with the other components of the ministries’ financial management functions. Without an effective CFO function internal controls and fiduciary functions will not be well managed, nor will expenditures and budgets be properly executed.</p>	<p>The success of the continued FMU exercises will be further evaluated and the provision of greater professionalization of senior accountants in a CFO role would assist. FMRP notes “The PAO is the only officer who has administrative oversight and responsibility over both budgets in a ministry – there is a need to provide greater support to the PAO in this co-ordination and oversight role”. The new Internal Control Manual at section 3.5 gives management the responsibility to establish and operate the internal control environment but is silent on mechanisms for this. Current plans are to physically relocate the CAOs from the CGA offices to the ministries to spearhead the establishment of new financial management accounting units. This may provide an opportunity to enhance the CAO functions to CFO level.</p>
<p>7. The CFO should also be responsible for the maintenance and management of the chart of accounts so as to ensure the most appropriate technological support for financial management practices, and, in addition manage training and education needs for financial management, report on key performance indicators, and assist program managers in developing an effective financial approach to the delivery of expected outcomes.</p>		

### Assessment of National Public Sector Accounting Standards

Financial reporting must be adequate to meet the accountability demands of stakeholders

#### Framework for the Preparation and Presentation of Financial Statements.

<p>8. National accounting standards should accord with international standards to provide consistency.</p>	<p>The Government has not adopted IPSAS. The Constitution gives the CAG responsibility for the form and principles of accounts. There is no Board to assist in</p>	<p>More formalized arrangements are needed for setting accounting standards for the public sector. With the promulgation by</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
The responsibility for establishing the national accounting standards for the public sector should be well defined to provide reliability.	setting standards.	IFAC of accounting standards for the public sector, IPSAS, it would be appropriate for the CAG to adopt them for public sector standards. CGA and ICAB should establish a public sector committee to establish standards. Audit Committees in public sector entities should assure compliance
<b>Preparation and Presentation of Financial Statements on Cash Basis.</b>		
Financial statements presented in the IPSAS standard	Currently Bangladesh has not adopted the Cash Basis IPSAS.	Discussions with the relevant authorities have indicated a capability to do so, and also a willingness to report on the Cash Basis IPSAS if further expert advice verifies that it is practical. Complementary improvement in the quality of the accounting records would also be needed.

## Assessment of Accounting and Auditing in State Owned Enterprises

### Financial Statements should comply with IAS and IFRS.

9. The financial statements should include (a) balance sheet, (b) income statement, (c) statement of changes in equity or a statement of recognized gains and losses, and (d) cash flow statement [IAS 1.8]	SOEs and their auditors are required to follow IAS and ISA as adopted by the ICAB, which also regulates the accountancy profession apart from the government sector. There are some differences between the ICAB and the international standards which are being reviewed by the ICAB.	Corporate governance in the statutory authority sector needs to be improved through more effective audit committees. These committees should ensure that audit qualifications and reports by the Auditor General are properly addressed by relevant officers.
The financial statements should present fairly (or give a true and fair view of) the financial position, financial performance and cash flows of the entity. [IAS 1.13]	Of the sample of eight annual reports examined by the study, only one (Bangladesh Chemical Industries Corporation ) had an unqualified opinion, six were qualified and one (Bangladesh Power Development Board) had a disclaimer opinion. The Government audit reports did not mention that the annual accounts were qualified by the independent auditors, but they did raise other issues, many of which have been unresolved for years. Disclosures in the SOE accounts were generally not adequate to meet international accounting standards.	The proposed Financial Reporting Council should include commercial government authorities in its scope.
The financial statements should be prepared on the accrual basis of accounting [IAS 1.27]		
The financial statements should be prepared using the accounting policies established		

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
by the International Accounting Standards. [IAS 1]	Allowing the SOEs to issue accounts which do not show a 'true and fair view' is a failure in accountability. Failure to address audit objections over a long period is also a major failure in accountability.	

## Assessment of the Public Sector Auditing Environment

10. Effective scrutiny by the legislature through comprehensive, competent external audit enables accountability for the implementation of fiscal and expenditure policies.

11. The environment for an effective SAI requires a comprehensive approach to Public Financial Management (PFM). SAIs are not stand-alone institutions; they are part of a PFM architecture that also includes budgeting, accounting, internal control, audit and legislative oversight, and government response. Improving the way the SAI functions is integral to providing information for improving the overall PFM system but the action must be within the executive under the watchful eyes of the legislature and the public. A strong demand for good public sector external auditing is necessary for the SAI to have any impact. This requires willingness of the executive branch to accept and respond to external scrutiny over its management of funds and to ensure that action is taken for reform. It also requires public presentation of the audit reports to ensure public support for effective action.

### Statutory Framework

12. Statutory auditing requirements should be established by legislation.	Constitution Part VIII CAG (Additional Functions) Act 1974	
13. The SAI should have authority to conduct a full range of audits for all government-owned or controlled entities including regularity, financial, and performance audits. (INTOSAI Lima Declaration Sections 18-19)	<p>The public accounts of the Republic and of all courts of law and all authorities and officers of the Government shall be audited and reported on by the Auditor-General.</p> <p>There is no mention of types of audits. The office mainly conducts regularity and compliance audits. In this type of audit, vouchers and records of the financial transactions of public officials or organizations are verified.</p> <p>A more explicit authority for the full range of current and prospective types of audit conducted by INTOSAI members would be more appropriate in authorizing functions and funding.</p> <p>The scope of the CAG's audit is narrowly focused. SAIs normally conduct audits on the overall financial management performance issues of state entities.</p>	<p>A National Audit Act along the lines of the model legislation proposed by the Association of Chartered Certified Accountants<sup>21</sup> would be needed for a modern audit function. This has an objectives clause as follows:</p> <p>(1) The objectives of the Office of the Auditor-General shall include providing an opinion on whether or not:</p> <ul style="list-style-type: none"> <li>a. the public accounts provide a true and fair view of the finances of the government and the individual public bodies to which they refer</li> <li>b. the financial transactions of the government and public bodies</li> </ul>

<sup>21</sup> A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>Of late it has decided to undertake audits on the internal controls of Government organizations.</p> <p>The introduction of performance audit has added a new dimension in ensuring transparency and accountability in public administration. But so far only one performance audit report (from a total of five submitted to the President) has been discussed in the Public Accounts Committee.</p> <p>Foreign aided projects do not yet come under the CAG's jurisdiction.</p>	<p>comply with relevant legislation, and regulations issued by any relevant competent body</p> <p>c. the financial affairs of the government and public bodies have been managed with due regard to probity, and that their statutory and ethical duties to Parliament and the public have been met in an open and even-handed manner</p> <p>d. the government, public bodies and public money have been managed with due regard to value for money and that officers have made the best use of the resources for which they are responsible.</p> <p>(2) The Auditor-General will provide recommendations and advice to Parliament on significant issues which the Auditor-General has discovered.</p>
<p>14. The legislation should set out penalties in the event of non-compliance with the auditing requirements, and these penalties should be applied appropriately.</p>	<p>Not done.</p>	<p>The new Audit Act should contain an adequate Offences Clause along the following lines:</p> <p>Any person commits an offence who, without lawful justification or excuse:</p> <p>a. intentionally obstructs, hinders or resists the Auditor-General</p> <p>b. intentionally refuses or fails to comply with any lawful requirement of the Auditor-General</p> <p>c. makes a statement or gives information to the Auditor-General knowing or reckless to the fact that the statement or information is false or misleading</p> <p>d. willfully suppresses any</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
		<p>information required by the Auditor-General in the performance of his/her duties or</p> <p>e. represents directly or indirectly that the person holds any authority under this act when the person actually does not hold that authority.</p>
<b>Setting Auditing Standards</b>		
<p>15. The government should have adopted the INTOSAI Auditing Standards and the IAASB International Standards for Auditing for public sector entities. (ISA 200.5 and INTOSAI Auditing Standards I.0.14)</p>	<p>The CAG has adopted the INTOSAI Auditing Standards. These are at too general a level for adequate guidance and the ISAs are needed for effective guidance for the audit staff.</p>	<p>The ISAs should also be formally adopted, preferably through legislation.</p>
<b>Code of Ethics</b>		
<p>16. The INTOSAI Code of Ethics should have been fully adopted by the SAI (IFAC ISA 200.4 and INTOSAI Code of Ethics 4), communicated to all staff and applied.</p>	<p>The CAG's Code of Ethics developed in 2002 for audit staff is in accord with the INTOSAI code. The FMRP found that monitoring procedures are not in place to enforce the Code and determine to what extent the provisions are being observed. Officers of audited entities have cited the lack of supervision of auditors as contributing to the negative image they held on auditors.</p>	<p>Improved monitoring for the Code is needed.</p>
<b>Accountability in the SAI</b>		
<p>17. There should be an accountability process in the SAI. (INTOSAI Auditing Standards I.0.20)</p>	<p>There is no management board. A more corporate approach would share decision making more formally within the SAI giving some degree of balanced power and authority.</p>	
<p>18. There should be clear responsibility in the SAI for (i) advising on internal finance, keeping proper financial records and accounts, and maintaining systems of internal control; (ii) for ensuring compliance with laws and regulations</p>	<p>Normal public service systems apply.</p>	

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19. The SAI should prepare an annual report on its operations and performance that is separate to its reports on its audits. It should provide an objective, balanced and understandable account of activities and achievements, and details of financial position and performance.	The CAG has produced an annual report entitled, for 2004, 'Sustaining Quality Audit Management'. It sets out achievements and lists 46 audit reports submitted to the President in the year. It includes performance measures covering timeliness, acceptance of observations, quality improvement activities, and interactions with auditees. It does not include a financial position statement, which is not normal practice for government departments.	
20. The SAI should prepare a corporate plan or equivalent.	The SAI is forward-looking and has a strategic plan.	
21. The SAI should undergo peer review or independent performance audit.	There has been substantial review as part of institutional strengthening.	

### Independence provided by the Legislation

22. The legislation needs to be adequate for the following core principles of SAI independence if the SAI is to provide effective external scrutiny:

- (1) The existence and de-facto application of an appropriate and effective constitutional and legal framework.
- (2) The independence of the SAI Heads including security of tenure and legal immunity in the normal discharge of their duties.
- (3) A sufficiently broad mandate and full discretion in the discharge of SAI functions.
- (4) Unrestricted access to information.
- (5) The obligation to report on their work.
- (6) The freedom to decide on the content and timing of their reports and to publish and disseminate them.
- (7) The existence of effective follow-up mechanisms on SAI recommendations.
- (8) Financial and managerial autonomy and the availability of appropriate human, material and monetary resources.

(Core Principles of SAI Independence, INTOSAI Sub-committee on SAI Independence, 2004)

23. The legislation should spell out in detail the extent of the SAI's independence. (INTOSAI Lima Declaration Section 5)	Article 129(2) of the Constitution stipulates that the Auditor General shall not be subject to direction or control of any other person or authority. Nor can he/she be removed from office except in the like manner and like grounds as applicable to Judges of the Supreme Court.	The proposed National Audit Act is needed to provide effective independence.
24. The legislation should assure the independence of the SAI Heads and "Members" (in collegial organizations) and that is there security of tenure and legal immunity		

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in the normal discharge of their duties. (INTOSAI Lima Declaration Section 6)		
25. The SAI's constitutional/statutory/legal framework should ensure that it has available sufficient human, material and monetary resources. (INTOSAI Lima Declaration Section 7)	The control exercised over the salary and budget of the CAG by the Ministry of Finance compromises CAG independence.	More statutorily independent arrangements for establishing the budget should be put in place. Usually this involves a Parliamentary Committee considering the CGA budget and audit plans.
26. A fixed term must be long enough to survive changes of government and avoid pressures concerning re-appointment impinging too early in the term of office of the SAI office holder. A single non-renewable appointment is preferable to avoid those pressures. (INTOSAI Working Group on SAI Independence, 2004)	The Auditor General is appointed by the President. The CAG is appointed from very senior officers of the Audit and Accounts cadre who, upon retirement at the age of 57 or earlier, is appointed to the constitutional post of the CAG and holds this office until he attains the age of 60 years. This practice does not provide sensible terms. For example Canada and the US apply 10 year terms to professionally qualified persons.	A more open appointment process is preferred by modern audit legislation.
27. The legislation should ensure that the Head of the SAI is free to determine the organization of the audit office, including personnel and contract management systems and material acquisition/disposal policies and procedures. The SAI should be able to determine personnel policies, including the selection, recruitment, training, remuneration, promotion, discipline, and dismissal of staff and contract personnel. (INTOSAI Lima Declaration Section 6)	The independence of the CAG's office is severely constrained by the operation of the Rules of Business of the Government, under which CAG is subject to the direction and control of the Finance Ministry. The recruitment for the filling of posts at the CAG's office is subject to direction and control of both the Finance Secretary and the Establishment Secretary. Officers attached to the office of the CAG can be removed subject to the due process requirements of the Government Servants' Conduct Rules.	<p>Greater autonomy should be given to the AG. Suitable clauses are as follows:</p> <p>The Auditor-General shall employ such persons as are necessary for efficiently and effectively executing the Auditor-General's functions, duties and powers. Within the framework of the budget approved for the Office of the Auditor-General, the Auditor-General has the authority to assess staffing needs and appoint, train, assign, pay, promote, reward and dismiss staff.</p> <p>Employees in the Office of the Auditor-General shall be considered to be in an excepted service. They are not part of the public services nor are they subject to any of the rules, regulations or</p>

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		<p>procedures promulgated by Public Service Commission.</p> <p>The Auditor-General shall establish job descriptions with clearly defined responsibilities, qualifications and performance expectations for all positions in the Audit Office.</p> <p>The staff of the Office of the Auditor-General shall be managed to ensure that:</p> <ul style="list-style-type: none"> <li>a. there is fair, open and equal treatment of individuals applying for or being offered positions</li> <li>b. staff appointments and advancement decisions are made on the qualification and merit of all individuals eligible for consideration and</li> <li>c. disciplinary, removal or other adverse actions are done in accordance with clear, established and consistently applied criteria and processes.</li> </ul> <p>The staff shall be appointed at such remuneration and on such other terms and conditions as the Auditor-General may decide. In so deciding, the Auditor-General shall consider the terms and conditions determined by the Public Services Commission.</p>
<p>28. There should be unrestricted access to information. (INTOSAI Lima Declaration Section 10)</p>	<p>This is provided by the Constitution.</p>	
<p>29. The legislation should give the SAI the right and obligation to report on their work. (INTOSAI Lima Declaration Section 16)</p>	<p>The Auditor General is required to submit reports to the President to be presented to the Parliament. Under the Rules of Business, the CAG has to submit the report to the President through the Prime Minister. This practice may impair the independence and</p>	<p>The law should require the CAG report to go the President (or the Principal Officer of the Parliament) for tabling in the Parliament directly with timings specified in the legislation. There should</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
The legislation should give the SAI the right and obligation to report effectively on its work, and the freedom to decide on the content and timing of its reports and to publish and disseminate them expeditiously. (INTOSAI Lima Declaration Section 17)	objectiveness of the reports prepared by this office. It may compromise the CAG in fulfilling its obligation to provide timely and truthful reports on government operations to help the Parliament exercise its oversight role on the public administration's financial discipline. Reporting by the CAG is now up to date after clearance of a substantial backlog.	be more involvement with the media to provide informed public scrutiny to the audit reports.
30. To the extent the findings of the Supreme Audit Institution are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility. (Lima Declaration Section 11.2)	In the last eight Parliaments the PAC has only been formed six times. There is an enormous backlog in hearing the audit objections by the PAC. From 1971-72 to July 2002, only 18.3% out of the 770 audit reports submitted to the President and the Parliament have been discussed. The Ministries do not respond promptly to the PAC's recommendations.	Improved PAC and departmental processes are needed for handling audit reports. To some degree improved audit methodology and report writing skills will assist, but the fundamental processes for scrutiny need reform. Audit Committees and corporate governance arrangements need to be reformed along with improvements to the audit processes.

### Qualifications and Skills of the Auditor

31. There is a need for qualified accountants to sign audit opinions; also auditors must have adequate professional expertise and technical knowledge to carry out audits.

32. The syllabus of the government's and the SAI's accounting schools should cover all areas recommended by the International Education Standards for Professional Accountants' (IES)	This is not the case.	
33. There should be adequate professional criteria for recruitment and promotion of auditors. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.4)	The criteria do not give sufficient attention to accounting qualifications.	Recruitment should require an accounting degree for all appointees.

### Training

34. The SAI should operate a continuing professional	Training facilities are inadequate for this purpose.	Improvements in training facilities are proposed in the
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development program for its professional personnel. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.5-2.1.12)		FMRP schedule.
<b>Competence in Auditing</b>		
35. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. (INTOSAI Auditing Standards 2.2.37)	Audit manuals are available, but capacity to implement these manuals remains weak and there is a need for more training and development in practical use. Training will not be sufficient, however, unless there is sustained demand from the executive and the legislature for better audit reports and a willingness to use such reports to improve performance.	A new methodology is being written as part of the FMRP. Complementary equipment, facilities and skills must also be developed.
<b>Quality of the Audit</b>		
36. The SAI should have the quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (ISA 220.7)	Some quality assurance and control processes are applied.	Examination of working papers suggested that better organization and indexing of the working papers would be further benefited by including records of the supervision for quality.
37. Quality control procedures should cover: <ul style="list-style-type: none"> <li>■ Direction: Assistants to whom work is delegated need appropriate direction.</li> <li>■ Supervision: covering the following functions during the audit: (a) monitor the progress of the audit, (b) become informed of and address significant</li> </ul>		

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<p>accounting and auditing issues, and (c) resolve any differences of professional judgment between personnel and consider the level of consultation that is appropriate.</p> <p>■ Review: The work performed by each assistant needs to be reviewed by personnel of at least equal competence. (ISA 220.8-220.17)</p>		

### Assessment of Public Sector Auditing Standards and Practices

38. Results from the audits should hold the executive bodies to account for their fiscal and expenditure policies and their implementation.

Planning		
<p>39. The planning process should collect information about the audited entity and its organization in order to identify important aspects of the environment in which the audited entity operates, develop an understanding of the accountability relationships, determine whether appropriate action has been taken on previously reported audit findings and recommendations, assess risk, and determine materiality. (IFAC ISA 300.6-300.9)</p>	<p>Yes, but not in all cases. Generally, previous audit reports give a picture of this. On special issues, new data is collected</p>	<p>The new audit methodology manual should introduce more comprehensive planning requirements based on the specific objectives of the audits. Generally the planning for compliance audit that is focused on assessing regularity needs to be more systematic when conclusions are drawn about the relative frequency of errors or the correctness of an overall figure.</p>
<p>The planning process should identify the scope of the audit, and specify the audit objectives and the tests necessary to meet them. (ISA 300.10-300.12)</p>	<p>Yes, an audit briefing session is arranged and here scope and objectives are specified.</p>	
<p>The planning process should review the internal audit of the audited entity and its work program, identify key</p>	<p>Normally, in most Government offices internal audit is absent</p>	



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management systems and controls, and carry out a preliminary assessment to identify both their strengths and weaknesses, and determine the approach to be adopted in the audit. (ISA 300.9)		
The planning process should highlight special problems foreseen when planning the audit. (ISA 300.10)	Yes, it is a must. This gives a better position for the audit team.	
The planning process should prepare a budget and a schedule for the audit, and provide for appropriate documentation of the audit plan and for the proposed fieldwork. (ISA 300.10)	Yes, the number of audit team members, the duration of the audit, and areas to be covered are declared in office order.	
The planning process should identify staff requirements and a team for the audit. (ISA 300.11)	Yes, this is done.	
The planning process should familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. (ISA 300.7)	Normally, it is not done. But in case of special audit, discussion is held with audited entity.	
<b>Supervision</b>		
40. The process of supervision should ensure that the members of the audit team have a clear and consistent understanding of the audit plan. (INTOSAI Auditing Standards 3.2.3a)	Yes, there is an inspection check list and it helps the audit team	There is a need for more guidance on the audit testing to be undertaken and the functions of supervision. Working papers need to be more structured.
41. The process of supervision should ensure that the audit is carried out in accordance with the auditing standards and practices of the SAI. (INTOSAI Auditing Standards 3.0.3b)	Inspection officers review the activities of the audit team and make comments to ensure that audit is done as per auditing standards. But inadequacies do exist.	

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42. The process of supervision should ensure that the audit plan and action steps specified in that plan are followed unless a variation is authorized. (INTOSAI Auditing Standards 3.0.3c)	Yes, this is done.	
43. The process of supervision should ensure that working papers contain evidence adequately supporting all conclusions, recommendations and opinions. (INTOSAI Auditing Standards 3.0.3d)	Yes, this is done.	
44. The process of supervision should ensure that the auditor achieves the stated audit objectives. (INTOSAI Auditing Standards 3.0.3e)	Yes, when there is any deviation, the inspecting officer gives directions but this is not always the case.	
45. The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)	Audit report is finalized after all individual unit audit is completed	
46. The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)	Audit opinions are not usually formed. The reports are reviewed.	
<b>Internal Controls</b>		
47. The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and	Not always. Normally previous audit experience gives the idea. In special cases, it is done	Development of an internal control environment is hampered by a lack of understanding of the concept of internal controls, absence of training and

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<p>assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. (ISA 315.2)</p>		
<p>After obtaining an understanding of the accounting and internal control procedures, the auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (ISA 315.90)</p>	<p>In special cases, it is done</p>	<p>ineffective organization. Finance Department has issued revised internal controls guidance in July 2005 for PAOs to develop internal management controls. In developing these controls the PAO should be assisted by the CFO who should pay special attention to the objectives that the control is to serve. The auditors currently do not test the system; they test whether a particular transaction is wrong in some respect and then pursue issues about the transaction rather than examining how the control procedures failed.</p>
<p>The auditor should document in the audit working papers: (a) conclusions reached about susceptibility to material misstatement due to error or fraud; (b) the understanding obtained of the entity's accounting and internal control procedures; and (b) the assessment of control risk. (ISA 315.122-123)</p>	<p>Yes, this is done.</p>	<p>A new audit methodology is needed, based on the audit risk model and testing procedures through statistically reliable sample selection of transactions.</p>
<p>The auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. (ISA 330.23)</p>	<p>Yes, normally substantive tests of details is carried out, but these are intended to check the transaction, not the system of internal control.</p>	
<p>When the auditor cannot obtain sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 330.72)</p>	<p>Yes, this is done.</p>	

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<p>The auditor should make management aware in writing, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the accounting and internal control procedures, which have come to the auditor’s attention. (ISA 315.12)</p>	<p>Yes, management letter is issued to the auditees. This is later than desirable as management should be made aware of deficiencies as they are found.</p>	
<p><b>Compliance with Laws</b></p>		
<p>48. The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (ISA 250.15)</p>	<p>Yes, this is done.</p>	<p>There needs to be a corporate governance system under which an annual financial report is tested by auditors and the financial report includes management assertions about controls.</p>
<p>The auditor should perform testing and other procedures to help identify instances of noncompliance with those laws and regulations where noncompliance should be considered when preparing financial statements. (ISA 250.18-250.19)</p>	<p>Yes, this is done.</p>	<p>The audits should sample for errors, to assess whether the total expenditure is materially in compliance.. Transactions that are incorrect can still be reported for correction but an overall opinion on the untested transactions can also be given, based on inference.</p>
<p>Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, the auditor should evaluate the entity’s internal controls and assess the risk that the control structure might not prevent or detect non-compliance. These evaluations should be used to report to management on defects in</p>	<p>Not in depth. Normally, in special issue-based audit, it is done</p>	



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>the system of internal controls and the steps that should be taken to improve the system. (ISA 250.17)</p> <p>The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250.23)</p> <p>The SAI should use regularity audit to make sure that the State budget and accounts are complete and valid. The audit procedure may result, in the absence of irregularity, in the granting of a “discharge”. If not other processes are needed to resolve irregularities.</p>	<p>No. This is relevant when there is a corporate governance system under which an annual financial report is tested by auditors and the financial report includes management assertions about controls.</p> <p>This is the main function of the audits but the method does not accumulate errors to assess whether the total expenditure is materially in compliance. Transactions that are incorrect are reported for correction. No overall opinion on the untested transactions is given.</p>	
<b>Evidence</b>		
<p>49. When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. (ISA 500.10)</p> <p>When obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any evidence from tests of control to support financial statement assertions. (ISA 500.12)</p>	<p>Yes, but inadequacies exist. Testing is not done in a manner based on the audit risk model as per ISA 330 ‘The Auditor’s Procedures in Response to Assessed Risks’.</p>	<p>The audit methodology and necessary supporting working papers should be more precisely defined in a manual of procedures. Audit evidence is poorly documented, filed and referenced.</p>
<p>50. When inventory is material to the financial</p>	<p>Field visit and physical verification is done in special cases.</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting. (ISA 500.5)</p> <p>When in substantial doubt as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 500.18)</p>	<p>Yes, this is done.</p>	
<b>Analysis of Financial Statements</b>		
<p>51. In regularity (financial) audit, and in other types of audit when applicable, the auditor should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. (INTOSAI Auditing Standards 3.6.1) Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements. The auditor should ascertain whether:</p> <p>(a) financial statements are prepared in accordance with acceptable accounting standards;</p> <p>(b) financial statements are presented with due consideration to the circumstances of the audited entity;</p>	<p>This is done but inadequacies exist.</p>	<p>There is a need to re-orient testing to undertake full financial attest audits covering all financial assertions. A financial audit should result in an audit opinion being expressed on the complete set of financial statements rather than solely an identification of the deficiencies found in the transactions scrutinized.</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>(c) sufficient disclosures are presented about various elements of financial statements; and</p> <p>(d) the various elements of financial statements are properly evaluated, measured and presented. (ISA 200.2-200.12)</p>		
<b>Reporting on Financial Statements</b>		
<p>52. The auditor should provide an opinion paragraph in the audit report. (ISA 700.4)</p> <p>There should be a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards). (ISA 700.12-15)</p> <p>The opinion paragraph should contain an expression of opinion on the financial statements stating the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly) in all material respects. (ISA 700.17)</p>	<p>Yes but not in a proper form for the Bangladesh Financial Statements</p> <p>Not done</p>	
<p>53. The SAI should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion. Reports should be made where weaknesses exist in systems of financial control or accounting. (ISA 700.17)</p>	<p>This is done.</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<b>Reporting on Fraud</b>		
<p>54. The SAI should report fraudulent practices or serious irregularities discovered by the auditors. (INTOSAI Auditing Standards 4.0.7) ISA 240 establishes standards and provides guidance on the auditor's responsibility to consider fraud and error in an audit of financial statements. The standard requires that – when planning and performing audit procedures and evaluating and reporting the results thereof – the auditor considers the risk of material misstatements in the financial statements resulting from fraud or error.</p>	<p>SAI Bangladesh's mandate is for 'auditing and reporting'. Findings are included in CAG's report for discussion in the Public Accounts Committee (PAC) meeting. More needs to be done at the entity level to respond to findings that indicate fraud. This is more likely to reinforce the role of Audit Committees and place emphasis on management's responsibility for maintaining internal control systems to prevent and to deal with fraud when it is discovered.</p>	<p>Forensic audit training is needed. The SAI does not focus on fraud in a sufficiently systematic way. The international auditing standards provide guidance for the auditor on tests for fraud. ISA 240 requires the auditor to perform procedures to obtain information that is used to identify the risks of material misstatement due to fraud; and evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. The standard also requires the auditor to inform management in the auditee and the Board, if there is one, of any frauds and the failure in internal control that led to the fraud. The auditor's report should identify the action that the entity is taking about the fraud.</p>
<b>Reporting on Compliance</b>		
<p>55. With regard to regularity audits, does the auditor prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations? (INTOSAI Auditing Standards 4.0.7)</p>	<p>Reports are prepared, but not in accordance with international standards. They focus on excessive detail and not systemic issues that need to be addressed.</p>	<p>More issues-based auditing should be done. Under the present process the CAG submits a yearly report to the President and it is the Public Accounts Committee of the Parliament which calls the auditee/Ministry for responding to the unresolved audit findings. To reduce the number of unresolved audit objections to be submitted to the President it would be helpful if the CAG could work with the Establishment Division to identify measurable violations and introduce financial and administrative penalties.</p>



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