



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

<i>Standard</i>	<i>Current status</i>	<i>Action to move towards the international standard</i>
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.

Standard	Current status	Action to move towards the international standard
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>

Standard	Current status	Action to move towards the international standard
9. Does the government issue a consolidated financial statement which consolidates all controlled entities?	No.	<p>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.</p> <p>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.</p>

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

Standard	Current status	Action to move toward international standards
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. ¹ 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. ² 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.

¹ 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.

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

Standard	Current status	Action to move toward international standards
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.

Standard	Current status	Action to move toward international standards
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 2005³ and occasional updates will enable progress to be assisted if required by the Government of Bangladesh.

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