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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
The Accounting Law		
<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"> ■ Constitution parts 7 and 8; ■ CAG (Additional Functions) Act 1974, ■ CAG (Additional Functions) Amendment Ordinance 1984; ■ The General Financial Rules and Regulations (GFRR), and ■ Treasury Regulations and Audit Code. <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>

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	<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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		<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>Public Sector Accountant Arrangements</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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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
Preparation and Presentation of Financial Statements on Cash Basis.		
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		

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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 Accountants²¹ 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"> 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 b. the financial transactions of the government and public bodies

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

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	<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>

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		<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>
Setting Auditing Standards		
<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>
Code of Ethics		
<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>
Accountability in the SAI		
<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"> a. there is fair, open and equal treatment of individuals applying for or being offered positions b. staff appointments and advancement decisions are made on the qualification and merit of all individuals eligible for consideration and c. disciplinary, removal or other adverse actions are done in accordance with clear, established and consistently applied criteria and processes. <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>

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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.
Competence in Auditing		
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.
Quality of the Audit		
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"> ■ Direction: Assistants to whom work is delegated need appropriate direction. ■ Supervision: covering the following functions during the audit: (a) monitor the progress of the audit, (b) become informed of and address significant 		

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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.	
Supervision		
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.	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
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.	
Internal Controls		
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

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<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>Compliance with Laws</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>	
Evidence		
<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>	
Analysis of Financial Statements		
<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>		
Reporting on Financial Statements		
<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>	

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Reporting on Fraud		
<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>
Reporting on Compliance		
<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>