

REPORT OF THE COMMITTEE ON REFORMS OF THE BUDGET AND EXPENDITURE CONTROL (CORBEC).

Background: The government has felt for quite sometime the need for improvement in budgeting and expenditure control processes and procedures. At the request of the government a number of short term studies had been carried out by IMF in late 1970s/1980s. The World Bank also focussed on these issues in some of its annual CEMs and partly in its report on Public Resources Management. GOB also set up a Committee (CORBEC) to carry out a diagnostic study to identify the areas of weakness and remedies necessary to strengthen public finance management. The common concerns expressed in all these reports include: discrepancies of budget estimates and budget out-turn with respect to both receipts and expenditure; weak control over' expenditures flows; weaknesses in recording and reporting of expenditure; absence or inadequacy of information regarding public sector enterprises in the national budget; absence of procedures and information in the budget and accounting data which would enable assessment of outcomes of public expenditure. The World Bank's PRM also touched upon issues related to sectoral priorities and allocations of public resources, which are determined by political economic considerations. The present report does not address these substantive questions but focusses on the formal and technical aspects of budgeting, accounting and expenditure control.

2. Legislative Aspects: In conformity with the constitutional provisions, the government submits to the National Assembly an Annual Financial Statement each year showing the receipts and expenditures of the government. The taxation proposals are approved by the legislature in the form of the Finance Act; the proposals for expenditures are approved under specific heads for grants in the form of the Appropriation Act. Generically, all legislative proposals relating to taxation and expenditure are known as money bills, which can be introduced in the parliament only with the approval of the President. The Comptroller & Auditor General, which office has been created by specific provisions of the constitution and whose powers and functions have been further elaborated by law, prepares and submits to the President the Finance Accounts and the Appropriation Accounts in respect of each year which are placed before the parliament. The Finance Account constitutes an auditor's presentation of the receipts and expenditures of the exchequer while the Appropriation Accounts show actual expenditure-incurred against budgetary appropriations incorporated in the Appropriation Act together with audit

observations on variation between the two. The Comptroller and Auditor General also submits to the Parliament audit reports for each year showing irregularity/impropriety of expenditure, which is subject to scrutiny by the Public Accounts Committee. In addition to the Public Accounts Committee, there are other committees of the Parliament, viz. the Estimates Committee and the Public Undertakings Committee, which scrutinize respectively the budgetary estimates of the government and performance of public enterprises.

3. Budget Documents: A number of documents, including the following, are submitted to the parliament: (1) Budget Summary Statement; (2) Detailed Estimates of Revenue and Receipts; (3) Budget Estimates (also described parenthetically as Annual Financial Statement and so mentioned in the constitution); (4) Demand for Grants and Appropriations (non-development); and (5) .Development Budget (i.e. Demands for Grants and Appropriation for development expenditure or Annual Development Programme). These are considered essential budget documents as estimates of receipts and demands for expenditure are contained in them; they provide the basis for legislative approval; and include all related information (often overlapping and with varying degrees of disaggregation). In addition, the following documents also are submitted to the parliament:

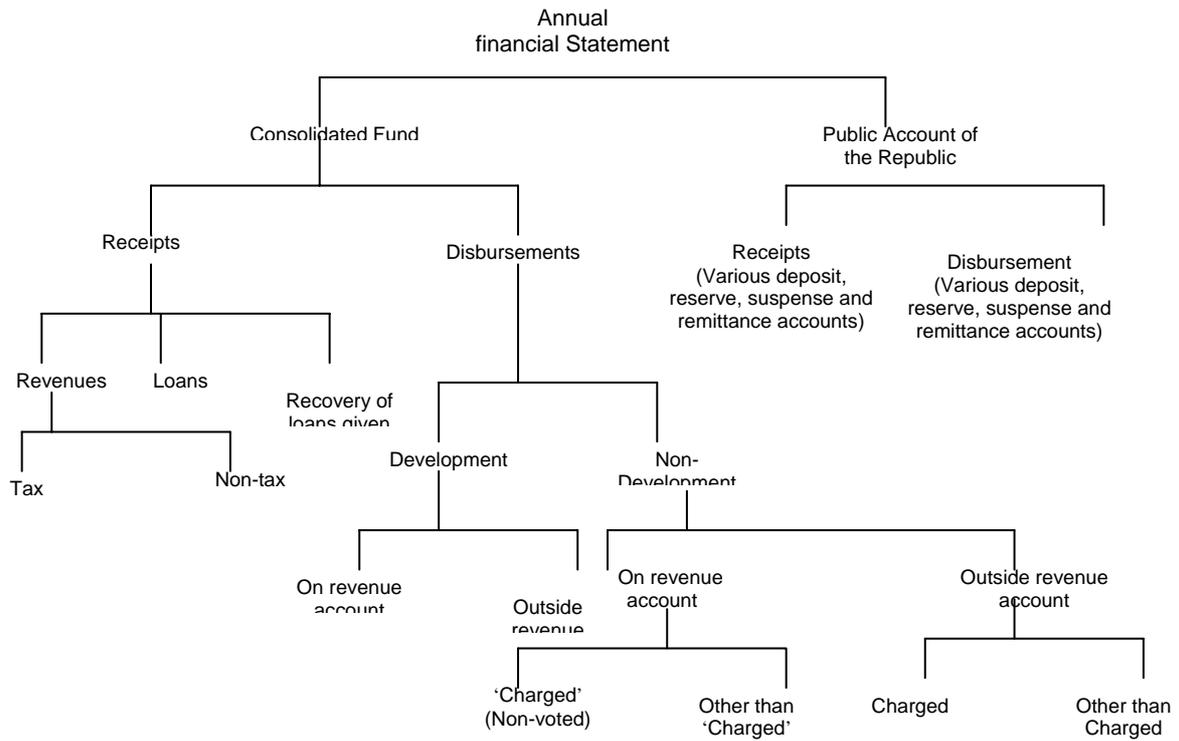
Economic Survey; Annual Report of Financial Institutions; Autonomous Bodies Budgets (for selected enterprises so far); and Annual Development Programme. These are submitted for information only and no legislative approval of these is sought or given. The critical background information, however, stimulates discussions in the parliament.

4. The variety of the documents, their contents and presentation format have grown overtime to meet various requirements as they arose and there are over-laps, repetition or duplication in these documents. Some examples are given here. The Budget Summary Statement includes twelve statements which summarize the various aspects of government fiscal operations and translate expenditures) into economic categories following IMF's Government Financial Statistics. Statement-I (Budget-at-a Glance) and Statement- XII (Summary of Fiscal Operations) provide essentially the same information, though using different terms and format. Statement-IV (Foreign Loans and Grants Receipts) shows the total amount of foreign assistance as well as uses thereof; Statement-IX (Resources for-the Annual Development Programme) &bows the financing of ADP, including external financing which is the same as the uses of external resources shown in Statement-IV. The Budget Estimates (Annual Financial Statement) include a summary of all receipts and expenditures, including the operation of the Public Accounts of the Republic; the Budget

Summary Statements, in fact, include the same information though split into a number of separate statements and using different forms. It seems possible to reduce the number of documents or statements, rationalize their contents without sacrificing information necessary for meaningful examination of the budget process. It is also felt that a carefully designed system key to the budget documents and explanatory memorandum on the estimates would help better understanding of the budget documents by the spending agencies, legislators and the members of the public.

5. Structure of the Budget: The basic building blocks of the budget reflecting distinctions between the 'Consolidated Fund' and the 'Public Account of the Republic', "Charged" and "Voted" expenditure, Revenue and Development expenditure etc., are derived partly from constitutional provisions and partly from management practice as it has evolved over the years. These building blocks are schematically summarized below:

Structure of the budget



From the standpoint of resource management, the most significant distinction is that between the non-development budget (comprising non-development revenue receipts and non-development expenditure and the net outcome of non-development capital receipts, and expenditure) and the development budget (comprising all expenditure on projects included in the Annual Development Programme).

6. Accounting concepts & conventions: It would not be possible to discuss all the accounting concepts and conventions that govern the reflection of various receipts and disbursements in the Annual Financial Statement. Any discussion on this Statement would, however, remain incomplete without an indication of the following salient point:

- (a) All Revenues are shown net of refunds.
- (b) The receipt of the Post Office and Telegraph & Telephones Departments are shown net of their working expenses.
- (c) Foreign loans are reflected on a gross receipt basis showing the total estimated disbursement by all donor countries and agencies.
- (d) The value of capital goods and technical assistance for development projects is included in the estimate of foreign loans & grants, and equivalent expenditure included in development expenditure.
- (e) The disbursement value or imputed value of food assistance (loans & grants) is included in the estimate of foreign loans & grants, with equivalent expenditure reflected in the Food Budget [Capital Outlay on state trading (Foodstuff)]. The sale proceeds of all foodstuff, whether received through foreign assistance or purchased with domestic resources, are shown in reduction of expenditure in the Food Budget.
- (f) Receipts and disbursements representing the issue and retirement of short-term treasury bills, are shown on a gross turn-over basis. Consequently, both the receipt and expenditure estimates appear inordinately heavy—only the difference, if any, between the two represents borrowing or retirement of debt.
- (g) Both the receipt and expenditure estimates contain many inter-account adjustments. i.e. book keeping interspersed among estimates of real

cashflows, However, the difference between total Budget receipts and total Budget outlays, excluding transactions with the banking system, represents an increase or decrease in liability to the banking system and/or accumulation or decumulation of cash balance.

7. Structure of Revenue Budget: The revenue budget has three distinct parts:

(i) Current expenditures which include goods and services procured or used by the government, subsidies, grants in-aid and other transfer payments; interest payments on domestic and foreign debt;

(ii) Non-development capital expenditures which include outlay on currency (ie purchase/repurchase with IMF); state trading on food and other items (but excluding departmental enterprises like the railways, telephone & telegraphs, etc., shown as receipt on a net basis in revenue other than tax revenues);

(iii) Public debt and advances which include amortization of both domestic and foreign permanent debt, floating debt.

Though the revenue budget is prepared basically on cash basis and provides for current expenditure, it would appear that it also includes elements of imputed value, receipt or expenditure on an accrual basis, and outlay having characteristics of capital expenditure. In discussing the revenue budget these distinctions are ignored and quite often revenue budget is treated as synonymous with current expenditure. Efforts are often made to maintain these distinctions by differentiating between gross revenue expenditure and net revenue expenditure; while the latter more or less represents expenditure on cash basis, the former recognizes expenditure as well as expenses (I.e. expenses without entailing actual cash outflow). The problem is often resolved by recourse to contra-entries so that the cash effect is neutralized. Sometimes this does not help. The boundary lines between genuine current expenditures and the other types of expenditure included in the budget as revenue expenditures need to be clearly established and treatment of non-cash expenses in a budget based primarily on the principle of cash budgeting should be clearly explained. In addition, treatment of transactions with IMF should also be examined with a view to bringing it into line with the procedure recommended in GFS Manual while respecting the budgetary convention. (These are transactions within monetary sector but there are budgetary reflections; the GFS Manual recommends to eliminate them from budget).

8. Structure of Individual Demands for Grants: The presentation of individual demands for grants and appropriations follow a system of classification at three levels of disaggregation and 'a six-way classification or items of expenditure (i.e. object classification). A major Head of Account, which includes a descriptive element as well as a number, is assigned to one organisational unit performing a distinct function of the government. The Major Head of Account is sometimes divided into a number of sub-major heads of accounts, each for one smaller or sub-unit within the major organizational unit covered by the major head of account. Each sub-major head of account is further divided into minor heads of account representing different functions and sometimes organizational units. In some major heads of accounts where there are no sub-major heads the major heads are directly followed by the minor heads. Allocations for each major, sub-major, minor, or sub-head are shown under primary units of appropriation which, in away, show functional distribution o(expenditure (i.e. object classification). The primary units include the following categories: (1) pay of officers; (2) pay of establishments (i.e. class iii & iv employees); (3) allowances, honoraria, etc.; (4) contingency; (5) works; (6) grants to private voluntary organisations, para-statal and sometimes international/regional organisations, within that sector. Items 1, 2 and 3 are personnel compensation excepting travelling allowances (which are a part of operational cost). Contingencies include all operational expenditures; in' some cases, allocation for operations and maintenance is treated as a separate unit of appropriation. Some illustrations of the system of classification and level of disaggregation are given' below for clarification:

(i) Major Head of Account "Audit- 103" includes eighteen minor heads-and thirty six sub-heads. The allocation for Controller General of Accounts, including allocation for the Chief Accounts Officers and field level offices, has twenty four minor heads or sub-heads .. Each ,of the twenty Chief Accounts Officers has one sub-head assigned to itself.

(ii) Major Head of Account "Education- 137" has one sub-major head for each of the following representing a level of education or type of education services:

primary education; secondary and higher education; technical education; university education; other subsidiary educational services; grants-in-aid and contributions. Secondary and Higher Education has seven minor heads, namely: Direction and Inspection; Teachers Training College; Government College; Government Secondary School; Government Madrasha; Commercial Institution; Grants to Non-Government Institution. Technical Education has nine minor heads, sometime

one for one educational institution falling within this group. Subsidiary educational services has eleven minor heads including one for grants-in-aid and contribution.

(iii) Major Head of Account "138- Health and Population Control" has several minor heads and sub-heads e.g: Direction and Establishment; Medical and Surgical Requisites; Medical College; Medical College Hospital (one sub-head for each medical college and one sub- head for each medical hospital); Dispensary; Upazila Hospital' and Dispensary; Other Medical Schools' and College (seven sub-heads, sometime one for one institute only); Specialised Hospitals and Institute (fifteen sub-heads); Epidemic Discase Control (four sub-head); Health Centre (four sub head); Others (a catch-all category similar to specialised hospitals and institutes, epedemic diseases control or health centre); grants-in-kid; works and maintenance (It has two sub-major heads-: &1e for health and 'one for population control, now renamed family welfare):

(iv) Major head of account" 122-Jail" has only three minor heads, namely: Jail, Jail Manufactures, and supply of food.

9. The above instances show two models of disaggregation-- one going into too much details and the .other providing information at a high level of aggregation. The degree of disaggregation and details varies over organizations and types of services. The following are Some of the possible explanations for the difference. (i) The functions and the organisational structures of different departments are evolved over time;. new minor heads or sub-heads have been added to existing budget structure to meet the organizations needs as they arose from time to time, often on ad hoc basis (ii) Some organisations (or: their heads or clientele groups) prefer higher level of disaggregation and details. Sometimes, the smaller, units or sub- units in a large, organisation also prefer separate recognition ill the budget presumably to protect their allocations from the larger and stronger units or subunits. (iii) On completion development projects are transferred to the revenue budget quite often without integrating them with the existing organisation' and ructions of the unit; s6metime the projects prefer to retain their separate identity, and sometime divergence of personnel system discourage complete merger. While a high level of disaggregation and details provide' information necessary for programming and control of expenditure, they may detract attention from important and broad policy issues which' underlie public expenditure decisions. Efforts to use more aggregative presentation is likely to help identify and 'focus attention on major issues of public policies and public expenditure programmes.

10. The level of aggregation suggested above does not necessarily entail sacrifice of details necessary for expenditure programming, control, their economic classification or analysis. The demands for grants and appropriations (non- development) are built upon detailed estimates by each unit/subunit of an organisation for each primary unit of appropriation. Without those detail estimates the budget cannot be prepared. These detailed estimates (available in Bengali only) can be used for expenditure programming and control. Essentially, it is suggested that a distinction be made between the use of the budget as an instrument for control on the one hand and on the other hand its use as an instrument for assessing government's performance in terms of choice of public policy, propriety and efficiency of expenditure, and success in realizing the intended and desired goals of public Policy. The two are not mutually exclusive but require different treatment in terms of the level of details and disaggregation. For instance, details of expenditure on or in a particular medical college or university would not be necessary for examining government policy on medical education or health services; but if they are required for analysing regional distribution or sectoral level efficiency, the detailed estimates which underlie all budget proposals can provide the necessary data.

11. As noted before, the primary units of appropriation in a Demand for Grant follow an object classification showing the goods and services procured. While this is necessary and useful for control purposes, a 'programme classification' pattern is required for the purpose of resource allocation based on continuous evaluation and revaluation of programme priorities. It will be desirable, therefore, to introduce a "programme classification" in each Demand for Grant parallel with 'object classification' so as to exhibit clearly the resource allocation for each distinct programme on activity. Such a mode of exhibition would require a higher level of aggregation as suggested above. Further, computerized processing of budgetary and programme data would facilitate adoption of the double classification system.

12. Contingency: Items under the primary unit "contingency" include virtually all expenditures on operations. Generally , there are nine items in the unit which include: expenditures on postage, telephone & telegraphs; maintenance and operations (POL) for transport; and all other items too numerous and small to be described separately. Depending on the particular needs of the agency or the location of offices, it may include a variety of other items such as office rent, contingency establishment (i.e. cost of employees on muster roll), uniform for employees, municipal taxes, reward and cost of anti-smuggling operation, customs intelligence, contribution to employees welfare fund,

maintenance and acquisition of equipment, operation cost for primary schools, etc. Contingency expenditure is thus used as the primary unit for all expenditures, which cannot be classified clearly under the other primary units and the items included may not always neatly fit the general concept of contingency (For instance anti-smuggling, customs intelligence, etc. perhaps would warrant separate classification).

13. For nearly a decade now operations and maintenance (O&M) has been shown separately in the budget, which include block allocations in addition to ordinary specific allocations used for these purposes. This practice understates O&M expenditure in that the ordinary allocations (part of contingency) are not included in the Budget Summary Statement. This seems to have resulted from two causes. First, the need for adequate allocation for O&M was recognized but the concept was not made operational in a way compatible with the extant system of budget classification and itemization. Secondly, the spending units could not make realistic estimates of O&M needs (Le. demand within affordability of the government); it might have been thought that the recognition of the need should lead to a net addition to total allocation and not any reprioritization between O & M and other or new expenditures. The half-way compromise has resulted in some increase in total O&M allocation at least for some agencies, but no rationalization of priorities between O&M expenditures and new investments. The concept of O&M need to be operationalized and integrated with the overall system of expenditure classification and itemization.

14. Grants-in-aid and contributions are allocated in two ways: (1) under "each major head of account for parastatals and private voluntary organizations, sometimes international/regional organizations also; (2) under a separate major head- "175- Grants-in-aid"- for purposes and organizations not always clearly differentiated from grants- in-aid or contribution from those referred to in (i) above. Some examples are given below:

(i) Grants-in-aid are given to upazilas, zilas and municipalities (in addition to Upazilla Development Assistance Grants from ADP) for general support, salary support, capital expenditure compensation for levies or local level taxes abolished or transferred to the government or other agencies.

(ii) Grants are made to City Corporations or urban development authorities as budgetary support (in addition to specific development projects or general support from ADP).

(iii) Subscription to international organisations or their local offices are included in this budget head. Government receives assistance from some of these organisations such as UNDP, ILO.UNIDO, etc.; such subscriptions perhaps are better classified as expenditures for membership of international organisations and not as transfer payments.

(iv) Contribution to international voluntary organisations are included here (e.g . ICOMP).

(v) Operational expenditure for administrative purposes or commercial operations of governmental bodies are included under these heads which can be classified separately or under appropriate heads of accounts (eg.-expenditure on Wage Boards; budgetary support to news agencies, BSS, etc.).

vi) Revenue or capital assistance grants are included in this head which should better be included as financing of projects, investment or subsidy (eg. construction of Mukhtijodda Sangsad Building; contribution to ICAB, ICMAB, etc.)

(vii) Grants to autonomus bodies are included here which can justifiably be shown as grants or subsidy to those organisations. (eg- BARD, RDTI of BRDB, RDA at Bogra, etc.). This presents a distorted pattern of allocations and lumps together grants to local NGOs, membership fees or contributions of international organisations which provide external assistance, subsidy, capital expenditure, project financing, etc.

15. Budget preparation: The responsibility for preparation of the budget is shared between the Finance Division and the other Ministries and agencies. The spending agencies prepare estimates of expenditures for the coming year on the basis of their current expenditures, normal growth of expenditure, and expansion of services or programmes. expected during the year as a result of decisions taken by the government. In estimating demand for expenditure an incremental method is followed, adjusted for any policy or programme modifications. The Finance Division checks and consolidates the budget estimates received from the various Ministries for ensuring correctness, uniformity of basis of estimates, and for limiting total expenditures within the available resources and for some balance among the various sectors. Balance in allocation of resources among various demands is determined in terms of an implicit normative pattern of allocation, subject to forces generally recognized in discussions of "public choice". The budget determination is

a hybrid between a top-down approach and a bottom-up approach, but predominantly the latter.

16. The estimates of expenditures are built upon the past and current year's expenditure trend. As indicated latter, reasonably reliable and upto-date data on expenditures are not available. The spending agencies and the Ministries perforce use whatever data they have or can collect and view them in the light of experience and judgement. Improvement of accounting data is a pre-requisite for more reliable budget estimates. The fiscal behaviour of the spending agencies also creates certain budgetary problems. They are generally expected to limit expenditures to the amount of resources available; if for any reason additional amounts are necessary, they should obtain additional allocations before incurring any expenditure or obligations. Quite often they create obligations for expenditures without prior authorisation and the government has to provide substantial budgetary resources for liquidation of arrears. This has become almost a routine. This infringes upon financial discipline, besides making budget an ineffectual instrument for programming expenditure and economic management by the government.

17. ADP and Budget: The government prepares two sets of budgets: Annual Development Programme (ADP) and Annual Development Budget (ADB) for development expenditure; the non-development budget for other non-development expenditure. The non-development budget includes aggregate allocation for ADP as well as sectoral allocations—each sector being shown under a separate head of account. The ADP is prepared by the Planning Commission as an annual time-slice of the Five Year Plan (GOB has recently adopted a Three Year Rolling Investment Programme). The ADP shows allocation of resources for all the projects taken up during the period; the projects are arranged according to sectors; allocation is exhibited separately for capital expenditure and revenue expenditure; separate columns show taxes and sources of external assistance including local cost financed by aid. The annual development budget translates ADP into the budget format on the basis of which legislative approval for grants and appropriations is obtained. The detailed development budget shows demand for expenditure for each project under one minor head of account (one major head is assigned to each sector). The development budget uses a system of classification of major heads, minor head sub-heads, and primary units of appropriation which is different from that used for the revenue budget. More importantly, sectoralisation and functional classification of expenditure in ADP differ from sectoralisation and classification of expenditure used in the revenue budget. Consequently, it is difficult to bring revenue expenditures and development expenditures

within a common format for budgetary presentation which would help identify (and aggregate) flow of public resources into the same sector or programme from the two budgets. Adoption of a common system of sectoralisation, functional categories of expenditures, heads of accounts and primary units of appropriation will facilitate juxtaposition of revenue and development budgets. There are expenditures in the revenue budget which are essentially capital in nature or have major development impact but which characteristic is not apparent from the existing presentation format (eg. teachers' remuneration, repairs of health facilities, etc.). Similarly, expenditure of a revenue or recurrent nature in the development budget cannot be identified. A common system of classification as indicated above could help recognition of the development and current expenditure contents of government expenditure regardless of their inclusion in the revenue budget or the development budget. The government may examine the need and benefit of eventual integration of the two budgets, taking into account the division of responsibility between the Planning Commission and the Finance Division to prepare respectively the annual development programme and the budget; in the immediate future, however, juxtaposition of the two budgets seems feasible and capable of serving the need to identify and aggregate sectoral resource flows.

18. Macro-economic Policy and Budget: The linkage between the budget and macro-economic policy/management is weak, if not absent. The Finance Division and the Internal Resource Division work without any formal macro-economic or sectoral model; they are guided more by judgments based on experience which are critical for operations by the government but may not be sufficient. NBR uses some model now, but its predictive power is yet to be tested fully and its relevance for policy decision to be established. The Planning Commission has a macro-economic model using real sector variables but does not incorporate financial or monetary variables. The availability of data and the present analytical capability of the Ministry of Finance are constraints on the use of formal models. It will be desirable to initiate efforts for construction of a model and improving the institutional and professional capability of the Ministry of Finance. Compatibility between the budgetary classification and national income accounts classification also is desirable.

19. Public Expenditure Outcomes and New Budgeting Techniques: The present budgetary practices show budget allocations, in terms of cost of inputs. They do not identify either the volume of inputs or the output or outcome expected from public expenditures. In this situation financial accountability extends mainly to formal compliance with rules or procedures (Le. Financial/fidelity audit); it is not possible to examine whether a particular

expenditure was truly in public interest; whether the policy goals were achieved; whether adequate economy, efficiency and effectiveness were secured (i.e. management and programme audit). Programme budget, programme, and performance budget, zero-based budgeting, etc., are budgeting techniques for overcoming these shortfalls. While such budgetary innovations may be desirable, the existing structural constraints may not allow movement in these directions; First, enormous quantity of data and analyses are required for programme and performance budgeting. This would also require strong commitment from the policy makers to submit to the discipline of more structured decision-making and management. Secondly, this would also require flexibility which would allow the government to abandon or restructure existing programmes or take up new programmes. Around the existing programmes grow up interest groups including beneficiaries, public employees, suppliers, contractors, etc.; even if the programmes are no longer necessary or incapable of delivering services they may have to continue in order to satisfy those groups. A modified approach in which data and analytical requirements are less rigorous may be considered. The budget may be accompanied by a statement either in the same volume or preferably in a separate volume stating the volume of inputs; the expected outcome or 'output of an expenditure together with expected benefits; etc. Simple format will be . advisable for the purposes which would use mostly numerical information. Such information and explanatory statements are to be prepared by the administrative ministries; the Ministry of Finance will consolidate and present the same to the Parliament. The major programmes may be reviewed periodically, which would be chosen on the basis of government's policy. Between reviews expansion of the programmes or increase of expenditure (except normal growth which should be forecast at the beginning of programme or at each periodic review) may not be allowed. While there may be justification for allocation of more resources to most spending agencies, shortage of resources will not allow simultaneous increase for all sectors; and it may be necessary or desirable to choose sectors allocations for which may have to be contained or curtailed so that allocations for growth or development supporting sectors may increase faster than overall increase of total expenditure, assuming that constraint on availability of resources will continue. The above method would set up a procedure for automatic restraint on overall public expenditure while allowing allocations to grow in selected areas. This departure from the existing practices would also help the government to introduce medium-term fiscal programming and secure a better fit between policies and budgeting, and between current expenditure and investment programme.

20. Food operation: The accounts of food operations have grown complex over time owing to increase in the volume,; diversity of PFDS channels each with different prices and entitlements for the beneficiaries; linkage of food operation- with food security and agricultural support price; diverse conditionalities of food aid donors with respect to accounting procedures, valuation, use of monetised funds; etc. Sometime ago FAO carried out a study of the food accounting system and recommended changes. Price Waterhouse, a reputed audit firm engaged by USAID, has also recommended certain changes applicable to PL 480 food aid. Increasingly, the food donors are asking for separate accounts for the food aid provided by each of them so that there is an adequate "audit trail" enabling them to track their respective aid through all its movements and uses. Food stock and the monetised resources are used for various purposes and by various agencies. This has resulted in multiplicity of accounts and accounting procedures. It will be desirable to review the food accounting system in totality and design a uniform accounting system which would make inventory management and accounting system easy to handle while compatible with government's overall accounting system and donors requirements as determined by their aid legislation or authorisation. Recommendations of SIFAD Task Force, FAO, and Price Waterhouse (representing USAID) should be taken into consideration in designing the accounting system suggested above, which should be comprehensive and yet simple and cost-effective operate.

21. Coverage of Autonomous Bodies: Autonomous and semi-autonomous bodies broadly fall into the following categories: those engaged in commercial/entrepreneurial operations which generate earnings; those which provide social services or carry out activities for which no price is charged or only part of the cost is recovered; those which act as regulatory authorities or development agents of the government and depend entirely/primarily on government's assistance. Their budgets are not incorporated in government's revenue budget as they are entities legally separate from the government. In recent years, however, GOB has introduced performance contracts with selected PSEs and preparation of budget of selected parastatals in SABRE format. It is intended that eventually all PSEs will be covered by SABRE format budgets. Even with limited coverage now, the budget of the selected autonomous bodies run into two volumes and contain too many details to be discussed meaningfully by the parliament. While the managerial autonomy of PSEs should be retained, enough information on their performance status should be available to the parliament for public scrutiny. The budgets in SABRE format and performance contracting procedures may be used for management and control functions,

while information on principal performance indicators in abridged forms may better enable the legislature to focus on key aspects of public sector policies and operations. The report would not constitute a part of the budget which is submitted to the legislature for its approval. However, transfers of resources from government to the autonomous bodies would feature in the budget; it should be transparent whether such transfers are made as cash infusion, additional equity, or subsidy, etc. to cover losses, to acquire additional capacity, or meet the gap between high cost of production or service delivery and price. In addition, the parliamentary Committee on Public Undertakings can pursue in greater depth the financial performance of select important PSEs.

22. Foreign Aid Accounts and Budgeting: The Economic Relations Division (ERD) ~ responsible for keeping all accounts of foreign aid •. Project aid and counterpart fund generated by commodity aid are used for specified purposes (virtually all counterpart fund is used for development projects/expenditure). The budget makes aggregate provision for such expenditures and ADP/AOB shows sectoral and project- specific allocations. It may be noted that the Planning Commission makes allocations for projects included in ADP: The Bangladesh Bank also accumulates data of all external sector transactions including receipts on account of aid and payments on account of concessional loans (Bangladesh Bank keeps accounts of other external payments also which are not aid). The Finance Division is responsible for execution of the subsidiary loan agreements which determine the terms for relending to the parastatals and their debt obligations. ERD depends mainly on disbursement reports from the donors for receipts of aid; it hardly ever receives reports from the project entities or the implementation agencies. The donors' disbursement reports follow different budget and financial reporting cycles and format; in addition, only a few of them furnish to ERD reports on a regular basis. Payments made by donors directly to supplier or contractors do not pass through the accounts control system of the government nor are they reported to the COA by the donors, ERD, or the project entities. As a result, the accounts and financial statements compiled by the COA do not incorporate fully receipts and expenditure on account of project aid, food aid, and technical assistance. The budget makes provision for debt servicing which is placed under control of ERD; on the basis of orders (i.e. GO) issued by ERD, the Bangladesh Bank effects payments. The expenditure is debited to government accounts with the Bangladesh Bank, but it does not enter the accounts maintained or compiled by CGA at transaction stage and until reported by ERD (or the Bangladesh Bank) which happens only sporadically. ERD, the project entities/authorities and the Bangladesh Bank are expected to report to and reconcile with CGA their accounts, which seldom happens. The accounts coverage of aid-- both receipts

and expenditures including debt servicing--are rather weak. The limitation could be overcome by subjecting all aid transactions to CAO's or COA's control. But this will establish too many layers of control--e.g: project entities; administrative ministries exercising authority over project agencies; donors local offices and headquarters; CGA. etc. (Donors already complain that there is too much of control and consequential delay). A better alternative perhaps would be to incorporate aid accounts in the statements prepared by CGA from reports furnished by ERD based on disbursement reports from donors and utilization (receipts) reports from project implementation agencies. This would involve reconciliation of accounts by ERD with reports from donors, from the project agencies, and the Bangladesh Bank on the one hand and submission of the same to CGA. The primary accounts which are to be prepared by all spending agencies and furnished to CGA will be additional source of information to CGA. When these two sets of accounts are reconciled, it would be possible to establish a more adequate coverage for aid accounts and obtain more reliable data.

23. The data collected by IMED, which does not follow the accounting and budgetary system of classification, do not serve the purpose. If its reports were to serve this purpose also, perhaps its monitoring function would, suffer. It will be advisable to let IMED alone.

24. One critical problem" in aid accounts is the valuation at the time of receipt and the time of repayment., Because of changes in exchange rate (practically sustained depreciation of taka), amounts in local currency (or debt servicing would be (substantially) larger than the amount at disbursement. Periodic upward adjustment of external borrowings, both concessional' and non-concessional loans, would be necessary to reflect correctly their current values.

25. SAFE accounts and Revolving Funds which have been introduced for facilitating expeditious disbursement of aid entail greater accounting and reporting responsibilities on the project entities as well as the donors. The amounts made available to the project entities through SAFE/RF remain outside government's budgetary and accounting control (i.e. internal audit control). Budgetary allocations are not binding on the level of expenditures or items of expenditures; deviations from eligible expenditures would be detected by donors only when replenishment is sought. The project entities keep the resources in taka In commercial bank accounts and can reconvert limited amounts into foreign exchange. Unspent balances are to be refunded in foreign currency to the donors at expiry of credit period. Budget provisions would be required for such refunds along with additional amounts for exchange rate variations. As the project entities maintain these funds with

commercial banks and the formal accounting control of the Ministry or the Departments does not apply, expenditures out of SAFE and RF accounts remain outside pre-audit. Only post-audit can detect misuse and misapplication for which the project entities would be responsible. But more importantly, any loss on account of misuse or ineligible expenditures will have to be borne by the government as the project entities are either part of the government or parastatals which would not have enough income to bear the burden (CONT ASA, introduced recently by IDA, is likely to have similar problems).

26. **Public Debt & Deficit:** Currently, domestic public debt includes only borrowing by the government. Monitoring by the Bangladesh Bank shows net public borrowing by taking into account the net position of certain public sector agencies (i.e. those not engaged in commercial operations) with the commercial banks. However, borrowing by local bodies (local self- government institutions. and autonomous bodies excluding PSEs) are not included in domestic public debt or domestic public deficit. Inclusion of borrowing by, these bodies can be justified on the following grounds: (a) loans raised by these units are driven by public policy considerations, specially in case of local bodies;(b) borrowing by local bodies and PSEs are eventually passed on to the government as they do not have enough income subsequent to the time of the loan to service debts; (c) crowding-out effect of borrowing by these bodies on credit to the private sector (public sector has preferential access to credit; the more stringent the criteria for credit, the narrower the access of private sector). The large amounts of PSE's outstanding loans to the banks and their losses temporarily financed by bank loans but eventually picked up by the government make a case for reviewing the measure of public debt/public borrowing currently in use. Any change in the measurement of public debt should be designed to enable the government to assess quickly the possible (future) budgetary impact of borrowing by local bodies 'and PSEs and the appropriate time for its recognition.

27. **Government Guarantee:** At times the government is required to guarantee for domestic and foreign loans contracted by the public sector entities. Guarantees are issued sometimes also for foreign loans. contracted by the private sector. Bangladesh Banks guarantee for payment to foreign lenders is covered by counter guarantee by the government. As this creates a contingent liability for the government. whenever payments are made on the bases of guarantees or counter-guarantees, the expenditure is debited to government account, regardless of whether budget provisions exist for such 'expenditures. Procedures need to be established for treatment of liabilities', of this kind, which remain outside the budget but may entail expenditure from the budget. The experience of the past

shows that the probability of invocation of guarantee, and counter-guarantees exists (Guarantees to NCBs covering loans to public sector entities are yet to be redeemed, though invoked already in some cases). The need and mode for reporting to the parliament the amount covered by guarantee and the budgetary cost for discharge of the same should also be examined, taking into account the constitutional/legal requirement, the need for prudent public financial management, and financial accountability.

28. Local Currency Loan by GOB: GOB gives loans in local currency to PSEs for financing investment. Most often these form allocations in ADP for different projects. The Finance Division is responsible for amortization and enforcing debt servicing for all such loans. The maintenance of records as well as accounting treatment of these loans require significant improvement. A full-fledged accounts unit, staffed by people having professional skill and familiarity with government financial system, may have to be set up for the purpose. Such a unit, with suitable manpower, may also address the problem of relending of aid, subsidiary loan agreements, capital restructuring of PSE's, etc. The Monitoring Cell under the Ministry of Finance may serve as the nucleus to build such a unit.

29. Financial Management Information System (FIMIS): The existing financial rules and reporting system are geared primarily to meet the formal legal requirements. They do not sufficiently serve the need for financial management. A more simplified system of reporting may provide quick feedback at more frequent intervals. So that the government could monitor financial flows and design appropriate interventions whenever necessary.

Such a financial management information system (FIMIS) would be required at two levels. First, the ministries and line agencies need quick information with respect to their receipts and expenditures, which can signal deviations from the projected paths calling for corrective interventions. Secondly, the Ministry of Finance will need information in order to see actual trends in relation to the projections and intervene for necessary adjustments. Appropriate intervention at this level would be necessary for maintaining critical economic balances and arresting any deteriorating trend at an incipient stage. The FIMIS for the line agencies and the ministries would have more details than would be required by the Ministry of Finance. However, it is not necessary to set up two different systems; the same system can serve both purposes provided it is so designed and information can be distilled from FIMIS of the ministries or line agencies for use by the Ministry of Finance. The information collected by IMED does not serve the purpose because of its emphasis on project implementation (rightly so), details of projects, physical components, and treatment

of financial data as of secondary importance indicating' mainly progress of project implementation.

30. Institutionalisation of Government Financial Management: One of the reasons for which financial management of the government has grown weaker is inadequate enforcement of sanctions against breaches of financial rules and propriety which are available in the existing rules and procedures. Accounting control and pre-audits are weak; lag between expenditure and audit is long; when audit reports are available, prompt actions are not taken and breaches, often of a serious nature, may be condoned or ignored. Timely audit and enforcement of sanctions in case of serious breaches could significantly improve financial management and accountability. The Government may also introduce new laws or new regulations under the existing legal provisions for strengthening budget discipline and financial accountability. Apart from the models of UK and the Commonwealth countries in respect of institutional arrangements for audit and procedures for its enforcement, the models of other countries may also be examined with a view' to establishing more effective procedures for audit and financial accountability.

31. Compilation and Modernisation of Manuals: The Government has inherited perhaps a bewilderingly large number of manuals, codes, instruction books, etc. Most of them were prepared before 1947 and have gone through changes carried out in piecemeal fashion to meet immediate needs. All of them are not available in print or conveniently compiled for consultation by the officers of the Ministry of finance and other Ministries. A review of all these manuals is needed to identify those which have grown obsolete, which need updating or modernization, which need revision, etc. Their compilation in a convenient form will go a long way in improving financial management of the government.

32. Institutional Structure for Government Accounts: The Controller General of Accounts (CGA) has the overall responsibility for maintenance and compilation of all government accounts. The organisation comprises the following offices at different levels: (i) At the head of the organisation is the CGA who is responsible for administrative and operational control of the subordinate offices and compilation of accounts of receipts and expenditures under the various heads of accounts. (ii) The Chief Accounts Officers, one assigned to each Ministry or group of ministries,' exercise accounting control in respect of the receipts and' expenditures of the headquarters- traditionally described as 'presidency accounts'. CAOs are expected to function also as internal auditor, which responsibility is discharged rather weakly. (iii) In each district there is a District Accounts Officer who performs similar functions' as CAO in respect of receipts and expenditures at the district

headquarters. (iv) In each upazila there is a Upazila Accounts Officer who performs at the upazila level similar tasks as CAO and DAO. (v) The Regional Accounts Offices, located at the old district headquarters, consolidate the accounts received from DAOs and UZAOs and transmit the same to COA at the headquarters. CAOs transmit to the CGA the presidency accounts. It may be noted that CAOs, DAOs and UZAOs, perform the same functions independently and that RAO functions as an intermediary between the office of CGA at the headquarters and district and upazila accounts offices. Further, it may be stressed that the responsibility for maintaining primary accounts vests in the government agency which incurs the expenditure or receives the income. The office of CGA is responsible for ensuring, through the network of his offices, accounts control, pre-audit, and compilation of accounts (Pre-audit by CAOs, in a sense, performs the same function "as internal audit).

33. The posts of CAOs were created in early 1980's as part of the programme for departmentalization of accounts and separation of accounts from audit. The CAOs, members of the Audit and Accounts cadre administered by C&AG and operationally subject to supervision of C&AG/COA, have been placed under the administrative control of the Secretaries of the various Ministries/Divisions. The Secretary of the Ministry/Division is the Principal Accounting Officer for all agencies under his control; CAO is to assist the PAO in discharge of his responsibilities with respect to propriety of expenditure, accounts control, pre-audit (or internal audit), etc. The Secretary can also overrule CAO. The departmentalisation of accounts system still shows a number of deficiencies and it seems that it has not yet been fully institutionalised. CAOs are still perceived (or misperceived) as successors to the former Accountant General (i.e. the highest accounts and pre-audit functionary under the earlier centralised accounts system) without an understanding of the needs and imperatives of the administrative ministries and agencies under their control. Two factors seem to have led to this situation. First, there is a difference in the training and orientation of CAOs and the rest of the officials in a Ministry or line agency: the former receive training in government accounting, audit and financial rules, and are required to ensure compliance with these rules; the latter receive a more broad-based training in public administration and are required to manage public programmes. In the latter's perception accounting control is of subordinate importance. Change in the perception of the government managers about the importance of accounts control and greater familiarity on their part with the rules of financial propriety and management can establish the functions of CAOs as relevant, which would also enable CAOs to perform their roles more effectively. Secondly, the departmentalisation scheme envisaged that the CAOs would be located in the same office premise as the administrative 'Ministries, which has not been

possible for inadequacy of space as well as the reluctance of the staff of the accounts offices. This has also impeded the integration of CAOs with the traditional structures of the Ministries; the CAOs are still perceived as "outsiders". Further, the Secretary/PAO can over-rule the advice of CAO even when consistent with financial rules and propriety; this has not only eroded the capability of CAO to function effectively, but virtually abolished efficient accounting control and internal audit system within the government. The weakness of departmentalisation should not be construed as an argument for reversion to the previous centralised system: the departmentalisation scheme has to be strengthened by taking necessary remedial measures including greater emphasis on compliance with rules by the administrative Ministries; greater exposure of CAOs to the substantive functions of the administrative ministries and the spending agencies; above all, familiarizing the PAOs with financial rules and the basic principles of public, financial and economic management.

34. CAO's role in compilation of accounts is limited only to the presidency accounts; the entire accounts including those received from UAOs and DAOs are consolidated by CGA, who transmit the same to the Ministry. This also reduces the usefulness of CAO to the Ministry in terms of exercising accounting control and providing information for financial management. Further, the accounts prepared by CGA/CAO receive only some casual attention from PAO, if at all. There are structural constraints on bringing the whole range of functions under the control of the CAOs. UAOs and DAOs are responsible for maintaining records of financial transactions for all heads of accounts at the district and upazila levels. Of necessity, they have to be placed under the control of one agency- i.e. CGA; if CAOs were to exercise control over them, multiple line of control and command would make it administratively unworkable. On the other hand, there is not enough work at the district and upazila level to justify creation of separate posts for each head of account under the control of one CAO. It seems, therefore, that efficiency in preparation and transmission of accounts has to be attained within the existing institutional structure. Nevertheless; it appears desirable and necessary to secure "greater involvement of PAOs in the process, to which end they may be required to undertake the following; (i) they would satisfy themselves and countersign the accounts prepared by CAOs; (ii) when the accounts are received from COA, they would check them and record their observations thereon; (iii) in case of discrepancy or any reservation, they would take prompt action for reconciliation; (iv) they would ensure timely preparation of accounts by CAOs and obtain within prescribed time accounts from COA. This would sensitize PAOs to the need for proper financial management and accountability while establishing closer linkage between financial and administrative management.

35. The upazila accounts offices were set up as part of decentralization of the administrative structure of the government. There was an immediate expansion of CGA's outfit at the upazila level which were filled by new recruitments. Earlier, creation of new districts also had made similar demands on the manpower of accounts offices (number of districts increased more than three times); the new demand worsened the situation. As the new recruits had to take their positions quickly, training was inadequate. Traditionally, accounts officials at this level receive some short formal class-room training and acquire the skills mostly by learning on-the-job. In the decentralized system, they missed this opportunity. Inadequate training and learning on-the-job explain largely, the persistent weakness of the existing accounting system. They are not adequately familiar with the financial rules and classification system. As a result, accounting control or pre-audit functions discharged by them are less effective. They often fail to book expenditures under the appropriate head of account and primary units of appropriation; expenditures are booked as "miscellaneous", so that one may find expenditures under specified heads of accounts or primary units substantially smaller than the budgeted level while the total expenditure (i.e. including those wrongly classified) may exceed the amount of appropriation. If the initial accounts are not properly recorded, it becomes an impossible task to remove these mistakes; this would require another set of accountants who would disentangle the accounts, correctly classify the expenditures and prepare an alternative set of accounts. If this group of accounts were available, their initial mistakes would not have been made in the first place. Moreover the skill of the officials in government agencies who are responsible for preparation and maintenance of primary accounts also need to be substantially improved.

36. Weaknesses of the Accounting System: A number of weaknesses has been observed in respect of expenditure and accounting control system attributable to systemic deficiencies, weaknesses of the personnel, rapid expansion of the system, inadequate sanction for enforcement of existing rules, etc. Some instances showing major flaws-are given below.

- (i) Excess expenditures are incurred in two ways: first, the budget provisions is exceeded; secondly, expenditures are incurred for purposes of Items for which no budget provision has been made. Since cheques issued by the government are always honoured, the spending agencies could do so regardless of budget provision. This happens in agencies which can issue their own cheques and

autonomous bodies, the latter being able to spend money on any purpose after transfer of funds to them by the Government.

(ii) The existing rules require, that money be surrendered if an agency cannot use the provision in the budget in a particular year or does not need it for the same purpose for which the provision was made. Most agencies routinely fail to surrender such provision in time. As a result actual expenditure is less in some cases while some needs may not be met because of the shortage of funds-- in this case an artificial shortage as some funds remain actually unused.

(iii) Payments between government departments are often made through exchange accounts or book adjustments i.e. no actual cash transactions take place between those agencies but the claims are settled by entering in their respective ledger's debits and credits. For instance, T&T Boards claim to the Ministry of Food may exceed the budget provision for the latter, T&T would credit the amount to its own accounts and reduce its contributions to the Government by an equivalent amount. A large number of government functionaries have a wrong notion that book adjustments are merely ledger keeping operations without any real financial implications-- i.e. the expenditure incurred by one unit of the government is a receipt of another unit so the net effect is neutral. Some go to the extent of suggesting that government departments and projects can pay taxes through book adjustment, which would overcome resource constraints. However, the fact is that the unit providing the goods or services has to procure the materials from the economy at a cost; so there is a real outflow from government accounts. In the second case there is discrimination between import in general and import by the government or public sector; the latter being cheaper would distort demand for import and exacerbate the future financial burden of the government or public sector agency. Such misperceptions result from a confusion between "mode of payment" (book adjustment is one such mode) and financing of expenditure.

(iv) A number of departments (PWD, PHE, R&HD) can issue their own cheques on government account which are honoured as a matter of course. The rules actually allow them to undertake works on an emergency basis without prior sanction of the government, but the expenditure is to be regularised. (sanction obtained in the budget provision made) within a reasonable period and the financial year. Such expenditures are temporarily booked under suspense account until charged to the appropriate scheme and booked under appropriate head of account;

the suspense account is then liquidated. Quite often they have abused this power and incurred expenditure without any budget provision or appropriation by raking recourse to "perpetual suspense account". Often such expenditures have been incurred under instructions of higher authority who ignored the financial rules (In 1989-91 NICAR authorized expenditure more than the budget provision which was an invitation to abuse the power).

(v) The number of personal ledger accounts (P.L. Accounts) has proliferated. After introduction of the Upazila structure, a large number of PL accounts were set up for Upazila Parishads. At the last count the number of P.L. accounts was estimated at 2720. The amounts in the P.L. accounts remain outside the accounting control and pre-audit; the officers responsible for operating the accounts either do not maintain a watch over them or do not render statements of expenditures from these accounts. Many PL accounts have become non-operational and might have been forgotten. Funds from PL accounts have also been withdrawn and deposited with commercial banks.

(vi) It has been often reported that some ministries/agencies withdrew money from government accounts and kept the same with commercial banks without proper authorisation by the government and contrary to the financial rules which stipulate that money be withdrawn from government accounts for meeting immediate needs for expenditure.

(vii) A number of government agencies-- those having commercial operations--maintain accounts with the Bangladesh Bank (T & T Board, Railway). Their receipts and expenditure are credited and debited to these accounts. They can finance any amount of expenditures by issuing cheques on those accounts regardless of budget provision. In case of railway this has allowed them to rapidly increase their losses and the budget perforce had to accommodate the loss;-- i.e. there is no effective budgetary control over the railway. T&T Board can also finance any level of expenditures in the same way regardless of the budget; however, since it makes profit, the result shows; up only as a lower amount of profit than it otherwise could be.

(viii) According to some aid agreements, counterpart funds generated by sale of commodity aid (including food), are to be transferred to commercial bank accounts within a specified period for financing expenditures on identified programmes.

The agencies do not maintain adequately prudent control over these accounts and expenditures therefrom; quite often, they run large idle balances while the government resort to domestic borrowing. These would compound monetary and credit controls should the amount become substantial. Further, some agencies lack institutional capacity to maintain and render proper accounts or are not adequately sensitive to the need to do this .

. (ix) The government transfers to the autonomous bodies resources for execution of development projects. After the transfers are effected, the government have little effective control over actual expenditure by the parastatals. Four forms of deviations have often been observed: (1) expenditures on purposes and items differ from the stipulations in project documents; (2) funds are diverted and spent on other projects, including those which have not, yet been approved or included in ADP; (3) money is spent on component which are not included in the project; and (4) not the entire amount is spent, the balance being added to bank accounts (often interest bearing). This results in implementation of projects different from choices made by the competent authority of the government; time and cost over-run in respect of projects expenditures on which are reduced or deferred; forced inclusion of projects or components which otherwise would not have been chosen; neutral governments expansionary(or contractionary) fiscal intervention.

There are rules for controlling such deviant fiscal behaviour which are unfortunately more honoured in breach than observance.

The government needs procedures for timely recognition of such deviation and failures and prompt intervention to stall them. Enforcement of the existing sanctions could go a long way in this direction;, new rules or procedures may be required to strengthen the process.

37. Staffing of Finance Ministry and Budget/Accounting Units of Other Ministries:

Following the general principles of staffing in the Government, the Ministry of Finance recruits their own clerical grades. The Finance Division, however, has an intermediate rung or functionaries-- the Budget Examiners-- who are slightly above the normal clerical grades but are not officers (clerical grade with some additional pay increments). They are the permanent personnel in the Finance Division and virtually all the routine work is done by them. They are ordinary graduates (sometimes under- graduates who have risen through

ranks) who acquire their skills on the job. Their training does not make them capable of handling new or complex financial issues.

38. The officers grades include Assistant Secretary. Deputy Secretary. Joint Secretary. Additional Secretary. Secretary (or currently Principal Secretary for Finance). The Government follows a rotation principle under which an officer is posted to a Ministry/Division for three years; he/she is usually transferred within that period to other Ministries. This applies to Finance Division as well. This has discouraged the growth of professionalisation and skill development necessary for financial administration. Recognition of the need for professionalism in staffing the Finance Division is urgently required given the growing complexity of financial management in an economy going through a process of progressive external and internal liberalization, deregulation and structural reforms, which places financial management in a central role in both macroeconomic and micro economic policy and management. The skills required include-- but are not confined to--familiarity of financial regulations, techniques of economic analysis and their (pragmatic) application, policy analysis and evaluation.

39. The problem has been compounded by inadequate familiarity on the part of administrative Ministries and line agencies with financial rules, techniques of public finance and economic management. They tend to feel that the government has unlimited resources to meet all demands for expenditures. All new activities, whether germane to their policies or only peripheral thereto, are referred to the Finance Division for allocations of additional resources. The spending Ministries do not always examine critically the pros and cons of new proposals, the feasibility of meeting the demand from available budgetary allocations by 'reprioritization or internal adjustments. To make it worse a perception has developed that economic or impact assessment is applicable only to development projects; such criterion or evaluation is irrelevant for expenditure from revenue budget; and that reprioritization or adjustments are constraints imposed by donors (which explains its perceived exclusive connexion with development budget). The spending Ministries should be encouraged, to take more responsibility for economic and financial management within the budget line given for them.

40. ' Apart from perceptions, the administrative Ministries suffer severe limitations in terms of institutional capability for financial and economic management: During the last decade or so, most Ministries 'have acquired planning cells manned' by officers of BCS (Economic) cadre, who are responsible only for development project. Their contribution to overall policy formation of the Ministries is limited, if not completely absent, even in

Ministries with activities which have important economic contents. In regard to financial management, however, such specialised cadre or expertise has not grown. The three years rotation principle deprives these Ministries also of officers who are well conversant with budget and accounting, financial rules, principles of financial management, economic evaluation of policies and programmes, etc.

41. In order to overcome the limitations indicated above, it is necessary to examine government's personnel and staffing policies with respect to the Ministry of Finance and the budget and expenditure control units of other Ministries. The following are a few suggestions. (i) The personnel of the Ministry of Finance may be drawn partly from members of the administrative cadres. (e.g. Secretariat, Administration) and partly from specialised cadres (e.g. Finance, Economic, etc.). The members from the general administrative cadres should have some exposure to the activities of other Ministries but should have appropriate training and experience in financial and economic management. They should have scope for specialisation in areas of financial and economic policy management. A small portion of the posts at junior and mid levels may also be filled up by people who have working experience in other Ministries, particularly those having important economic agenda. (ii) The budget and expenditure control units of other Ministries should be staffed by people who are familiar with the fundamentals of budgeting, expenditure control, government financial rules and procedures, and economic management. (iii) On the basis of experience of budget discussions by the Finance Division, it seems that at the present moment in the administrative Ministries budgeting and financial management get scant attention; by and large, these functions are left to some junior functionaries of the Ministries; in most cases, there may not be even a Deputy Secretary with full time responsibility for budget and financial management. The Ministries should assign budget and expenditure management responsibilities to some senior officers in the Ministry. The Secretaries should also give attention to budgetary issues. In the final analysis all policy and programme related issues are linked up with budget. If they attend to the budget and the whole range of issues underlying the budget, it is expected that policies and programmes would improve qualitatively; and the overall management of the government also will become more efficient and cost-effective.

42. Training of Government Officials: Training of government officials in financial management, budgeting, government financial rules, and expenditure control has become somewhat urgent for a number of reasons. Some of the major reasons are mentioned below. First, the government emphasizes more effective financial accountability through

transparency in fiscal and monetary management. Government's intention and policy can be translated into practice by government officials only if they are conversant with the principles and techniques of budgeting and government finances. It should be emphasized here that knowledge of procedures alone is not sufficient, at least at the senior levels; comprehension of the principles and objectives of government finance is essential in order to deal with the growing complexity of financial and economic management of a country which is in the process of liberalizing the economy. Application of procedures and rules not enlightened by such knowledge can be dysfunctional. Secondly, the existing training curricula for all cadres/groups of officers do not attach sufficient importance to financial management. The training curricula for BCS (Finance; Accounts) cadres is an exception to this; however, the emphasis here is primarily on rules and Procedures, and not enough attention is given to the underlying principles. Thirdly, virtually all the time of the senior officials are claimed by implementation or management problems relating to their institutions; despite the best intentions and sincere efforts, not many of them can get enough time for budgeting, expenditure programming, and expenditure control (Frequent requests for additional allocations, reappropriation, etc. within one financial year, are manifestations of this syndrome). Fourthly, there is no refreshers course which would familiarize mid-level and senior officials with financial management and rules from time to time and update them on the current state of the art.

43. The strategy of training suggested below has been based on the above diagnostic 'premises. The fact that ministries and other agencies are reluctant to spare their officers for a long period for training also has been kept in view, so that the period of training for each level of officers has been kept short.

(i) Short training courses of 2-3 days' duration may be organized for Secretaries, Additional Secretaries, and other officers of equivalent rank (grades i & ii). This may follow the format of workshop or seminars; selected speakers would introduce the major themes of discussions; and the participants would contribute drawing on their experiences and the problems that they face in real life. Such workshops and seminars may be organized three or four times a year, keeping the number of participants at a reasonably low level so that interaction becomes more effective and meaningful. Speakers may be invited from academic and research institutions, the government and the various professions. The following topics may be covered in these seminars/workshops: (i) structure, preparation, control and execution (i.e. expenditure control) of budget; (ii) update on financial rules and

procedures; (iii) government policies and budget. particularly linkage between macroeconomic policies and budget; (iv) programme analysis and performance assessment; (v) international economic environment. aid and development. (vi) institutional structure of the government for financial management. There are nearly two-hundred officers in this category; a proportion of them-- say one fourth-- may be covered by the proposed training each year. A small number may invited to repeat the course. (61 Secretaries. 125 Additional Secretaries and officers of equivalent marks).

(ii) A more intensive training programme of 4-5 weeks duration may be designed for Joint Secretaries. Deputy Secretaries, and officers of equivalent ranks. The training methods would include lectures on concepts and techniques, but greater emphasis would be put on their application through practical exercises and case studies. A part of the training time may be used for seminars or workshops on selected important topics. Training would be imparted by a group of core instructors having specialized knowledge and experience in the subject area, supplemented. by people from the government. academic and research institutions, and the related professions. The following subjects/topics may- be covered in the course: (i) structure and preparation of budget; (ii) budget execution and expenditure control; (iii) economic policies, budgeting, and national income accounting; (iv) principles of public finance and financial management; (v) financial rules. government accounting and audit; (vi) institutional structure for fiscal. financial and monetary management; (vii) programme analysis and performance assessment; (viii) international economic relations. aid environment and project implementation. The course contents and the emphasis on different topics will change over time. There are about 5000 officers in this grade; the proposed training should try to cover about one-tenth of them over a period of 6-7 years. Once the initial phase of training is over, the number of trainees each year will reduce. However. about 150 may be trained each year; a larger number will be difficult to manage. Some of the trainees may be invited to repeat. the entire training programme or part of it; a modular training approach would facilitate limited repeat participation. (Joint Secretary/equivalent 626+Deputy Secretary/equivalent 1480 + iii, i~&v grade officers in departments/directorates).

(iii) The next group comprises Assistant Secretaries and officers of equivalent ranks or grades for whom a more rigorous training programme of 6-8 weeks

- duration may be organized. The objective of training this group of officers differs from the two other groups mentioned above: training for the senior-most government servants is meant for refreshing their knowledge and reorientation; that of Joint Secretaries, Deputy Secretaries, etc. is designed to improve the skill of those who currently do most of the detailed work and who would soon rise to the highest position in the bureaucracy; by contrast, the Assistant Secretaries do most of the initial work and would rise through the ranks of civil service in the future. If they are well trained in sufficient numbers, the weakness in financial administration that is observed today is likely to disappear. In fact, training them addresses the future problems while training the two other groups (mentioned in (i) & (ii)) addresses the current and medium term needs. Training method would include class lectures but more emphasis would be placed on application of concepts and techniques through practical exercises and case studies. Seminar and workshops may supplement class lectures and practical work. Training would be imparted by core instructors having specialized knowledge in respective fields; in addition, instructors may be invited from the government, academic and research institutions, and the various related professions. The topic/subject would be the same as in the case of Joint Secretaries and Deputy Secretaries; the treatment, however, should be more extensive and rigorous. In addition, training on computers also should be introduced at this level. The total number of officers in this grade is about 3560; about one-tenth of them may be brought under training which would need about 4-5 years. After the initial phase, the number of trainers annually is likely to be about 100-150 persons. Some of them may repeat the training programme in part or full, which will be facilitated by modular approach in training. Training a smaller number of officers would have served the purpose if the personnel policy allowed professionalization; a larger number needs to be trained in view of the rotation policy and to enhance capability of the government as a whole.

(iv) The Budget Examiners are at the lowest rung of the organization of the Finance

Division. They do most of the routine work, such as docketing, filing, referencing, initiating notes in the file, making initial calculations for inclusion in the Budget or the revised budget. There is no arrangement for their formal training; they receive only training on the job. Some short training programmes of 4-6 weeks duration for the present incumbents may be useful. For future recruits, slightly longer training of about 8-10 weeks duration may be arranged. Topics of training would cover: (i) techniques of budget preparation; (ii) improvement of arithmetical

skills; (iii) government accounting; (iv) government audit; (v) financial rules; (vi) use of computer and computer programming for a selected few. The training should emphasize practical work rather than class-room lectures; Some of them may' be deputed to join the training programmes for junior auditors (discussed below); on , the other hand, some junior auditors and staff in other government agencies engaged in their budgeting -and accounting functions may also join the Budget Examiners' training programme.

44. The Finance Ministry does not have a training institute of its own nor has the need for having one has been felt so far. The various finance service cadres officers receive foundation training along with officers of other cadres at the Bangladesh Public Administration Training Centre; training is imparted afterwards by the training institutes set up for each of the separate cadres such as Audit and Accounts, Taxation, Customs. etc. None of these specialized institutes, however, has facilities. or is equipped to impart the kind of broad based and intensive training in financial management discussed above. In the long run, it would be necessary to establish separate facilities for training officers in budgeting and public finance, management. Such a training institute, when established, may also conduct some research in the fields of public finance and monetary management. In the short and medium term, however, training needs are to be met by the existing training institutes by organizing separate training programmes by the Ministry of Finance. The following are some of the institutions which may be used for the purpose: BPATC, Academy for Planning and Development, Bangladesh Institute for Bank Management. As their resources are already committed to other needs, training for the Ministry of Finance will be possible on a limited scale only. While the above will cater to the needs of training of officers separate training facilities would be necessary for the Budget Examiners and the staff or other ministries and agencies. The training facilities for the audit staff may be suitably extended for meeting these training needs. A separate training institute for BEs and other clerical grades would be too costly and does not seem justified:

45. The government may have to institute a certification procedure to improve the effectiveness of training. Except for the Budget Examiners and the Assistant Secretaries (including their equivalents), the certification procedures may divide the trainees into two categories: (a) those who attended a training programme and (b) those who successfully completed a training programme. Criteria for success will have to be determined carefully by those who develop the course. But a word of caution may be mentioned here: a formal examination and numerical grading may be avoided; they may be evaluated on the quality of

their participation in discussion, seminar presentation, etc. A formal examination may not be the right type of testing methodology for officers at this level and may create a prejudice against the training programme. The Assistant Secretaries (including their equivalent) may be evaluated on the basis of their participation in discussions, presentations, etc. and examination type tests, with weight applied to each method of testing. The examination may be modelled on the departmental examination system. Their results should be kept in their service records and success made a condition for confirmation in service. The budget examiners would be evaluated on a series of written tests. They may be allowed to continue in service only if they pass the examinations within a specified number of years after recruitment.

46. Appropriate deployment of the trained officials (i. e. officers and staff) would be necessary to make use of the training as well as to motivate the officials to take training seriously. Those who would successfully complete training would have prior claim on positions in the Ministry of Finance (IRD, ERO, FD); those who complete training would come next. In the other Ministries also, those who have undergone training should be assigned to positions related to budget, expenditure control and programming. For many years to come, however, there will be a dearth of trained officials, so the government will have to choose also officials who are not trained; in such cases, their demonstrated aptitude and interest may be given some weight.

47. The desirability of incentives for officials who undergo such training and work in the Ministry of Finance was considered. The following are some of the alternatives: (a) qualification pay for officials who successfully complete training and work in designated positions; (b) special allowance for those who work in the Ministry of Finance, assuming that 'job disutility' is greater than in other ministries; (c) generous allowance during training; (d) earmarking "economic posts" abroad also for them; (e) provision of foreign training. Qualification pay has been abolished except for the defence services; in education services, however, additional increments are given to those who obtain post-graduate degrees abroad. Special allowance for the Ministry of Finance alone may be difficult to justify; there is a subjective element in such judgments and other ministries may also make similar claims with justification. Weightage to successful training and reserving a portion of "economic posts" abroad may be feasible. Allowance during training and provision for foreign training may not pose much difficulty. The government may, therefore, consider the following: (i) Liberal allowances (but not lavish) may be provided during training, which would encourage people to opt for training. (ii) As in the case of college teachers,

ad hoc increments may be allowed to those who successfully complete approved training programmes abroad. Such increments, however, would be paid only as long as they serve in the Ministry of Finance. (Hi) Facilities for training abroad may be expanded. This will improve government's capability for financial management; the personal benefit of the trainees is incidental. (iv) Weightage may be given to successful completion of training and work in the Ministry of Finance for economic positions abroad. Besides, knowledge of financial management and procedures may also be given some preference in posting people to Economic Relations Division, which is likely to increase its institutional comprehension of the financial and monetary issues which feature largely in all aid negotiations. (ERD is considered attractive by many because of foreign travel opportunities that it offers).

48. Training of Audit and Accounts Officials: The following training programmes are in existence for different levels of audit and accounts officials:

i) Assistants Accountant General (probationers): eight months' duration following four months of foundation training with officers of other cadre;

(ii) Subordinate Accounts Services: four months each for preparing them for part-I and part-II examinations;

The training programmes suffer from a number of deficiencies: these are somewhat generalised and lack in specialisation; specific practical work is not emphasised; modern teaching aids and equipment are, not used; selection of participants (except AAG) is not methodical; the evaluation system is not effective and there is no feedback; physical facilities and infrastructures are inadequate; there is a dearth of trained teachers; financial resources allocated for training are inadequate. Further, there is no training programme for officers above the level of AAG; the senior officers, however, participate in training courses offered at PATC which does not emphasise specific professional or job related skills.

49. The office of C&AG has proposed expansion of training facilities for audit and accounts officials emphasising specific job related skills and addition of training courses for the newly promoted Deputy Accountant General and Deputy Directors. The details are appended below. The contents of the training would be adapted to changes in budgeting,

accounting and audit systems. Facilities for training of trainers also would be needed. Besides, to address the problem of inadequately trained manpower at present, crash training programmes may be arranged on different subjects within the fields of audit, accounts, financial rules, financial management, etc.

50. The existing training facilities will need strengthening in terms of increase of the number of instructors, supervisory level, officers in the training academy, improvement of teaching staff, etc. Improvement, of physical facilities could be, implemented in three phases: in the short-run, improved training aids and modern teaching equipments may be provided; in the medium term, the library, the computer laboratory facilities and the space of the present training academy may be expanded; in the long-term, a proper residential training institution with sufficient number of trainers need to be established. The academy may also undertake research and publication in the related fields.

51. Computerization: The need for computerization of budget and accounting data and use of computer in budgeting process has been felt for quite some time now. But somehow or other it has not got off the ground so far. However, the following developments in the use of computers in the government should be noted: (i) The Ministry of Establishment has a large computer facility which is used for personnel management information, (ii) The Bureau of Statistics has had computers for a long time and makes effective use thereof. (iii) As part of development or technical assistance projects, a number of government departments, public sector corporations or autonomous bodies, and ministries have acquired small computer systems or mostly PC's. (iv) The office of Comptroller and Auditor General, Controller General of Accounts, the National Board of Revenue and Economic Relations Division, have installed computers. NBR has made good use of its computer facility is designing introduction of VAT. (v) In general, computers are used for storage and retrieval of data; they are getting popular as word processors; and little use is made of the facilities for policy analysis or decision support (with limited exception though). Even in the ministries and agencies which have computers, the traditional method of working and decision-making continues. The following factors explain the 'sub-optimal use of the available computer facilities: inadequate computer literacy among public servants; inadequacy of data and the suspicion about their reliability; ad hoc nature of decision-making without clear specification of objectives and analysis, quite often dictated by the pressure of circumstances; inadequacy of data, lack of analytical and professional skills of the bureaucracy; etc. These limitations need to be borne in mind in designing and introducing computer systems in public financial management.

52. Computerization of accounting and budgetary data and use of computers in the budgeting process should be done in phases. The government officials engaged in public financial management should be trained first in the use of computers. This will involve an enormous number of personnel with varying levels of learning skills working throughout the country. The training programme will have to be differentiated in relation to their tasks and skills. At the upazilla and district levels, the tasks are likely to be simple routine, and repetitive in nature; but they, along with the presidency accounts, generate the data which are compiled, consolidated, and processed at higher levels. The regional offices, responsible for compilation of data from upazillas and districts, should be able to improve the accuracy of data and correct errors' and discrepancies; be most critical functions would be performed by the Controller General of Accounts responsible for compilation of all government fiscal data at the central level; officials in CGA's office should be able to detect and correct data received from other offices; they may have to undertake some statistical analysis also. The tasks of the Finance Division would be the most complex: it will have to deal with data received from CGA (and other administrative agencies which spend or receive money from the government); data from the National Board of Revenue' which accounts for over eighty percent of the revenues of the government; data from the Bangladesh Bank (the central bank) on external sector, particularly balance of payments and foreign exchange reserve, as well as government's ways and means position showing the trend of fiscal deficits; use them in an integrated framework for making budget estimates, control over budget execution, designing mid-year fiscal and other financial interventions. In course of time the task of the Finance Division would get more complex as the budget increasingly becomes the major instrument for management of macroeconomic policies and the related adjustment programmes.

(ii) Computerization of accounts and budgetary data as well as training may commence early in the reforms programme and need not wait until the new systems are designed and implemented. The government has to handle enormous volume of data coming from a large number of sources; CGA takes a long time now to compile them and is always behind the schedule; computerized processing of the data currently available would improve efficiency and definitely cut down the time taken which would enhance the value of the account reports as financial management information system. Some efforts will be necessary in the short term

to improve the quality of the data and simplify the reporting format on the basis of the .existing arrangements. (CGA now prepares the final accounts and, in addition, also furnishes monthly and quarterly accounts).

(iii) Computers may be introduced in two stages. The first stage, which may start early in the reforms programme or even before its formal commencement, will address the need of training and initial computerization indicated above. The existing facilities will be used; where such facilities do not exist, small and relatively inexpensive multiple systems or PC's may be provided. Efforts should be made to ensure that the existing and new systems can use the same set of data and programmes; it is recognized, however, that this may not be possible in all cases. Some training primarily for expansion of computer literacy, however, may start immediately. The second stage may be implemented later on the basis of the revised accounting and budgeting system, which may be initiated soon after the new system will have been designed and adopted. The computer system should encompass all entities involved in public financial management--namely: Finance Division, National Board of Revenue, Bangladesh Bank, Controller General of Accounts, Economic Relations Division, and the administrative ministries. The Finance Division is likely to need access- on a limited scale perhaps--to data on national income accounts, economic growth, planned expenditure and development targets, prices, etc. available from the Bangladesh Bureau of Statistics and the Planning Commission. Two particular issues will call for special attention in designing the computer system. First, inclusion of upazila and district accounts offices in the system will be perhaps too ambitious and expensive at this stage; improving their skills in correct and timely classification and compilation of accounts is likely to generate more benefits. The system may include the regional accounts offices, provided available technology and infrastructural facilities permit that. Secondly, the system may not extend beyond the administrative ministries; the government and public sector agencies under their control may be left out of the system. Inclusion of upazila and district accounts offices and agencies below the level of ministries will make the system too large to be manageable and useful.

(iv) Institutional and logistic capabilities will have to be enhanced for efficient maintenance and operation of the computer system after its installation. The government still lacks in-house capability for handling the hardware and the software. Given the limited scale of use of computers in the government at present,

it may be premature and uneconomic to set up a governmental unit for the hardware as well as the software; for sometime more the optimal option may be to use outside contractors for the purpose in combination with the capability available in the public or agencies and academic institutions (eg. BAEC, BUET, SPARSO, Dhaka University, BNCC, etc.). The system, however, will have to be supported by a sufficient number of well trained programmers and a limited number of software specialists. Their service conditions and compensation will have to be fixed on a competitive basis, taking into account the level of their skills and the growing and therefore.

(v) Institutional linkage between the existing units to be covered by the proposed computer system and the new units to be installed staffed by computer specialists should be established from the very beginning. One major reason for performance of institution-building projects is the failure to establish such linkages. Factors which may contribute to institutionalization of the new units include: their location in the same premises; involving them in the decision-making process; use of data and analysis in decision making; improving the skills of decision-makers and administrators in handling computers and using computer generated materials as critical inputs in decision-making; etc. If decisions are made out due regard for the computer generated information, the technology and personnel becomes increasingly irrelevant. The relationship between the specialists and the administrators-decision makers and the latter's ability to use the input provided by the specialists is likely to be a critical factor helping or deterring institutional integration.

53. Consultancy Requirement: The consultancy requirements are estimated below in terms of areas of expertise and length of time. It is to be understood that the requirements are indicative and not definitive; after finalization of the diagnostic study and TOR for consultancy, the areas and man-months for each area would be more clearly specified. Generally, the following scheme has been observed in indicating the requirements for consultancy; (i) there would be three phases of consultancy, with some sliding from one phase to another; (ii) approximate period of each phase has been indicated; man-months for each area of expertise within that period is indicated; (iii) the experience and qualifications of the consultants as well as choice of consultants and expatriates also have been suggested

Phase	Tasks	<u>Period</u>	<u>Qualification & Preference</u>
A) initial (i) phase	Review of GOB's diagnostic study: supplementation of the study if and to the extent required;	Total period- 3 months for phase I;	Expatriate with knowledge of budget, expenditure control, and government accounting system of countries like Bangladesh;
ii)	Preparation of draft reforms programme for Phases I&II;	3 man-months for (i) & (ii) & (iii);	familiarity with reforms in other countries in similar situation; preferably in association with local experts.
iii)	Preparation of draft TOR and works programme for Phase I in the light of (i). and (ii) above.		
iv)	preparation of training programme, modules, and manpower needs for training which can commence during Phase I; adjustments in the contents of training will be allowed during Phase 1.	11/2 - 2 man-months within 3 months for Phase 1.	Expatriate consultants having expertise in budgeting, accounting, expenditure control systems and training/educational methodology; local experts to be associated.
v)	preparation of programme for introduction of computers for budgeting and accounting, preferably PCs or multiple small systems; training programme for officials of Finance Division, Controller General of Accounts, office of Comptroller and Auditor General.	"2. - 21/2 man-months; will involve some survey to determine the existing level of preparation and then build the programme thereon;	Local experts having familiarity with computer training (e.g. BUET, BMDC, DU, etc.); expatriate consultants mentioned above will provide assistance and coordinate with other components.
B) <u>Phase I</u> (i)	design new budgeting, Accounting and expenditure control systems, keeping in view the legal, management, and economic aspects as well as the existing systems;	18 months approximately, which allows observation of one full budget-cycle and a little longer to get a better <i>com</i> prehension of the system and desirable.	Expatriate consultants having familiarity with similar systems and experience of reforms of systems; association of local experts, including officials, on a large scale process; the core team will work for

Phase	Tasks	Period	Qualification & preference
			the whole period, while specific experts may work for shorter periods
	ii) initiate application of the revised systems and make suitable adjustments based on experience of application	18 man-months for (i) and (ii) each	
	iii) design and implement training programme to familiarize the officials of the Finance Division, the office of the Controller General of Accounts, the contents of the training programme to be differentiated for the different levels of officials; expand the programme to officials of other Ministries and Departments on a small scale; as this progresses, training programme designed in the initial phase will be replaced	6-8 months for (iii)	As in (i) and (ii); in addition, should have expertise in education/training methodology; local consultants to be associated.
	iv) design computerization of budgeting, accounting and expenditure control functions; train concerned officials in use of the system; design computer systems; installation of ht system in Finance Division and office of C&AG and CGA; extension of the system to other ministries.	18 man- months for (iv)	Expatriate consultants having expertise in computerized management of financial and accounting data, knowledge of computer hardware and software's; local experts to be associated.
	v) design of an interim Financial Information Management system using the exesting budgeting and accounting systems;	1-11/2 man months; may commerce in about 6 months of (i) and (ii)	As in (iv)

Phase	Tasks	Period	Qualification & preference
vi)	design and install a new Financial Management Information system to replace the interim one; all other ministries will be brought within this system by extension of the same computer network and/or use of the same software.	3-4 man-months; may commence towards the end or after (i), (ii) & (Hi) have nearly been completed.	As in (iv)
vii)	prepare a manual for the new budgeting, accounting, and expenditure control systems; prepare a manual for the computer system;	6 man-months, to commence after (i), (ii) & (iv) are near completion.	As in (i), (ii) & (v).
viii)	review the existing financial rules, codes, manuals, etc.; prepare and modernize rules, codes, manuals, etc., taking into account the legal and organizational structure of the government and the need for a public financial and macroeconomic management; a compendium of rules and operating instructions are expected output of this process.	8 - 10 man-months; may commence about a year after commencement of the project and may slide into Phase II	As in (i), (ii) & (v); larger use of local experts desirable.
ix)	review and recommend staffing pattern allowing professionalization in Finance Ministry and for personnel performing similar functions in other ministries/ departments.	6-8 man-months	Expatriate consultants having expertise in government budgeting, accounting public personnel management and compensation systems; association of local experts.
x)	finalization of proposals for setting up training facilities; partial installation of training facilities;	4-5 man-months; may start towards the end of Phase and continue into	Expatriate consultants with knowledge of administration of public
.	assessment of logistic support & partial provision thereof;	phase II.	financial management systems; experts in construction and logistic supplies; local experts be used on large

		<u>Period</u>	<u>Qualification & Preference</u>
C) <u>Phase II</u> (i)	full implementation of the new budgeting, accounting, and expenditure control system; review, adjustment, and further refinement; institutionalization of the system through appropriate legislative or administrative instruments;	2 years; 24 man-months of a core team of expatriate consultants and local experts having expertise in budgeting, expenditure control, accounting, training, & national income accounting.	
ii)	Expansion and consolidation of the training facilities started in Phase I;		to be implemented as a development project.
iii)	implementation of the personnel system as indicated in (ix) during phase I.	As in (i)	
iv)	institutional and logistic support to the Finance Division, office of C&AG and CGA; identification of the need should be made during phase I.	As in (i)	
v}	improvement and rationalization of public expenditure programme using the new systems and enhanced institutional and logistic capability.	2 consultants, upto a maximum of 10 man-months each.	Expatriate consultants having expertise in public expenditure analysis and impact evaluation; local officials and experts to be generously associated.
vi)	review and closure of project.	4 man-months; to commence towards the end or after the project and may continue for a few months thereafter.	mainly local experts and officials with 2-3 expatriate experts in public financial management and evaluation techniques.

54. Summary & Recommendations:

(1) The committee set up by the government (CORBEC) found a number of weakness in the present systems and procedures related to budgeting, government accounting, and expenditure control and recommends that the government urgently undertakes a programme for reforms of the systems, procedures, and the concerned institutions. The details of the reforms programme need to be worked out.

(2) The number of budget documents and summary statements seems to too many containing, to a large extent, overlapping and repetitive data. It is possible to reduce their number and rationalize the contents of the documents which is likely to allow better focus on the critical issues of public policy and public expenditure.

(3) The budget is prepared primarily on cash accounting basis covering the receipts and the expenditures of the government, but there, are some elements of accrual accounting and monetary sector transactions also. A review may be undertaken to determine the basic accounting, procedures: (i;.e. cash, accrual, modified accrual, etc.) and treatment of the monetary transaction elements in the budget.

(4) The system of accounting classification which assign to organizational units or sub-units major heads of account, sub-major heads, minor heads, sub-heads, follow two different models; (a) a high level of disaggregation and (b) a high level of aggregation. A higher level of aggregation in the budget presentation may be helpful in legislative scrutiny, while the underlying details may serve management and expenditure control functions.

(5) "Programme classification" should be included in the individual Demand for Grants in addition to the object classification only at present. The programme classification would link allocation of resources with programmes and activities for which provisions are made, would allow evaluation of programmes and activities in relation to public policy goals and actual outcomes; and necessary adjustments in the light of computers would facilitate adoption of the new classification, analysis and evaluation.

(6) Three of the primary units-namely pay, allowances and works--by and large, conform with the standard functional categories of expenditure. The meaning and economic characteristics of three other categories-namely contingencies, operation and maintenance, and transfer payments of various types-are vague and blurred. The meaning of the units of appropriation need to be clearly defined consistently with their functional and economic characteristics.

(7) Departmentalization of accounts does not seem to have been adequately institutionalized yet; CAOs have ineffective accounting control; and PAOs/Secretaries are more concerned with administrative management than financial propriety and financial accountability. Creation of DAOs and UZAOs within a short space of time have expanded the accounts administration outfit which have been filled up by persons without adequate training and experience. To overcome these weaknesses, it would be necessary to: define clearly the functions and authority of CAOs; their relationship with PAOs/Secretaries; the responsibilities of PAOs/Secretaries in regard to financial accountability; and train the accounting staff. In addition, consideration should be given to the possibility of reducing the range of the, functions of UZA'Os or transferring all those functions to the district offices.

(8) Several weakness are found in the accounting information and control system:--eg: wrong classification of accounts; expenditure in excess of budget provision or without budget provision specially in where book, adjustments are made or the spending agencies are competent to issue cheques; proliferation and misuse of PL Accounts; withdrawal of money from; the treasury and maintaining; idle balances with commercial banks often in pursuance of stipulations in aid agreements. Sanctions available in the existing financial rules should be strictly enforced; in addition, such other new measures as may be necessary may be installed to make accounting control more effective:

(9) Receipts and expenditures on account of aid are not captured in the accounts prepared by GGA. Accounts compiled by ERD also show a number of deficiencies such as dependence on disbursement reports by donors only a few of whom furnish the same regularly; absence of reporting by project entities; no reconciliation between ERD, Bangladesh Bank, the project entities, and CGA. Additional problems of aid accounts include: absence of accounting (internal audit)

control in innovative arrangements such as SAFE, 'RF, CONTASA, etc.; adjustment of valuation of outstanding loans in phase with changes in exchange rate; etc. A system needs to be devised to bring aid accounts within the accounts compiled by CGA and to address the other problems.

(10). Accounts of food operations have grown in complexity as a result of increase in the quantities, diversity of procurement modes and sources, and specific requirements regarding accounting procedures and utilization stipulated in aid agreements. According to the recommendations of SIFAD Task Force, food aid will be used mainly as a resource for development programmes. FAO and Price Waterhouse (on behalf of US AID) have suggested certain changes. Efforts are needed to set up a uniform basic food accounting system, keeping at the minimum level additional elements which may be required to meet specific needs of donors according to their aid legislation or other modes of aid authorization and use of food as a resource for development.

(11) The existing accounting system is set up primarily. to meet legal requirements. A financial management information system needs to be installed which can provide financial data on a regular periodic basis. An integrated system which serves the needs of the spending agencies, the administrative ministries and the Ministry of Finance is preferred to separate systems for these several units. An interim financial management information system may be set up to meet urgent - needs, while a more efficient system may be prepared later on the basis of the reformed budget and accounting system.

(12) The definition of public debt and deficit and the coverage of data thereunder may be examined with a view to determining inclusion of borrowing by parastatals not engaged in commercial operations and local government units.

(13) Maintenance of records of local currency loans given by the government to the parastatals, relending of aid, as well as equity participation, needs to be improved urgently. This responsibility may be given to the monitoring cell attached with the A.B Wing of the Finance Division, with necessary strengthening of the cell.

(14) It should be examined whether the government should continue to guarantee domestic loans raised by the parastatals, for they eventually tend to become an

obligation of the government. Guarantee for foreign loans, for the public and private sectors, may be necessary; and effective procedures to screen such cases should be installed to determine the time and mode of their budgetary recognition and reporting to the parliament.

(15) Estimates of revenue expenditure are made on an incremental basis. As reliable and relatively recent expenditure data are not available, the estimates remain somewhat weak. Budgetary control is also rendered ineffective by excess expenditures and obligations for payment incurred by the spending units. Improved accounting data are necessary for better budget estimation and more effective budgetary control need to be established over the spending units.

(16) Development budget is presented separately from the revenue budget, which makes it difficult to view allocation of resources for a sector in an integrated framework. Juxtaposition of revenue and development budgets, undoubtedly a desirable course of action, would be facilitated by adopting for both budgets a common system of sectorialization, accounting classification, and units of appropriation. The government may also examine the need and benefit of eventual integration of the two budgets, taking into account the institutional roles of the Planning Commission and Finance Division in preparing respectively the annual development programme and the budget.

(17) The linkage between macro economic policy and the budget can be improved by use of formal models by the Finance Division. The model should be simple in view of the difficulty of getting adequate and reliable data. The relationship between budgetary concepts and the national income accounting concepts should also be clarified and established.

(18) The budgeting techniques currently in use, which mention only sums of money for expenditure without specifying either the volume of inputs or the public policy goals, do not allow assessment of outcomes of public expenditure. Innovative budgeting techniques suited to the needs of the country-- such as programme budgeting, programme and performance budgeting, zero-based budgeting, but not confined to them- should be adopted on a pragmatic basis for the purpose.

(19) The budget of autonomous bodies, legally different from the government, should not be included in the budget which is submitted to the legislature for appropriation. However, information on key performance indicators in abridged form should be submitted to the parliament so as to ensure legislative oversight over public enterprises~ Budgetary transfers to the PSES should be made transparent. However, the need for managerial autonomy of the public enterprises should be clearly recognized.

(20) The present staffing pattern of the Ministry of Finance which follows uniformly the principle of three-year rotation, may be reviewed with a view to allowing officials in the Ministry of Finance to acquire professional expertise required for the ever growing complexity of financial administration. The officials may be drawn from the general administrative cadres as well as the finance services cadres. Besides working in the Ministry of Finance, they may also have brief spells in other ministries so as to have a better understanding of administrative and management problems.

(21) The existing manuals and codes, numbering nearly sixty, may be reviewed with a view to eliminating the obsolete, update and modernize the relevant, and compile them for easy access and consultation.

(22) Training in public financial management may be organized for officials of all levels. Training of Secretaries and Additional Secretaries will be organized in the format of workshop or seminar of 2-3 days duration; for officers below that level, training programme may be 4-8 weeks duration and more rigorous, the length and the rigour more the junior the officers. The training curricula may include, among other topics, budgeting, public financial management, economic policies, use of computer. Training in simple arithmetic skills, financial rules, accounting and audit, may be arranged for the budget examiners. While training may commence at the existing training institutions such as BPATC, APD and BIBM, in the long run separate facilities will have to be created for training and research in budgeting and public financial management. To make training effective and realize the benefits of the trained manpower, the government may introduce appropriate policies for deployment of the trained officials and incentives compatible with the government's compensation structure.

(23) The existing training facilities for accounting and audit officials suffer several constraints: inappropriate training method; inadequate physical and infrastructural facilities; shortage of trained instructors; lack of modern training aids and equipment; insufficient financial resources. No training facilities exist for officers above the level of Assistant Accountant General. Facilities for training of audit and accounting officials, including that for Deputy Accountant General, Deputy Directors, and Additional Accountant General, may be established and the existing facilities improved. In the long run, a well-staffed residential training institution should be established which may also undertake research and publication.

(24) Computerization of accounts and budgetary data will improve management of the public finance. It may be done in two stages: first, the personnel may be trained and small multiple systems or PCs may be used to handle data as available now with some modifications if necessary; secondly, after adoption of accounting and budgeting reforms programme, a computer system may be installed encompassing the administrative units involved in public finance management and having limited access to BBS and the Planning Commission in respect of data on national income accounts, economic growth and performance, development targets and expenditures, etc. The system may not include district and upazilla accounts offices; it may include the administrative ministries but not other agencies under their control. Efforts should be made from the beginning for integrating the new units with the existing units, including greater use of computer generated inputs -into decision making.

(25) Consultancy services may be utilized in three phases: the initial phase to comprise diagnostic study and preparation of subsequent reforms programme and TOR for phase 1; the second phase to comprise design and initial implementation of the new system, training, computerization, modernization and compilation of rules; the third phase to comprise full implementation of the reforms and their institutionalization, enhancement of institutional capability of government units dealing with public financial management, and use of the capability for more rational public expenditure programming and management. The man-months and areas of consultancy services as shown in the report are indicative, which will be more clearly specified in the TOR.

NEW AND ADDITIONAL TRAINING PROPOSALS
AND
NEED FOR RESOURCES
IN
AUDIT AND ACCOUNTS TRAINING ACADEMY

1. EXISTING TRAINING COURSES

1.1 Departmental training for A. A. G. (probationers)

-For newly recruited A.A.G.S (Compulsory)

- Duration is 12 months including 4 months Foundation Training at P.A.T.C.

- Syllabus includes fundamental concepts of Financial Accounting, Auditing, Financial Management, Cost & Management Accounting, Company & Industrial Law. Besides,- Service Regulations, Financial Regulations, Codes & Manuals of Civil, Defense and - Railway Accounts.
- A basic level general Computer Training of 1 month's duration of also included in the-syllabus.

1.2 S. A. S. *** Part-II training Course

- For auditors (Class- III employees) to help them in preparing for the S.A.S. Part-II Examination.
- Duration is 4 months
- Syllabus includes subjects of S.A.S Part-II Examination

1.3 S. A. S. Part-I training Course

- For Auditors (Class- III employees) to help them in preparing for the S.A.S. Part-I Examination.
- Duration is 4 months
- Syllabus includes subjects of S.A.S Part-I Examination

1.4 Auditors' training Course

- For auditors (Class-III employees) of Pre-Audit & Post-Audit offices to increase their working efficiency in performing office duties.
- Duration is 3 months.
- Syllabus includes Departmental books, Codes, Rules, Manual, Regulations and Office Management.

1.5 Junior Auditors' Training Course

- For Junior auditors of Pre-Audit & Post-Audit offices to give them an elementary-knowledge of departmental work and office management.
 - Duration is 12 months
 - Syllabus includes Departmental books, Codes, Rules, Manual, Regulations and Office Management.
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* Assistant Accountant General.

** Public Administration Training Center.

*** Subordinate Accounts Service.

2. LIMITATIONS OF EXISTING TRAINING COURSES

- These are somewhat generalized Training Courses, not Adequately specialized.
- No emphasis on Specific practical work .
- Case-study method is not followed.
- Modern teaching aids are not used.
- Selection of participants for the courses except the course for A.A.G.S, In not methodical.
- Evaluation system is not adequate and effective.
- No Training courses for levels of officers and employees other than A.A.G., Auditor and Junior Auditor.

3. REASONS FOR THESE LIMITATIONS

- Accommodation problem-Academy has now an accommodation of only 9600 sft. for all of its activities including administrative activities.
- Man-power problem-Academy does not have an adequate number of trained Instructors and other administrative officers and staff.
- Lack of modern teaching aids and equipments.
- Budget constraint-academy runs all the activities round the year on a limited budget.

TRAINING EXPANSION PROPOSALS

The existing training courses can be continued with some improvement and modernization in several aspects. Beside these existing courses, a number of new courses can be started in academy. Keeping in mind the various levels of officers and staff –and the nature of their work the proposed training courses-may be as follows.

4.1 Courses for Auditors level.

Course Title	. Participants from	Objectives	Course outline
Pay Fixation	pre-Audit & Post-Audit	To bring consistency in pay Fixation in different pay offices and to develop a group of professionals in pay-Fixation.	Related books, codes, Manuals, Rules, Circulars with case-Studies.
Pension Case Settlement	- do-	To bring efficiency in settlement ,of pension Cases and to develop a group of experts in pensions case settlement with professionalism	- do-
GPF Maintenance	- do-	To perform activities related to FPF Accounts more efficiently and quickly and to develop a professional group for GPF Account.	- do-
Settlement of contingency (expenditure on supply of goods and services other than pay and allowances)	-do-	To control expenditure so that they are incurred in the prescribed way and to bring efficiency in settling contingency bills (expenditure other than pay and allowances.)	- do-
Development Expenditure	- do-	- do-	- do -
Leave Accmmt	- do-	To maintain leave Account proper and efficientlv.	- do -
Accounts compilation	Pre-Audit Offices	To bring efficiency in Account Compilation and to develop an expert group in this field.	- do-
Report Writing	Post-Audit Offices	To improve the quality and effectiveness of the composition and presentation of audit Reports	Report wiling and techniques with case studies.
Development of paragraphs containing normal audit observations and findings.	- do-	To bring efficiency in audit function by improving know ledge of the act and tcchnique of developing "audit paragraph'	Related rules and techniques of practical audit work with case studies.
Computer operation	Pre-Audit & Post- Audit and Accounting	to familiarize the trainees the use of Computers in official business.	computer basics with special referccnce to the use of Computers in office work generally

Courses	Title	Participants from	Objectives	Courses Outline
	Functions of SAS ••• Superintendent; in civil Accounts	offices under CGA	To improve the quality of per-audit work. and Accounts compilation.	Settlement of bills pension cases, GPF matters, leave matters, pay fixation, accounts compilation and office management (with studies)
	Functions of SAS superintendents in defense finance	Offices under CGDF •••••	To improve the quality of pre-audit work in Defense finance offices.	- do-
	Functions of SAS superintendents in Post-Audit Offices (General)	Post-Audit Offices	To improve the quality of audit work in respect of manners common to all audit offices.	Common issues being audited by all audit offices with case studies.
	Functions of SAS Superintendents in Post-Audit offices (Specialized)	- do- (Individual)	To improve the quality of audit in specialized areas dealt with by each audit office separately.	All related matters about audit of the specific area the individual office deals with. (with case studies)
Computer Use		Civil Accounts Defense finance and Post-audit offices (Selected)	To Familiarize the trainees with the Computer and its use in pre-audit and post-audit activities.	Elementary knowledge about the computer and its possible use in the Audit Department.

- Subordinate Accounts Service.
- Controller General of Accounts.
- General Providend Fund .
- controller General of Defense Finance.

4.3 Courses for Audit and Accounts Officers

Courses Title	Praticipants from	Objectives	Courses Outline
Functions of SAOs* in civil Accounts	Offices under CGA**	To improve the quality of per-audit work and Accounts compilation	Settlement of bills pension cases, GPF*** matters, leave matters, pay fixation, accounts compilation and office management (with case studies)
Functions of SAO's in defense finance	Offices under CGDF .•••••	-do-	- do-
Functions of SAO's in Post-Audit Offices (General)	Post-Audit Offices	To improve the quality of audit in general matters chick are common to all audit offices.	Common issues being audited by all audit offices with case studies.
Functions of SAO's in Post-Audit Offices (Specialized)	-do- (Individual)	To improve the quality of audit in specialized areas dealt with by each audit office separately.	All related matters about audit of the specific area the individual office deals with. (with case studies)
Computer Use	Civil Accounts Defense finance and Post-audit offices (Selected)	To Familiarize the traineeccs with the Computer and its use in pre-audit and post-audit activities.	Elementary knowledge about the computer and its possible use in the Audit Department.

- Audit and Accounts Officers.
- ••• Controller General of Accounts.
- ••• ••• General Providend Fund.
- ••• ••• ••• Controller General of Defense Finance.

4.4 Refresh Courses for Deputy Accountant Generals/Deputy Directors Level

Courses Title	Praticipants from	Objectives	Courses Outline
Course for newly promoted D.A.G./D.D.*	Civil Accounts Defense Finance and Post-Audit Offices (Before posting as DAG/DD	To Extend the boundary of the participants' management knowledge and his capacity for detailing more efficiently with new issues relating to the role of the audit Department	Office management personal management financial management and new issues such as reorganization of audit and accounts, interpretations of Interest financial rules, computerization etc.
Course for Officers working as DAG/DD in Audit Department	Civil Accounts, Defense Finance and Post-Audit Offices	-do-	- do-
Machinery of Government and the decision making process in Government	-do-	To make the participants to understand the functioning mechanism of the government and the process of decision making of government.	Details of the Machinery of the government and the process of decision making in government activities.
Computer	-do- (Selected)	To Familiarize the traineeccs with the and to improve the efficiency of departmental work	General concepts of the computer and the computerization of various activities of the Audit Department

* D. A. G. – Deputy Accountant General

D. D. – Deputy Director

4.5 Refresh Courses for Addnl. AG / Addnl. Directors Level

Courses Title	Praticipants from	Objectives	Courses Outline
Course for newly promoted Addnl.A.G/Addnl. Director	Civil Accounts Defense Finance and Post-Audit Offices (Before posting as AG/Addnl. Director	To Extend the boundary of the participants' management knowledge and his capacity for detailing more efficiently with new issues relating to the role of the audit Department	Office management personal management financial management and new issues such as reorganization of audit and accounts, interpretations of Interest financial rules, computerization etc.
Course for Officers working as AG/Addnl. Director in Audit Department	Civil Accounts, Defense Finance and Post-Audit Offices	-do-	- do-
Machinery of Government and the decision making process in Government	-do-	To make the participants to understand the functioning mechanism of the government and the process of decision making of government.	Details of the Machinery of the government and the process of decision making in government activities.
Computer	-do- (Selected)	To Familiarize the traineeccs with the and to improve the efficiency of departmental work	General concepts of the computer and the computerization of various activities of the Audit Department

All these courses will be job oriented with the objective of developing skills ad insights in related fields. Contents of these proposed courses are subject to subsequent changes following any kind of Accounting Reform to maintain consistency between training and parctical work.

Besides these normal Courses, training courses on crash program basis will be Arranged on any subject- Finance, Audit and Accounts for any level of officers or employees, as and when required in order to help improve the efficiency of the Audit department.

Furthermore. Trainers' Training Courses for the permanent and casaul instructors of the academy will be organized with the help of professional people in the related fields.

" ADDL. A.G. - Additional Accountant General.

5. RESOURCE REQUIREMENT

In order to conduct the existing training COURSE more effectively and to introduce the proposed new courses for various levels of officers and staff, the Audit and Accounts Training Academy needs more resources than it presently has.

The academy needs both human resources and physical facilities

5.1 Human Resources

- Number of instructors has to be increased
- Number of officers at the supervisory level in the academy has to be increased.
- Number of administrative staff in the Academy has to be increased.
- Development of quality of teaching staff is necessary. For this, continuous Trainers' training at home and abroad is essential.

5.2 Physical Facilities

Immediate/Short-Term

- Improved Training aids
- Modern teaching equipments

5.3 Medium-Term

- A self Sufficient Library
- A self Sufficient computer Laboratory
- Expanding academy accommodation
- (it would be necessary to increase the existing accommodation of 9,600 sft. To about 15,000 sft)
-

Long-Term

- A permanent residential academy complex large enough to accommodate at least 330 trainees and 94 trainers & administrative officers & staff, both for academic and residential purposes.
- A research and publication center.

Government of the People's Republic of Bangladesh
Ministry of Finance, Finance Division
Budget wing, Section-VII

No. MF/FD/Bt-VII/Misc-32/88/77/74 (20)

Date : 23.12.89

With a view to bringing reforms in Budgeting and Expenditure control Government has decided to constitute a working level committee to examine and review the existing rules and procedures relating to Budget and Expenditure Control.

2. Constitution of the committee will be as follows:

(I)	Addl. Finance Secretary (1) Ministry of Finance.	Chairman
(ii)	A Representative of the Planning ,Commission	Member.
(lii)	A Representative of the C & A.G.	Member.
(iv)	Controller General of Accounts	Member.
(v)	A Representative of Bangladesh Bank.	Member
(Vi)	A Representative of the National Bureau of Statistics	Member
(vii)	Joint Secretary (ECR) Finance Division	Member Member
(viii)	Joint Secretary (DEV) Finance Division	Member
(ix)	Joint Secretary (Banking) Finance Division.	Member
(x)	Joint secretary (Investment) Finance Division	Member
(xi)	Economic Adviser, Finance Division	Member
(xii)	Joint Secretary (Budget) Finance division	Member Member Secretary

3.If necessary, the committee may co-opt any officer from other Ministry /Division/Directorate etc.

4. The Terms of reference of the committee is enclosed herewith

Sd/-

(Dr. S.A. Samad) Addl.
Finance Secretary.
Finance Division.

Terms of Reference for the Committee on Reform in Budgeting and Expenditure Control

- (a) Review existing diagnostic studies and reports on government economic Planning, budgeting, accounting and auditing and identify recommendations for Improvements in the budgeting and expenditure control systems which would improve the allocation use and control over resources.
- (b) Determine the changes in the current classification system required for the budget (revenue and capital) and expenditure accounting which will make these systems consistent and mutually compatible, while also enabling budget preparation and monitoring by program and activity.
- (c) Review the separate responsibility for preparation and "Presentation of recurrent and capital budgets, and develop a new format and procedures for consolidating these budgets consistent with statutory requirements and for improving analysis of linkages between the two.
- (d) Set out the requirements for accurate and timely preparation of financial reports and accounts to the sector departments, legislature and the Central Bank.
- (e) Review the current accounting system and ensure that it comprehensively covers all revenues and expenditures of the Government of Bangladesh.
- (f) Review the existing institutional arrangements and procedures for determining the relationship of monetary and financial policies with government's fiscal and budgetary strategies particularly with reference to public debt and suggest measures for establishing better linkages between the two sets of policies.
- (g) Outline the requirements for the Introduction of data processing in accounting and budgeting functions for improved analysis and efficiency. Also identify training requirements for the staff of the Comptroller and Auditor General and Ministry of Finance (Budget), for Implementation and operation of these systems.
- (h) Determine the technical assistance (Financial and skilled manpower) needs for the Implementation of the proposed Improvements In budgeting and expenditure control. Set out the terms of reference for such consultancy services to assist in the design and Introduction of the computer systems, preparation of appropriate documentation, and in the implementation of the revised accounting and budgeting systems.
- (i) Identify the training and recruitment requirements to improve the timeliness of Government auditing and better focus it on effectiveness and efficiency of the use of public resources.