



PUBLIC FINANCIAL MANAGEMENT SYSTEMS—BANGLADESH

KEY ELEMENTS FROM A FINANCIAL
MANAGEMENT PERSPECTIVE

JUNE 2018

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Abbreviations

ADB	-	Asian Development Bank
ADP	-	annual development program
BRM	-	Bangladesh Resident Mission, ADB
CAG	-	Office of the Comptroller and Auditor General
CAO	-	chief accounts officer
CGA	-	Office of the Controller General of Accounts
CTLA	-	Loan Administration Division, Controller's Department, ADB
ERD	-	Economic Relations Division, MOF
FABA	-	Foreign Aid Budget and Accounts Wing, ERD
FAPAD	-	Foreign Aided Project Audit Directorate
IMED	-	Implementation, Monitoring, and Evaluation Division, Ministry of Planning
MOF	-	Ministry of Finance
MTBF	-	medium-term budgeting framework
RADP	-	revised annual development program
SOE	-	statement of expenditure

I. Introduction

This report is designed to support fiduciary and compliance risk assessments of projects financed by the Asian Development Bank (ADB). It provides information about the public financial management systems of Bangladesh for funds flow monitoring and analysis, accounting, auditing, and related matters, which will be particularly useful to project officers who process and implement ADB-funded projects. The information in this report could guide financial management assessments of executing and implementing agencies, and the design of financial management arrangements such as disbursement, financial reporting, and auditing systems.

The Bangladesh–ADB partnership started in 1973, and ADB is now the country’s second-largest development partner. ADB’s lending program covers both project loans and program loans (budgetary support), as well as technical assistance. This report applies to all loans and grants that finance clearly defined investment or public service programs and projects where the Government of Bangladesh has a financing agreement with ADB. In accordance with government policies for aid management, assistance in the form of loans and grants for project implementation is generally given directly to the government. In this case, the government acts as the borrower and all foreign aid is recorded and managed through budgetary channels. The government acts as guarantor (if required) for loans and grants to state-owned enterprises and autonomous entities.

II. Key Players

A. Ministry of Finance

The Ministry of Finance (MOF), a key player in the stewardship of public finances, is responsible for government finance operations, including annual budget preparation, fiscal management, public debt management, taxation, and economic policy formulation. It oversees the operations of the country's financial institutions, and it plans, implements, and controls the public expenditure policies and programs of the government.

Together with other relevant ministries and divisions, the MOF is responsible for the preparation of the medium-term budgeting framework (MTBF) and the annual budget (both nondevelopment and development).¹ It also develops and updates the medium-term macroeconomic framework in collaboration with the Planning Commission, the Bangladesh Bureau of Statistics, the National Board of Revenue, Bangladesh Bank, and other relevant agencies.²

Economic Relations Division

The Economic Relations Division (ERD) of the MOF plays a key role in the overall management of external aid including loans and grants. The ADB Wing of the ERD, headed by a joint secretary, is primarily responsible for selecting ADB-financed programs and projects to be included in the annual development program (ADP), and for maintaining the government's overall relationship with ADB. According to the "Allocation of Business" section of the *Rules of Business* (1996), the main functions of the ERD are as follows:

- (i) mobilizing, negotiating, and allocating external assistance relating to food and commodity aid from bilateral and multilateral sources;
- (ii) coordinating and processing for approval all technical assistance programs, including assessing the negotiation requirements of bilateral donors and multilateral agencies;
- (iii) managing the foreign exchange budget (but not foreign currency cash flows) for development imports, including bridge financing for project or commodity aid;
- (iv) administering the economic wing of Bangladesh missions abroad; managing the country's external economic policy, that is to say, economic and technical cooperation with other developing countries and with developed

¹ The medium-term budgeting framework is a 3-year framework for government receipts and expenditures.

² The medium-term macroeconomic framework covers all the macroeconomic accounts, including the national accounts, the balance of payments, and the various accounts for the government sector, the monetary sector, and the private sector and for the rest of the economy.

- countries, particularly in matters related to development finance, transfer of resources, external debt, and technology transfer;
- (v) negotiating and signing all international agreements involving financial, economic, and technical cooperation, paying particular attention to economic and financial issues; and
 - (vi) collaborating with resident missions of multilateral agencies and bilateral donor countries.

Foreign Aid Budget and Accounts Wing

The Foreign Aid Budget and Accounts (FABA) Wing of the ERD is broadly responsible for external debt management and foreign aid budgeting. It has the following key functions:³

- (i) coordinating the country's aid mobilization program;
- (ii) collecting, recording, and reporting data on foreign aid commitments and disbursements, and performing the related monitoring, analysis, and evaluation;
- (iii) preparing the resource budget (annual and MTBF) for project aid, budget support, commodity aid, and food aid, for incorporation in the national budget;
- (iv) preparing the ADP and the revised ADP (RADP) for foreign-aided projects, and monitoring, analyzing, and evaluating ADP and RADP allocation and use;
- (v) managing external debt, including taking charge of debt profiling and budgeting, debt servicing, and maintenance of the corresponding accounts, as well as the preparation of the debt service liability budget for principal and interest on external debt for all creditors;
- (vi) issuing government orders for external debt repayments from creditors, and reconciling repayments with the records of Bangladesh Bank and the Office of the Controller General of Accounts (CGA) at the end of the fiscal year, and outstanding public debt, loan repayment, and loan servicing with development partners;
- (vii) providing opinions and guidance regarding financial terms and conditions to the program desks of the ERD in mobilizing foreign loans;
- (viii) administering, upgrading, and maintaining the debt management and financial analysis system for external debt;
- (ix) analyzing external debt sustainability and providing information to higher authorities for the formulation of an overall strategy for future borrowing from external sources; and
- (x) compiling and revising information and data for the ERD's annual publication *Flow of External Resources into Bangladesh*.

B. Ministry of Planning

The Ministry of Planning oversees the financial policies of the government and is responsible for socioeconomic planning and statistical management. It has three divisions: the Planning Division; the Statistics and Informatics Division; and the Implementation, Monitoring, and Evaluation Division (IMED).

³ Economic Relations Division. 2017. Foreign Aid Budget and Accounts & ICT Functions <http://www.erd.gov.bd/site/page/11323443-7209-4902-a5e4-766d7ecba367/Wing-9:-Foreign-Aid-Budget-and-Accounts-&-ICT-Functions>.

Planning Commission

This central planning organization determines the objectives, goals, and strategies of the country's short- and medium-term plans, and draws up policies to achieve the planned goals and targets. The commission prepares 5-year plans and the ADP, and evaluates plans and their impact on economic development. While the MOF administers the state budget, the Planning Commission is responsible for ADP planning and finalization in line with the 5-year plan, and for budgetary allocations to development programs in coordination with the MOF and the ERD. Ultimately, the MOF, the Planning Commission, and the ERD reach consensus and the MOF finalizes the budget before it is presented to Parliament. The key functions of the commission are as follows:

- (i) formulating the country's medium-term (5-year) plans and macroeconomic plans with a long-term (15- to 20-year) perspective;
- (ii) within the framework of the medium- and long-term plans, preparing the ADP, which consists of all development programs and projects included in the yearly budget; and
- (iii) appraising project proposals to be submitted to the executive committee of the National Economic Council and the minister of planning for approval.

Implementation, Monitoring, and Evaluation Division

The IMED is responsible for monitoring and evaluating the public sector development projects included in the ADP. It provides support to all ministries and divisions in project implementation through its central management information system, a structured way of collecting, compiling, and analyzing project information, and gives feedback to the ministries and divisions on problems and bottlenecks in project implementation. It also reports on the progress of public sector development projects to the National Economic Council and its executive committee headed by the Prime Minister. In addition, the IMED works on matters related to the Public Procurement Act (2006) and the Public Procurement Rules (2008) through its Central Procurement Technical Unit, as well as on necessary amendments of these or other documents in line with international best practices and experience gained in public procurement in Bangladesh. The division also provides guidance and instructions regarding the interpretation and implementation of these rules and other documents it issues.

C. Office of the Controller General of Accounts

The Office of the Controller General of Accounts (CGA) was known as the Office of the Accountant General (Civil) before 1985, when it was reorganized to exercise comptrollership (expenditure control) over the Office of the Comptroller and Auditor General (CAG) through pre-audit. The CGA functions independently under set rules in all matters relating to treasury functions and accounting principles and procedures. It is responsible for prescrutiny of government payments, and for the compilation and

consolidation of government accounts including accounting for all external loans and grants received by executing agencies.

The CGA prepares monthly reports, and finance and appropriation accounts, of the government; supervises the functions of accounts offices in the various divisions, districts, and *upazilas* (subdistricts), particularly those relating to the processing of payments to civil officers and government entities, and the preparation of initial accounts; administers all payments; ensures the accuracy and timeliness of accounts; supplies data and information on accounts according to the requirements of the Finance Division; and ensures the reconciliation of accounts between account offices, Bangladesh Bank, and Sonali Bank, and between government payments and accounts offices and the executive offices drawing claims from these offices.⁴

D. Office of the Comptroller and Auditor General

The CAG is the supreme audit institution of Bangladesh. Articles 127–132 of the Constitution contain provisions relating to the appointment and service conditions of the comptroller and auditor general, including privileges, audit mandate, and reporting procedures. The Constitution requires the CAG to function with complete independence. It states: “The Comptroller and Auditor General, in the exercise of his functions, shall not be subject to the direction and control of any other person or authority.” Despite this provision, the CAG needs the approval of the Finance Division in certain administrative and personnel matters, and its power to discharge its mandate is thus limited at times.⁵

According to the Constitution and the CAG (Additional Functions) Act (1974), the CAG is responsible for auditing government receipts and public spending to ascertain whether revenues have been duly received and expenditures have been made in compliance with applicable rules. It is also responsible for maintaining financial propriety. To a limited extent, the audit likewise allows the government to find out whether expenditures have yielded value for money in government offices, public bodies, and statutory organizations. The CAG has a number of divisions (directorates) responsible for the audit of government offices and public sector undertakings. Among these directorates, the Foreign Aided Project Audit Directorate (FAPAD) audits all foreign-funded development and technical assistance programs and projects in the public sector.

E. Bangladesh Bank

Bangladesh Bank, the central bank, is the apex regulatory body for the country’s monetary and financial system and the banker of the government. Loan and grant proceeds are

⁴ Controller General of Accounts. Bangladesh. www.cga.gov.bd.

⁵ Government of Bangladesh. 2016. *Public Financial Management Performance Report*. Dhaka. para. 2.29. While the CAG is considered independent under the Constitution, it is still subject to administrative approval, particularly with respect to staff recruitment and organizational restructuring. MOF approval is required for promotions, liens, and other administrative cases. The CAG budget is funded directly by the MOF.

credited to the government's account through Bangladesh Bank, and all subsequent repayments to lenders are also coursed through the bank. Bangladesh Bank performs all the core functions of a typical monetary and financial sector regulator, and a number of noncore functions.⁶ The key functions of Bangladesh Bank are as follows:

- (i) formulating and implementing monetary and credit policies;
- (ii) regulating and supervising banks and nonbank financial institutions;
- (iii) promoting and developing the domestic financial markets;
- (iv) managing the country's international reserves;
- (v) issuing currency notes;
- (vi) regulating and supervising the payment system;
- (vii) collecting and furnishing credit information;
- (viii) implementing the Foreign Exchange Regulation Act (1947);
- (ix) preventing money laundering; and
- (x) managing deposit insurance schemes.

F. Asian Development Bank

Controller's Department, Loan Administration Division

The Loan Administration Division of the Controller's Department of ADB (CTLA) is responsible for processing disbursements of loans, grants, and technical assistance, and maintains accounting systems for disbursements and for the billing and collection of loan repayments.

Bangladesh Resident Mission

Most of the processing of disbursements of ADB-funded projects is delegated by the CTLA to the Bangladesh Resident Mission (BRM) Disbursement Unit, which processes withdrawal applications received from the executing agency or the project management unit.

⁶ Bangladesh Bank. <https://www.bb.org.bd>.

III. Budgeting

A. Constitutional Provisions: The Consolidated Fund and the Public Accounts

Under the Constitution, all revenues obtained, all loans raised, and all moneys received by the government shall form part of one fund, the Consolidated Fund. All other public moneys received by or on behalf of the government shall be credited to the public accounts. All inflows of government receipts (tax and nontax revenues, grants, loans) are therefore credited to the Consolidated Fund and all expenditures are paid out of the fund. Any withdrawal from the Consolidated Fund needs prior appropriation of Parliament through the budget. On the other hand, all monies relating to the state provident fund, national savings schemes, and renewal and depreciation reserve funds are administered through the public accounts.

Transactions in the government accounts are subject to audit by the CAG. CAG audit reports, including any significant observations, are submitted by the CAG to Parliament through the President. The Public Accounts Committee of Parliament examines these reports to identify financial issues and recommendations for improving performance. The committee asks executives to explain financial issues and directs any needed rectification.

B. Budget Process

The national budget has development and nondevelopment components. The nondevelopment budget consists of the following:

$$\text{Nondevelopment budget} = \text{Recurrent expenditure} + \text{net lending} + \text{net food outlay} \\ + \text{non-ADP programs}$$

Salaries and allowances, supply costs, service costs, operating costs, maintenance costs, etc., are part of recurrent expenditure. Net lending refers to net payments (payments minus receipts) of loans and advances to state-owned enterprises and government servants. Net food outlay refers to net government spending (food imports in excess of exports) subsequently provided as safety nets to the very poor. Safety net provisions can be made as food-based transfers rather than as conditional or unconditional cash transfers. Non-ADP programs are programs of a development nature but excluded from the ADP and financed

from the nondevelopment budget. These are not processed through the planning system unlike ADP projects funded from the development budget.

Most government projects included in the ADP are processed and approved by the Planning Commission. ADP comprise 95%–96% of government development budget, whereas non-ADP contribution consists of food program, food for work along with transfer of sales proceeds of food. Development partners provide food in running abovementioned programs.

The Finance Division of the MOF has overall responsibility for the preparation of both the development and nondevelopment budgets. It is also responsible for collecting the nondevelopment budgets submitted by the line ministries, and for drafting the ADP on the basis of the development budget for the year.

The FABAs allocate foreign aid to projects in the ADP and the RADP. Using information from the line ministries and divisions, it prepares, in December of each year, initial projections of their project funding requirements for the coming fiscal year. Then it submits to the Finance Division an estimate of the financing resources needed for development activities, given these projections and the possibility of obtaining aid and non-ADP assistance. The Finance Division sets the ceiling on the development expenditure of the ministries and divisions, based on these estimates, and the FABAs allocate funds to each project within the expenditure limits, also taking resource availability into account.

The budget proposal is submitted on the first Thursday of June of each year and approved by 30 June, giving the legislature less than a month to review the budget.⁷ The approved budget is implemented under various rules and orders embodied in the General Financial Rules (2005), the Treasury Rules (1998; last amended in 2017), and the Delegation of Financial Power (2017), issued by the Finance Division.

Medium-Term Budgeting Framework

The MTBF is a multiyear approach to budgeting. Its main objective is to link budget allocations with the policies and priorities of the government, on the one hand, and with actual performance, on the other. The MTBF approach, introduced in 2004, encourages ministries to plan their programs for the medium term.⁸ While only four ministries were under the MTBF framework in 2005–2006, by 2010–2011, all the ministries had already adopted the framework. A summary of the MTBF and the budget preparation calendar is given in Appendix 1.

C. Budgetary Channels

All kinds of assistance received by the government from foreign sources are included in the ministries' budgets approved by Parliament. All external assistance relating to the development budget is received and accounted for as receipts in the Consolidated Fund by the CGA. The Finance Division communicates the budget allocations (after approval)

⁷ Technical assistance directly administered by the development partners may not be reflected in the ministry's budget.

⁸ Three years, according to the Public Monies and Budget Management Act (2009).

to the administrative ministries and the respective chief accounts officers (CAOs) by distributing the budget books and documents every July.⁹ The secretaries of the line ministries, as the principal accounting officers of those ministries, are responsible for making the necessary arrangements for distributing the sanctioned funds among the controlling and disbursing officers under them. Ministries and divisions must release funds strictly as allocated in the budget, following the Instructions of Fund Release and Utilization for Development Projects.¹⁰ External fund disbursements exceeding the annual allocated budget require appropriate reporting from the administrative ministry and approval from the MOF.

Fund Release from Nondevelopment Budget

Government departments and offices with budget allocations under the “Detailed Demand for Grants” heading do not need a release order from the Finance Division. Instead, the administrative ministry or head of department issues a fund placement order authorizing the use of funds by the spending units and agencies. The lump-sum allocations for ministries, divisions, departments, directorates, and autonomous or semiautonomous bodies and local bodies must be subsequently approved by the Finance Division if approval cannot be provided during budget allocation. In practice, the budget allocated for autonomous and semiautonomous bodies and local bodies as grants-in-aid and special program funds from the nondevelopment budget is released in four quarterly installments, of which the fourth requires approval from the Finance Division.

Fund Release from Development Budget

The Finance Division from time to time issues orders or instructions for the release of funds from the development budget allocation. These instructions vary depending on the funding mechanism used for project expenditure. In brief, the fund release procedures and the related reporting arrangements are as follows. Administrative approval for projects to be implemented is issued by August of the relevant financial year following budget approval. Without authorization from the Finance Division, no fund transfers may be made from the special accounts in Bangladesh Bank to project accounts in commercial banks.¹¹ Each project must have a special account to receive funds from development partners. The funds kept in these accounts can be spent only for the implementation of the specified program, following the project pro forma.¹² The administrative ministry or division submits periodic expenditure statements, progress reports, and other required reports to the Finance Division. Project directors submit expenditure statements to the concerned CAO in a format prescribed by the CGA. The administrative ministry or division sends account statements reporting funds released and expenditures incurred on the 15th and 30th of each month to the Finance Division. By 15 July of each year, a statement of transactions for the previous year is also submitted to the CAO and the Finance Division. Funds can no

⁹ The CAO is the financial adviser to the secretary of the ministry or division concerned.

¹⁰ Finance Division, Ministry of Finance. 2012. Instructions on Fund Release and Utilization for Development Projects. Dhaka. 13 November.

¹¹ Special accounts are project accounts maintained in Bangladesh Bank for aid from development partners. There are special accounts for foreign exchange deposits, convertible-to-taka deposits, dollar deposits, and ADB fund advances.

¹² The project pro forma is an approved project document containing a plan for achieving a target or a set objective through a definite budget, which is implemented within a fixed time frame or based on the blueprint for a project to be implemented.

longer be released after the project period unless the project is again included in the RADP or the ADP.

Expenditure Approval

Expenditure control is mandatory for all projects. Its objective is to ensure that funds are used properly and effectively, and that spending conforms to the budget allocation, the financing agreement, and applicable national laws and regulations on public financial management. External fund withdrawal, spending, and payment must follow expenditure approval procedures, for control and supervision. Any deficiencies in expenditure control are reported during the audit.

The delegation of financial power for development projects authorizes heads of administrative ministries, divisions, and directorates, as well as project directors, to approve expenditures subject to budget allocation.¹³ In some cases, concurrence is needed from ADB and other development partners according to agreements. Expenditures must meet the following conditions for approval under the General Financial Rules:¹⁴

- (i) Funds allocated are spent for the purposes for which they were approved.
- (ii) Funds are spent strictly in accordance with the rules and regulations,¹⁵ and the expenditure is not *prima facie* more than what the occasion demands.
- (iii) Actual expenditure does not exceed the sanctioned allocation made for the respective items or operating units.
- (iv) No expenditure is incurred in anticipation of the authorization of annual budgets or grants without the prior concurrence of the Finance Division.

¹³ Financial powers for implementing development projects were assigned by the Finance Division on 16 August 2015.

¹⁴ General Financial Rules are a compilation of executive orders of the President regarding financial powers.

¹⁵ The rules and regulations include, but are not limited to, general financial rules, public procurement rules, the development project pro forma, and delegation of financial power.

IV. Onlending Arrangements

All kinds of assistance from foreign sources are included in the ministries' budgets during budget preparation with the approval of both the Finance Division and the Planning Commission. The mechanism for channeling funds to projects or executing agencies is also determined during budget preparation, and is then approved by Parliament. Foreign aid can be onlent or ongranted to autonomous or statutory bodies through the ministries. The onlending and ongranting arrangements are determined during this process and are reflected in the national budget together with a list of projects to be financed through foreign aid. All foreign aid passes through government budgetary channels, and is deposited with Bangladesh Bank and becomes part of the Consolidated Fund.¹⁶ The projects and ministries are entitled to withdraw funds from the Consolidated Fund against their respective budget allocations.

Executing agencies or line ministries may also receive foreign aid directly from development partners through special accounts with authorization from the Finance Division, following specific arrangements determined during the processing of the foreign funds. The terms and conditions of use of funds can vary between agencies and between projects. These terms should be carefully documented during project preparation so that the financial model for the project clearly captures the agreed arrangements.

¹⁶ Funds paid by development partners through direct payment procedures do not form part of Consolidated Fund and budgetary allocations.

V. Foreign Exchange and Interest Rate Risk

The government generally uses advance fund procedures for ADB-funded projects. Under this mechanism, Bangladesh Bank credits the taka equivalent of the foreign funds received to the concerned project account as an advance, using the exchange rate on the value date. The bank then notifies the executing agency in writing and sends a copy of the notification letter to the CGA. Because foreign aid funds are converted into the local currency, taka, for use in the project, project expenditure is primarily in taka. The foreign exchange risk is absorbed primarily by the central government.

The central government takes full responsibility for principal and interest payments on foreign aid. The ERD prepares a statement of obligations due to development partners, indicating dates and amounts. It then issues a fund release letter to Bangladesh Bank well before the date of repayment, indicating the date of repayment, and the principal and interest amounts in the respective payment currencies (as stated in the loan agreement). Bangladesh Bank pays the respective amounts and debits the taka equivalent for relevant expenses (repayment amount and related costs) against the government account concerned. It informs the ERD and the CGA of the payments made. Proper recording requires coordination between the Finance Division and the CGA, and reconciliation of the CGA's accounts with those of Bangladesh Bank. The central government is exposed to interest rate risk on foreign currency loans, as it repays the funds with interest to the lender following the terms and conditions of the loan agreement. Under onlending arrangements, the interest rate risk is passed on to projects, which are required to pay the applicable onlending interest rate on the subsidiary loan. Projects bear no interest rate risk when foreign aid funds are ongranted by the central government.

VI. Funds Flow Arrangements under ADB-Financed Projects

This section describes the flow of funds, the approval process, transfers between entities, banking activities, disbursements, and accounting of transactions. Four types of funds flow arrangements are commonly used for ADB-funded projects. However, other disbursement methods acceptable to ADB may also be used.¹⁷

A. Direct Payment Procedure

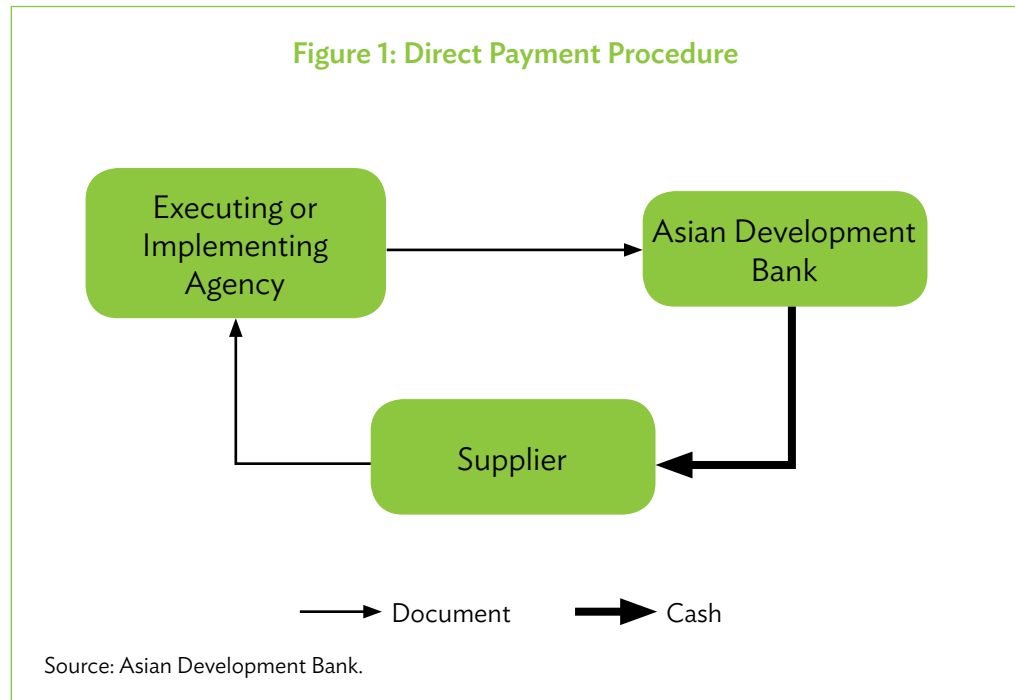
This is the simplest funds flow arrangement, requiring minimum documentation. The procedure is allowed as prescribed in ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). It is normally used for large-value payments when the borrower has insufficient resources to prefinance expenditure and there is no provision for the use of the advance account procedure.¹⁸ The direct payment procedure may also be used when payments must be made in currencies that the borrower may have difficulty obtaining.

The executing or implementing agency, on its approval of the claim of the contractor (on the basis of work done, goods supplied, or services rendered), requests ADB through a signed withdrawal application with supporting documents (refer to ADB's *Loan Disbursement Handbook* for the list of required documents) to pay directly from the loan account to the extent of ADB's share of the expenditure. ADB informs the project director and the ERD of this transaction, for record keeping. The CAO prepares monthly accounts incorporating the transaction after receiving information from the project authority. The steps involved are given below and shown in Figure 1:

- (i) The contractor submits to the executing or implementing agency an invoice for payment.
- (ii) The executing or implementing agency approves the invoice and submits a withdrawal application to ADB. With the rollout of ADB's Client Portal for Disbursements (CPD), withdrawal applications can now be submitted directly to ADB through the BRM or the CTLA by agencies that are approved users of the portal.
- (iii) The BRM or the CTLA reviews and verifies the withdrawal application and encodes it in ADB's Loan (or Grant) Financial Information System.

¹⁷ In case of conflict between ADB's procedures described in this report and the procedures in ADB's guidelines (e.g., the *Loan Disbursement Handbook*), the procedures in ADB's guidelines will prevail.

¹⁸ Under Bangladesh regulations, "Advance fund can be utilized for all kinds of payments and transactions including small letter of credit (L/C) amounting US\$50,000 or less."

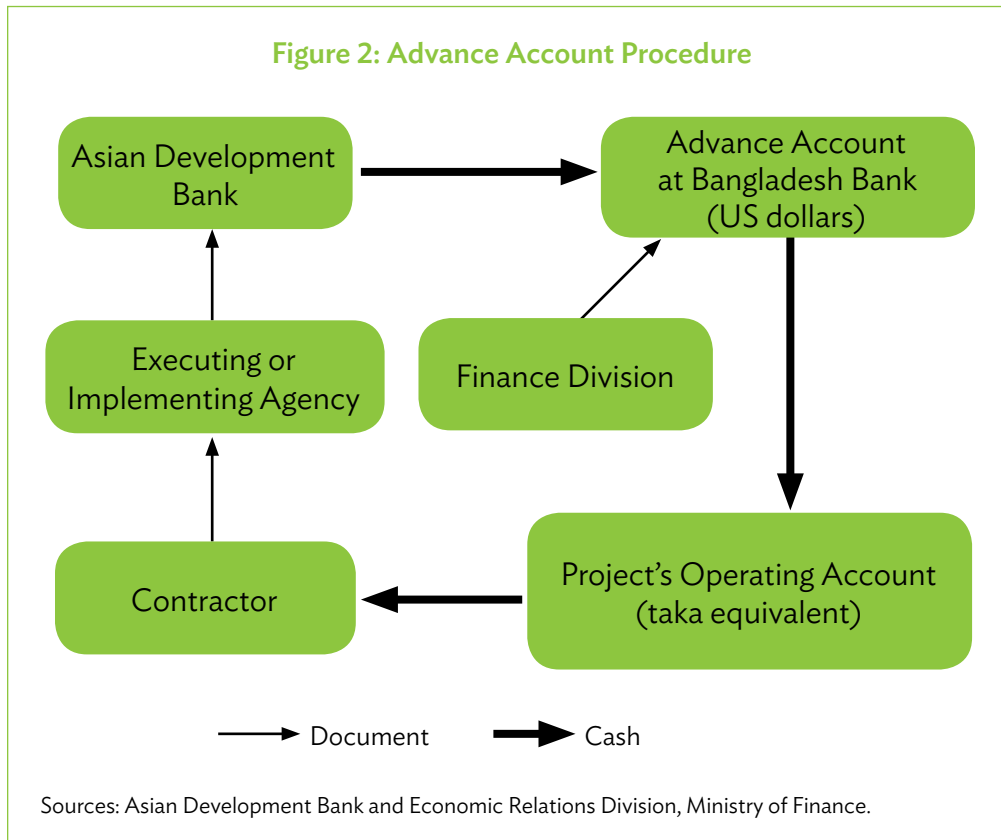


- (iv) The BRM or the CTLA prepares a disbursement voucher and authorizes the withdrawal.
- (v) ADB Treasury Department remits funds directly to the contractor's bank account.

B. Advance Account Procedure

ADB advances an amount to the project's advance account at Bangladesh Bank, and the bank in turn credits the taka equivalent to the project's operating account opened by the executing agency at a commercial bank (the service bank). Payments from the advance account can be made only for eligible project expenditures in domestic currencies. The procedure entails the following steps (see Figure 2):

- (i) The executing agency submits a withdrawal application to ADB for the initial advance.
- (ii) ADB remits funds to the project's advance account at Bangladesh Bank.
- (iii) The Finance Division authorizes the transfer of the funds in taka equivalent to the project's operating account. This account is maintained by the project director at a commercial bank with prior approval from the administrative ministry.
- (iv) When an eligible expenditure is incurred, the executing agency withdraws ADB's share of the project expenditure from the operating account and remits payment to the contractor along with the agency's counterpart share.
- (v) Periodically, the executing agency submits withdrawal applications to the BRM for the liquidation of the outstanding advance and its replenishment. With the introduction of ADB's Client Portal for Disbursements, withdrawal applications can be prepared and submitted online to ADB.



- (vi) The BRM reviews the withdrawal application and liquidation process, and replenishes the advance account.
- (vii) The CTLA creates a disbursement authorization in ADB's Loan (or Grant) Financial Information System.
- (viii) ADB's Treasury Department transfers funds to the project's advance account at Bangladesh Bank, and the latter transfers the funds to the project's operating account.

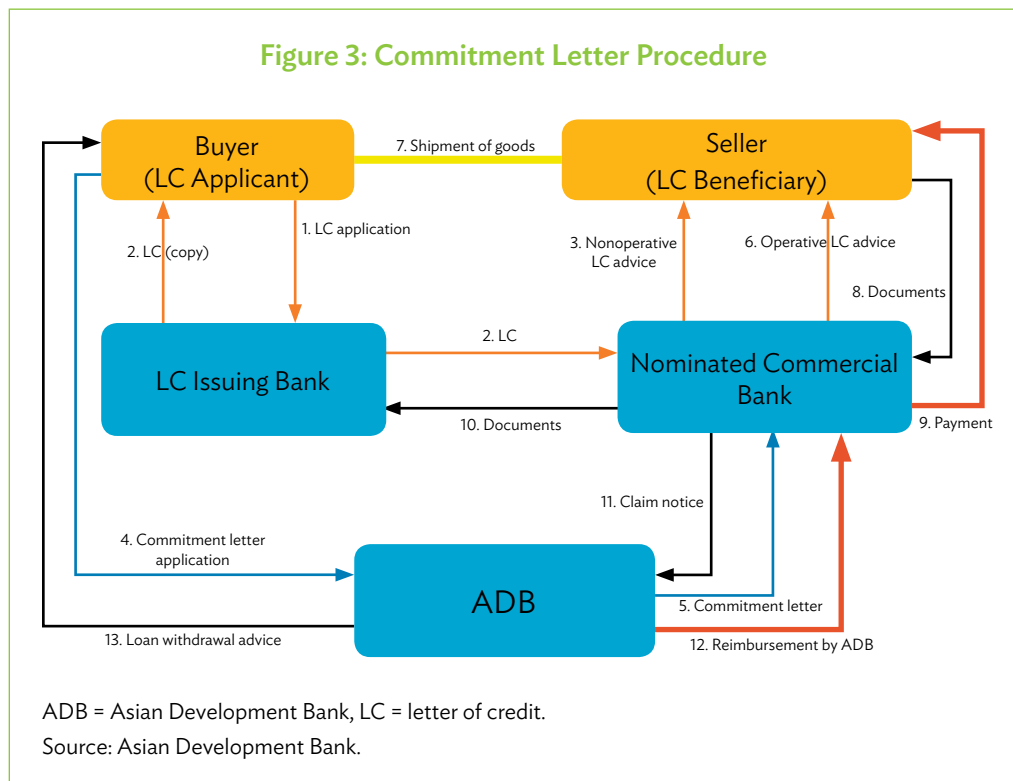
As ADB makes a portion of the loan proceeds available in advance to the executing agency, this procedure should make it unnecessary for executing agencies to prefinance ADB's share of project expenditure. The advance is intended to cover 6 months of project expenditures. The project's operating account may accrue interest; if so, the executing agency must deposit the interest into the government treasury account. During project implementation, the project officer must monitor this aspect of advance account operation.

When certain conditions are met, ADB accepts the use of simplified documentation (statement of expenditure, or SOE). Loan and grant proceeds are disbursed in accordance with ADB's *Loan Disbursement Handbook*. Agencies with adequate financial management capacity may use the SOE procedure in ADB-financed projects. Strengthening the project auditor's terms of reference, specifically regarding the audit scope for SOE review, could help address this disbursement issue.

C. Commitment Letter Procedure

This method is widely used for large imports of goods. Under this procedure, ADB irrevocably agrees to reimburse a commercial bank for payments made or to be made to a contractor against a letter of credit. The steps are listed below and summarized in Figure 3:

- (i) The executing or implementing agency opens a letter of credit in favor of its contractor or supplier according to the approved contract. The issuing bank directly issues an advice to the negotiating bank about the availability of the letter of credit, referring to ADB's commitment letter.
- (ii) The executing agency submits a commitment letter request to ADB along with the required supporting documents and a signed issuance form.
- (iii) ADB issues a commitment letter to the nominated commercial bank (normally the negotiating bank as specified in the letter of credit).
- (iv) The supplier submits a claim to the negotiating bank as specified in the terms of the letter of credit. After reviewing the claim, the negotiating bank sends it to ADB through authenticated SWIFT or tested telex.
- (v) ADB pays from the loan account upon receiving confirmation from the nominated commercial bank (negotiating bank), which has paid or has agreed to pay the stated amount in the letter of credit according to its terms.



D. Reimbursement Procedure

Under the reimbursement procedure, ADB pays from the loan account to the borrower's account for eligible expenditures incurred and paid for by the borrower. The steps are given below:

- (i) The executing agency approves the consultant's or supplier's invoice and makes payment from its own resources.
- (ii) The executing agency submits a reimbursement request to ADB along with the required supporting documents unless simplified documentation (SOE facility) is approved.
- (iii) ADB reviews and remits payment through the government treasury account maintained at Bangladesh Bank, as specified in the withdrawal application.

The executing agency should use this method only when it has sufficient funds to pay ADB's share of eligible project expenditures.

VII. Accounting and Reporting

Article 131 of the Constitution states that the annual financial accounts of the government shall be maintained in the form and manner prescribed by the CAG with the approval of the President. The Account Code (Volume 1) issued by the CAG lays down the general outlines of the system of government accounts. The procedures followed in maintaining the accounts of the government are described below.

A. Accounting Systems

Receipts of Government

All receipts on behalf of the government are deposited with or transferred to Bangladesh Bank. The accounts are maintained by officers subordinate to the CGA.¹⁹ Each deposit is reconciled immediately by Bangladesh Bank and the information is transferred to the CGA via the bank's financial systems. Transfers are reconciled against collections. However, reconciliation is not done for tax assessments and arrears, thus creating a gap in vital revenue information for the CGA and other interested stakeholders that could mean a substantial loss of budget resources.²⁰

Payments on Behalf of Government

Payments on behalf of the government are made by Bangladesh Bank or by Sonali Bank, a state-owned commercial bank, acting as agent for the central bank. Bangladesh Bank is the only official banker of the government. Bangladesh Bank and its branches act as government treasury banks; in places where the bank has no branch, Sonali Bank fills this role.

Accounting Process

The civil departments' accounting offices, under the control of the CGA, are organized into 49 chief accounts offices, which handle the transactions of all ministries and divisions, including the transactions of the attached departments in Dhaka. Besides its responsibility for preparing periodic (monthly) statements for all departments within its accounting jurisdiction, the CGA is also responsible for preparing the consolidated accounts of the

¹⁹ These are normally the divisional controllers of accounts, district accounts officers, and *upazila* accounts officers.

²⁰ Government of Bangladesh. 2015. *Public Expenditure and Financial Accountability (PEFA) Assessment*. Dhaka. para. 3.81.

government as a whole by combining the accounts of the three branches (executive, legislative, and judicial).

At present, all the accounts offices under the CGA have been fully automated under the Integrated Budgeting and Accounting System. This computerized, internet-based system allows online access and links operating offices across a wide area network. A key concept of the system's design is data storage in a central database to enable access to all entries and reports via a single common user interface. The divisional controller of accounts and the district and *upazila* account officers post monthly accounts that feed directly into the CGA's central data processing unit. Monthly and annual accounts are prepared from transaction data consolidated at the central data processing unit, including the transaction accounts of the defense, railway, and postal departments. Some deficiencies or weaknesses in accounting report generation have been noted, and suggested solutions are provided in section X of this report.

Accounting Standards

The modified cash basis of accounting is used in maintaining the Consolidated Fund account and the public accounts.²¹ The Bangladesh Accounting Standards are broadly based on the cash-basis International Public Sector Accounting Standards. Financial statements prepared under this system provide information about the sources of cash raised during the period, the purposes for which the cash was used, and the cash balances at the reporting date. Any budget allocation not paid out in cash by the close of the fiscal year will lapse, and a new budget will have to be allocated and approved for the next year. The fiscal year in Bangladesh is from July to June of the following year.

B. Project Financial Statements

Accounting Requirements

No later than 6 months after the close of each fiscal year, the executing agency must furnish ADB with audited project financial statements and the related audit reports, including a management letter highlighting any deficiencies in internal controls that were identified during the project audit.

The project accounting manual states that project accounts must be maintained in accordance with accounting practices (modified cash basis of accounting).²² This practice, once adopted, should be consistently followed throughout the life of the project.

Financial Statement Preparation and Submission

Project transactions are recorded as they occur. The project director, who is also the drawing and disbursing officer of the project, or someone acting on the project director's

²¹ The cash basis of accounting is followed in accounting for receipts, but the accrual basis is sometimes followed in accounting for payments, especially in June (the end of the fiscal year in Bangladesh). The country's government accounting system does not comply fully with the cash-basis International Public Sector Accounting Standards.

²² Project Accounting Manual, page 6, para. 1.3.1.

behalf maintains the cash book, the ledger, and other necessary registers; prepares the accounts; and submits these accounts to the CAO for reconciliation. The project accounting manual is followed in accounting for development projects.²³

Project financial statements are prepared in the government-approved format by the project director or an authorized representative at least once each fiscal year and submitted to the audit team. At present, many projects use accounting software to record transactions and produce financial statements. Development partners require the use of accounting software, but it must follow the government-approved format for financial statements prescribed in the project accounting manual. All financial statements must therefore meet both CAG and development partner requirements. The project director must ensure that all transactions are recorded, as this issue is always raised by auditors.²⁴ These financial statements are submitted to the CAO, which reconciles the figures against government records.

²³ The Project Accounting Manual describes an accounting procedure for development projects issued under the authority of the Finance Division.

²⁴ On the other hand, audit reports with no audit findings or with minimal findings do not necessarily indicate accurate recording and reporting of a project's financial activities.

VIII. Auditing Arrangements

A. Auditing Requirements

The CAG is responsible for the audit of nationalized companies established under the Companies Act (1994), autonomous and semi-autonomous bodies, corporations, local government bodies, and all other government bodies. Article 128(1) of the Constitution states:

The public accounts of the Republic and of all courts of law and all authorities and officers of the Government shall be audited and reported on by the Auditor General and for that purpose he or any person authorized by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps or other government property in the possession of any person in the service of the Republic.

B. Selection of Foreign-Funded Projects for Audit

The Foreign Aided Project Audit Directorate (FAPAD) is a specialized arm of the CAG that is dedicated to providing independent assurance to Parliament as well as to development partners regarding the proper use and accounting of resources for foreign-funded projects. Each year, generally in July–August, the FAPAD checks the approved ADP and identifies all projects subject to audit, considering available personnel and person-days. Project directors must therefore submit their project financial statements to the FAPAD to comply with ADB's financial reporting and auditing requirements.

The FAPAD's work plan ensures that it complies with ADB's financial reporting deadlines, and maintains and works within this time frame in coordination with all project directors and executing agencies.

C. Types of Audits

The FAPAD provides integrated audit services designed to meet the requirements of the development partners. Table 1 explains the FAPAD's audit role. In general, financial statement audit includes the audit of internal controls, implementation, and performance, irrespective of the type of entity or project.

Table 1: Audit Role of the Foreign Aided Project Audit Directorate

Audit Service	Audit Objective	Audit Output
Financial	To determine whether the accounting statements were prepared in accordance with accounting principles, complete and free from material misstatements caused by error and fraud	Certificate report
Regularity	To determine whether transactions conform to the authority that governs them and funds are being used only to the agreed extent and for the agreed purpose	Certificate report
Compliance	To ensure that adequate controls are in place to secure the desired project results and that controls are functional throughout the life of the project	Management letter
Performance	To ensure that the project has conducted its business economically, efficiently, and effectively to achieve the planned objective	Management letter

Source: Comptroller and Auditor General of Bangladesh. 2007. *Project Audit Manual*. Dhaka.

D. Audit Standards

The CAG follows government auditing standards that comply with the International Standards of Supreme Audit Institutions.²⁵ Under this framework, FAPAD auditors examine and provide an opinion on whether

- (i) the audit complied with suitable auditing standards or practices;
- (ii) the financial statements are presented fairly, in all material respects, and give a true and fair view of the project's financial position, financial performance, and cash flows;
- (iii) the executing agency has used all the proceeds of ADB's loan or grant only for the intended purpose;
- (iv) the proper books and records are being maintained;
- (v) fixed assets exist as stated, along with the related internal controls;
- (vi) the executing agency has been complying with the financial covenants in the loan agreement(s);
- (vii) the advance account (and any subaccounts) has been managed in accordance with ADB's *Loan Disbursement Handbook*, the cash balance of the advance account (and any subaccounts) is supported by evidence, the expenditures paid from the advance account (and any subaccounts) comply with the approved project purpose and cost categories stipulated in the loan agreement, and the expenditures paid from the advance account (and any subaccounts) comply

²⁵ The government auditing standards, issued by the CAG in 1999, lay down the basic standards that auditors are expected to meet in conducting audits. Although designed primarily for the guidance of auditors and officials of the Audit Department of Bangladesh, the standards stress the importance of staff independence and professional competence; the exercise of due care; proper planning and supervision; the reasonableness of criteria; the sufficiency, reliability, and relevance of evidence to support conclusions; and fairness and completeness in reporting. These standards are acceptable to all donors.

- with the disbursement percentages stipulated in the loan agreement during the financial year;
- (viii) the SOEs have been prepared in accordance with ADB's *Loan Disbursement Handbook*, adequate supporting documentation has been maintained to support claims stated in the SOE for the reimbursement of eligible expenditures and the liquidation of advances provided to the advance account (where applicable), and the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in the loan agreement, and with the disbursement percentages stipulated in the loan agreement;
 - (ix) the executing agency is using resources economically, efficiently, and effectively; and
 - (x) the CAG is practicing entity-wide auditing according to the risk-based approach, to contribute to policy improvement, and implementing international standards (International Standards of Supreme Audit Institutions) in addition to national standards under the strategic plan of the CAG.

Ensuring the quality of the audit report is the focus of attention of the Quality Assurance Committee and the Central Quality Assurance Team, and the main reason for the introduction of information technology systems like the Audit Monitoring and Management System.

The auditor's report and the management letter issued by the FAPAD follow the format prescribed in the project audit manual. These reports provide ADB with information that will help it identify issues or concerns for discussion with the executing agency or other responsible government authorities.

E. Audit Oversight and Audit Report Approval

After the field audit, the audit team prepares the draft audit report and submits it to the project director and the FAPAD. The FAPAD arranges an exit meeting with the project directors to give them an opportunity to respond to the audit findings. Also at the meeting are representatives from development partners (e.g., ADB, World Bank, United Nations Population Fund, United Nations Development Programme, and Department for International Development of the United Kingdom). Observations are discussed at the meeting and responses are noted. These observations are settled when replies are accepted. Unsettled observations are reflected in the final audit reports submitted to the FAPAD director general for approval. The approved audit reports are sent to the project directors and executing agencies with a request for updated replies with supporting documents. A process for the timely and systematic follow-up of audit recommendations and observations pertaining to an audited entity is in place.²⁶

²⁶ Government of Bangladesh. 2015. *Public Expenditure and Financial Accountability (PEFA) Assessment*. Dhaka. para. 3.7.

F. Audit Closure Mechanism

The executing agencies and the project directors must respond to the audit observations within the period prescribed by the CAG. If replies are received on time by the FAPAD and are considered adequate and appropriate, the observations are considered closed. Observations that remain unsettled even after the receipt of replies are further scrutinized and categorized according to type for inclusion in the CAG's audit report. This report is submitted to Parliament and discussed at the meeting of the Public Accounts Committee. Generally, the finalization of the report after its compilation follows an audit calendar and the process could take longer than usual because of a delay in response from the audited entity. If the executing agency disputes the findings of the auditor, it should explain the reasons for its disagreement in writing to the CAG. Relevant government agencies may also review the external audit report on the project to assess whether and how the recommendations of the external audit were implemented. Generally, executing agencies are reluctant to provide replies to the FAPAD. ADB must therefore closely monitor audit issues and engage with executing agencies to resolve audit findings. Section X of this report suggests approaches to resolving deficiencies and weaknesses noted in the resolution of audit findings.

IX. Internal Control System

In Bangladesh, internal control is considered synonymous with management control exercised to be reasonably assured of (i) the effectiveness and efficiency of operations; (ii) the reliability of financial and physical progress; (iii) compliance with applicable rules and procedures; and (iv) the safeguarding of resources against loss due to abuse, misappropriation, waste, fraud, and irregularities. The country's accountability and transparency thus improve, and the executive branch as a whole operates more efficiently.

The MOF is responsible for the oversight of internal control policies and procedures for the entire government. As an internal control measure, the IMED of the Ministry of Planning continually evaluates the financial and physical progress of work plans across the government, particularly the work plans for development projects. Financial and progress reports submitted for all projects to the IMED at the end of each month or quarter, and surprise project site visits by IMED staff, are among the internal control measures implemented by the department. Further improvements in monitoring and evaluation can help the IMED achieve the desired standards and promote effective oversight.

The ministries have generally weak internal control systems, as a staggering number of audit observations have noted. Internal audit functions exist in only a few ministries—generally only the large ones such as those in health, education, and public works. And even in ministries with internal audit units, depth and capacity are often limited by the absence of policies and guidelines governing the scope of work and the conduct of internal audit, the lack of operational independence, and, to some extent, the professional deficiencies of the staff. Given these limitations, internal audit improvements, including a staffing increase, will help strengthen internal controls.

ADB has the opportunity to reinforce the internal control systems of executing agencies during project identification and preparation. It may do so through capacity-building activities to promote the use of a standardized internal control framework or through training to improve skills.

X. Summary of Risks and Issues, and Proposed Mitigating Actions and Improvements

Table 2 is a summary of risks and issues associated with the country's financial management systems that may affect project implementation. Project officers and mission leaders should take these risks and issues into account when designing financial management arrangements and when conducting financial management and risk assessments.

Some useful references and suggested readings are provided in Appendix 2.

Table 2: Common Issues, Problems, and Suggestions for Mitigating or Avoiding Risks

Issue	Recommended Solutions
Budgeting	
The MTBF prescribes a yearly budget and 3-year projections. This rule is followed in revenue budget preparation but not in development budgeting. The ADP is prepared for only 1 year, affecting the implementation of projects, which typically last for 3–5 years.	<p>Project teams should discuss the budgeting process with the ministry and the executing agency to make sure that project funding (from government and ADB funds) is included in the ADP. Suitable measures should be included during project preparation to ensure that the project has adequate capacity for budgeting and for fund monitoring and reporting.</p> <p>ADB may engage the government in a policy dialogue to improve government budgeting systems and integrate the ADP with the MTBF, thus also extending the ADP term to 3 years.</p>
The current budget classification system requires budget allocation from the ministry or division down to the department or directorate level only. The lack of provision for detailed budget allocation to field-level implementation units could result in inadequate budget allocation.	The implementation of iBAS++, which adopts this system of budget classification up to field or pay point level, is under way. Once it is commissioned, project teams should make sure that iBAS++ incorporates project budget and funding allocations, and that project management staff have sufficient skills and capacity to use iBAS++.
Budget allocation and budget execution are largely manual processes.	iBAS++ implementation will automate budgeting and accounting processes. During project appraisal, project teams should see to it that project management units use the full functionality of iBAS++.

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Table 2 continued

Issue	Recommended Solutions
Accounting	
<p>The iBAS++ is not fully integrated. Accounts offices in the Presidency and offices up to the district level are connected to the server, and data inputs are made online. But <i>upazila</i> (subdistrict) offices are not connected and the officials concerned input data manually, to be copied into the system in nearby district-level offices.</p>	<p>An online system needs to be established up to the <i>upazila</i> level so that data entry can be made online when transactions occur. In the absence of an online system, project teams should design suitable measures to ensure that project budgets and expenditures are recorded and reported accurately and completely.</p>
<p>Financial reports are not system-generated. The risk of error, manual manipulation, or forced entry to balance transactions is therefore likely. Misappropriation may occur.</p>	<p>Project teams should discuss and design arrangements to limit access to the accounting system, introduce controls in report preparation, and establish authorization controls on adjusting or correcting entries.</p>
<p>Internal control systems related to PFM are largely missing in ministries and divisions. Strong scrutiny or oversight is necessary for proper budget execution.</p>	<p>An internal control or audit unit in each spending unit is a must. Project teams should have an action plan for implementing a well-functioning internal control unit.</p>
<p>CAO accountability is unclear. Currently, the CAO pre-audits the invoices sent by ministries, divisions, departments, and directorates on behalf of the CAG before submitting the invoices for the issuance of checks and payment advices.</p>	<p>This is a policy issue involving the CAG, the CGA, and executives of ministries and departments. Current provisions of acts and rules do not provide opportunities to solve this issue. These acts and rules must be revised to clarify CAO accountability and responsibility. ADB may consider future assistance and policy support for that revision to improve accountability.</p>
<p>The ministries, divisions, and departments are held accountable for inconsistencies and issues identified in bill payments and checks during post-audit by the CAG. The CAO does not take responsibility, and this lack of accountability could adversely affect budget implementation.</p>	
<p>The budgeting and accounting system is already automated. iBAS is now in use, and the transition to the updated iBAS++ is ongoing. However, no risk management framework has been established yet. The shortage of skilled personnel is evident. There is also no formal training program for existing personnel.</p>	<p>A capacity-building strategy needs to be adopted to make available a large group of skilled personnel across the country. A separate capacity-building pool can be established centrally.</p>
Auditing	
<p>Under the Constitution, the CAG has auditor independence. But its lack of independence in administrative and financial matters could compromise audit activities.</p>	<p>The revised Audit Act, providing both administrative and financial independence to the CAG, is currently under consideration by the Ministry of Finance. The government must take steps to pass the act in Parliament.</p>

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Table 2 continued

Issue	Recommended Solutions
<p>Limited capacity and inadequate human resources constrain the implementation of international auditing standards. A shift in focus from micro aspects and small-value items to critical and high-priority items could bring more effective results in financial management and governance reforms.</p>	<p>Capacity, logistics support, and human resources should be increased as needed so that the CAG can implement its strategic plan and international standards in auditing. In recent years, several reform activities and initiatives have taken place, but those activities have sometimes been disrupted despite having some positive results. ADB may consider future assistance and support to enhance audit capacity and resources.</p>
<p>There is a lack of follow-through on the resolution of audit findings and observations.</p>	<p>Project teams should require executing agencies to resolve audit findings and issues within an agreed time frame, during the processing of new projects and the implementation of existing projects.</p>
Government Structure	
<p>The PFM structure is well defined for the central government and its ministries and departments. However, there is a lack of uniformity in the PFM system for corporations, autonomous and semi-autonomous bodies, and boards.</p>	<p>The Ministry of Finance will play a vital role in bringing all the extrabudgetary units and organizations under the same PFM structure. ADB may consider providing assistance and support for reforms in the PFM structure for extrabudgetary units.</p>

ADB = Asian Development Bank, ADP = annual development program, CAG = Office of the Comptroller and Auditor General of Accounts, CAO = chief accounts officer, CGA = Office of the Controller General of Accounts, iBAS = integrated budget and accounting system, MTBF = medium-term budgeting framework, PFM = public financial management.

Source: Authors' compilation.

Appendix 1

Medium-Term Budgeting Framework Process

The process of preparing and implementing the medium-term budgeting framework (MTBF) and the annual budget involves several successive activities, listed below and in Table A1.

- (i) The Finance Division issues Budget Call Circular-1 with preliminary indicative expenditure ceilings for each line ministry.
- (ii) The line ministry prepares a ministry budget framework (MBF) with the help of departments and agencies (up to the district level).
- (iii) The Finance Division and the Planning Commission jointly review the budget numbers and MBFS and finalize these after reaching agreement.
- (iv) The Finance Division issues Budget Circular-2 with indicative expenditure ceilings for each ministry.
- (v) The Finance Division reviews and finalizes the estimates.
- (vi) The budget is presented to Parliament for discussion and approval.

Table A1: Medium-Term Budgeting Framework and Budget Preparation Calendar

Stage/Activity	Deadline	Responsibility	Remarks
Strategic Phase			
Preparation of MTBF and budget guidelines and approval by BMRC	15 August	FD, PC	Procedure includes (i) review of previous MTBF exercise, (ii) setting of deadlines for MTBF and budget preparation, (iii) identification of key strategies and priorities, (iv) issuance of instructions for the preparation of MBFs, and (v) setting of preliminary indicative resource ceilings.
First update of macroeconomic and fiscal framework	30 September	FD	Framework includes (i) macroeconomic and fiscal forecast, (ii) budget aggregate projections, and (iii) analyses of underlying policies and strategies.
Preparation of ministry budget frameworks by line ministries	30 September	BWG, BMC in line ministries	Frameworks include (i) policy objectives, (ii) associated actions, (iii) resource implications in main program areas, (iv) expenditure reform measures, and (v) key performance indicators.
Review of line ministry MBFs	20 October	FD, PC	Results of review are considered in determining sector and ministry MTBF resource ceilings.
Expenditure review and recommendation of indicative expenditure ceilings	25 October	FD, PC	Process includes analysis of (i) recent expenditure trends, (ii) selected crosscutting resource use issues, (iii) intersector expenditure priorities linked to policy priorities, and (iv) recommended sector and ministry resource ceilings.

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Table A1 continued

Stage/Activity	Deadline	Responsibility	Remarks
Finalization of draft MTBPS and approval by BMRC	31 October	FD	MTBPS sets out (i) macro-fiscal framework, (ii) medium-term budget strategy, and (iii) sector and ministry resource ceilings and their justification.
Budget Estimates Phase			
Preparation and issuance of budget call circular	7 November	FD, PC	Process involves the review and updating of (i) instructions to the line ministries, (ii) budget forms, and (iii) information technology applications.
Preparation of departmental estimate submission	31 December	Departments in line ministries	Process involves (i) disaggregation of resource ceilings, (ii) issuance of guidance to departments, (iii) preparation of budget proposals by departments, and (iv) submission of budget proposals to parent ministry.
Ministry review and finalization of estimate submission	31 January	BWG, BMC	Process involves (i) compilation and technical review, (ii) ministry estimates review meetings, (iii) approval by ministry BMC, and (iv) submission of estimates to FD and MOP.
Preparation of second update of macroeconomic and fiscal framework	28 February	FD	Update incorporates (i) latest update of macroeconomic and fiscal forecast, and (ii) analysis of implications for sector and ministry resource ceilings.
Review of ministry budget submission	15 March	FD, PC	Process involves (i) review of budget submission, (ii) resolution of technical issues, and (iii) identification of key issues for budget discussions.
Budget discussion with line ministries	30 April	FD, PC	Process involves the preparation of (i) final resource allocation proposal for MTBF, and (ii) revised estimates for the current fiscal year.
Budget Finalization and Approval			
Finalization of MTBPS	30 April	FD, PC	Process involves revision of draft MTBPS to accommodate (i) updated macroeconomic and fiscal forecast, and (ii) final budget aggregates and sector resource allocations.
Compilation and finalization of draft budget	7 May	FD, PC	Budget incorporates (i) adjustments following discussion with line ministries, and (ii) supporting commentary for the Cabinet.
Submission of MTBPS to NEC	May Week 3	FD	
Printing of budget documents	May Week 4	FD	Documents comprise (i) MTBPS, and (ii) budget and MTBF documents.
MTBPS and budget submission to Cabinet, and approval	June Week 1	FD	
Presentation of budget and MTBPF to Parliament	June Week 1	Finance minister	

BMC = Budget Management Committee, BMRC = Budget Monitoring and Resource Committee, BWG = Budget Working Group, FD = Finance Division, MBF = ministry budget framework, MOP = Ministry of Planning, MTBF = medium-term budgeting framework, MTBPS = medium-term budget policy statement, NEC = National Economic Council, PC = Planning Commission.

Source: Ministry of Finance, Bangladesh. 2005. *Public Expenditure Management Manual*. Dhaka.

Appendix 2

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Public Financial Management Systems—Bangladesh

Key Elements from a Financial Management Perspective

The Bangladesh Public Financial Management Systems report documents the country's financial management systems covering primarily the areas of budgeting, funds flow, accounting and reporting, and auditing systems. This report also provides insights into the quality of internal control systems, staffing resource capacity, and information technology structure. The intent is to provide project teams and consultants with a better understanding of financial management systems to improve the quality of financial management assessments during project preparation. Find out how high-quality financial management assessments support projects by identifying key risks and enabling the implementation of appropriate actions and reforms to mitigate those risks.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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