Public Financial Management in Bangladesh

Emerging Issues and Challenges

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Comptroller and Auditor General of Bangladesh

(A Compilation of Lectures)

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Preface

I am very pleased to learn that a compilation of my lecture series on various aspects of Public Financial Management (PFM) is being published. I delivered these lectures over a period of three months from September 2018 to December 2018 to my Officers of Audit & Accounts Department.

The purpose of delivering these lectures was twofold. First, sharing my long experience of working with both upstream and downstream activities of PFM with my officers and secondly, bringing to the fore the challenges they are destined to face in the rapidly evolving context. It was indeed a pleasant experience for me. My officers not only gave me the patient hearing but also stimulated my thoughts in many ways to give me more information about the emerging architecture of PFM, its evolution since the colonial days in the sub-continent and the dynamics of reforms implemented in Bangladesh over the last three and half decades, I am grateful to them for their abiding interest, active participation and scintillating response to my questions that I raised while exchanging views with them.

While delivering my lectures, I repeatedly mentioned that the technological intervention has transformed the entire landscape of PFM requiring reorientation of the skills-set possessed by the public managers. Many tasks in the PFM domain which used to be done manually have been taken over by technology relieving the public managers from drudgery and giving them space for further innovations to add more value to PFM. The officers of the department should, therefore be ready to take advantage of what the technology can provide and meet the challenge of bringing innovations to add value.

In order to convert my lectures into a literature, a Panel was formed selected from my brilliant officers who noted, recorded, documented my sessions and then transcribed the contents verbatim. I extend my heartfelt gratitude to the panel of editors for their unwavering dedication, insightful feedback, and meticulous guidance throughout the publication process. In spite of having a well-structured compilation, getting the verbatim compilation translated into English is definitely a difficult task. In particular, maintaining the flow of lectures was the leading challenge. However, my esteemed senior colleague Mr. Ranjit Kumar Chakraborty, former Additional Secretary to the Government of Bangladesh voluntarily took up the task and really, I am amazed to see his dexterity in handling the task. I am truly honoured to have had the privilege of working with such a distinguished group of professionals, and I am deeply appreciative of the time and effort they have invested in bringing this project to fruition.

I would like to express my sincere gratitude to the OCAG Administration for their exceptional support and dedication in bringing to life the compilation of lectures in the form of a comprehensive book. The professionalism and collaborative spirit of OCAG Administration have ensured the seamless transformation of these lectures into a cohesive and impactful publication.

It is to be noted that, in a fascinating twist of time and knowledge, the echoes of a lecture delivered in the context of 2018 have been immortalized within the pages of a lecture compilation published in 2023. As the years have passed, the insights and foresights shared during that lecture have gained new layers of significance, offering readers a captivating window into the past while simultaneously illuminating the path towards the present. The period from 2018 to 2023 has witnessed a remarkable transformation in the realm of financial technology, as concepts that once seemed abstract have become tangible realities. Electronic Fund Transfer (EFT), Magnetic Ink Character Recognition (MICR) Cheque, A-Challan, G2P mode payment system and the comprehensive implementation of the iBAS++ pay and accounting module have seamlessly integrated into the fabric of everyday financial operations. This five-year span has seen these innovations transition from theoretical discussions to practical solutions, streamlining financial transactions, enhancing security through MICR technology, simplifying payment process by taxpayers/rate payers with A-Challan, and revolutionizing governmental accounting systems with the full-scale integration of the iBAS++ modules. As readers embark on this journey through the pages that bridge the gap between 2018 and 2023, I invite all to embrace the opportunity to witness the profound transformation that time can bring. Besides, the readers will come across some repetitions here and there in the lecture series which I did deliberately. The underlying reason was to make sure that the audience comfortably absorb the message that I wanted to convey and understand the technical terms that I used while illustrating my points.

Finally, I would like to remind every person employed in public service that, as you engage with these insights, theories, and practical wisdom, remember that the true power of knowledge lies not merely in its consumption, but in its transformation. Each idea, each concept, and each perspective have the potential to be a catalyst for change, a spark that ignites innovation, and a guide that navigates the path toward impactful action. Let these pages be a wellspring of inspiration, motivating you to bridge the gap between thoughts and deeds. What I conveyed, is only the tip of the iceberg. Therefore, my message for you is,“Embrace the challenge to weave these teachings into the fabric of your endeavours, translating theories into solutions, and propelling the world forward with the force of your actions”.

01 July 2023 **Mohammad Muslim Chowdhury**

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Chapter 1:

Understanding PFM and its Panels

Part I: Legal Framework and Evolution (up to 1983), Role of Budget Holders

Introduction

After my appointment as Comptroller and Auditor General (CAG), this is the first time I am meeting all my cadre officials under the same roof. I understand that some of you possess various professional qualifications such as CIPFA, CMA etc., some of you have long professional experience and many of you have just begun your career in PFM. Audit department, you all will agree with me, is a department of professionals. It is worth mentioning that this department plays a significant role in the domain of public financial management. Besides, this is also a prestigious department. It has all the potential to create examples for other departments engaged in delivering public services to emulate those and you may feel proud when they value and respect professional excellence prevailing in your department.

I think it would be beneficial for all of you if I utter some historical facts on the evolution of PFM in the country together with the changes it witnessed over time. Some of the changes were perhaps for the better and some of them seemed worse. In some cases, we could streamline the processes more but there are instances where we disarrayed some of them which were already organized and streamlined. My officers in this department must know where there are gaps and where we have made improvements. This will help you in harmonizing your knowledge so that you can move ahead with similar wavelength and do not differ much while providing professional opinion. When you will be speaking in any forum, you should deliver your views with strong conceptual underpinnings.

All around the world, there has been intensive use of information technology in PFM, and it is becoming more and more intensive. Penetration of IT will bring about a sea-change in our working environment and the process has already begun. You need to adjust yourselves with this welcoming change and make extensive use of technology to stay relevant. What technology can do, why should it be done by a human being? What technology can handle, why should you take up that task? This should be your first lesson. In essence, we should extensively use information technology and heartily welcome technology-based solutions. We should also concentrate only on those areas where technology cannot provide any solution.

Therefore, it is obvious that except where application of human judgment is necessary other mundane and mechanical work should be left with the technological solution. There is no scope having any reservation on this and it makes no sense at all not to welcome technology in our environment. You should never think that your jobs will be at stake if you welcome technology. That will never happen. Rather hanging onto traditional mindset of retaining manual process is more dangerous because now-a-days technology is not in the habit of begging rather came as a disruptor. Technology will not only bring changes to our work process but also take away the stigma of ticking and checking manually.

Now I would like to focus on three aspects while giving my reflections on the total evolution of public financial management. These are:

(i) historical background of PFM i.e., what changes took place in PFM at different points in the context of Bangladesh.

(ii) what gaps have been created due to recent changes and what gaps might be created following forthcoming changes and how we can identify them.

(iii) actions are required to close those gaps. Afterwards, we will try to understand the dynamics of changes and most importantly, we should have the same wavelength of understanding.

Four Panels of PFM Framework

As I move along, I will try to build a conceptual framework for PFM and reflect on its evolution to demonstrate where we started and in which direction we are moving. While building the framework, I would like to establish some panels.

Executive (Budget Holder)	**Pay & Accounts**	**Treasury (Bank)**	**Audit / Statutory Audit)**
(Panel – 1)	(Panel – 2)	(Panel – 3)	(Panel – 4)

Panel-I: Executive (Budget Holder)

Panel -1 is the Executive Panel or Budget Holder Panel. Technically, it is not the Executive Organ, as laid down in Part-IV of the Constitution. If I begin by asking a question, what is the difference between the Executive Organ and this Executive Panel? In fact, Executive Panel includes many things in terms of PFM. What I am trying to say is that the Executive means a person who is a budget holder, who renders public services and to render such services who spends budget. In other words, executives are the people who execute budget to render public service. An executive, in PFM sense may belong to any organ of the state, like executive, legislature or the judiciary. This is much deeper than it simply means. The government has so many departments which render public services. When we think of an executive in terms of PFM, it means any organization which spends the budget to render public services. For example, Judiciary is an executive, because it spends budget to render the judicial service.

Therefore, in terms of this Panel-1, an officer of Judiciary is also an executive and that of Parliament is also an executive. Why? Because they are the budget holders. So, in PFM framework, an Executive is a person or organization who is the budget holder. And what is the job of a budget holder? He prepares a plan (his operational plan) linking with strategic plan like five-year or ten-year plan. He also prepares the annual plan and operational plan and based on those plans he prepares his budget. And after the approval of the budget by the Parliament, he spends the budget to render public services complying set rules and regulations.

As he spends the budget, he is accountable for regularity and propriety of expenditure. That means, he procures goods and services following some rules and regulations for providing public services. Thus, he incurs expenditure. I must emphasize on the term ‘incurs expenditure’ instead ‘pays the money.’ This is very important. ‘Incur expenditure’ is a bit tricky term. You must be professionally equipped to explain the difference between expenditure and payment. If anyone of you fumbles with these terminologies, in no case it is acceptable. You must be professional and whenever, wherever you use the terms, you have to use them professionally. You should not mix up one term with another.

Principal Accounting Officer (PAO)

The executive panel starts with the Principal Accounting Officer (PAO) who is not necessarily the Secretary to the government. He/she might be any other official as well. In the case of Judiciary, there is no Secretary, but there is a Registrar General who acts as a PAO. For the Supreme Court there is a Registrar General and for the High Court there is a Registrar who acts as the budget holder. So, in the case of judiciary, Registrar General/ Registrar is the PAO, but for a ministry, a PAO is the Secretary. In the case of CAG's office Deputy CAG (Senior) acts as the PAO. Moreover, for SPA/Autonomous bodies, the Chief Executive Officer is the PAO.

The Principal Accounting Officer is at the top of the Executive panel. I am not naming him/her as the Secretary. If you look at our government structure, you will find that a government officer has three kinds of job but get paid only one salary. Our PFM structure and executive structure have been designed like this. And that's why you will find one position with three functions. One is administrative i.e. Secretary to the Government assigned by the President through Rules of Business. This will be clearer if you look at the designation of DC. A DC has got three separate functions - District Collector, Deputy Commissioner and District Magistrate, though there is an issue with designation of DM. These are three distinct jobs, but the position is one. Likewise, in PFM, for his finance functions I will term 'the Secretary' as PAO rather than the Secretary.

Parliament provides budget to PAO through voting process. The rules of business recognize the Secretary as the PAO for the Ministry/Division. We should note one thing carefully that the Secretary's responsibilities as PAO's extend up to attached department and subordinated office level. For Statutory Public Authorities (SPA), Autonomous Bodies, Corporations, State Owned Companies the Secretary is not the PAO, rather respective organization Chief is the PAO, though these organizations are linked with the Ministries for higher level policy intervention. Another issue of confusion, often we see the Minister is treated as executive. But nowhere in the Rules of Business it is expressly written that the Minister is the part of the administrative machinery rather he is someone who gives policy decision either himself or with the approval of the cabinet. The responsibility of carrying out mundane administrative functions lies with the PAO and that's why in the Public Accounts Committee (PAC) meetings the minister does not have to explain his/her actions rather the PAO/Secretary explains what he has done.

Controlling Officer and Super Controlling Officer

In the government process, PAO cannot perform all the tasks. But he is accountable to the Parliament for all actions done by his administrative arms and machinery. This means in the executive panel there are people other than the PAO. The PAO is the budget holder though in the regulatory framework you won't find this term. As we work for audit, we should try to avoid the terms which are not included in the regulatory framework. We should rather try to guide the auditees so that they also refrain from using those terms as far as practicable. Budget holder is a terminology that is used in international PFM arena. In our regulatory framework the budget holder is called the Controlling Officer. The PAO is the Super Controlling Officer of the ministry. And the total budget allocation is given to him by the Parliament. But does he spend all the fund allocation? As per delegation of financial power, the budget allocation is spent hierarchically at different levels starting from the ministry. Everyone follows PPA/PPR while making procurement. If the expenditure relates to establishment, the spending departments and subordinate offices follow government orders. They incur expenditure but do not make payment. They utilize funds. Spending fund is not paying money. PAO does not accord all sanctions for spending fund. Following the Delegation of Financial Power, any official subordinate to him can give financial sanctions. PAO also carries out multiple functions. We can see three different authorities within the PAO structure: administrative, financial and accounting. Other officers subordinate to PAO also carry out these multiple functions. However, we shouldn't lay much emphasis on PAO or his subordinate's identity as administrator, rather we should be more concerned with their financial and accounting responsibility. His accounting responsibility also be examined in audit. Say for example, if their offices do not maintain asset register, we should raise audit observations. If you do not understand executive government system, it would be difficult on your part to grasp PFM. As per Rules of Business (Rule-5), the ministry has five different jobs, four of them are policy related.

Ministry is basically a policy making office and attached departments/ subordinate offices are implementation level unit. Unfortunately, policy level and implementation level are now mixed up erroneously due to ignorance. As auditors we may tacitly point out the issue of this mixing up.

The Prime Minister creates ministries/divisions with the authority delegated to him through the Rules of Business. Then how will the department be created? Does it require any law or government order? Is it advisable to create an implementation unit through any piece of legislation (Act of Parliament)? There is a provision in the Fundamental Rules that the government by order can create any department. Now if a department is created through a piece of legislation say, with immediate effect, how we can handle it. We may raise audit observations in a polite manner just to alert the executives.

It does not require any law to create a department. Still there is a tendency of creating department by enacting law which is not necessary at all. Again, if it is stipulated that the law shall take immediate effect and if it takes two years to create that department after the publication of the gazette notification giving immediate effect, this will amount to obvious departure from the law. For an effective legal framework, we should frame law in such a way where there should be a provision for keeping certain sections of a law pending. The gazette notification should be made without the section which says that law shall take immediate effect. If the creation of a department is delayed after the publication of gazette notification, it will mean non-compliance with the law. Lately, problems of this sort were created. We may tacitly mention these points in our audit observation. After the publication of gazette notification, if there is any delayed action, it would mean violation of the law. It is, therefore, advisable to mention in the law that it shall take effect from the date of publication of gazette notification. However, in the case of Ordinance, it shall take immediate effect not from the date of publication of gazette notification because promulgation of Ordinance represents an exceptional situation and any delay in taking its effect is illegal as well as undermines the spirit of necessity of the law. The importance of an Ordinance lies in the fact that it is promulgated when the Parliament is not in session. Unless it is made, the public service delivery may suffer badly and therefore, it should take immediate effect.

The PAO is a super controlling officer. A Controlling Officer in this context has two functions- administrative and financial. In financial matters, procurement of goods and services, sanctioning expenditure, receipt of stores, preparation of bills etc. are important aspects. The Controlling Officer is a person who is empowered to authorize expenditure. The authorization comes from the delegation of financial powers and PPA/ PPR. Generally, there is the DG in a department. He is a controlling officer (CO-1). The Director is a Controlling Officer (CO-2) and so on up to the field level. In the regulatory framework, there is no terminology like field office rather it is called subordinate office. These are the layers and there is a Controlling Officer at every layer.

Importance of Delegation of Power for the Auditors

When you plan to undertake an audit for an entity, you must look at the level of delegation at each layer. Because of the penetration of technology, in many cases now you have got centralized system of databases. And this will minimize the audit cost. While conducting audit, you must take the advantage of database. This, however, doesn't mean that you'll have less work and lose your job. Rather your jobs will be relocated, and this relocation is for better. Your relocation of job will be in the overall domain of PFM. Indian CGA has taken over the responsibility of IMED like organization and also, the internal audit function of the government. Using the centralized system, CGA can provide financial position of the whole government.

The PAO is responsible for monitoring and supervising the activities of all Controlling Officers under his authority. So, in a parliamentary accountability system, the PAO cannot skip his responsibility by saying that I know nothing, my DG, my Director and my subordinates have done this. Is it acceptable? No. He has to devise some monitoring and internal control system so he can monitor and control the functions of his subordinates. And that is why, theoretically speaking, while facing the PAC he is not supposed to be accompanied by his subordinates. PAO himself should meet the PAC and explain his position. However, unfortunately we could not develop this culture. This Executive panel will sanction and incur expenditure. In this panel, there are two units for public service delivery -- Policy Unit and Implementation Unit. These units will spend budget generally without having any cheque issuing authority. They don't have the power to pay any money. Our PFM system is very robust, very sound. We have inherited lots of vices from the colonial administration but at the same time inherited some virtues as well. But unfortunately, over the years, many unplanned reforms have dented the robust system and created distortions. You should learn the consequences of these distortions in our PFM arena.

There are some exceptions though. For example- Public Works Department (PWD), Roads and Highways Department (RHD), Public

Health Engineering Department (DPHE) etc. That does not mean that this exception is wrong. If we understand properly the general framework, it would be easier for us to understand the exceptions. If we can make the control mechanism effective, we will be in a position to derive benefits from these exceptions also. We tend to blame the system as we could not make the control system work. The spending agencies will spend their budgets following the Rules of Business, Allocation of Business, Delegation of Financial Powers, GFR, PPA/PPR and other departmental rules and regulations.

Where should subordinate offices have been located geographically? Should these offices be located at Upazila level? According to the existing legal framework, subordinate offices of certain departments only should have been located at Upazila level. The subordinate offices of most of the departments, should not have been located there as central government subordinate offices, excepting few subjects of central government such as Police, Sub-registry office and Upazila Accounts Office (Retained Subjects). The relevant statutes of Upazila parishad, Zila parishad, and City Corporations clearly stipulate that public service functions including finance functions are not central government functions. The functions vested with the Upazila parishads are called Transferred Subjects. According to the existing arrangement, no central government subordinate offices should be located at Upazila level except for Retained Subjects. Those offices should be placed under Upazila parishads. Currently, by law, as mentioned earlier, only 2/3 central government subordinate offices should have been located at the Upazila level but in practice, all the departments are functioning like central government subordinate offices. This is evident from the fact that the central government funds are still flowing down to Upazila Social Welfare Office, Upazila Education Office etc. through budget distribution from the center instead of placing the budget in the Upazila Parishad fund as Grants-in-Aid. This is a clear departure from the statute of Upazila Parishad. These deviations should be pointed out in the form of audit observations. So, it should be obvious by now that only departments which are retained by the government should be part of the central government budget and budget of those departments which are transferred to Local Government should not be following central government's PFM requirements rather they have their own Financial Management Framework under their respective statute.

Power of the Executive and Delegation of Power

All powers (administrative, functional and financial power) vested to the executive have been derived from the Constitution. PFM issues are emanated from the specific articles of the Constitution including auditing. If we look at the constitutional schemes, we will find that the all the executive and financial powers lie with the President. As per Article-55(5) of the Constitution, *"The President shall by rules specify the manner in which orders and other instruments made in his name shall be attested or authenticated, and the validity of any order or instrument so attested or authenticated shall not be questioned in any court on the ground that it was not duly made or executed"*, and as per Article-55(6), *"The President shall make rules for the allocation and transaction of the business of the government."* Constitution also provides through Article-55(4), *"All executive actions of the Government shall be expressed to be taken in the name of the President."* For this reason, all Notifications and other instruments are issued 'by the order of the President.' The officer who issues the instrument having legislative effect (Rules, Regulation, Notification, Order) does not require to send the file to the President for approval in all cases. Say for example, if you ask the officer, 'did you send the file to the President?' The answer might be big 'NO'! Yet the officer is signing in the name of 'by the order of the President' might be without knowing the reason. So, you must revisit the constitutional schemes, especially the provisions on legislative and financial procedure. I have already mentioned that all executive powers lie with the President. As an auditor, you have to understand the legal framework.

All financial and administrative powers are given to the President directly in the Constitution. But how does the government system work? Can the President take every responsibility? Or should the system work through a process of delegation? And that is why constitutional schemes say business of the government should be allocated to different executive functionaries (please note that these only cover ministries/division, departments only) by framing the Rules of Business [Article 55(6)][1]. And it says that the businesses of the government should be allocated as per the Rules of Business framed by the President. By using the powers of the articles of the Constitution, the President framed the rules (Rules of Business, 1996) accordingly. The rules stipulate how the government

[1] Article 55(6) of the Constitution stipulates: the President shall make rules for allocation and transaction of businesses of the Government

functions, that is, defines process & procedures of conducting the business of the government. It also defines which ministry is responsible for which part of the public services. The allocations of responsibilities among the ministries and divisions are attached in the schedule (schedule-1) of the Rules of Business which are called the Allocation of Business.

So, the government starts functioning by the powers delegated to it by the President. The President delegates his/her powers by framing rules. And in those rules, all executive powers, except a few, are delegated to the government thereby relieving the President from the executive functions.

For an auditor, it is also an important task to check the Rules of Business. You can comment whether some ministries are working beyond their allocation of business or not. You can also point out any departure from allocational boundary. If any ministry/division acts beyond its allocation, you can raise this question succinctly and advise the government so that either the government change the allocation of business of the ministry, or the ministry should stick to the allocation without stepping across its boundary. A question may be raised: 'Am I raising question on policy by raising the issue?' The answer should be 'No'. You are not raising question regarding policy matter rather you are raising the point that the government is not following its own policy under statute. The Rules of Business is an important document which should be consulted and you should keep this in your master file of audit.

The Rules of Business have allocated the public service delivery functions among the ministries/divisions and accordingly they are functioning. It is not only the executive power that lies with the President but also the financial. Then how is the financial power being delegated? The order on Delegation of Financial Power is issued by the Ministry of Finance itself. However, the General Financial Rules (GFR) is issued by the MoF with the approval of the President. GFR in British India used to be issued by the Governor General and now it is issued by the President. Here the question is: the Finance Division under which authority issues order for Delegation of Financial Power? How does the Finance Division exercise this power that originally lies with the President? The answer is - while allocating the business among the ministries/divisions, the President has delegated this power to the Ministry of Finance. As per the allocation of business, all financial matters are vested with the Finance Division (FD), Ministry of Finance. It is, therefore, obvious that the President has not retained the financial power with him. Having had this delegation if the FD retains it, can the government function smoothly? Obviously, it cannot. Some sort of delegation is required for smooth public expenditure management. And that is why the FD has delegated this power to different ministries/divisions/departments. In India and Pakistan, the process of financial delegation is entirely different. In their case, the President has directly delegated the financial power to the ministries/departments by framing separate rules. While FD in Bangladesh is delegating financial power by issuing order, in India and Pakistan they are doing it by making separate Rules by the President.

The President has delegated financial powers to the FD and the FD in turn is delegating them to the executives. In tandem with the delegation of administrative power, financial power has also been delegated. However, while delegating its power, the FD retained some power with them. The other ministries in turn have delegated it further down through sub-delegation following the instructions issued by the FD. But the FD has done it simultaneously by devising a sub-delegation model. All ministries are supposed to issue sub-delegation order following that model but no ministry, in reality, has issued such order. Since all other ministries/departments are to follow the sub-delegation model, it is presumed that this has been done by the Ministry of Finance. At PAO level, both executive and financial delegation from the President has been done. Both delegation of financial power and administrative power have found its place in the Executive panel. And it is worth noting here that the broad principles of finance are covered by GFR.

That said, there is still a confusion surrounding GFR. Is it an executive instruction or rule? When there was the Governor General, the executive instructions used to carry much weight than the current executive instructions/orders. And the status of those instructions was pretty close to that of any law. After partition in Pakistan, the President replaced the Governor General, but nothing was mentioned about the status of General Financial Rules (GFR). Even the source of authority to issue GFR is missing in the compilation of GFR. If you look at the compilation, you will find that the source of power is missing. Consequently, it is not clear whether this is a set of rules under the Constitution or an executive instructions/order- a step below. However, in my opinion this should have the status of a set of rules rather than the executive orders as it contains guiding principles for overall PFM.

Does the GFR deal with money? Or does the GFR deal with funds. Funds of course. And it also deals with expenditure not payment. GFR deals with the general framework for the management of the public expenditure, public receipts as well. That is why, in the GFR scheme the word money has hardly been used. It's a framework for guiding public expenditure and public receipts. Keeping of Record of receipts in the books/registers are dealt with by GFR. And below this, there is departmental manual taking care of specific peculiarities of certain departments which are always very important for the auditors to consult.

We have so far reflected on our Constitution, Rules of Business, Allocation of Business and GFR. Let us now turn to another topic. Why is the GFR not issued by the Auditor General? When you go through our constitutional provisions, Articles 127-132, do you find any provision that asks CAG to be inside the government or you see him as a separate unit? It is obvious that the office of the CAG functionally will not operate within the government mechanism. However, if my office finds any flaw in the government mechanism, it must identify those flaws. The concepts of compliance and financial audit are quite high sounding at this stage. I am not going to pick up any of these topics at this moment. Let's first get the basics right and then I'll link those concepts. Looking at the audit reports, when I ask where the accounts is, I get response from my officers that there are no accounts in it. When you are conducting financial audit and if you do it without looking at complied accounts, what does your audit report contain and wherefrom your audit opinions are coming.

We also need to discuss the Comptroller and Auditor General (Additional Functions) Act, 1974. All must be able to explain the various sections of this Act. We see that the audit certification is being given referring to the Act not referring to the specific sections of the Act. Is it the appropriate way of giving the audit certification? Obviously audit certification should be given referring to the specific section of the Act. Moreover, the officers should be able to explain the weaknesses/inconsistencies that exist in the CAG (Additional Functions) Act, 1974.

In GFR you will find topics related to establishment. There are chapters on budget head and grants-in-aid. You will come across supplies and services in a separate section. On stores, there are some instructions on accounting i.e. what kind of accounting records are to be kept. How could accounting make an inroad to GFR? You won't find accounting proper here. Here you'll find instructions to the executives on keeping departmental records, expenditure records and store records. All these are the functions of the Executive panel. That is why GFR contains some instructions for keeping accounting records, but these are not accounting proper per se. These are essentially instructions for tracking record of expenditure and consumption of stores and stock of assets. To whom these responsibilities should be assigned? Certainly, to the Executive panel. Therefore, the job of our domain is to understand the responsibilities assigned to the executives and if they fail to perform their tasks it is our obligation to raise audit observations.

If you check your audit observations, you will find that we concentrate more on establishment related issues. Now in an automated environment, technology will take care of these issues. And the process has begun. You should be aware of these developments. You should concentrate more on procurement of goods and services. Please note that the procurement regime that used to be handled by GFR is now handled by Public Procurement Act (PPA), 2006 and Public Procurement Rules (PPR), 2008. However, in GFR there is still a provision for maintaining accounting records. The reason being, PPA and PPR do not contain such provision. The provisions for the procurement process in the GFR are now almost redundant. Tender related issues will not be dealt with under the provision of GFR. Unfortunately, I have come across procurement related audit observations that quoted the provisions of GFR instead of PPA/PPR. When you have PPA and PPR, you can only refer to GFR in your audit observation in so far as they relate to keeping administrative accounts related to procurement. This account keeping means a different process, not account keeping in its truest sense. The discussion about accounts keeping will be done in a panel (Pay & Accounting panel) different from Executive Panel.

By now, we have got the first-hand idea about the PFM related constitutional provisions, the Rules of Business, the Allocation of Business, GFR, PPA and PPR. In addition, as mentioned earlier, there are separate departmental rules to deal with the peculiarities of certain departments. You must explore these rules as well. I understand many of them are not relevant in the current context. Despite that I would ask you to look at their contents. This is simply because of the fact that we are destined to do it. Our job is to guide the government having gained full knowledge of the rules that were in force in the past. Not necessarily we have to take everything to Parliament. Our responsibility is to guide the government also. Even if the government does not take any action in accordance with our recommendation, this will have a historical or archival value.

The PAO in Executive Panel is accountable for their budget expenditure. Because the GFR says that the executives have to maintain their own accounts. Then the question is- can it be labelled as initial accounts? You will find the terminologies that I am using in relevant rule books. I am not calling it initial accounts. But we'll come across such terminologies going forward. How many of you have read this book? The title of the book is – An introduction to Government Audit and Accounts. The last edition of this book was published in 1952. This book is called the bible of the audit department, and this is a must-read book for every officer in the audit department. There will be chaos and confusion if you do not read through this book. This means we'll come up with differing views rather than giving identical views on a particular issue. We are creating confusion as to what is pre-audit, what is initial accounts, what is final accounts, what were within the jurisdiction of Auditor General, what are still there, what are not and all these. We will find a historical link from this book. Not only for the officers of this department, it is also a must-read book for every government official. I have gone through an article written by Dr. Mashiur Rahman, Advisor on Economic Affairs of the Honourable Prime Minister 30 years back. He also mentioned that it is a must-read book for every government official. Today I am saying that this is the must-read book for every officer of audit and accounts department. At times, we indulge in arguments without any substance which mainly happens due to lack of knowledge. The book that I am referring to may help you in many ways in reducing your knowledge gap. So, this is a must-read book, and this will be supplied to you. You should read through every term, every word of this book. We'll discuss more about it later.

Then subsidiary accounts should be maintained at the executive panel. Acquiring Knowledge about these dimensions is linked with audit access/coverage. You have compiled accounts, you have initial accounts, you have subsidiary accounts but the audit party when visit executive field offices, only examine the subsidiary accounts. If you ask the audit party whether they examined the initial accounts or not. They offer blank look and eventually ask what the initial accounts is all about. Should audit party only apply test on the subsidiary accounts or they should apply such test for providing further assurance. Unfortunately, we are ignoring compiled accounts and picking up subsidiary accounts for examination only. Then we prepare report without having any idea of initial accounts. Is it a financial audit? Obviously, this is not. Without checking/inspecting accounts, how can you claim that you are forming audit opinions or raising the audit observations/issues?

Moreover, if you concentrate on your audit, some issues will automatically come to your mind. For example, should we form an audit opinion having examined the subsidiary accounts or should we examine subsidiary accounts to reinforce audit assurance. If we undertake reverse journey and carry out inspections in areas where we should have applied audit checks, audit will never be completed. We need to carry out inspection to reinforce audit assurance. Are audit and inspection the same thing? No. We must understand the nuances of these terminologies to behave professionally.

Panel-II: Pay and Accounts

We should now turn to the next panel that is Pay and Accounts Panel. A single panel (Executive Panel) is not enough to complete any expenditure transaction process. More panels are required to complete the process [Pay & Accounts Panel, Treasury (Bank) Panel and Audit Panel]. All the panels are in a sense independent panel, though quite often they have interdependency. In terms of processing of transactions, they interact with each other, specially first three panels almost on a daily basis. That is why interdependency is there. But there is a hierarchy of authority within each panel. In Panel-1, PAO being the top boss there are Controlling Officers (CO) under him at different level and likewise in Panel-2, CGA being the top boss there are payment and accounts officers (CAFO, DCA, DAFO, UAO) under him at different level. If, for the time being, we put aside Railway and Defence, these two panels will interact each other. Officers belong to these two panels are spread over throughout the country and transact in a decentralized structure. In technical terms, this is called decentralized fiscal administration or fiscal system.

Unlike UK, we have a decentralized fiscal system for 200 years. In UK, the centralized fiscal system has been in existence over the same period. Our fiscal system was decentralized because treasuries were geographically dispersed. Now due to availability of technology time has come to rethink whether we should retain the decentralized fiscal system. Improvement of quality of audit largely hinges on the decision of retaining or not retaining this system. We should think what improvements are required for sound fiscal management and also for improved service delivery. It is not related to the question of increasing the number of posts or enhancement of status. I can confirm you that this improvement does not entail curtailment of posts. The quality of job will improve, and your job will be sophisticated. Just think out of the box. There are three branches of our fiscal system. One is Executive branch (for expenditure function), Pay & Accounting branch (for pre-audit, issuance of payment order in the form of EFT/MICR Cheques and keeping government accounts) and Treasury (Bank) branch for making payment and receipts of government revenue. The second branch is under CGA.

History of AG System and Functions of the Treasuries

Let's now have a glimpse of the history. We must discuss past, present and future. In doing so, we should also take into account what improvements have taken place in the outside world and should leverage them. This will bring about improvements in both accounting and audit. History tells us that CGA was the Accountant General (AG). Was AG ever involved with the payment process prior to 1983? He was not involved in the payment process albeit with one exception that is payments by cheque or by issuing authority after pre-audit for Presidency/Headquarter. With that exception throughout the country or you may say all over the subcontinent before 1947, AG was not involved in the payment process.

The whole payment process used to be taken care of by the treasury system and that necessitated the framing of Treasury Rules. There were sub-treasuries under the treasury system to deal with both receipts and payment transactions in remote areas. All receipts used to be deposited in the treasury chest and payments used to be made from the receipts deposited in a day. Bills used to be submitted from the Executive Panel by DDO who was to be appointed by the Controlling Officer. Any Controlling Officer could appoint one or more responsible officers as DDO and if he did not find any officer available or to rely on, he himself could work as DDO. The DDO signs the bill. So, the AG's panel was not directly connected with the Controlling Officers even though their financial sanction is required before submitting any bills.

Bills were to be submitted in prescribed form which accompanied documents like tender documents, comparative statements, sanction letter, store record entry, receipt certificate and so on. A treasury used to be under the District Collector (DC). There were three officers under DC-Treasury Officer (for issuing payment orders), Treasury Accountant (for keeping initial accounts) and Treasurer (for cash receipts and disbursements). Since they had to handle cash and required to keep initial accounts there was a need to appoint a Treasury Officer. Were 'forms' used under Treasury Rules form a part of the responsibility of the Auditor General in terms of prescribing the forms and manners of accounts? 'NO'. Because, TR is issued by the government to keep subsidiary accounts. Please note that as issuance of GFR is not the part of the responsibility of the Auditor General so is the case with the issuance of TR. This responsibility lies with the Government. Because treasuries are under the Government. So, it is not the Auditor General, rather the Ministry of Finance issues TR. However, sometime in the past, in the Civil Account Code, TR, GFR and Account Code (Vol.1, 2, 3, 4) were combined which was issued by the Auditor General, India. As part of the system evolution, the panels were combined. However, it was observed that such a combination, in fact, was making the identity of the panels blurred. This necessitated the separation of the panels through the issuance of GFR, TR and Account Code separately. Prior to the creation of these panels, Auditor General was the supreme authority in financial matters including audit. He used to control the treasury, accounting matters, and the operation of GFR. At a later stage, two panels were created which was an improvement in the system. The DDOs, not the Controlling Officers, were the connecting links between Executive Panel and Pay & Accounts Panel. However, as I said earlier, sanction from the controlling officers was to be obtained before submitting any bills to the Pay & Accounts Panel. That's why we look for sanction for any expenditure. That said, it is not necessary to obtain sanction for each item of expenditure. In some cases, a yearly order may serve the purpose of sanction. The DDO's specimen signature is preserved in the Pay & Accounts Panel and there is no obligation to preserve the specimen signature of the controlling officer. However, if Controlling Officer himself is the DDO, his specimen signature must be preserved. Generally, at the lower level of the hierarchy, the same officer work as both DDO and Controlling Officer because of the small size of the organization and insufficient number of officers. We have inherited the term 'Drawing and Disbursing Officers' from the British. The reason being while he will withdraw money from the treasury and disburse it to the rightful claimants. And this was an appropriate term as they used to handle cash. But under the cheque system, he is only the Disbursing Officer, not the Drawing Officer with only exception where DDOs draw for recoupment of permanent advance or Imprest. In the case of recoupment of Imprest or permanent advance as cheque issued against DDO, the cheque goes to the bank account maintained by DDO where from DDO makes up petty expenditure.

In future, under the electronic system once the bill is submitted, the money will go directly to the claimant's account which will be an improvement in the public service delivery system. This improvement will bring about a shift from the manually operated traditional audit to system-based audit. Accounting history tells us that the DDO used to submit bills to the treasury which was under the Collector not under the AG. The Collector himself was responsible to the AG for payment and treasury accounting function. This is why the Deputy Commissioner still sends some reports to CGA knowingly or unknowingly.

Wherefrom did the treasury and sub-treasury get money for making payment? For payment they had to manage resources. Cash used to be deposited into the treasury through treasury challans. A Treasury Officer used to be appointed from the EPCS cadre. Generally, young CSP officers were not assigned with this responsibility. There were two more positions under the Treasury Officer - Accountant and Treasurer. As the Treasurer used to deal with the government money, he was called 'Treasurer'. It should be noted that in case of money handled by the bank i.e. the then National Bank or Reserve Bank of Pakistan, the position of Treasurer was not required. Treasurer used to handle monetary transactions. Here there is a sense of internal control and division of labor. In this hierarchy, the Treasury Officer was above the treasurer and the Collector was above the Treasury Officer. The Collector was responsible to the Accountant General. In the sub- treasury there was only one position of Treasurer to deal with its operations which again may not be formal. They used to perform the functions of Treasurer in addition to other duties. Sub treasuries used to send all vouchers to the treasuries monthly and the treasuries in turn used to consolidate them. Money for making payments by the treasury used to come from the treasury challans. In case the payments exceeded receipts, they used to manage resources.

For resource management the treasury officer was responsible to the Reserve Bank of Pakistan through currency officer. There is a position under the central bank called currency officer. In each district treasury office, there was a currency chest which used to be managed by the central bank. Moneys received throughout the day after making the demand for payments at the day end were kept in Treasury Chest. If the cash in the Treasury Chest exceeded certain ceiling used to be transferred to the Currency Chest, and Central Bank used to consider this transfer as deducted from the money supply(M1). Subsequently whenever, on demand from the Treasury Officer, Currency Officer transfer money from the Currency Chest to Treasury Chest, thereby increasing Money Supply again.

Let me give you an example. If a treasury received Tk.5000.00 a day, disbursed Tk.4000.00 and the rest Tk. 1000.00 kept in the Treasury Chest, and the allowed ceiling is Tk. 800, the Treasury Officer deposited the surplus Tk 200 to the Currency chest and used to send telegram to the Currency Officer informing the fact. The Currency Officer in turn would deduct Tk. 200 to work out the money supply as if the same amount was with the central bank. If a treasury had to make payment in excess of receipts, the Currency Officer used to bring the required amount from the surplus currency chest in any other district and give it to that treasury. This is how the Currency Officer used to handle the surplus and deficit of currency chest and manage resources.

If we link the current practice with history, we'll find that AG is now involved with the payment process. But the payment process in those days was not handled by the Accountant General (with the exception only in the Presidency/Headquarter). Bills used to be scrutinized by the treasury people. Are they part of the accounting outfit or outside that outfit? Like the commercial world, accounts, payments, audit were separated in our system as well.

Treasury officials used to handle transactions outside the accounts and audit outfits under CAG and AG Civil. Then be it pre-audit or be it pre-check, all used to be done by the treasury officials, not by the accounts people. That was treasury scrutiny. After making payments, they recorded them in the cash book on a daily basis. Thereafter, they used to transmit the statement of ten days' transactions to AG on the 11th day together with all vouchers including the list of payments. They used to do it twice in a month so that any irregular payments could be detected early. When the first consignment came to AG office, the AG's staff used to open it and test whether the treasury scrutiny was in order and all relevant rules and regulations had been complied with. This is known as 'post audit before compilation of accounts' by the AG.

Then conceptually, accounts and audit were separated (though not human resources) and this separation was robust. Treasury officials used to make payments after preliminary scrutiny and send vouchers to AG. Various sections in AG used to check vouchers and ascertain whether there were appropriate sanction, proper store record certificates and so on. The vouchers that were not in order, the relevant sections used to prepare an objection note asking the treasury officials to respond to the objections. The vouchers that were found in order, AG used to compile them which was known as 'compilation of accounts'.

The AG, depending on nature of organization for payments used to do audit of different types. We may classify them into four categories as follows for better understanding:

- Pre-audit before expenditure sanction (advisory function);
- Pre-audit before payment;
- Post-audit before compilation of accounts;
- Post-audit after compilation of accounts;

I'll talk about ISSAI on any other occasion. Let's first get our basics right, then we'll look at ISSAI. What AG used to do fall under the third category among the categories listed above, because payment was done by treasury and after payment post audit is done at the AG Office before compilation of accounts. AG used to carry out post audit of those vouchers. In fact, there was no pre-audit prior to 1983 (except Presidency/Headquarter transaction). Treasuries used to maintain cash book and expenditure schedules. These were initial accounts based on which final accounts at the AG office were compiled. Initial account is the accounts which forms the source of final accounts. Store accounts which are maintained by the first panel is not initial accounts because this is not the source of final accounts. Then, will the Auditor General prescribe the manner and forms of initial accounts, or the departments will prescribe them? As the initial account is the ultimate basis for compilation of accounts, Auditor General prescribes them. That is the reason for issuance of Account Code Volume-II by the Auditor General.

Evolution of Concept of Pre-Audit by AG

The exception with regard to payment that I referred to earlier was there in the Presidency. On request from the Government, the Auditor General dealt with payments at the Presidency in tandem with the task of conducting audit. This was known as Presidency Accounts. What a rich relationship between the government and the Auditor General! There was no legal framework behind this arrangement; rather this was a gentleman agreement (concordant) between the government and the Auditor General. Irregularities in treasury system was largely minimized because of the involvement of the AG on behalf of the Auditor General through continuous post audit after payment by the treasury. It used to take longer than expected time to settle the objections raised by the office of the Accountant General in case of payment by the treasuries. When the AG on behalf of Auditor General was involved in the payment process for Presidency transaction, the existence of treasury in Dhaka was necessary only to deal with receipts.

So, in Dhaka, the AG used to carry out pre-audit (statutory audit) before payment. The sources of accounts compilation by the AG were post audit after payment and pre-audit before payment (only in Presidency). Pre-audit as a system came into currency through a concordant i.e., an agreement between the Auditor General and the Government.

There were examples of first category where Pre-audit before expenditure sanction that is Financial Advisorship was involved. Financial Advisorship function of FA&CAO in Railway accounting circle and Finance Controllers in Defence Accounting circle are examples of this category. For further Audit Assurance last category that is post audit after compilation also used to be done by the AG before compilation of final accounts on a test basis.

The advantage of pre-audit system lies in the fact that the irregularities can be detected and prevented much earlier. The disadvantage, on the other hand, was that it was a compromise with the basic tenets of accounting and auditing. Without hampering our interest, we should think of striking a balance. History tells us that preparing aggregate accounts after compilation is called "keeping of accounts".

Part II: Actors of PFM, Fiscal System, Historical and Technological Developments

At the beginning of this session, I want to stress upon the necessity of reviewing the following literature if you really want to understand the PFM *per se* : (i) Bangladesh Constitution, (ii) the Comptroller and Auditor General (Additional Functions) Act, 1974, (iii) An Introduction to Government Audit and Accounts 1952 Edition, (iv) CAG Bangladesh and CAG India's website, (v) Audit and Accounts Order 1952, (vi) Analytical History of CAG India (vii) the Government of India Act, 1935, those parts that are relevant to the Audit and Accounts. This would be a part of the capacity building exercise. It is obvious that you may not be able to comprehend everything at this stage and this is the minimum I am asking you to read.

<table>
<tr><th colspan="4">Actors of PFM</th></tr>
<tr><td colspan="4">Parliament</td></tr>
<tr><td colspan="4">Ministry of Finance</td></tr>
<tr><td colspan="3">Expenditure and Revenue Management (Segment-1)</td><td>Statutory Audit (Segment 2)</td></tr>
<tr><td>Panel-1 (Executive/Budget Holder Panel)</td><td>Panel-2 (Pay and Accounting Panel)</td><td>Panel-3 (Bank (TSA)</td><td>Panel-4 (Statutory Audit Panel)</td></tr>
<tr><td>Principal Accounting Officer
Controlling Officer (CO1)
Controlling Officer (CO2)
Controlling Officer (CO3)</td><td>CGA
CAFO
DCA
DAFO
UAO</td><td>Bangladesh Bank
Sonali Bank
(Sonali Bank currently mostly not involved due to introduction of EFT/MICR Cheques and A-Challan)</td><td>CAG, Deputy CAG and DG, Audit Directorates (17 in number)</td></tr>
</table>

Table 1: Actors of PFM

As we go along, it will be evident that in the PFM framework, both the Ministry of Finance and the Comptroller and Auditor General play a vital role in ensuring efficient use of taxpayers' money. These are the two agencies which guide the various Departments how to work under the PFM framework as set out in our Constitution. One agency, i.e., the Ministry of Finance formulates policy document 'Budget', while the other wing i.e., the Comptroller and Auditor General makes the government accountable for non-performance as per the policy set out. The non-performance of the previous year affects the budget of the current year and thus the cycle of PFM is continuously being propelled by these two agencies.

Pursuant to the Article-90 of the Constitution, Parliament passes Appropriation Act. Following the Rules 111-119 of the Rules of Procedure, Parliament passes two Acts: Appropriation Act and Finance Act. The overall responsibility of preparing the Appropriation Bill lies with FD. As per the Rules 34-37 set out in Schedule-4 of the Rules of Business, the responsibility for preparation of budget has been given to the Finance Division. According to Item No. 4 of the Allocation of Business for Finance Division, the responsibility for managing all financial matters lies with it.

The budget is allocated to the PAO of respective ministry by the Parliament and the ministry in turn spends the budget (fund/allocation). The payment is made by the Treasury (Bank) under the instruction of the Controller General of Accounts who finally incorporates all payments into accounts. Then CAG conducts independent audit as part of the Parliamentary Accountability. So, taking lead from the above discussion, we can form four panels based on who does what within the broader framework of PFM. The first panel is the Executive (Budget Holder), the second one is the Pay and Accounts, the third is treasury (bank), and the fourth panel is Statutory audit (external audit) by Supreme Audit Institution (SAI), that is Office of the Comptroller & Auditor General.

The first panel in Table-1 is the executive panel or in the context of Bangladesh is the auditee panel. Within this panel there are the judiciary, legislature, and executive- all the three organs and other sub-organs (PSC, EC) of the state. From the perspective of the audit jurisdiction of the Auditor General all these three organs and sub-organs are in the first panel. Here budget execution means spending the budget for public service delivery. Generally, the executive can only spend the budget, but they don't have the authority to make payment. And they don't even have any cash management function. The responsibility of cash management of the government lies with some other panel and here in the executive panel they are only responsible for spending fund (budget allocation) for public service delivery.

In respect of fund management or spending budget, the Principal Accounting Officer is the top most controlling officer and all other controlling officers under him enjoy delegated financial powers. The boundary of delegation of powers is up to the level of subordinate offices. Various public services like education, health by law (for example: Upazila Parishad Act, 1998) and by notification issued by the govt are transferred (17 services) to Upazila parishad. And that is why, the subordinate offices are not supposed to be dispersed geographically all over the country. But for some reasons or other, these services and fund management are not really transferred to Upazila Parishad and these are still working as subordinate offices of central govt. departments violating the provision of the Act. This can be a serious audit point to be raised by the Auditor General to be reported to the parliament.

Let me now come to the main point. Up to this point, the executive panel spends fund for assigned public service but they do not have any cash and also pay and accounts panel do not have cash, they can only issue pay order in the form of cheque or EFT. So, to complete the transaction process another panel is required and the panel's name in Treasury (Bank) panel. Under this panel Bangladesh Bank maintains a bank account for the whole of the Budgetary Central Govt. which is called Treasury Single Account (TSA). The term TSA implies that no individual budget holders will have any bank account. There will be one bank account for the whole government (budgetary central government). Every budget holder will have access to treasury for receipts and payments through the second panel. And when we came to this second (pay and accounts panel), we should start talking about it from the history.

As I have said earlier that the concept of pre-audit is a subsequent phenomenon. It was not at the beginning of the history of our accounting. Our history says that a treasury used to make payment after scrutiny. I am not calling it pre-audit. Payments used to be made by the Treasury Officials under the Collector of a district after scrutiny and initial accounts were prepared. Then the initial accounts along with the related vouchers were sent monthly to AG Civil. The AG used to audit as to the propriety and regularity of the expenditure through scrutiny of the vouchers and the accounts sent by the Treasury Officers. Now the question is can we call this pre-audit? but of four types, this is the post audit before compilation.

Let's now talk about another term 'keeping of accounts'. The responsibility of keeping accounts by the Auditor General did not mean the keeping the accounts at the field level, rather it was the keeping of accounts at the central level. Therefore, keeping accounts at the treasury level was not part of the responsibility of the Auditor General. This was the responsibility of treasury and the respective departmental authorities in case of organizations like PWD, RHD, Forest, DPHE, Foreign Missions. However, there was an exception at the center or at the presidency level: the agreement between the government and the Auditor General to have a separate arrangement for payment at the center. Keeping of accounts was the central compilation and below this central compilation, there were initial accounts prepared by the treasuries. To supplement the initial accounts if treasury or departmental authorities kept any records, books or registers that was called subsidiary accounts. This means that subsidiary account was required to support the initial accounts. Initial accounts were kept in the treasuries of which cash book was the primary and basic account. The cash book was the primary book on which AG's accounts were built up. Let me remind you, I am not discussing railway and defence account which I'll pick up later.

Let's now look at the subsequent developments. Even before the emergence of Bangladesh, non-bank treasury became non-existent. With the development of the banking system, the cash function of treasury became extinct. The cash function has now taken over by the central bank and Sonali Bank as the agent of the central bank. As of now, because of introduction of EFT, A-Challan, MICR cheques involvement of Sonali Bank is greatly reduced. If we look at the historical evolution, transition from non-bank to bank treasury is the first step of transition. When there was no bank treasury, there was only central bank, Currency officer used to handle cash business through currency chest. DC in those days, therefore, had many bosses. As Cabinet Secretary was his boss, so were the Accountant General and the Governor, Central Bank. In the process of evolution, some of them are no longer DC's bosses. So, we may draw a conclusion that some of these developments were for the better, albeit in some cases they caused distortion in the system and made it haphazard. This is largely attributable to the knowledge gap, especially in the audit department. As part of evolution process from 1983 onwards through creation of various payment and accounting offices, treasury was taken out of the system. So, initial accounts preparation also became part of the AG's function instead of treasury.

Panel-III: Treasury (Bank)

Now let us talk about the third panel Treasury (Bank). As we see from Table-1, three panels exist in every location represented by separate offices. Each panel has its own administrative hierarchy but operationally speaking, they interact with each other. In Panel-I (Executive Panel) there are ranges of offices starting from Ministry/Division to subordinate offices, in Panel-II (Pay and Accounts) there are accounts offices starting from CGA to UAO and in Panel-III Treasury (Bank) there is Bangladesh Bank and had Sonali Bank branches doing treasury functions. Had there been a system in an automated environment where real time reporting is taking place on the activities of these three panels, the reconciliation of their activities would have been done automatically. This could have provided a major audit assurance together with some critical information including the reliable and timely reporting of cash balance of the government. Currently, a significant improvement in this respect occurred due to introduction of technological platforms and instruments namely iBAS++, Core Banking Solution (CBS), National Savings Department Software Management System, A-Challan, MICR Cheques, EFT etc.

Historically in Bangladesh, so to say in Indian subcontinent, there was decentralized fiscal administration. However, the decentralized system that existed in Bangladesh, does it exist now? Banking system has developed, automation has taken place. If we want to improve audit quality, we'll have to bring about improvements in accounts and payment processes which in turn will enhance Audit Assurance. Mundane clerical audit will be wiped out and we will be concentrating on compliance audit based on system-based expenditure analysis and also, gradually taking up more performance or value for money audit. Without strengthening your financial reporting system and enhancing the quality of accounts and payment process, if you just go for performance audit that sounds to me a sort of mismatch.

Panel-IV: Statutory Audit

The last but not the least is the Panel-4 (Statutory Audit Panel). You cannot improve your statutory audit if you do not have a robust accounting system in place. Your payment and accounting system should be robust and nowadays can be real-time online. We, the audit and accounts people, should work hard. Generally, the government is slow in responding to this type of movement or initiative. However, the audit and accounts department cannot remain slow. It should encourage and advise the government to take necessary initiatives. These are needed for two reasons: (1) to make our life easy and also (2) to make other people's lives easy.

Why should people come to your office and fall in a long queue in a situation where technology is available? Why pensioners should be in the queue in front of your office or in the counters of the bank? When there is a magical tool like Electronic Fund Transfer (EFT), why pensioners should not get their money in their own chosen bank accounts or through Mobile Financial Service (MFS)? And when you send the money through EFT, you keep your accounting records on a real time basis. This way your audit can move from ticking and checking approach to a holistic approach.

Establishment of District Accounts & Finance Office (DAFO) and Upazila Accounts Office (UAO)

Before the emergence of Bangladesh Ms. Salima R Ahmed, the then AG (East Pakistan) issued an Office Order setting up District Accounts Office (now DAFO) in Cumilla by converting the Cumilla district treasury into pay and accounts office. In 1952, Price Waterhouse Coopers (PWC) on being appointed as a consulting firm gave a report to the then Government of Pakistan on the departmentalization of government accounts. The Auditor General's office gave a response to that report which was published (available in the Archive Section of OCAG website). What I mean by sharing this information is that the arguments and counter-arguments on separation of accounts from audit has been there for a long time.

What was the consequence of converting a treasury into a DAO? Obviously, the Treasury Accountant lost his job. The Cashier (Treasurer) also lost his job when bank treasury was established. All staffs in treasury became redundant. Earlier, Treasury used to function under the supervision of AG but the treasury officials were not under the AG. This was a kind of hindrance. Was this change then a better one? Because of this change the responsibility of preparing initial accounts came to DAO which means it came directly under AG. It was a change for better and the treasury staff were absorbed in audit and accounts department as Auditor/Jr. Auditor.

Conversion of district treasury into DAO was done on an experimental basis. Subsequently in 1983 when Upazila was introduced, it was declared that "henceforth all treasuries and sub-treasuries will be converted into District Accounts Office and Upazila Accounts Office." This conversion took place without putting in place a complete accounting structure. As a result, the accounting system at District/Upazila became fragile. Creation of District/Upazila accounts office was for the better because the line of authority for payment and accounting and also its supervisory control placed with the same authority i.e. AG. However, where the gap lies is that the decentralization took place without putting it into a comprehensive framework. If the comprehensive framework would have been accompanied with this decentralization, reliability and timeliness of accounts improved and the cost of audit would have been reduced significantly.

We should restore this framework by revisiting Account Code. Even we do not require the treasury rules anymore, rather we should have Receipt and Payment Rules because so called treasury was made defunct. Currently, in the second panel instead of the treasury we have Chief Accounts and Finance Officer (CAFO), District Accounts and Finance Officer (DAFO) and Upazila Accounts Officer (UAO). The treasury is now non-existent in terms of pay and accounting. Only there is an administrative treasury where question papers, stamp etc. are kept. There is no cash handling business in the treasury. However, there is a subsidiary link of the administrative treasury with the pay and accounting office which is not in order and should be looked into. Eventually, there is no 'post-audit before compilation of accounts' because of extension of pre-audit up to Upazila level. Other than PWD, DPHE, RHD, Forest, Foreign Affairs, there is no post audit before compilation in the civil side. Here is also in practice, accounts are compiled by the departmental CAFOs without post-audit before compilation making the system vulnerable and prone to impropriety and irregularity, even possibility of fraud. Now, therefore, pre-audit before payment is dominant, which is not the legacy, it is a change.

Is it possible to generate the complete accounts of local level transactions at UAO/DAFO? Yes, it is possible, because both receipts and payments are being accounted for. Then again, reconciliation is taking place between bank and accounts office. So, for the sake of improvement of accounts and audit, we should invest 50 percent of our time and energy on accounts. Audit cost will increase and the quality of the results of audit will be substandard if accounts is not streamlined. We are not getting complete accounts from UAO as we used to get from the treasury. The only difference is that there was pre-scrutiny before compilation by the treasury staff and now done by the AG's staff which is called pre-audit.

There were two aspects of AG's responsibility: one was regulating payments and the other was accounting work. Statutory audit generally comes with the certification of accounts. We have seen that UAO and DAFO keep complete accounts. Does CAFO keep complete accounts? Complete account reflects receipts, payments and the balances. In that sense, CAFO's accounts is not complete accounts, it is rather one-legged accounts which means the accounting of payments only. What about the receipts then? CAFO does not maintain any accounts for receipts. UAOs and DAFOs can reconcile their accounts with the banks, but CAFOs cannot, because they do not have any transaction data on receipts. Another leg, that is receipt transactions and the paid cheque accounts is in the DCA, Dhaka.

These are all ideas; I am not giving any prescription as Auditor General. Here the word prescription is important. Auditor General is one of the authorities in the State who have the rights to prescribe forms and manner of accounts, of course, with the approval of the President. Audit comes after accounts. We can work with functional separation. That does not mean giving our work to others. Within ourselves we can separate our functions. India has done it at the state level. They have not separated the audit and accounts service but separated their functions. There is an Accountant General for Accounting and Entitlement and there is an Accountant General/Director General for audit. We have also had our accounts and audit functions separated but these are yet to be streamlined. We are submitting audit reports without any observations on accounts. The reports do not contain any observation of whether accounting is done properly. We can pursue petty observations through management letters and follow system-based approach to improve the effectiveness of audit and for the optimum use of audit resources.

The historical evolution of the second panel (pay and accounts) has been discussed in three parts. The transition from non-bank treasury to bank treasury, conversion of treasury into accounts offices and ministry facing CAFO. Again, CAFO is being labelled as advisor to the PAO, but advice should be ex-ante, not ex-post. In fact, ex-post advice does not yield any benefit. Railway is a good example of true advisory concept, though over the years this is also becoming weak.

Separation of function is not always separation of service. It is possible to separate functions even within the current unified service. Another dimension of this discussion is separation versus departmentalization. Let me now summarize the features of the panels, I have discussed. In the executive panel, budget is there but they don't deal with the money, in the accounts panel there is neither any budget nor any money, in the treasury (bank) panel budget is not there but they have money. It is the responsibility of the second panel to check whether budget allocation exists in the first panel. Even though the expenditure is incurred by the first panel, the responsibility of keeping accounts of the expenditure lies with the second panel. Finance Division at some point used to take accounts from Bangladesh Bank which keeps net accounts, not complete accounts. In fact, the banks deal with cash not with the accounts, they keep record of the heads while making payments against any cheque.

Despite that Finance Division used to take accounts from Bangladesh Bank as CGA could not produce accounts on time.

Concept of Departmentalization

The government should receive monthly fiscal accounts from the CGA not from the Bank, given that we can produce it timely and reliably. The Central Bank should deal with only cash receipts and payments. It is not the job of the Central Bank to classify transactions; rather this should be done by CGA. CGA should play the central role in bringing about improvement in accounting as a separate function then those of auditing; not the separation in the sense of Audit and Accounts service. This is functional separation not departmentalization. The separation of accounts means the creation of separate authority to handle the payment and accounting functions, but not giving this authority to the individual ministry. The separation means separating the payments and accounting functions under an authority, not necessarily that the authority is outside the administrative purview of the Auditor General. Departmentalization is one step further a different concept. In Departmentalization, respective ministries will handle the payments and accounting functions by themselves. If a ministry has subordinate offices, it is the duty of CAFO to deal with both payment and accounting functions covering those offices.

Departmentalization also means receipt and payment authority is given to each ministry up to the grass- root level. Consequently, they will prepare their own accounts including Finance Accounts of those ministries. In a developed system with a good governance structure departmentalization is preferable and that exists in the UK for the last 200 years. In India also from 1976 at the Union government level accounts are departmentalized. Please remember, separation and departmentalization do not necessarily mean the division in Treasury Single Account (TSA). TSA will remain the same in either of the cases.

In Bangladesh, we have had changes, but they were not full-blown anywhere. As a result, system remained vulnerable and audit costs are increasing. Some of the departments were allowed to have access to the treasury (Bank). As we saw, treasury was under the Collector earlier. Similarly, the departmental officers of certain departments had access to the treasury. A set-up with a Treasury Officer, Treasurer and Accountant was at the disposal of a Collector. Similar arrangements were in place for departments like Public Works Department (PWD), Roads and Highways Department (RHD), Department of Public Health Engineering (DPHE). However, at the beginning, PWD used to be known as the Communication, Building and Irrigation (C&BI) Department. Subsequently, it was restructured to create PWD and RHD. The department of irrigation was placed under an authority called WAPDA which is Extra-budgetary organization. WAPDA was later bifurcated into the Power Development Board (PDB) and Water Development Board (WDB). WDB had the legacy of PWD and they had in their set up the position of Divisional Accountant for quite a long time. DPHE was created to provide services outside the main town in suburban areas. WASA was created to provide services in the main town. That's why WASA also used to follow PWD system, but it is Extra-budgetary. Let me remind you that, all these Extra-budgetary organizations have their own bank account, outside the TSA.

Now, considering the above development it is obvious that you will have to produce a new edition of Introduction to Government Audit and Accounts. We know that there are treasury rules for the operation of treasuries and an Account Code to prescribe the forms and manner of keeping accounts. It is to be noted that while revising Account Code Volume-II (which dealt with the treasury system), the procedures of CAFO, DAFO and UAO accounts were incorporated. However, which one is initial accounts, and which one is compiled accounts were not clearly explained. In addition, those three departments- PWD, RHD, DPHE still have access to treasury and operate outside the control of AG, but they have to render their accounts to AG (CAFO). Therefore, the concept of initial and subsidiary accounts is still there. These departments carry out payment and receipt transactions like treasuries. For these departments, CPWA code was introduced combining the relevant provisions of the Treasury Rules, the Accounts Codes and the General Financial Rules. These three departments were given much autonomy for operations as they are engaged in construction works. They make payment against measured works (Work in progress) through running bills and that's why they are to maintain more records than what a treasury had to maintain which were simple cash book based. The records include Register of Works, Works Abstract, Muster Roll, Measurement Books etc. These departments have been given cheque drawing power and power to handle receipt transactions. What essentially turns out is that, CPWA Code is a kind of handbook for these departments. The word "Account" after CPW is a misguiding term, because it is essentially a compilation of extracts from the Treasury Rules, the General Financial Rules, the Accounts Code and the Audit Code. So, the CPWA code is not an Account Code, it covers many things. It is issued by the Ministry of Finance as it is a compilation. Any change in this Code, therefore, requires permission from the respective authorities.

A Divisional Engineer or a Sub-divisional Engineer was accountable to the AG (WAPDA) for their payment and accounting functions. AG (WAPDA) was under the functional and administrative jurisdiction of the Auditor General. The position of Divisional Accountant was created to provide assistance to engineers for preparation of initial accounts correctly based on which the final accounts were prepared by AG (WAPDA). In this respect, the job of a Divisional Accountant was a bit tricky because of his role. He used to render financial advice to the Divisional Engineer, prepared initial accounts of the division and also worked as a primary auditor under AG. Divisional Engineers of these three departments had to handle works related payments together with departmental receipts before submitting them to the AG. Here is a point to be noted. The cash chests in these offices were not part of this Treasury Chest. Money kept in these chests had to be deposited into treasuries which had Treasury Chests. These departments used to receive money through money receipts not through treasury challans because receipts through challans used to go to TSA directly. This also makes it evident that the chests of these departments are not part of the Treasury Chest.

The money receipts, however, are printed in the government press. Cash received through the money receipts are to be entered into their cash book. They have to make any payments by issuing cheques. The cheque issuance power of Engineers, in fact, the delegated authority from the Accountant General. AG would hand over cheque books to the divisional engineers who in turn had to submit a list of cheques issued by them along with their monthly accounts. After payments made by the banks, the paid cheques would come back to DCA/DAO. There is preponderance of subsidiary accounts in these departments because they have to deal with development related construction works. They had to submit accounts to CAO on a monthly basis and the CAO would consolidate monthly accounts based on the initial accounts. The accounts were accompanied by relevant vouchers because these were required for post-audit before compiling the accounts though, this post audit is very unfortunately discontinued after 1983 making total accounting and auditing weak and dysfunctional. Under previous arrangements, these vouchers used to be post audited by AG (Works). There were dedicated post audit sections under AG (Works) which used to conduct audit, prepare observation lists. Inspection of divisions by peripatetic inspection parties for further audit assurance used to be conducted. The observations list prepared by the post-audit sections used to serve as Risk Pointer for the inspection parties.

In this regard, in current context, Director General (Works Audit) will report to the OCAG whether the relevant CAFOs have duly audited the departmental accounts before compilation. Now we can handle this matter technically. For the time being, the CGA may be held responsible for the lapses of CAFOs. DG will provide performance report of the concerned CAFOs. However, that report will not be a part of the audit report rather this will be an internal accountability report within the domain which will be linked with their performance.

To whom the Divisional Accountant will report- to DG (Works) or CAFOs? The CGA is vested with responsibility of keeping of accounts of these three departments- here keeping of accounts means compilation of accounts. In fact, cheque books are given to the departments for issuing cheques against the payment for works related expenditure. For the establishment related expenditure, they have to submit bills to the accounts offices for payments. For contingency or supply and services related expenditure, some States in Indian subcontinent used to take payment from the treasuries while in other States payments used to be made by the departments. In the case of

Bangladesh, we need to explore whether these payments will be made by issuing CAFO cheques or divisional cheque.

In Bangladesh, separation of accounting function from the auditing function has already taken place [In consequence of 1983 amendment to the CAG (Additional Functions) Act, 1974 and subsequent notification issued by FD]. In the transition path, audit and accounts are functionally separated. The second stage of separation is institutional separation which might be resulted into separated accounts people. If this kind of separation takes place, any observation on accounts will be incorporated in the audit report.

The next stage will be the Departmentalization of accounts at the ministry level. Then the CGA's role will be similar to that of the CGA in India. In India, each ministry has pay and accounts offices at the district level, and in some cases, 2/3 ministries share one pay and accounts offices, but the accounts of the ministries are separated. The governance structure in Bangladesh is yet to gain the level of maturity required for Departmentalization.

Other than PWD, RHD, DPHE, there are forest, foreign missions and postal departments for which there are separate accounting manuals. In addition, there are customs treasuries in Khulna and Chattogram which are under the Customs Collector. The customs treasury in Chattogram is double-legged i.e., both receipt and payment transactions take place here. The Chattogram customs treasury can make payments out of its receipts, but the Khulna Customs treasury is only a receipt treasury.

Legal Documents Essential for the Executives for Financial Management

In the executive domain, it is important to have knowledge at least on the following legal documents: Bangladesh Constitution, the Rules of Business, the Allocation of Businesses, the Delegation of Financial Powers and Administrative Powers, the Public Procurement Rules (PPR), the Public Procurement Act (PPA) and the General Financial Rules (GFR). The job of the second (pay and accounts panel) is to know the legal requirements of all the panels. If we go by the job structure, the job of the second panel is much harder and, in another sense, it is the store house of knowledge. For the executive panel, it is not necessary to know Account Code and Audit Code but for the second panel, it is mandatory. The first panel should know the treasury rules but some of the treasury rules have become obsolete with the introduction of accounts office and bank treasury. Now we should think about the alternatives of treasury rules and advise the government accordingly. Even we can draft a set of new treasury rules.

The second domain must know what prescriptions of the Auditor General exist in regard to the forms and manner of accounts. Here basic references are the four volumes (I, II, III and IV) of Accounts Code. In this regard, they must also know the gaps and flaws that exist and where amendments are required. The third panel Treasury (bank) does not deal with spending or accounting. It would be enough to have some knowledge on the treasury rules.

The basic books for those three departments (RHD, PWD, DPHE) that are departmentalized in terms of keeping accounts are CPWA Code and CPWD Code. The departmental officers keep subsidiary and initial accounts following these code books. The have got the authority of issuing cheques and they are therefore, called disbursers as well. They will receive cheque books from the Accountant General i.e., from CAFO. While rendering accounts, they should show how many cheques have been issued together with the number of cheque leaves remained unused. In future, relevant CAFOs will be made answerable whether they have received this information from the departments. They should consistently pursue the list of unpaid cheques.

Pros and Cons of Decentralized Fiscal System and Modern Intervention

Decentralization of financial administration is costly. In the past, AG (Civil) used to maintain the cash balance of the government which is now done by CGA. On the other hand, AG (Works and WAPDA) did not know anything about the government cash balance. That's why there was an exchange accounts system between AG (Works) and AG (Civil). Decentralization of accounts was a compulsion as was the banking system up to the grass root level. This continued even after the banking network covering the grass root level was established because the TSA is maintained by the central bank. Payment from the central bank at the Upazila level was not, therefore, possible. Even after the establishment of bank treasury system, there was decentralization of financial administration. Subsequent to the establishment UAO/DAFO both initial and compiled accounts are done by these outfits. Vouchers are also not coming to the CGA Headquarter. That's why there are too many auditable units. However, in the UK the financial administration has remained centralized for over 200 years even though we inherited the decentralized financial administration from the British.

For Panel-2 and Panel-3, iBAS++ has been introduced and also interfaced with Core Banking Solution (CBS). One of the features of iBAS++ is decentralized payment system and centralized record keeping. If we can have centralized financial administration with the systems of Panel-2 and 3 as part of the technological development, the services will reach the grass root level while the financial administration will remain centralized. In that case, the UAOs/DAFOs will be the service delivery outlets and the accounts will be maintained real time online by CAFOs and CGA. Transactions will take place at UAOs/DAFOs, payments will be made there but the transaction data will reach CAFOs via Cash Book and CAFOs in turn will send it to CGA.

So, accounting will be done at two levels: CAFOs and CGA. The accounts to be generated at CGA is the fiscal accounts which will be on real time basis. The vouchers created at DAFOs/UAOs will be uploaded in iBAS++ which will help reduce audit cost or in other words make the audit resource management effective. The individual ministries' accounts will be available at relevant CAFO while the compiled accounts will be available at CGA of the whole government (Budgetary Central Government). In addition, the presence of Sonali Bank as agent bank at the 3rd panel will not be required if the central bank can ensure payment at the grass root level through EFT/MICR cheques. This will help prevent holding of government cash in different pockets and directly reducing borrowing costs.

For payment, EFT Orders will be issued rather than issuing any cheque and over time the system will be scaled up for payments to the contractors and suppliers. By enhancing the capacity of its database, the central bank can handle all government payments centrally. In the case of handling receipts by Sonali Bank, there is some cost involved. Firstly, it is not always possible to understand the reliability of cash movement; secondly, if the time lag is high the government's borrowing cost will increase. Also, reconciling and maintaining reliable and timely accounts of treasury challan or cash became herculean task for the CGA.

If CGA can have an A-challan web-portal, all receipts may be deposited through that portal. Already tax, VAT etc. are being deposited through A-challan. Every bank now has interface with A-Challan System (ACS) right now. People can make deposits in any branch of any bank inside the country. There is no Agency Concept in ACS and money paid to the Government is directly credited to TSA and credit scroll is being uploaded on a daily basis in CGA system. So, there is no time lag in recognition of revenue now.

Now the first panel is using iBAS++ both for budget preparation and execution. Two modules of iBAS++: Budget Execution and Pay & Accounting are interfaced with Panel-4 (Audit). The Budget Preparation Module relates to the executive's budget setting exercise. However, in an ideal situation, the CGA should provide inputs to this exercise. In the past, the budget estimate by ministries and departments used to be submitted to AG who used to give reports to Finance Division after comparing the estimates with the actuals.

The first panel will now be able to extract information on both allocation and expenditure using iBAS++ up to the subordinate offices on real time basis. The second panel will execute payment order against expenditure also on real time basis. If A-challan web-portal system is used all receipts information will flow to CGA. It is already on almost on a real-time basis (every day end) in the third panel Treasury (Bank) as all receipts pass through the TSA. On introduction of EFT and MICR cheque, all payments are hitting the TSA on a daily basis which can be on a real-time basis in near future. As a result, financial administration will be centralized while service delivery will remain decentralized. DAFOs/CAFOs will work as the service delivery outlets. Keeping of establishment records should not be decentralized for the sake of enhancing audit assurance. All employee records will be preserved centrally including GPF, loans and advances and other information. Although there exist DCAs in the second panel, they will work as DAFOs. If iBAS++ acquires the desired level of robustness, the real time consolidation will take place at the first panel and in the second panel. UAOs/DAFOs/DCAs will become service outlets/customer service center.

CAFOs will consolidate accounts ministry-wise while the CGA will do it for the whole of the government. In the third panel Treasury (Bank), the central bank will keep records centrally. Then the government will get real time cash balance information from the central bank. CGA will also get the real time cash balance information from its own system. The system will reconcile the cash balance between the central bank and the CGA. The CGA will be able to provide the government with fiscal accounts on a weekly basis. This means CGA will be able to provide information on all fiscal data such as revenue, expenditure, cash balance and borrowing. It will also be possible to provide information on possible fiscal deficit, even the cash requirement forecast for next 2/3 months. On the website of Indian CGA, you will find the monthly fiscal accounts. Indian CGA also maintains an internal audit unit as part of the internal control system of the government, because Indian union government accounting system is departmentalized. As a result, the human resource for internal audit is managed by CGA. Now the statutory audit will be system-based as opposed to ticking and checking. The audit will be looking at bigger picture issues like public debt, government borrowing, cash movement etc.

Conclusion

The summary of discussion of this session is: there is no cash in the executive panel but there is fund, the fund will travel down to the field level spending units (subordinate offices) through iBAS++, Controlling Officer (budget holder) subject to the availability of fund will provide sanction of expenditure, procure goods and services. In the second panel fund checking will be done automatically and regularity of expenditure through pre-audit will be done through iBAS++ by setting pre-audit parameters in the system. This will result in improved control mechanisms because technology will push it forward. So, technology should be better utilized.

Chapter 2:

Constitutional Provisions Relating to Financial Procedure and PFM Perspective

Introduction

I reflected on four panels in the last two sessions. The first panel was the executive or budget holder panel. In the context of PFM, the executive panel is the budget holder panel that executes the budget. Budget holders incur expenditures against the budget grant (allocation/fund). All allocations are voted by the Parliament in the form of grants (except the Charged Expenditure). Generally, each ministry has one grant but there may be more than one grant of a ministry which is mentioned in the budget as 'Demand for Grants'. Please don't mix it up with the grants-in-aid which is the terminology used for different purpose.

Demand for Grant is accompanied by another word called 'appropriation'. Our Constitution talks about two types of expenditure- voted and charged. The charged expenditure is called Appropriation. The word demand in the term 'demands for grants and appropriation' connotes public accountability. A 'Demand for Grant' signifies demand by the budget spender (the President) to the people (Parliament) for public services.

Let me elaborate on it further. The President is demanding grants from the people for providing public service. Demanding to whom? Demanding to the people through their representatives in the Parliament. They debate on the various aspects of a demand placed before Parliament and if the majority of them are satisfied, they grant it through a 'Yes-vote'. This is why it is called Demand for Grants. You might have noticed that the word 'demand' has been used only before the word 'grant', not before the word 'appropriation'; because it is not demand. For the charged expenditure, whatever amount will be asked, it will be allocated without any vote. As the Constitution itself protects this expenditure from being voted by the Parliament, it is not a demand.

In my opinion, the Bangla translation of the word 'Appropriation' has not been done correctly. This appropriation does not mean budget appropriation (virement), rather synonym for 'Charged Expenditure'. Let me come back to the discussion on the budget holder who belongs to one of the four panels. Once the budget is passed by the Parliament, individual ministries get the authority to spend it. Now I will explain the process that is followed while passing the budget. All government employees, in particular, the auditors should know this process.

Constitutional Provision of Legislative and Financial Procedure

Chapter II, Part-V of our Constitution lays down the legislative and financial procedure which is very important for us. The legal framework of public financial management has been presented here. When the budget process starts before the beginning of the fiscal year, the resource requirements for individual public services are determined for the preparation of demands for grants. Then the line ministries submit their budgets to the Finance Division which in turn holds tripartite meetings to finalize them and prepare demand for grants. Please note that the demand for grant is meant for expenditure only, not for revenue.

However, the demands for grant is only one part of the budget statement. In our Constitution, the budget statement is called the Annual Financial Statement (AFS) which is a misnomer if it is compared with the Annual Financial Statements of the commercial world. The AFS of the commercial world includes Trading and Profit and Loss Accounts, Balance Sheets, and so on. Historically, the term AFS for the Government came from the Government of India Act, 1935 wherein the budget has been called AFS. It is there in the constitutions of both India and Pakistan and finds a place in our Constitution as well. However, it is ex-ante, not ex-post. AFS is a comprehensive statement where you will find the total budget. Then what are the components of the budget? A budget must include both revenue and expenditure. Then expenditures are of two categories: recurrent/ revenue expenditure and capital expenditure. In addition, there is another legal dimension of expenditure: charged and voted expenditure. Non-development and development budgets are not legal terminologies- this represents the local practice and so to speak cultural terminology.

The Constitution, however, has not said capital expenditure even. It says revenue and other expenditure. The AFS will contain the total budget, not only expenditure but also revenues. The estimated expenditure always exceeds the estimated revenue. That's why it is called a deficit budget which means there will be requirement for financing of the deficit by borrowing. Borrowing again is of two types. One will come from the Consolidated Fund (CF) and the other from the Public Account of the Republic (PAR). Let's now look at the features of the CF and the PAR and see how they differ from each other. These terminologies were not there in the Government of India Act 1935. As per the Account Code, the accounts or finance structure was divided into four divisions: (i) Revenue, (ii) Capital, (iii) Debt, and (iv) Remittance. In the total budget and accounts structure, the transactions used to be placed under these divisions. Within the above four divisions, the budget was ex-ante while actual expenditure booked against budget was ex-post. Subsequently, to establish better accountability, these divisions in present context are shown under CF and PAR. However, under these divisions, there were major heads, minor heads, detailed heads, and sub-heads, and the transactions used to be captured under these heads. Consequent upon conversion into the fund concept, the structure of the budget and accounts have been tuned with that concept. Basically, at the initial stage, the fund concept was not prominent, it was rather superimposed on the four divisions.

Money Bill

As per Article-81(1) of the Constitution, 'Money Bill' means a Bill containing only provisions dealing with all or any of the following matters:

a) the imposition, regulation, alteration, remission, or repeal of any tax.
b) the borrowing of money or the giving of any guarantee by the Government, or the amendment of any law relating to the financial obligations of the Government.
c) the custody of the Consolidated Fund, the payment of money into, or the issue or appropriation of moneys from, that Fund.
d) the imposition of a charge upon the Consolidated Fund or the alteration or abolition of any such charge.
e) the receipt of moneys on account of the Consolidated Fund or the Public Account of the Republic, or the custody or issue of such moneys, or the audit of the accounts of the Government.

So, a bill is said to be a Money Bill if it only contains provisions related to taxation, borrowing of money by the government, expenditure from or receipt to the Consolidated Fund. Bills that only contain provisions that are incidental to these matters would also be regarded as Money Bills.

If we look through the history of Money Bill, we have to go back to 1911 when the British Parliament passed the Parliament Act. As we know, the British Parliament has two chambers, the House of Commons and the House of Lords. The House of Commons has 650 directly elected members, known as Members of Parliament. Members are elected by simple majority system, also known as First Past the Post. On the other hand, House of Lords is composed of Life Peers, 92 Hereditary Peers and 26 Lords Spiritual. Life Peers are appointed for life by the Head of State on the advice of the Prime Minister. The 92 Hereditary Peers hold office for life. When a vacancy arises, it is filled following a by-election, governed by the standing orders of the House. The 26 Lords Spiritual include the Archbishops of Canterbury and York, the Bishops of London, Durham and Winchester, and 21 other Bishops of the Church of England according to seniority of appointment.

Until the early years of the 20th century, the House of Lords had the power to veto (stop) legislation. However, this arrangement was put under pressure when the House of Lords refused to pass David Lloyd-George's 'people's budget' of 1909. Eventually, the budget was passed after a general election in 1910; a second general election was then fought on the issue of reform of the House of Lords. The Parliament Act 1911 was the product of the political crisis of 1909. Section 1(1) of the Parliament Act 1911 provides that the House of Lords may not delay a money bill more than a month. It is at the discretion of the Speaker of the House of Commons to certify which bills are money bills, and his decision is final and is not subject to challenge.

Following the UK, India also embraced the concept of Money Bill in their Constitution (Article-110) because Indian Parliament also comprised of two chambers namely -- Rajya Sabha (Council of States) and Lok Sabha (House of the People). A Money Bill may only be introduced in Lok Sabha, on the recommendation of the President. It must be passed in Lok Sabha by a simple majority of all members present and voting. Following this, it may be sent to the Rajya Sabha for its recommendations, which Lok Sabha may reject if it chooses to. If such recommendations are not given within

14 days, it will deem to be passed by Parliament. The Speaker certifies a Bill as a Money Bill, and the Speaker's decision is final. Likewise, India, as Pakistan had two chambers in the Legislature namely Senate and National Assembly, also followed the concept of Money Bill.

So, it is often a constitutional convention that, in a country where Bicameral Legislature exists, the upper house may not block a money bill. The rationale behind this convention is that the upper house, being appointed or indirectly elected, should not have any right to decide on taxation and public expenditure related policies as may be framed by the directly elected representatives of the lower house. Therefore, money bills are an exception to the general rule that for a bill to be enacted into a law, it has to be approved by both the lower and upper Houses of Parliament. It is to be remembered that, Certification of the Speaker that a bill is Money Bill is to forewarn the upper house i.e. Rajya Shabha not to meddle with, by not approving the Bill.

Likewise, UK, India, Pakistan we also included provisions of Money Bill though we have a unicameral legislature and possibility of rejection by upper house is non-existent. As per the provision of Article-80(3) and Article-80(4), for Ordinary bill President gets 15 days and if he returns with a message he will get 7 days after getting back the bill from the Parliament. On the other hand, for Money Bill, the President has to assent the bill within the period of 7 days after it has been presented to him, and if he fails to do so, he shall be deemed to have assented to the bill on the expiration of that period. The true essence of terming a bill as 'Money Bill', in the absence of bicameral legislature, has got little significance in our Constitutional Scheme. That is why, almost all the countries having unicameral legislature does make distinction between Ordinary Bill and Money Bill.

Money Bill vs Financial Bill

A Bill that contains some provisions related to taxation and expenditure, and additionally contains provisions related to any other matter is called a Financial Bill. Therefore, if a Bill merely involves expenditure by the government, and addresses other issues, it will be a Financial Bill. A Money Bill is also a specific type of Financial Bill, that must deal only with matters specified in Article-81 of the Bangladesh Constitution and in Article-110 of the Indian Constitution has the same provision. Article-82 of the Bangladesh Constitution is related the matter of "Recommendation for financial measures" where it is stated that, No Money Bill, or any Bill which involves expenditure from public moneys, shall be introduced into Parliament except on the recommendation of the President. In contrast, Article-117 of Indian Constitution explicitly exhibits "Special provisions as to Financial Bills" and clearly distinguish Money Bill and Financial Bill. Hence, it is quite clear that, the Constitution of India has differentiated 'Money Bill' and 'Financial Bill' very specifically but Bangladesh Constitution did not use the term 'Financial Bill'.

Consolidated Fund and Public Account of the Republic

In Bangladesh, we inherited the fund concept which was divided into two funds. In some jurisdictions, there are three funds, and even four funds in some countries. In the UK and India, there are three funds. In the UK, the loan fund is used for borrowing. In our constitutional framework, there is a provision for two funds, but it would have been better if we could create three funds as the UK did. We face problems in tackling loan management in the absence of a separate loan fund. However, if we want to understand better the budget and accounts structure, we need to fully understand the features of these funds, their intricacies, and their management.

The four divisions of accounts (Revenue, Capital, Debt and Remittance) were merged into two funds- CF and PAR. The management or regulation arrangements of these two funds are completely different. In the CF, there are both receipts and expenditures under the revenue division. Likewise, under the capital division, there are expenditures as well as some receipts. Revenue expenditure is the day-to-day expenditure to keep the government operations alive and capital expenditures are those expenditures that create assets or reduce future liabilities. For example, if a big chunk of liability is paid off, it is called capital expenditure or capital payment.

Both revenue and capital divisions are under Consolidated Fund while the debt division belongs to both CF and PAR. All borrowings under CF are planned borrowing for meeting the fiscal deficit. While preparing the budget, we estimate revenues and capital expenditures. Generally, the capital expenditure exceeds the revenue surplus, and the gap is met by borrowing which is called financing the deficit.

For example, when the government borrows by selling treasury bills and treasury bonds, the proceeds go to the Consolidated Fund (CF).

All borrowings from external sources in the form of project-tied aid or budget support belong to CF. Domestic borrowing can be of two types. One purposefully meets the budget deficit, for example, treasury bills and bonds. In this case, the deficit is financed through net debts, i.e. the difference between debt receipts and debt repayments. In some countries like Canada and Australia, CF is called Consolidated Revenue Fund (CRF). Like the UK, they create a consolidated/central loan fund (CLF) which is called National Loan Fund (NLF). However, let us come back to our discussion on financing budget deficit. It may not be possible to meet the deficit by raising loan under CF. More resources may be required to meet the gap. This will come from the funds created for various public purposes of which the government is the Custodian (Trust). For example, it is the responsibility of the government to maintain the provident fund for the employees which is regulated by the General Provident Fund Act 1925, and the Provident Fund Rules 1979. Employees will subscribe to this fund, and they will get interest on their deposits. The government allows them to take advance from this fund when they need it and will get full payment after retirement.

The Provident Fund is a liability to the government. But the government does not maintain this fund with the intention of fulfilment of the borrowing requirement that it may require to finance its budget deficit. It is meant for giving benefits to the employees. Since the credit balance of the fund lies with the government, it is used to finance the budget deficit. The accountability framework of this fund is with the PAR, not CF. PAR is the account for which the government is the custodian or a banker or a remitter etc. The inflow and outflow gap are used for financing the deficit. In PAR, the payments and receipts are inflows and outflows. There is another instrument in PAR other than PF which is known as Savings Certificate.

Nowadays, domestic borrowing through savings certificates is on the high side. This means that the borrowing through these instruments far exceeds the domestic planned borrowing. That's why the auction for treasury bills/bonds are being cancelled frequently making treasury bill/bond market unstable. The reason for keeping the savings instrument lies in its objective which is protecting savings and therefore, it should not be included in CF. Let me repeat, the objective of the savings certificate is to protect lower or lower-middle-income people. Unfortunately, the use of savings certificates for financing budget deficit exceeds the planned borrowing. So, while auditing the Finance Accounts, the auditor may raise observations highlighting these aspects and alert the government that unplanned borrowing is overtaking planned borrowing, in a way violating the basic principles of public finance. At the same time, the sale proceeds of savings certificates are often lying in the TSA with the central bank without any requirement for spending the proceeds, and in effect, the borrowing cost is increasing. On the other hand, the foreign grants are unrequited earnings for which there are no obligations for repayment which is like government revenues and are, therefore, part of CF. In addition, there are some other items like criminal and judicial deposits, contractors' deposits, etc. which are kept under PAR.

There is nothing called 'net' in the Budget and Accounts Classification and there is nothing called net lending. This term is used in budget-in-brief, which is a management report, just to enhance user understanding.

Apart from this, the government before assigning expenditure or booking any item as expenditure is making temporary transfer, which is known as 'Remittance'. For example, remittance to foreign missions which are not final expenditures. When it becomes a final expenditure, it is deducted from the remittance head. This is essentially an adjustment. Aside from this, government cash is included in PAR. Revenue, Debt, Remittance, and Cash are all flow accounts.

Stock means balance at a particular point in time while flow represents inflow and outflow during a particular fiscal year. In this flow, there will be receipts and payments against revenue, capital, debt, savings certificates, adjustments against remittance, and increase/decrease of cash but not cash balance. In this case, there is no opening balance as it is a flow account.

Remittance is the last one of four divisions. Here 'Remittance' is not referred to as the one that appears in Balance of Payment Account in the External Sector rather it refers to remitting money from the TSA (for example remittance to our missions abroad). In government accounting parlance, this type of transmission is called Remittance. Until expenditure is made, the remittance sits in PAR. Once a remittance is made, the cash in TSA will reduce and remittance head is shown in PAR as pending item. Again, when money is spent against remittance, it is reflected in the cash accounts sent by the missions abroad to CAFO who accounts for it as expenditure and in effect the remittance balance reduces. While auditing finance accounts, it should be seen whether any remittance remains unadjusted unnecessarily. This is an important issue because money is going out from TSA and remaining unadjusted.

Article 84(2) of the Constitution says all other public money received by or on behalf of the government shall be credited to the Public Account of the Republic (mostly deposits). Remittance is temporary or transitional account. From the auditors' point of view, this should show nil balance otherwise there must be audit observation. This is an artery to pass through. Let me remind you once again, do not get confused with the term 'remittance' used in Balance of Payment (BoP), one example may be remittance by our overseas wage earners. The meaning of remittance within the government accounting is different. One of the glaring examples of this kind of remittance is remitting money to our missions abroad to cover their expenditure. Is this remittance real expenditure or fund transfer? Obviously, this is a fund transfer because until expenditure is incurred this should neither be included under the revenue head nor under the capital head of expenditure. Therefore, while remitting money to our missions abroad, the quarterly requirement is assessed. If there is any surplus fund with any mission, no money will be remitted because they can spend out of their budget allocation until remitted amount is exhausted if it is not a special remittance.

Already relevant DGs have been assigned with the task of reviewing the accounts of CAFO, Foreign Affairs, CAFO, Roads, CAFO, Works, and CAFO, LGD. Please bear in mind that an account review by the CAFO is not part of a statutory audit. It is a review of accounts of CAFO/CGA by the audit directorates. We should review the position of remittance, outstanding cheques, expenditure sanctions, and so on.

Suppose if a mission's expenditure stands at Tk. 500/-, and it does not have funds to meet the expenditure, money should be remitted to that mission. This is called transferring money from TSA to the bank account maintained by the Mission abroad with authority from the CAFO, Foreign Affairs. This does not mean expenditure, rather this is an outflow of cash (Remittance) meaning that the government cash in the TSA will reduce and the balance of mission's bank account will increase . Generally, when expenditure incurred out of the Remittance, the Remittance will reduce and expenditure increases. The money remitted are booked as unadjusted item under Remittance head in the PAR. Every month, missions send their cash accounts to the CAFO showing the expenditure out of the remittance.

Why do the missions call it a Cash Account rather than a monthly account? It is because of the fact that cash was remitted to them and they spent money out of that cash; ultimately prepare cash accounts. If cash is spent, it is booked as expenditure. In cash-based accounting, the double entry exists but not in accrual sense. Again, in government accounting single entry system is followed. Although by definition it is correct, by practice it is a double-entry system. Please note that double entry in its truest sense is a comprehensive system under which accounts of assets, liabilities, etc. are maintained. If it is determined on the basis of entry only without being comprehensive, even government accounting is also a double-entry system. The cash accounts will show a positive flow against revenue expenditure and a negative flow against remittance. The balance in the remittance head of the missions is as good as cash and therefore while conducting an audit of missions accounts the remittance balance should be reconciled with the cash balance of missions. The expenditure shown in the cash account will be shown against the consolidated fund. Income generated by any mission should be included in the cash accounts also.

Historically, there was no fund concept i.e. there were no Consolidated Fund and Public Account of the Republic. Now, under Bangladesh Constitutional Scheme budgeting and accounting is linked with the fund concept and therefore, budgeting and accounting should be geared towards CF and PAR but the divisions of accounts (revenue, capital, debt, deposit, and remittance) will remain subsumed. Since budget is a flow, in all divisions cash also flows, because if tax increases, revenue will increase, and cash will increase. Then when expenditure is incurred, the cash will decrease. If deposits are made into GPF by deduction from bill, the deposits will increase but cash will not increase because cash deposits are not made. it is deducted from the salary bills of employees. Therefore, GPF deduction does not have any impact on cash. Let me now turn into a different topic. From a mercantile accounting point of view, there is no double entry system in the government because of lack of comprehensiveness, in a narrow sense it exists. That’s why in the context of mercantile accounting, government accounting is called a single-entry system. While conducting audit, we should, therefore, bear in mind whether the transactions have a double effect. If the proper double effect is there, the integrity of accounting will be under check.

Article 84 of the Constitution talks about the inflow to CF and PAR. Article 87 is related to Annual Financial Statement (AFS). Outflows from CF will only take place after voting of the grants by the Parliament under Article-89 and consequent promulgation of Appropriation Act under Article-90. Inflow to PAR will take place either through the banking system, or through accounting arrangement such as deduction from bill, transfer from CF (example: transfer to Personal Ledger Account) as per relevant laws, rules, and procedures. The outflow or withdrawal from PAR is also prescribed in the respective rules and procedures. For example, we have GPF Act and GPF Rules. Following these rules, there will be inflow to and outflow from GPF. However, for any withdrawal from PAR, no vote by parliament is required because it's not an outflow from the Consolidated Fund. For any withdrawal from PAR, there has to be a balance standing at the credit of relevant head of accounts. Accounts Offices must check before payment whether there is sufficient balance in the ledger account against which the withdrawal is made.

Without the Appropriation Act, money cannot be withdrawn from the Consolidated Fund, even the debt repayment is included in this Act in a separate column shown as a charged expenditure. That's why the schedule of the Appropriation Act shows higher than the budgeted amount. Although as per our Constitution, there should be a separate law for public borrowing, the discourse on this subject is limited. We may raise audit observation on this and advise the government accordingly.

Remittance has been included under PAR as an artery. However, the implication of this account is not quite prominent in the current context. The treasuries, in particular the district treasuries (non-bank treasury), used to retain cash. At that point in time, remittance was the vehicle for transacting cash from one treasury to another. For example, if the Chattogram treasury wants to remit cash to the Khulna treasury, the relevant entries in the account will look like this:

In Chattogram treasury	**In Khulna treasury**
Cash (minus)	Cash (plus)
Remittance (plus)	Remittance (minus)

This means that cash in the Chattogram treasury will reduce and the remittance will increase and vice versa in the Khulna treasury. When this information came to the central AG system monthly-basis, a reconciliation used to be done to clear the remittance head. At the end of the accounting period, remittance should be nil. This is also called adjustment head. Aside from one treasury to another, remittance was also a vehicle for transfer between Rail, Defence, and Civil accounts.

Let us now turn to the issue of remittance in respect of CGDF and Railway. Except for these two areas together with postal and T&T or departmental accounts, remittance is no longer a prominent issue on the civil side. This means, other than PWD, RHD, DPHE, Foreign Missions, Postal and T&T is there any other department wherefrom remittance is created? 'No'. For departments other than these special departments cheques are issued by pay and accounting offices and also paid cheques information are sent from the Bank to the pay and accounting offices for pairing, reconciliation and accounting, not requiring any intermediary accounts head like 'Remittance'. So, the exception is there for departmental accounts. This will become increasingly irrelevant as the EFT/MICR coverage becomes wider. Under EFT/MICR, both payment and accounts will be in almost real-time. Then no balance will appear under the remittance head. Then, requirement for showing cheque movement figures through Remittance head will disappear.

The remittance concept applied to PWD, RHD, and DPHE as they belonged to different accounting circles headed by AG (Works and WAPDA). AG (Civil) was not only the Accountant General but also the Paymaster General. In some countries, two separate outfits exist. Paymaster General retains control over cash and Accountant General retains control over accounting and entitlement. As the CGA is the only Paymaster General who can handle cash or bank account (TSA), neither CGDF nor ADG (Finance), Bangladesh Railway; they can raise claim as well as deposit receipt to the TSA as agents of the AG (Civil) i.e. CGA, reasons for having a intermediary account like 'Remittance' Head.

CGDF and ADG (F) get access to the treasury on behalf of CGA. So, all payments and receipts made by them pass through remittance as they are not custodian of cash and, on either side, they have to deal through Remittance/ Exchange. CGA retains control over TSA. So, if CGDF receives any cash, he cannot debit cash and he must put it under the remittance head after depositing the cash into the TSA. In the past, AG(Works) and Additional AG, Foreign Affairs used to ask AG(Civil) to do accounts that they used to send under remittance. But now, as these two accounting offices are brought into directly under CGA's jurisdiction requirement for operating Remittance accounts became redundant.

As food for thought, I would like to say that since PWD and RHD have now come under the jurisdiction of CGA, we can do away with the so-called Remittance/Exchange and bring it under the cheques issued and cheques paid regime like other civil departments. For Remittance head, a central ledger has to be maintained. The purpose is to get in one place from CGA's ledger the aggregate balance of Remittance. This will enable the Civil Audit Directorate, as part of certification of accounts (Financial Audit) to verify and confirm the figures shown in the Finance Account under Remittance Head. This can be done by drilling down division and district wise balances from individual offices. For example, in the case of PWD, for all divisions there must be individual ledgers for remittance and CAFO will maintain them. The aggregate ledger (Control Ledger) will be maintained by CGA. CGA will check if there is any non-compliance. What we want is audit should not engage itself in mundane things, rather it should observe whether system is working as expected and there is any irregularities or any discrepancies, and report on that.

Quite often we use the term-revenue deposited to the Consolidated Fund if the government earns income, perhaps in the Treasury Rules also support this assertion. My contention will be, in the current context of the separation of the Exchequer and CF, proper statement should be 'income credited to the CF whether received by cash or deduction on bill. If it is cash then the cash part should be termed as 'Deposited to the TSA', 'not deposited to CF'. Let's have a little more emphasis on this. Where are the records of Consolidated Fund kept? Is it in Bangladesh Bank or in CGA? The money deposited in Bangladesh Bank is colourless and it remains colourless in the TSA. All the colourless monies get colour by crediting to respective account head under CF or PAR, when they reach the CGA system. Here CGA means not only CGA but also all accounting offices under it including field pay offices of the CGDF, ADG (Finance) Bangladesh Railway. All accounting outfits credit the Consolidated Fund, but CGA maintains the consolidated ledger. In the PAR as well, the accounts are maintained by the individual pay & accounting offices, but the aggregate control account is maintained at CGA. When the reports of these two control accounts are generated, we get the figures for Finance Accounts. However, it should reflect the cash movements (not cash balance). For cash balance, a separate schedule is maintained to show it as stock.

Budget Deficit and Borrowing

Then if we ask the question, whether revenue expenditures should exceed revenue receipts. The answer is No. The reason is that the operating expenses are met from revenue receipts and therefore the revenue expenditure should never exceed revenue receipts. If a government cannot meet revenue expenditure out of its revenue receipts, it gradually will become financially insolvent. If there is a revenue deficit, the taka value will fall internationally, there will be currency depreciation which will have an inflationary impact. In India, there is a revenue deficit because of its federal structure. The state governments receive a transfer from the union government in the form of grans-in- aid, though part of which is used to create assets. The union government while booking this transfer into its accounts shows it as revenue expenditure and this huge transfer creates a revenue deficit. However, this is a matter of interpretation. In India, the grants-in-aid are divided into two parts, one for revenue and the other for capital. The source of meeting revenue expenditure is tax and non-tax revenues, while the source of meeting capital expenditure is revenue surplus, planned borrowing, unplanned borrowing, and the last item is the use of cash balance. If there is any accumulated cash balance in TSA, it should be used to meet up capital expenditure. Please note that cash is always a part of PAR.

While auditing Finance Account, the first question that should be asked is about the reliability of the cash balance. For example, whether the increase/ decrease in cash is consistent with the figures shown in TSA at Bangladesh Bank and CGA accounts i.e. whether the figure in the account and that of TSA reconciles. If the major portion of budget deficit financing comes from unplanned borrowing, it can be deduced that borrowing is autonomous and does not follow and match the deficit requirements. These will certainly be a policy mismatch and will violate the basic tenets of public finance. Not only that, it also amounts to a violation of our constitutional provision. Our Constitution says that government borrowing should also be guided by the legal framework. So, if the unplanned borrowing exceeds the limit set in the budget, it would be a contravention of the provision of the Constitution. If the unplanned borrowing is far in excess, part of it will be used for deficit financing and the rest will remain idle in TSA for which the government will have to pay unnecessary interest. While preparing the 'Demand for the Grants' all these aspects, however, are not considered. Only revenue expenditure and capital expenditure including lending are covered.

Demands for Grants are only for voted expenditures which are segregated into revenue and other expenditure (capital expenditure) including loan repayment by the government and loan to SPA/Autonomous Bodies. The terms non-development and development expenditure are used as a matter of practice due to the existence of separate Annual Development Plan (ADP) budget, not recognized by the Constitution. When the Demands for Grants are submitted before the Parliament, a number will be assigned for each grant. However, no grant number will be assigned for appropriation as it is not a grant. The Ministry of Finance will prepare it in consultation with all ministries/divisions and submit it to the Parliament. While submitting the Demands for Grants, all estimated flows under CF and PAR will also be submitted to the Parliament in the form of AFS.

In our accounts, this is maintained in 'T' form but while presenting before the Parliament this is presented in statement form (management report form) to enhance user understandability. This is also submitted along with the Demand for Grants. (Shown in the Following Table)

Calculation of Budget Deficit	Financing to meet Budget Deficit
Tax Revenue (a+b) **a. NBR** a.1 Income Tax a.2 VAT a.3 Import duty a.4 Export Duty a.5 Excise a.6 Supplementary Duty a.7 Other Taxes b. **Non-NBR Tax** c. **Non-Tax Revenue** d. **Foreign Grants** ***Total Revenue and Grants*** ***(a + b + c + d)*** Less: Revenue Expenditure = ***Revenue Surplus*** Less: Capital Expenditure for Asset Acquisition/Liability Reduction Reduction and Net Lending = ***Budget Deficit***	***Financing:*** 1. Planned Borrowing (from CF) 2. Unplanned Borrowing (from PAR) 3. Use of Cash Balance (from PAR)

Table: Budget Deficit and Financing

Annual Financial Statement (AFS) or Budget

Demand for Grants only cover expenditures including lending. It does not cover revenue earnings. However, the total picture is presented before the Parliament in a user-friendly statement called Annual Financial Statement (AFS). There is a summary statement in AFS which is supported by separate statements for each item, and this is called ‘Budget’. AFS is submitted before the Parliament but neither any discussion nor any voting takes place on this document as there is no such provision. Along with AFS, ‘Demand for Grants and Appropriations’ which deal with expenditure are also submitted. The expenditure estimates are divided into various Grants and approval from the Parliament as people’s representative organization is sought on this demand. If ‘yes’ votes win, the President will be granted approval for expenditure from the Consolidated Fund. The President in turn delegates the power of spending to the PAOs according to the scheme of the Constitution [Article 55(6)]. Remember, Parliament has only delegated it to the President, not to the PAOs.

In the Government of India Act, 1935 there was no fund concept, but in the Constitutions of India and Bangladesh, this concept has gained popularity through the establishment of CF and PAR. Despite that, the main four Divisions of Accounts are subsumed in the budget under CF and PAR. If we look at the history, the annual budget did not recognize the fund concept rather we find in it the reflection of the major divisions of accounts. There are instances that the budget reflects the major divisions of accounts-Revenue, Capital, Debt, Deposit and Remittance. When we refer to the ‘Debt’ it means a planned debt which is part of the Consolidated Fund and when we refer to ‘Deposit’, it means unplanned borrowing (like GPF, saving certificate, contractor’s deposit, etc.) which is part of PAR. In the UK, the loan fund (created through the passage of the National Loans Act, 1968) separately deals with the total debt.

AFS has to be submitted before the Parliament, but no discussion takes place on this document as I said earlier. Demand for Grants are submitted because before seeking approval for expenditure from the Parliament, the purpose of demand has to be explained which is reflected in the Demands. Each ministry is asking for a budget to carry out its functions as per the Allocation of Business. Here providing public services is the purpose. Both revenue and capital expenditure are included here. Submission before the parliament according to purpose is the Demand for Grants. In the budget, we determine ex-ante revenue (earning) and expenditure and at the same time calculate borrowings. If there is any gap, we use cash to meet it. Cash use here is the balancing figure.

We'll get to know the actual position of cash after budget execution. Preparation of the Finance Accounts is an ex-post exercise following ex-ante AFS. Since AFS is an accountability document it must carry a schedule for each element. A budget is an accountability tool. Parliament will engage in discussion after the submission of Demand for Grants. When the budget is presented before the Parliament, the 'Parliamentary Committee on Estimate' can take up any demand for discussion and appropriate recommendation to the Full House. The voting will take place after the discussion on the Demand for Grants is over as per the Rules of Procedure of Parliament. Respective ministers will submit each Grant, and this will be passed by the Parliament through votes. Separate voting will take place for each grant. These Grants may be considered audit entities. The entity, here, does not necessarily mean institution.

Economists look at the budget as an ex-ante exercise that is executed at the start of the fiscal year. As soon as the execution starts, it becomes ex-post. Accounts are the ex-post recording of the executive budget and therefore, accounts should follow budget. Recording will start taking place in accounts from 1st July which comes to an end on 30th June and this is called June (Preliminary) Accounts. Some adjustments may be made after this period but without involving cash, meaning that expenditure cannot be incurred by cash during this adjustment periods. Accounts will remain open for the next 2-3 months after the close of the financial year for carrying out various adjustments, and corrections through journal entries. After incorporating all these adjustment June (Final) Accounts is prepared which is the basis for preparation of Finance Account.

Article-84, refers to the issue of raising loans. Once loans are raised, they are included in Consolidated Fund. Government raises loans domestically by issuing treasury bills and bonds. In addition, there is external borrowing which is also included in Consolidated Fund. However, loans raised by selling savings certificates go to PAR. Why? Lately, most of the deficit financing is made by the sales proceeds of savings instruments which are essentially deposits. This is not a good sign. Savings instruments must be kept under PAR because the objective of these instruments is not to raise planned loan for budget financing but to provide a cushion for small savers. When the government introduced the savings certificate, due to lack of alternative investment opportunity, small savers were given the scope to put their savings in the savings certificate. It was expected that this will work as a safety net for the poor. A recent study reveals that more than eighty percent of holders of this instrument are rich people.

The ex-ante borrowing plan should be approved by the Parliament. The loans from the savings certificates are not planned loans. As there is no cap here, the government cannot control it. This debt is not covered by the philosophy of debt for meeting budget deficit. While raising loans by T-bill and T-bond, the rate of interest is determined through auctions. However, the interest on the savings certificate is fixed at a very high rate which is not consistent with the philosophy of raising loans for budget financing.

Appropriation Bill and Finance Bill

The President does not get approval for spending immediately after the voting process for Grants is completed. This has to be formalized through an Act of Parliament. Voting is an internal process of Parliament, to communicate it with the wider audience, an Act has to be passed. While preparing the bill, the grants passed by the voting process should be included in the schedule of that bill. The expenditure is divided into two columns: charged and voted. Charged expenditures will not be put to vote but discussion may take place. Say for example, there could be a big debate on the budget of the Auditor General but cannot be put on vote because it is a Charged Expenditure. He has been granted this privilege so that his oversight authority is not infringed.

Withdrawal from CF is not permissible unless the Appropriation Act is passed by the Parliament. The total budget with the schedule of grants is placed before the Parliament in the form of an Appropriation Bill. The meaning of the term ‘Appropriation’ in the ‘Demand for Grants and Appropriation’ and that of the term ‘Appropriation’ as normally used Budget Appropriation and Re-Appropriation by the budget holders under delegation of financial power is not the same. There is no scope for discussion on the Appropriation Bill once it is presented before the Parliament because as per the Article-90(2) of the Constitution, as the purpose is already determined through Voting of the Grants. That’s why this bill is passed expeditiously. The preamble of the bill states that the President is authorized to withdraw Tk. XXXX crore from the Consolidated Fund. This indicates that the Appropriation Bill is passed only to authorize the President to withdraw money from CF to spend for the purpose of public interest as provided in the grants voted. The Appropriation Act remains in force for one year from 1st July to 30th June.

That is why the fund stands lapsed at the end of the fiscal year. It means that, the fund is lapsed by the end of the operation of the Appropriation Act. Budget can only be spent when the Appropriation Bill is turned into an Act. The same applies to the revenues; until the relevant act is passed no tax can be collected. There are two types of revenues- tax and non-tax. As per Article 83 of the Constitution, "No tax shall be levied or collected except by or under the authority of an act of the Parliament". That's why another bill called Finance Bill is presented before Parliament. This bill is initiated by the NBR for collecting tax revenues and this includes all tax rates referred to in different laws. It is in fact an umbrella act. No tax is imposed through the Finance Bill, but it is a vehicle through which tax provisions of many other acts are changed. For taxes, different laws exist, for example, the Customs Act, the VAT Act, the Income Tax Ordinance, Stamp Act, Motor Vehicle Ordinance. The respective Act/Ordinance provide the authority to collect tax. If any tax rate or any provision of respective law calls for any change, the changes are proposed through the Finance Act as an umbrella act.

Once the Finance Bill is passed by the Parliament, it is called Finance Act which remains in force till any amendment is made. The Finance Act is the vehicle for effecting changes in many laws. Article 83 of the Constitution used the words "by or under the authority". This means that if the respective Act authorizes NBR to bring any changes in the tax rate by issuing Statutory Rules and Orders (SRO), it can do so but this authority should be applied judiciously and carefully. Moreover, providing this enabling provision in the respective Act should not tantamount to excessive delegation. Any change in the tax rate (tax exemption) for any individual is against the spirit of the law; rather it should address a group or section of society considering all aspect of public interest based on judicious analysis.

There are two types of taxes: direct tax and indirect tax. Income tax and corporate tax are direct taxes while VAT and customs are indirect taxes. The indirect taxes become effective on the date on which the budget proposal is presented before Parliament as this is linked with the commodity price. The import cost is related to market price and therefore, if the import duty is not imposed immediately, there might be an extraordinary inflow of goods, or the inflow of goods may get stalled. That's why indirect tax is imposed immediately, and this provision has come from the Provisional Collection of Taxes Act, 1931. Under Section-3 of this Act, the Finance Bill declares that the indirect tax will take effect immediately from the date of the presentation of the Finance Bill before the Parliament.

The Demand for Grants are voted by the Parliament first, before passing the Finance Act because one of the principles of public finance is that the expenditure should be voted first and then the exercise of financing through passing Finance Act will be carried out. For the PAR items, there are separate laws and rules/regulations for example the General Provident Fund Act, 1925. These laws, rules and regulations should find a place in the permanent file of the audit. In the Constitution, there is a provision for borrowing. In the UK there is a Loan Fund Act, India has got the Fiscal Responsibility Act wherein there is a cap for planned borrowing. We have also got the Public Money and Budget Management Act 2009.

With the passage of the Appropriation Act, the Parliament authorizes the President to withdraw money from the Consolidated Fund who in turn delegates it to the PAOs through the Rules of Business. Now the question is whether the exchequer/treasury and consolidated fund are the same things. The answer is 'no'. Treasury and exchequer are synonymous. Treasury means government cash, gold, and other valuables and the consolidated fund is an accounting entity. There is no relationship between treasury and CF. Let me give you an example. The sale proceeds of the savings certificate will go to the treasury but should be recorded under PAR. On the other hand, the sale proceeds of treasury bills/bonds also go to the treasury but are recorded under CF. This means that CF and PAR are accounting entities while treasury is the entity to hold cash. In sum, CGA is the custodian of CF and PAR and Bangladesh Bank is the custodian of the treasury/TSA. That's why Bangladesh Bank does not maintain either CF or PAR and therefore the central bank should not carry out the task of classifying the transactions. The CGA is responsible for maintaining fiscal accounts. In fact, the cash of Bangladesh Bank is colourless (fungible), and it is given colour by CGA by assigning it to various accounts heads either in CF or in PAR, and as such the fiscal account should not be generated from the information emanating from the Bangladesh Bank. Let me give you another clarification on the difference between AFS and Finance Accounts. The former is ex-ante while the latter is ex-post.

Spending kicks off after the approval of the budget. There will be an outflow of cash from the TSA for which recording will be done under CF. Similarly, tax revenues: customs, VAT, income tax and NTR (Non-tax revenue) will be collected, and money will flow to the TSA and also recorded under CF. It is to be noted that ant deposit or disbursement by cash under Deposit head will also flow to/from the TSA but will be recorded under PAR. How the money will be deposited into the treasury and withdrawn from the treasury, who will sign cheques, who will now operate EFT, and how the money will go to the beneficiaries' accounts should be regulated for which legislation is required. Until such a law is enacted, all these operations are regulated by the rules framed by the President [Article-85]. This was done in British India in the name of 'Treasury Rules' which we inherited and adopted. This set of rules is not meant for regulating receipts and expenditures; it is used for guiding the process of depositing money into the TSA and withdrawing therefrom.

The word 'treasury' came from the British treasury system; but as there is no non-bank treasury exist now, the Treasury Rules as such have lost their relevance to a great extent. In India, the central government's treasury rules have been renamed the Receipts and Payments Rules, 1983. However, at the state level, the treasury rules are still in vogue.

In the treasury rules, there are two sets of rules. Any changes in the main set of treasury rules require approval from the President. For any changes in the subsidiary rules under the treasury rules, Finance Minister's approval is enough. The Treasury Rules have been framed under the provisions made in the Constitution. These rules get precedence over any rules framed under primary legislation (Act of Parliament). This means that where the Constitution authorizes the President to frame any rules as a plenary power those attain the status of a primary legislation. The Rules of Business is a case in point. However, in the case of the Treasury Rules, it has been said that until a law is enacted to this effect the President may frame rules applying his Contingent power. Therefore, even though the Treasury Rules do not enjoy the same status as the Rules of Business, these rules, in terms of status, are no less than that of primary legislation until an Act of Parliament overrides it.

In British India, as the Governor General had the law-making power, his executive orders were used to acquire the status of an Act. The Governor General by issuing executive orders used to decide the process to be followed while incurring expenditure from the public fund, giving expenditure sanctions for procurement. Even how the stores should be maintained, and how the tenders should be floated, and all these used to be decided through the executive order of the Governor General. A compilation of these executive orders was published which is known as the General Financial Rules (GFR), albeit, the source authority for framing these rules is not clear. Yet we may assume that the President has done this using the same authority while framing the Rules of Business because GFR is also a sort of delegation and allocation of administrative and financial powers. The word 'general' here connotes that all public officials in general shall follow these rules. Again, it is a compilation because all executive orders previously issued by the then Governor General from time to time have been compiled in this volume.

So far, I have talked about the Constitutional provisions regarding financial procedures. Please try to recall what I said about the presentation of the budget before Parliament and the process of its approval. After voting the budget, Parliament passes two pieces of legislation. One of them is the Appropriation Bill containing voted and charged expenditure estimates. The voted ones are passed by the Parliament in the form of Demand for Grants and the Charged Expenditure are discussed but not put to vote. However, both voted and non-voted ones are included in the Appropriation Bill. Another bill is for the receipts which is submitted by the National Board of Revenue (NBR) as per allocation of business through the Internal Resources Division (IRD) for the collection of tax revenues. This bill is called the Finance Bill and when it is passed it becomes the Finance Act. The difference between the Finance Bill and the Appropriation Bill is that when both are passed, the Appropriation Act remains in force for one year while the provisions made by inclusion in the Finance Act shall remain in force for an indefinite period until amended or repealed by any subsequent Finance Act. The funds allocated in the schedule of the Appropriation Act lapses at the end of June each year. Why? Because another bill is passed for next year.

On the other hand, as far as the Finance Bill is concerned, if any provision is made that remains in force for a long time. But how long? - The answer is until it is changed by any subsequent Finance Bill. The Finance Bill on its own is not a bill for the imposition of taxes. Rather it is a bill that is brought to cover up all laws relating to taxation. It is a cover-up or umbrella legislation to include all changes in other tax laws (in the laws where provisions for tax impositions are there: predominantly in the Customs Act 1969, VAT Act 2012 or in the Income Tax Ordinance 1984).

On another note, there is notion that a budget holder may withdraw fund in lump before expenditure is incurred. This is wrong. Except temporary/permanent advance/imprest, no budget holder can withdraw in lump before expenditure incurred. Why can't they do so? Because the Appropriation Act does not allow this practice. Any withdrawal should entail a specific purpose. With any vague/imprecise/unknown purpose, no department can withdraw money from the treasury. No one is authorized to withdraw in lump from TSA. However, deposit can be made in lump. Lump withdrawal is a serious irregularity on which audit objections should be raised.

Confusion Regarding Bengali Translation of Money Bill and Finance Bill

As mentioned earlier, Finance Bill on its own is not a bill for the imposition of taxes. Rather it is a bill that is brought to cover up all laws relating to taxation. It is a cover-up or umbrella legislation to include all changes in other tax laws (in the laws where provisions for tax impositions are there: predominantly in the Customs Act 1969, VAT Act 2012 or in the Income Tax Ordinance 1984). On the other hand, a Bill is said to be a Money Bill if it only contains provisions related to taxation, borrowing of money by the government, expenditure from or receipt to the Consolidated Fund. Bills that only contain provisions that are incidental to these matters would also be regarded as Money Bills. So, money bill covers more area than that of Finance Bill, but in the Bangladesh Constitution and Rules of Procedure of the Parliament the Bengali Meaning of those two bills are same (অর্থ বিল), which makes a huge confusion. To avoid that confusion, in the Rules of Procedure, Finance Bill could be changed to 'আর্থিক বিল' in Bengali instead of 'অর্থ বিল'.

Ordinance and President's Order (P.O)

Why is it an Ordinance? Why is it not an Act? Does anybody have any idea? The Constitution provides that if circumstances exists which render immediate action necessary while the Parliament not is session or dissolved, an Ordinance can be promulgated by the President. However, the Constitution also warns in Article-93 that if in the following session of the Parliament this Ordinance is not turned into an Act it will be ceased to have effect on the expiration of 30 days from the start of the next session. So, in any case, the Ordinance should be passed into an Act. If this is the constitutional provision, then how could the Income Tax Ordinance promulgated long 40 years back remain as an Ordinance?

Let me give you the answer. Generally, the Constitution remains suspended when the martial law is in force. Under the Constitutional regime this cannot be the case. However, this happened in Bangladesh more than once. Ordinances were promulgated during the martial law period from the CMLA Secretariat when the Constitution was suspended or made subservient to the Martial Law Proclamation. The martial law government promulgated laws in the form of Ordinances because there was no scope for passing any Act in the absence of Parliament. Following the political transition to democracy, the Parliament in its first session gave legal protection to all the Ordinances promulgated during the marital law period by including a provision in the Schedule-4 of the Constitution (transition schedule) validating all those Ordinances. This means that all Ordinances promulgated were deemed to have been promulgated under the Constitution. However, subsequently, those laws were made void because of their unconstitutionality by the Appellate Division together with the related amended paras in the schedule of the Constitution. As a result, there arose a need to turn those ordinances into the Acts. Obviously, turning all the Ordinances into Acts is a time-consuming process. Therefore, two umbrella laws (Act No-6 and 7 of 2013) were passed with schedules that says that these Ordinances are given legal coverage. That's why Ordinances like Income Tax Ordinance still remain an Ordinance. However, Appellate Division's decision warrants the Ordinances should be either repealed or re-promulgated as Acts of parliament as soon as possible.

Let me now reflect on President's Order (PO) vs Presidential Order. In Bangladesh, there was no full-blown written Constitution before our Constitution was adopted and made effective from 16th December 1972. The Proclamation of Independence was issued under the authority of the Constituent Assembly. This Proclamation worked as a mini constitution to cover period between 26th March 1971 to 15th December 1972. The law-making power was, under the Proclamation vested with the President and the President promulgated law in the form of President's Order (PO). The Order's legal strength are no less than an Act of Parliament until they are repealed subsequently by Acts of Parliament. Bangladesh Bank Order 1972 is a case in point. With the adoption of the Constitution, these

Orders were given the status of laws without changing the nomenclature. Therefore, if any changes are required to be brought in these Orders, this should be done through an amendment Act. One interesting case would be Dhaka University Order 1973. Though formal constitution made effective from 16th December 1972, through a provision in Para-3(2) of Schedule-4 of Bangladesh Constitution, President's power to promulgate PO remain valid up to 6th April 1973 before the start of the first session of the first Parliament on 7th April 1973. That is the reason for issuance of Dhaka University Order in 1973. So, As far as the Primary Legislation is concerned, several terminologies like Orders, Ordinances, and Acts are there in our legal regime. The CAG's (Additional Functions) Act was passed by the Parliament by repealing the Audit and Accounts Order 1952. You will come across in our Constitution in many Articles it is mentioned that some actions will be taken through Order, Rule, Regulation, Notification issues by the President. These are Special Executive Legislations. And they are known as Presidential Order, Rule, Regulation, Notification. In several places in the Constitution, it has been mentioned that the President will issue certain instruments on specific matters; examples might be: when the President summons Parliament by Notification, it is Presidential Notification [Plenary Power of the President under Article-72(1)]. Few more examples are: Treasury Rules issued by the President under Article-85 [Contingent Power], Rules of Business 1996 issued by the President under Article-55(6) [Plenary Power], Bangladesh Public Service Commission (Consultation) Regulations, 1979 was issued by the President under Article-142(2) [Contingent Power]. There are provisions to issue Presidential Order (not President's Order) under Article-68, 138(2) until law made by the Parliament (Contingent Power). It is very important to note that, Legal instruments issued by the President under Plenary Power cannot be superseded by the Act of Parliament whereas instruments issued under Contingent Power of the President can be superseded by the Act of Parliament.

Subordinate Legislation

When a set of Rules/Regulations/Orders/Notifications is issued under an Act of Parliament, it is called Subordinate/Secondary legislation. If an Order issued as a Subordinate Legislation, Preamble of the 'Order' should start with the phrase, 'government is pleased to' (Government Order), whereas in case of Presidential Order the Preamble should start with the phrase 'The President is pleased to'. It should be emphasized that, when these are issued by applying the power of an Article of the Constitution, in terms of legislative effect, it is no less than a primary law. From this perspective, the Rules of Business is not a subordinate law but a Special Executive Legislation having the force of primary law. What is then the Treasury Rules? The preamble of the treasury Rules says that the source of authority is Article 85 of the Constitution. According to this Article the Parliament will enact laws for custody of public money, payment into and withdrawal from the CF and PAR. Until such laws are enacted, matters connected with or ancillary to the matters aforesaid, shall be regulated by Rules made by the President which of course, is a stop gap arrangement. That is why it is termed as Special Executive Legislation issued under the Contingent Power of the President. In many countries around the world, for example, in South Africa, a comprehensive public finance Act was adopted. In many jurisdictions for withdrawal, deposits, budget management, fiscal responsibility, and financial procedures are brought under a comprehensive act and it is called Public Finance Management Act or Public Accountability Act. There are countries that even brought audits within the purview of this Act. However, this is not necessary for Bangladesh, because we have an unambiguous article in the Constitution [Article 128] to deal with audit matters. We don't need to bring basic audit under any primary legislation as the supreme law is quite strong. However, for the purpose of clarification or enlarging the jurisdiction of audit, we may enact a law. The Rules of Business is a set of mandatory rules while the treasury rules are a set of stop-gap rules. However, it is not subordinate legislation by status, rather is a substitute for Act. If we can enact an engulfing Public Finance Act, we may include everything starting from budget preparation to budget execution including accounting. Some countries even include monitoring in this Act. In our country, external audit cannot be brought under this act because, in our mother law, Constitution, there is a powerful provision [Article-128]. Even for value for money or performance audit, we do not need any separate Act. However, for better clarity and interpretation we may have a law.

Budget vs Accounts

Historically, as mentioned in another session, there was no division of accounts styled Consolidated Fund and the Public Accounts of the Republic. There were four divisions of accounts: Revenue, Capital, Debt, and Remittance. Under debt, there were two more divisions: public debt and deposit. There are two types of deposits: banking deposits and regulatory deposits. Criminal and judicial deposit is a type of regulatory deposit but the deposit shown in the personal ledger of autonomous bodies for land acquisition is a banking deposit because here the government is working as a banker on behalf of personal ledger holder.

Subsequently, the concept of fund emerged from the division of accounts. Currently, budgeting and accounting are carried out following the fund concept. Therefore, in our classification, there is a fund segment to meet the legal requirement and within which there should be revenue, capital, debt, deposit, and remittance as well.

Budget (ex-ante) [AFS]		**Accounts (ex-post) [Finance Account]**
Consolidated Fund	Revenue Capital Debt	Revenue Capital Debt
Public Account of the Republic	Deposit Remittance Cash	Deposit Remittance Cash

Figure 2(b): Division of Accounts

Is budget a flow or stock? What is the difference between a flow and a stock? Accountants never use the term 'stock' (Accountant's stock means inventory stock), economists call the balance as 'stock' and a 'transaction' flow, i.e., accountant's balance is economists' stock and an accountant's transaction is an economist's flow. Why? Because for a particular fiscal year, how much is your revenue and how much is your expenditure, are estimated in your budget. So, the budget is a flow. But an accountant says a flow is a transaction. If the budget is a flow, then what about the government accounts? When the budget is flow and the account follows the budget then the account is also a flow. And this is very true when your accounting is based mostly on cash basis. In cash-based transactions both budget and accounts are flows.

What is the basis of our accounts? First, it is fund based and secondly, it is cash-based. You have to review the literature on cash, modified cash, modified accrual, and accrual-based accounting from the website of IFAC and IPSASB and look at the types of transactions. In our classification, revenue, capital and debt combined is the Consolidated Fund (CF) while deposit, remittance, and cash combined have gone under the Public Account of the Republic (PAR). As per Article 84(1) of our Constitution, all revenues received by the government, all loans raised by the government, and all moneys received by it in repayment of the loan, shall form part of one fund to be known as the Consolidated Fund. Article 84 only refers to receipts but nothing has been said about payment because money cannot be withdrawn from the Consolidated Fund without a budget. This can be withdrawn through the passage of the Appropriation Act.

Monthly Accounts Compilation

Both budget (ex-ante) and accounts (ex-post) are flows. The monthly accounts of the government which are known as fiscal accounts are also monthly flow accounts. The aggregate monthly accounts of twelve months are known as annual accounts. The monthly accounts of CGA, CGDF, and ADG (Finance) are prepared after pre-audit or pre-check or pre-scrutiny by the respective accounting officials, for the Civil side this work used to be done by treasuries under DC before conversion of treasuries into pay and accounting officers mostly before 1983. This is indeed an improvement because in the civil accounting circle initial accounts are not prepared from the treasury, initial accounts are prepared by accounts offices after passing the bills by pre-checking which is called pre-audit. As I mentioned before, in the past, pre-audit was meant for the Presidency only which has now been extended to Upazila. In the same way, pre-audit like pre-check or pre-scrutiny has been there in Railway and CGDF.

In the civil accounting circle, some offices are not within the pre-audit jurisdiction. The initial accounts of those offices are prepared by the departments themselves. However, before the compilation of accounts of those departments, a post-check is required to be conducted which is currently missing. While receiving accounts from those departments, respective CAFOs must check whether sanction and delegation are in order and expenditure are incurred maintaining regulatory and propriety (not to be confused with compliance audit done by the Audit Directorates). Audit Directorates while planning statutory audit, the observations of CAFOs arising from this post-check should be taken into consideration. When the responsibility of combined audit and accounts was vested with AG (Works and WAPDA), the Divisional Accountants were kept as implants. A Divisional Accountant used to play a critical role and worked as financial assistant of the Executive Engineer and also as representatives of the Audit and Accounts Department as accountants and primary auditors. CPWA code says that if DA raises any point, he must intimate it to AG in a prescribed form. Under present context of separation of accounting and auditing functions (not talking about separation of Audit and Accounts Cadre) DA's reporting responsibility should be part of accounting function. The pre-audit function of AG (Civil) was statutory. That's why the Auditor General used to submit the Appropriation Accounts after pre-audit supplemented by Local Audit and Inspection of the spending office, to the President to cause them to be laid before Parliament.

At this stage, we should lay more emphasis on pre-audit before expenditure (Financial Advice). This had been in existence for a long time in defence and railway and this should be strengthened further. There should be a campaign started to introduce it in Civil side also. The positive outcome of this arrangement would be to guide the executive to commit those expenditure which pass the test of economy, efficiency and effectiveness. And this will be a strong tool for effective internal control to save wasteful expenditure. The pre-audit before payment by the CAFOs (after expenditure incurred) and post audit before compilation of accounts by the Departmental CAFOs will strengthen further the internal control system. Finally, the post audit after compilation at CGA/CAFOs and at the executive end by the audit directorates as representatives of the Auditor General under Article-128 of the Constitution and submission of report by the Auditor General to the Parliament through the President to be discussed by PAC will complete the accountability cycle of public expenditure. It will be worth noting here that, the proper conduct of pre-audit before expenditure (Financial Advice), pre-audit before payment, post audit after payment by departmental CAFOs, will reduce significantly the risk and cost of statutory audit by the audit directorates. Moreover, effective audit planning by the audit directorates through review of accounts and observations emanating from above internal control system will reduce audit risk (Inherent Risk, Control Risk, Detection Risk) and audit cost.

The mere compilation of 12-months accounts on an annual basis is not the Finance Account. Accounts produced at month-ends are monthly fiscal accounts. The main limitation of flow accounts is that it does not take into account the asset and liability. It only shows the flow of expenditure, debt, and any other flow. It does not reflect the asset-liability position. Asset/liability is stock. Flow accounts show only the information on the increase/decrease of assets/liability, not the real picture of stock (balance). Also, it is not presenting the position of cash, rather presents the movement of cash.

As part of public accountability, it is important to know the position of asset/liability to understand whether the public money is being used properly for the purpose as it was acquired for. Assets are again of two types (Physical Asset and Financial Asset). Visiting the website of IFAC, where you will find some good study reports on asset- liability. It is the PFM system that should bring to light the position of asset/liability. One outfit within the PFM system (CGA) should work out the position while another outfit (Auditor General) as an oversight agency will evaluate it and let the citizens know whether the designated authority within PFM is behaving responsibly or not. This is the philosophy of PFM- this is how the PFM cycle should work.

In Bangladesh, budgets and accounts are fund and cash-based. However, cash-based does not mean purely cash, it has got some modifications also. For example, when a subscription is credited to a provident fund account, it is not a cash transaction, it is credited from the pay bill of the subscribers. Another example of modification might be, when cheque or EFT is issued it is recorded in the government accounts as Cheque/EFT payable unlike the commercial world. Another non-cash transaction example might be: at the year-end interest is calculated and credited to the subscriber's GPF account which does not involve any cash movement.

When an advance is made from the pay & accounts office, generally it is booked as a final expenditure. However, if there is any unspent money, how to deal with that? When an advance is made, it should be booked as revenue expenditure. Although many of us think that it should be booked against PAR, this will be very dangerous. If expenditure is allowed to book against PAR, the budget will be spent elsewhere. That's why as per GFR, the advance should be booked under the final head and cash will go out. Adjustment against advance should be followed through the subsidiary registers. It should be noted that Grants-in-aid given to the extra-budgetary organization should not be considered as advance.

Adjustment is generally made through vouchers but whether this is done on time, should be audited. If the value of the adjustment bill is less than the amount of advance, the unspent balance should be deposited into treasury through Challan. If the unspent balance is not returned, it would be even more dangerous. All these issues should come under the purview of audit. If we look at it from the perspective of the Appropriation Act, it's a departure from the Act. The system will gradually improve if we highlight these issues. Advance is made against expenditure. So, if it is booked against PAR, an irregularity takes place.

Let me illustrate how an advance transaction should be dealt with. If an amount of Tk. 100 is advanced, it should be booked in the final head under CF and as a result cash will go out for that amount. If the adjustment bill is given for Tk. 80, the rest of the amount Tk. 20 is deposited into treasury through treasury Challan as 'miscellaneous revenue' according to the current practice. However, ideally to show TK 80 as final expenditure the unspent amount of Tk. 20 should be shown as deduct-expenditure. The current practice of depositing the unspent amount into treasury through Challan as NTR is inflating both expenditure and receipts because without spending the whole advanced amount, the expenditure amount is being shown Tk.100 while by depositing the unspent amount into treasury we are inflating miscellaneous revenue. This means the receipt in CF is being inflated while the expenditure is turning out to be wrong. And thus, we are passing the wrong information to Parliament. While conducting an Appropriation Audit you should raise observations on these anomalies. This issue, however, has been resolved through New Classification. The audit should see whether the new system is being practiced properly.

It should be noted that Imprest and Permanent Advance are different from advance illustrated here. Imprest and permanent advances are not made against expenditure sanctions, these are meant for meeting petty expenditures. However, in the case of the Army, the imprest fund is not given for meeting petty expenditures only, this is given for meeting other expenditures also under the war system of payment and accounting. If the iBAS++ system can be introduced in Army, the war system of accounting will automatically be phased out.

The total accounts of 12 months are not the Finance Account. It means something more. The history of PFM tells us that it is the responsibility of the Accountant General, now CGA to show the financial assets and liabilities position of the government. Here the responsibility of audit is to review and verify asset and liability position of the government. However, if physical assets also need to be reported, the system should be migrated from cash-based to accrual accounting.

The prime characteristic of accrual accounting is that it maintains balance of all assets and liabilities. For each kind of asset, there will be an opening balance and the monthly accounts will provide information on an increase/ decrease of such assets. In the case of liability, there will be both an opening and a closing balance, for cash also there will be opening and closing cash balance including movement during the year. Balance means stock. Unfortunately, our accounting system cannot show any balance because of certain system limitations.

There are two types of assets: physical assets and financial assets. The physical asset does not mean fixed asset. Physical assets are those assets that are visible, for example, furniture, machines, and buildings-these are physical assets or in other words, tangible assets. Stocks and inventory are all physical assets (in the commercial world inventory is not a fixed asset). In Bangladesh, for Government, since we practice cash-based accounting, we cannot do accounting for physical assets. However, it is the duty of government auditors, accountants, and executives to see the use of physical assets so that money is not unnecessarily blocked or improperly utilized. Non-usable assets should be written off and therefore we should maintain the accounts of physical assets. In order for doing this, we need to change the basis of our accounting practice and should migrate from cash-based to accrual-based mercantile accounting. We need to ensure full-blown double entry accounting. As I said earlier, since we practice cash-based accounting, at the moment we cannot do accounting for physical assets, but we can do so for financial assets.

How can we do it? Let me explain. We can do it for 'debt' because we know how much the government has borrowed and how much it has repaid. Say for example, in the first year, we'll get the opening balance. By adding debt raised and subtracting debt repaid from the opening balance, we'll get the stock of debt at the end of the year. This will not be drawn from the formal ledger system rather from the subsidiary records.

Debt raised - Debt Repaid + Opening Balance = Closing Balance

In the same way, we can deduce the provident fund balance. As a result, we can work out the financial position even under a cash-based accounting regime, though physical assets cannot be taken to General Ledger. Those who are working on the format of Finance Accounts should look at these aspects. We should work on the format of Finance Accounts to make it a usable document. Having consolidated the monthly accounts for 12 months, we should include additional information in the form of annex or schedule, for example, a Treasury Bond Schedule, or Treasury Bill Schedule in which there will be the opening balance together with the flow of the particular year and the closing balance. In this manner, we should prepare schedules for provident funds and savings certificates. Even a schedule for Remittance may be added if the balance does not cancel to zero, conceptually though it should stand nil.

If the remittance balance doesn't stand nil, the CGA and other accounting circles should identify and review why the remittance has not been adjusted and over and above this review, the statutory audit should also evaluate and review as to the integrity of flows and balances under Remittance Head as part of Financial Audit. Central Pension and Fund Offices of all accounting circles will provide the aggregate balance of the provident fund.

[Opening balance + (inflow - outflow) = Closing Balance]

The statutory audit will find out whether the aggregate balance is consistent with the ledger balance. Since the provident fund ledger will be maintained electronically, it can be easily maintained centrally. This will reduce audit costs because it will not be necessary for auditors to check the provident fund balances across the field accounting outfits. There will also be a schedule for cash where the

Opening balance of cash ± net flow = Closing Balance of cash

will appear. This should agree with the balance of TSA maintained by the Bangladesh Bank. If there are any differences, CGA will reconcile and identify the reasons for differences and take steps for resolution. Statutory audit by respective audit directorates should evaluate, analyse and review the causes and the relevant observations should find their place in the audit report. Fundamental Rules, Bangladesh Service Rules or Public Service Act, 2018 which are related to establishment matters cover only 10-15% of the total budget. The irregularities in these areas may not be that significant. Then why should we concentrate more on these areas? If the system-based audit is carried out, the audit cost will reduce. We have built our employee database; pension database and the pay and pension fixation are being done in an automated environment. All these developments will help to reduce anomalies and the problems relating to pay & pension fixation.

Appropriation Accounts and Finance Accounts

We may define Finance Accounts as follows: 'Finance Accounts is the aggregate account of the 12 months' flow accounts (Main statement), with additional schedules for financial assets and liabilities.' Apart from this, the Finance Accounts should also include a schedule containing information on physical assets. However, the question is, how this information will be collected. As per GFR, DDOs are under obligation to maintain the assets register, sometimes called Dead Stock Register. The CGA and other accounting offices should satisfy themselves that these registers are maintained properly by the DDOs. Nowadays, as the iBAS++ in place, the physical asset register can be automated. The only addition will be required to give identification codes (supplementary to BACS) for various categories of assets. May be at this stage, it would not be possible to work out depreciation/revaluation but it is very much possible to work out a schedule for physical assets collaborating with the DDOs.

Since we do not maintain asset accounts, the information will come from the subsidiary record, rather than the general ledger. We have to gradually improve the subsidiary record. Accounting is not a segmented exercise; it's a comprehensive exercise. If everything is not reflected, it cannot be labelled as an account. Appreciating the limitations of government accounting in terms of accounting for physical asset, the Finance Account is, therefore, a complete account as it reflects the total flow and includes the schedule of financial assets and liabilities. Is Appropriation Accounts a flow or stock? Appropriation Account is neither flow nor stock. This is just a statement of expenditure under revenue and capital division. So, truly speaking Appropriation Account is not an account per se; rather it is an accountability statement showing budget vs actual with explanation of over/under expenditure.

What type of accountability does the Appropriation Account ensure? Does this provide a comparison between budget and actual expenditure? It should be remembered that it has got nothing to do with the PAR. The term Appropriation Accounts is a misnomer. This is misguiding us. However, this was done by the British. The British now call it a vote (supply) account, in many jurisdictions it is called the Accountability Statement. CGA is now preparing Appropriation Accounts even though this has been devolved onto the PAOs by law (Public Moneys and Budget Management Act, 2009). This means that we have decided to prepare it on the basis of Grants voted by the Parliament. As it is said earlier that Appropriation

Accounts do not cover the transaction of PAR, because movement of PAR transactions are based on balances, not based on Grants made by the Parliament. Shall we prepare Finance Accounts on the basis of Grants, is there any scope? Finance Accounts is prepared for the whole of the Budgetary Central Government covering all transaction of CF and PAR, so there is no scope to prepare it on the basis of Grants. Appropriation Accounts will be prepared vote-wise and will be signed by the respective PAO.

Now there is an ongoing reform debate surrounding the responsibility for the preparation of Appropriation Accounts. Is CAFO or the Executive will take the responsibility of Appropriation Accounts? Here executive means the budget holder, not in the sense of Executive Organ of the State. There is a debate whether the Appropriation Accounts will be generated from the records of the Accounts Office or from the records of office of the Executives (DDOs). According to earlier arrangements, it used to be generated from the accounts offices and reconciled with the executive. As a result, the executive did not have any stake in this. The executive/budget holders are not maintaining subsidiary accounts which they are supposed to do according to GFR. If they are asked to provide any information, they collect them from CAFO. It has been clearly mentioned in the GFR that the executive cannot use any figure collected from the pay & accounts office. These have to be generated from their own channel.

As the conversion of treasury into accounts office was a change for the better, the Appropriation Accounts should be an Accountability Statement and as the executive incurs expenditure or sanctions expenditure, the executives should be made accountable for maintaining and reporting reliable statement of expenditure (Appropriation Accounts). Will the CGA accounting system will be held accountable for this? If the expenditure exceeds the budget, the executive will be held responsible. However, the problem arises when the accounts office, admits the claim against a sanction that is issued without complying the prescribed rules and regulations. It is the responsibility of the executive to follow PPA, PPR, GFR, Delegation of Financial Power, Rules of Business and any other related instructions while incurring any expenditure. So, they can also produce the Accountability Statement.

But how will they do it? The first instruction was that CAFO will prepare Appropriation Accounts and PAO will put his signature on them.

Subsequently, the arrangement was changed after enactment of the Public Moneys and Budget Management Act, 2009 (PMBM Act). This law shall now prevail. The law prescribes that the executive channel shall prepare the Appropriation Accounts. Section 17(1) of the PMBM Act says that the executive shall prepare Appropriation Accounts and reconcile them with the accounts office. Now they will have to keep accounts according to the forms in GFR. The auditors will plan the audit on the basis of the analysis of accounts and give relevant observations.

The question is whether the executive has the capacity (as well as human resources) to prepare Appropriation Accounts. Appropriation accounts is nothing but aggregated information from the budget execution module of iBAS++. If the budget execution module is in place, we will have to revisit the section of the law that we referred to earlier. The Appropriation account is essentially a reporting format in the budget execution module. However, in the budget execution module, the information of the accounting module (for example, the information on the number of payments and how much they have been accounted for) are not included, we'll have to work out the procedures for establishing linkage between the two modules. Appropriation accounts will, therefore, be generated from the budget execution module through DDO sub-module, not from the accounting module. This will in a way create some compulsion for the executive to ensure reconciliation with the pay & accounts offices. As the executive will have to produce their own accounts, they will be more amenable on their part to accept audit interventions. This will in no way undermine the integrity of the accounting domain. In addition, this will make the accountability framework stronger. We need to revisit and fine tune the budget execution module with the above objective in mind. One more improvement is required and that is the inclusion of the new format of Appropriation Accounts in that module and the new format of Finance Accounts in the accounting module.

In the earlier days, as you know, post-audit on the accounts received from the treasury used to be conducted before the compilation of accounts centrally at the AG (now CGA). This post-audit used to be conducted by AG (Civil) by applying the statutory power of the Auditor General. Since the statutory power was applicable for post-audit before the compilation of accounts, the compilation of Audit Code and Audit Manual was part of the functions of the Auditor General. In the changed circumstances, we need to think about what the appropriate course of action should be. In the context of the PMBM Act, the Appropriation Accounts should be prepared by the Executive Panel. As Appropriation Account is not an account, rather a statement; the Executive Panel can tackle the task comfortably. Likewise, since GFR is applicable to the executive, we have to revisit the GFR in the context of provisions of the PMBM Act.

Supplementary and Excess Grants

During the year, specially at the end of the year, additional allocation may be required for some budget holder. Some ministries may require more than the grant made by the parliament. If it is within the Grant, a ministry can re-appropriate with certain restrictions; but if it exceeds the grant how will the ministries re-appropriate? Since the grant is made by the Parliament, it has to go to the Parliament. When should the budget holder go, before or after incurring expenditure? If it happens ex-post, this will amount to contempt of Parliament. To meet the additional requirement, we have to go to the Parliament for the supplementary grants. This is required for two reasons [Article-91A]: (i) approval of supplementary grant should be sought before incurring expenditure if the amount is insufficient for the service (ii) if any need has arisen for expenditure upon some New Service (New Expenditure) not included in the AFS. So, it is evident that, not only the excess requirement over the Grant, but also for new expenditure, parliamentary approval is required. New expenditure means a new project. Unfortunately, we do not seek approval for this kind of expenditure, we only seek parliamentary approval if any need for expenditure in excess of the Grants. That also we seek approval almost ex-post, not ex-ante, not complying the spirit of the respective provisions of the Constitution. In practice, Supplementary Appropriation Bill is submitted along with Appropriation Bill with the budget proposal in June every year. But the requirement for Supplementary Grants not always emanates for June only.

In respect of supplementary grants , Article-91 of our Constitution says, *"If in respect of any financial year, it is found that the amount authorized to be expended for a particular service for the current financial year is insufficient or that a need has arisen for expenditure upon some new service not included in the annual financial statement for that year"*. Seeking supplementary grant from parliament for new services is yet to be embedded in our culture. In fact, Supplementary Grant is sought at the end of the year just to observe the formalities against the spirit of the constitutional requirement. In the same Article it has also been stated, *"the*

President shall have the power to authorize expenditure from Consolidated Fund whether or not it is charged by or under the Constitution upon that Fund and shall cause to be laid before Parliament." Many constitutional experts opined that, approval of expenditure from CF by the President and ex-post laying the statement before Parliament does not go by the spirit of representative democracy. In India, the supplementary budget is passed by the Parliament thrice a year. In Bangladesh, supplementary budget is passed at the end of the year just before the approval of the budget for the next year. Even, Article-91 is seldom invoked, so far, my knowledge goes President's Approval on supplementary budget was taken only once or twice in the past. The difference with India is that the Indian Constitution did not empower the President to interfere. The spirit is that this is the plenary power of the Parliament. Our Constitution empowered the President to spend and take ex-post approval from the Parliament.

The issue of Excess Grants is completely a different game. We have so far talked about supplementary grants under which expenditure is incurred based on estimates. Excess Grant is required to give ex-post approval by the Parliament when there is excess expenditure incurred over original grants. When such expenditure is incurred, this will be shown as expenditure in excess of the grant. Audit should raise observations saying that expenditure has been incurred in excess of the grant. The audit will seek explanations from the spending departments and on the basis of their explanation, they will determine the audit points. If the expenditure is incurred for any emergency, the audit will recognize it but if there is any instance of misuse of power while incurring such expenditure the audit must identify such instances. The expenditure incurred due to any emergency should also be approved by the Parliament.

This is not ex-ante approval like supplementary budget, rather this is ex-post. This should be formalized by presenting an Excess Financial Statement before Parliament for approval. If it is a case of misuse of power, the PAC will examine and ask the executive to come up with an adequate explanation. However, the expenditure will be approved by the Parliament in the form of excess grant as fait accompli. It should be noted that as excess expenditure requires scrutiny by the CAG and submission of report by CAG to PAC requires some times, generally approval of the Parliament might take 2/3 years after the year of occurrence of the excesses.

No excess grant was passed by the Parliament in the history of Bangladesh.

At some point, there was a huge suspense balance under PWD head and to clear this suspense, the Finance Division provided an extra budget. It would have been more appropriate if the Finance Division presented a proposal for excess grant and get it approved by the Parliament.

Revised Budget

We have already talked about the supplementary budget and excess budget. We very often use the term 'Revised Budget' but interestingly, in our Constitution, there is no such term. The Revised Budget is basically an administrative arrangement. However, the Revised Budget has come into currency in the Appropriation Accounts. The Appropriation Act is a legal instrument, and its execution is reflected in the Appropriation Accounts. Originally, this terminology did not appear in the Appropriation Accounts but due to administrative exigency, this is being used which is creating complicacy in the legal framework. It is an impediment to the preparation of the Supplementary Budget. In our old Appropriation Accounts, we used to mention supplementary budget, not revised budget.

Revised budget is not a legal term, this is an administrative term. However, it is now being used as sort of legal term. Without taking recourse to re-appropriation, expenditure is being incurred on the basis of revised budget. In old Appropriation Accounts, we will not come across the term revised budget, we will rather find original and supplementary budget. In the format of Appropriation Account, there was a column for both original and supplementary grants. The current format is different and departed from the old one.

Conclusion

Let me summarize the discussion that we initiated on the parliamentary procedures. The budget is passed by the Parliament. This means Demand for Grants are approved together with appropriation bills and finance bill into Acts. One is dealt with by Finance Division (appropriation bill) and the other one is by the NBR (finance bill). During the year NBR often make changes in the various provisions of the respective Acts through SROs. Sometimes it is argued that without placing the changes in the Parliament by amendment of the Act, is NBR authorized to make changes in the Tax provisions through SROs? If we examine Article-83 of the Constitution, we see that, no tax shall be levied or collected by or under the authority of an Act of Parliament. So, it should be evident now, SROs are issued if authorized under any Act (Income Tax Act, Customs Act, VAT Act etc.), otherwise not.

The budget is distributed in the iBAS++ Budget Execution Module. Some of the items are not distributed; they stay in lump. Expenditure is incurred against the budget allocation. The new classification structure is different and you need to revisit it. It is your responsibility to rectify the flaws that exist in it. You have to revisit the classification system bearing in mind the format of Finance Accounts.

The technical term that is used for budget distribution is allocation. Budget re-appropriation (virement) is a legal term. According to the power delegated by the legislature, re-appropriation can be made within the same grant or vote at various levels using delegation of financial power. The approved Demand for Grant will be entered into the budget execution module and then the allocations will be entered together with the re-appropriation made from time to time.

Around twenty-five years ago or so, the Auditor General of NAO asked his auditors to strengthen the Value for Money (VFM) Audit because it was not possible to form a qualified opinion in financial audit. Under the system-based approach of audit, the certification audit is losing its ground as the system is taking care of it. However, there are still some issues surrounding compliance. In this context, we have to lay more emphasis on performance audit/VFM audit to conduct an audit for broader issues that affect the effectiveness of public spending, and this should be done to add value to the auditorial exercise.

In today's session, I have tried to cover the constitutional provisions for financial procedures, Finance Accounts, and Appropriation Accounts. Let me also remind you that we'll have to work further on the New Classification.

Chapter 3:

Redesigning Accounting Structure with Improved IFMIS

Introduction

So far, we have discussed our panels of PFM. The first panel of our discussion was the executive panel, second panel on Pay and Accounts Panel, the third panel Treasury (Bank) and the final one is Statutory Audit Panel. The second panel basically performs two functions: first, pre-audit before payments, and second, accounting after payments. We should lay equal emphasis on both. The third panel Treasury (Bank); in some countries, this panel is known as the Exchequer. There was a time when the Treasury Officer in a district used to hold cash. Even the district treasuries used to perform banking functions. However, with the passage of time, the non-bank treasury no longer exists. As non-bank treasury doesn't exist in Bangladesh, cash remains with the bank. Here bank means Bangladesh Bank and Sonali Bank working as an agent of Bangladesh Bank. Though the agency function of Sonali Bank is drastically reduced due to emergence of MICR cheques, A-Challan and EFT etc. The new issue that is coming up relates to the new classification structure which has been introduced this year. We need to re-examine the classification structure critically and identify the gaps that exist.

Throughout this session, we will focus on the modalities of redesigning our accounting structure so that we can build synergy between accounting and auditing and above all, bring about improvement in our service delivery. Service delivery improvement in this context would not mean engaging additional human resources. We shall need a human interface only in those cases where we cannot do without humans.

Modules of iBAS++

Panel-1 incurs expenditure, and it follows a regulatory framework while incurring expenditures. This includes the Constitution, Rules of Business, GFR and Treasury Rules, PPA/PPR and so on. However, in this panel, the treasury rules have a small space because TR basically deals with the matters related to money deposit in and withdrawal from the Treasury (Bank) as laid down in Article-85 of the Constitution. Budget holders do not have to deal with the CF directly. TR, therefore, is more related to the pay and accounts panel. The first panel will use TR only in respect of maintaining the connection with the second panel. For example, they will follow TR in respect of the submission of any bills to pay and accounts office. In the GFR, there is a chapter on procurement, but it has become almost redundant with the introduction of PPA 2006 and PPR 2008.

If the controlling officer (Budget Holder) accord expenditure sanctions and incur expenditure following these rules, and also maintaining financial propriety, the expenditure will be regular and proper, also should be booked under relevant expenditure heads. For according sanction to any expenditure, the first panel must have a recording system that should follow some prescribed rules. In this respect, the role of GFR is very important. Therefore, in the context of BACS and Budget Management Act, we'll have to revisit the forms contained in the GFR. It is because of the fact that the Budget Management Act says the appropriation statement will be generated from the executive or budget holders' panel and therefore the forms should be revisited to test their suitability.

The relevant forms should be redesigned so that all transactions are consolidated at various levels and made available to PAO. This aggregation should be done in a columnar form where there will be columns for the original budget, supplementary budget if any, and re-appropriation/re-allocation column. There will also be a total column in which we'll find the final allocation after plus/minus. In the current automated environment, this can be done easily. In iBAS++, there is a separate module for this: Budget Preparation Module (pre-approval) and Budget Execution Module (post-approval).

We should revisit the iBAS++ platform and think about the ways of making it more robust in the light of the experience of developing the technical and functional platforms of IFMIS. We need to strengthen our R&D wing with proper logistics and manpower. The ICU of CGA should also be strengthened and this unit should work as the eyes and ears of CGA. The CAFOs should be visited by ICU on a daily basis. If required, the human resources should be re-assigned. Action should be taken for any non-compliance. In the IMF PFM Blog, there are technical notes on this subject which should be studied carefully. There are technical notes on treasury, budget, accounting classification, international best practices, and development in public-sector accounting. We need to study these documents and think about what changes we can bring to improve our system.

In iBAS++, there are two modules for executive or budget holder's panel. The Appropriation Accounts that we are referring to will be generated from the budget execution module. We may add new features to it if we require so. Even we may develop new forms and add them to the modules. Those additions will be formalized later because these forms will be maintained electronically. As transactions are being entered into the budget module, any re-appropriation/re-allocation will automatically go into the system. As a result, all entries will find place in the forms; even the sanctions will find place in the system. Then it would be possible to generate report automatically from the forms used.

In a manual environment, it used to take a long time to move and send report from lower-level Controlling Officer (Budget Holder) to higher level Controlling Officer (Budget Holder) but in an automated environment, it is possible to do it in real-time. This will require technically skilled people but as the system is centralized, the manpower requirement will not be that significant.

Budget Preparation and Budget Execution modules of iBAS++ have been developed for the first panel. The Accounting Module is meant for the Pay and Accounting panel and this module is more robust than the Budget Execution Module because the execution model is segmented while the Accounting Module is comprehensive. The Accounting Module will contain actual transactions grouped into Revenue, Capital, Debt, Deposit, Remittance and Cash. This module will contain a comprehensive picture of all the government transactions. We should look at the Accounting Module in the context of the BACS. We need to see how data are captured and accumulated.

Before issuing payment order (EFT, MICR Cheques or Authority) by the second panel, it is necessary to examine whether the first panel complied with the procedures laid down in the Constitution, the Rules of Business, GFR, PPA/PPR, TR (relevant parts) and other relevant rules and orders. The question is when compliance will be examined by the second Panel? This should be done before payment, bearing in mind what would have been examined by the post-audit (statutory audit). This calls for the development of procedures for the second Panel which will guide how sanction audit, expenditure audit, and individual grants-in-aid audit should be conducted. We should remember that we are not talking about the functions of an audit directorate; we are rather talking about those of the second Panel. The second panel should perform these functions as they will have to issue the payment order necessitating payment out of the government bank account (TSA). Quite justifiably, before issuing payment order they must ensure that laid down rules and procedures are complied with by the Budget Holder. While doing this, they have to prioritize the issues for checking and work out the procedures for prioritization. This is what is known as internal control assurance. Once such assurance is in place, the examination of nitty-gritty details by statutory post audit by audit directorates will be largely minimized.

Meaning of 'Closes of Balance' and 'Closes to the Government'

We may not find in the BACS the division of accounts like Revenue, Capital, Debt, Remittance which existed in the old classification of Major Heads and Minor Heads. For example, the term asset has been used instead of capital expenditure, liability is also there. However, though these changes have been made in the headlines, the inside details are consistent with the old terms. The terms Revenue and Capital in the second panel are different from Debt, Deposit, Remittance, and Cash. The context of this difference emanates separating expenditure from financing per se. In addition, there is a difference from another dimension. Revenue and Capital heads are *'closes to the government'* while others are *'closes to balance'*. *'Close to balance'* means Debt, Deposit, Remittance, and Cash which may be either an asset or a liability. *'Close to government'*, an omnibus account, is used to close the net amount we find subtracting expenses from operating earnings to be carried forward to next year which is akin to transferring the net profit for the year to the balance sheet as we do in commercial accounting. However, there is a difference between commercial accounting and government accounting. Generally, capital expenditure should not be treated as expenses. But under cash-based accounting, capital expenditure is accounted once and for all, as we do not maintain any ledger for physical assets in the GL. Though, physical asset registers are required to be maintained by the DDOs as per GFR. In the commercial world, capital expenditure appears in financial statements year after year, of course subject to yearly Depreciation or periodic Revaluation.

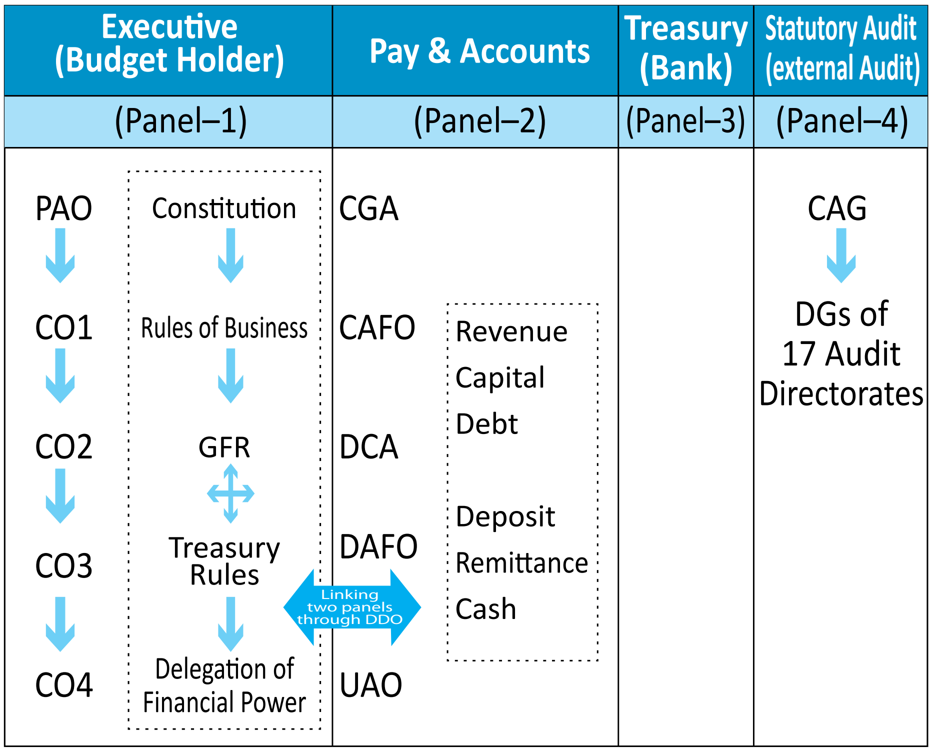

Figure: Interdependence of the Panels

Centralized Payment System through iBAS++

Let's now have a look at some of the indication of future reforms in this area. If we can bring about improvements in the payment system, accounting system, and internal control assurance, our job in the fourth panel i.e., Statutory Audit Panel will be much simpler, easier and cost-effective. This means if we get reasonable assurance from the internal control arrangements of the second panel, the statutory audit will be in a position to concentrate more on strategic issues. Currently, since everything is disarrayed, our audit cost is increasing and remained inefficient. It is highly desirable that these panels (second and fourth) work in unison in a collaborative approach for effective and efficient use of public money which is not happening.

Now pay and allowances constitute a portion of revenue expenditure which is 10 to 20 percent of the total expenditure. Historically speaking, when old systems and treasury existed though payment was decentralized, accounts used to be handled in a centralized way as part of internal control system.

When in those days SDO was posted in Kurigram say, he used to get salary from Kurigram, not from Dhaka. His audit register used to be maintained in Dhaka, but he used to get paid from Kurigram Sub-Treasury. After the conversion of the treasury into Accounts Offices in the name of taking the services to the doorstep, the audit register has gone to Kurigram together with the payment arrangements. Thus, services though have reached the doorstep of the clients, the audit cost increased and robust internal control system collapsed. Together with this, the comprehensiveness of accounts has been undermined. The audit registers are being maintained in a scattered manner throughout the country. If the Auditor General wants to conduct the audit in this area how many audit teams will be required? At least, 50 audit teams need to be deployed to provide reasonable assurance. The movement of these teams will entail expenditure on account of TA and DA. Not only this, but there is also a cost involvement for monitoring the activities of these teams which is again not quite robust.

Therefore, we made a blunder while taking decisions to reach services to the doorsteps of the clients. Government officials now have to move from one station to another to collect service statements after retirement. This change was not for the better. We are welcoming pensioners to our offices, but we never ask ourselves why will pensioners have to come to our office. Under the treasury system, payment was decentralized as it was necessary at that time. Do we know if someone was on tour for more than 15 days, he could draw his salary from the touring station? Because the essence of the rules is to provide services to the people. These are colonial rules, but today can anyone draw salaries in this manner while on tour? Now he will have to come back to the duty station to draw his salary even though the rules are in force.

Under the treasury system, in the AG (Civil) audit registers used to be maintained centrally in different sections like GA-1, GA-2, GA-3, and GA-4. In the event of any change in the pay structure of an officer, the fixation used to be done centrally in the AG Office, and once it is fixed the relevant treasury used to be informed accordingly. Then the treasury in turn would make monthly payments and send the vouchers to the AG Office with the initial accounts. Entries in the audit register used to be made after post-audit. It was then possible to know centrally how the salary of all SDOs belonging to the same batch was fixed.

Regardless of the duty stations, each one's salary in the same batch remains the same. The change in the pay structure does not take place every day. Consequent upon promotion, leave, re-fixation are needed which are periodic phenomena, and these should be handled centrally. Now all these functions have proliferated across the country giving rise to both accounting and audit costs. This has even reduced the scope of comprehensive information analysis. There are instances in those days the auditors did not do their job properly and the audit registers were not updated, and the entries remained pending for years together. Employees from far-flung areas had to come to the AG office to know about the status of the audit registers and collect service statements. To get rid of this problem, the remedy was sought by decentralizing accounts and payments through creation of accounting outfits across the country at district and Upazila levels. However, seeking remedy through this unplanned decentralization without giving a serious thought on the negative consequences was found to be chaotic and unscientific.

Let us come back to the point of the centralized payment system again. Already for the establishment portion of revenue expenditure, an employee database has been created which has been linked with iBAS++ pay fixation module. Now there are two issues associated with it. Although the system is centralized, the local accounts offices have been delegated two powers. These are powers of verification and deletion. As a result, in the case of pay fixation, accounts offices in different stations are acting differently and creating anomalies. There was an instruction though that the verification should be done by referring to the audit registers. In practice, however, the verification in some cases is done without referring to the relevant audit registers; rather on the basis of whatever the employees submit. This is creating fixation anomalies because some accounts offices are doing verification by referring to audit registers and some are not. As a result, the fixation of pay belonging to the same rank in the same department turns out to be different.

The advantages iBAS++ offers are that, we can see centrally where the entries are being made. After the transfer of the Employee Database to iBAS++, it has been related to the process of payment. However, in the case of some departments, mapping was not done properly. Now it is the responsibility of the Accounts Office to identify which departments were supposed to be included in the mapping exercise, and which departments missed out.

It should be our target to centralize audit registers of all employees up to the grass root level under the jurisdiction of CAFOs and if we can do that the payment will be decentralized but accounts will be maintained centrally. Nowadays because of availability of the instrument like MICR, EFT, RTGS even the payments can be directly from CAFOs to the beneficiary of grass root level. Centralized payment and accounting done by CAFO Pension & Fund, Finance Controllers of Defence Accounting Circle may be cited as examples in reference. Utilizing the iBAS++ platform with some bit of technological improvements this centralization of payment and accounting can easily occur for all types of payment including contractors' payment. In the meanwhile, we need to decide what additional features should be added to iBAS++. Each CAFO should, therefore, work in an environment under the administrative and supervisory control of CGA. Centralized pay and accounting system will largely reduce the audit cost and moreover any information about employees: pay and allowances, number of employees, their grades, dates of birth, retirement dates, etc. will be readily available. Thanks to technology, it is now possible, and Accounting Office will be the storehouse of information for the entire government. If the government wants to know about the employee information of a particular ministry, the system will readily provide that information which will be the most reliable one.

We know that any statistical information is based on some assumptions but in the accounting channel the information is not based on any assumption, it is based on facts and figures. Because this information is based on real transactions. So, from now on, every CAFO will work on this employee database. You will have to work on how information of all employees under your jurisdiction and how transfer from one jurisdiction to another will be handled in the iBAS++.

When on 1st July 2018 we were carrying out the exercise of adding increments of employees, the increments of a total of 93,000 employees could not be added. One of the key reasons for this failure was that when LPC from one station was sent to another station, the receiving station did not enter it in iBAS++ system. There were instances as well, pay fixation was done but it was not cleared. These entries can be identified from the system, but those 93,000 employees did not get the benefit of one click.

CAFOs will centrally handle the issues concerning establishment-related information which will empower them more eventually. To do this, every CAFO should prepare a list of functional requirements. The CGA Office should form a team for this exercise. From now on you should work on how you can maintain your records centrally. You can take payment point even up to the union level, if possible, as long as the entitlement is correct.

For fixation, there is a submission process that is practiced already. Even such submission can be made from the Upazila level which is already practiced but this must travel up to the central level. Once it is fixed centrally, the technical people should look at how communication between the concerned employee and the accounts office will take place. The next question is related to the provident fund, and how this will be managed. We know under the treasury system how PF used to be maintained.

This takes us back to history. The only difference is that in the past this used to be managed manually but now this will be taken care of by the system and we'll design our system depending on our requirements.

We failed in the past because the concerned employees of AG Office used to keep them pending. Now if it is system-based and submission and fixation are done electronically, there will be minimum human interference. Under the treasury system, the credit to and withdrawal from provident funds used to be made at the treasury, but PF ledger used to be maintained centrally. Accounts slips were generated from AG for both staff and officers.

GPF used to be maintained centrally and later it was decentralized. In the name of service level improvement, we took both payments and accounts to the doorsteps of the people. Account is not something that needs to be taken to the doorsteps of the people rather it is important to maintain its integrity. We must bring back its integrity. In the accounting module of iBAS++, all payments are recorded. Deductions are also recorded there. These records come to CGA Office in real-time. If PF deductions come in real-time, the entries will be recorded in the CGA's central database in a separate office. CAFO, Pension and Fund Management is established for this purpose. All PF ledgers are maintained in this office. Payment is made based on the balances of accounts maintained centrally for each subscriber to the PF. If we want to make a payment looking at the balances, we need a control ledger that will tell whether payment is being made out of the balance being maintained or without any balance. This change of the system will separate the functions of Maker and Checker thereby improving the control environment.

Post-audit (by audit directorates) will provide high-level assurance on the aggregate GPF balance in the finance account. While giving assurance they will drill down to see the provident fund balance and will check the individual ledger balances on a test basis. For this exercise, audit people don't need to travel around 460 places. If you get this information centrally, audit costs will be minimized. These are the major areas of public service improvement. We'll go back to the AG system and maintain all PF accounts centrally for all employees. This will significantly reduce process time. The proposed change will entail gathering of accounting information on a real-time basis, and we all have to work in that direction. Compared to any other departments, this department is way ahead in terms of technological penetration, thereby, image building opportunity of this department is immense. You can change the world, and nothing should be imposed on us. This is not being imposed on the members of the Indian Civil Accounts Service; rather they are approaching the government for the change they want to bring in. You'll find all this evidence on their website. That's why they are being recruited by IMF and World Bank. They are going to African countries as PFM consultants also.

So, under a decentralized payment system, PF deductions will come to the central system where an aggregate ledger will be maintained together with Broadsheet and individual PF ledger. Debt (T-Bill, T-Bond, Foreign Loan etc.) is automatically centralized because payment is not now made from the treasury. Under the AG system in the past promissory note payment used to be made from the treasury. Now, CAFO, Pension & Fund Management has been created under the jurisdiction of CGA to maintain centrally the PF. The 'Fund' has been included with the term 'Pension' in the title of the CAFO as it will manage at the same time the provident fund ledgers along with the pension.

We should design our system in a way so that before opening a PF account from Upazila, approval is obtained from CAFO, Pension & Fund Management by providing all relevant information. Once it is done, the salary payment and provident fund deductions will be recorded by local offices electronically which will be reported to CAFO, Pension & Fund Management and the ledger will be updated accordingly. While making advance from PF, the local accounts office will carry out a sanction audit at the local level and once payment is made, the information will be entered in the system and ultimately central record will be updated. In the case of departments like the Post Office, and Border Guard Bangladesh (BGB), we'll have to list the functional requirements for their inclusion in iBAS++ considering their special peculiarities. The local accounts office while opening a PF account may send applications with relevant nominations electronically.

In the past, under the AG system, the nomination used to be maintained centrally at the AG office. Currently, the nomination papers are retained at the local accounts office from where an account is opened. When an employee retires, he has to face a lot of hassles because quite often he cannot trace the nomination records which he submitted long 30 years back say, when he was a young officer. It cannot be a desirable system that an employee who has to move from one place to another, his nomination papers will be retained in the station where the account was opened. This prompts the necessity of maintaining all nomination papers centrally at CAFO, Pension & Fund Management. If the nomination changes, updating will take place here; however, payment and deductions will remain decentralized. CAFO, Pension & Fund will then be responsible for providing inputs for Finance Accounts on GPF balance, both opening, and closing. Finance Accounts not only include flow, but it also includes stock (balance) in the form of schedules which will be generated from the accounting system.

All of us should now work on maintaining PF centrally. Once it works, the individual subscribers will have access to the balance being maintained at CAFO, Pension & Fund. Both gazetted and non-gazetted employees will enjoy this access and obviously this will reduce their hassles surrounding the issuance of GPF accounts slips. Then how the post-audit will be conducted for confirmation of the PF balance? A team will carry out the exercise of balance confirmation by using system generated report. If the system becomes robust, we may not have to carry out this exercise after 2-4 years.

The upsurge of technology is approaching us like sea waves. The concept of blockchain distributive ledger is now in the frontier of knowledge and Bangladesh is also heralding the blockchain-based solution. So, not only for the sake of public service improvement, but we'll also have to embrace new technology for our survival. The routine and mundane work that technology can take care of should not be carried out by our auditors.

We have to think about the improvement of the accounting system that is a building block for the preparation of Finance Accounts. Without bringing about any improvement in this area, it would be a sheer waste of time to think about the improvement in the audit. So, the first thing we need to do is to improve our accounting system. The benefit that we'll get out of it, is that our financial system will become more robust and reliable, and audits will then focus on more strategic issues, audit costs will be drastically reduced and on top of it, assurance will be more effective.

We cannot give any assurance by haphazardly keeping the accounting system without any control. In the centralized system, the service statement of an employee should be centrally generated by CAFO because the employee records will be kept by CAFO. LPC is being issued but not being received due to human interference. Now we do not even need LPC. Each employee has an ID, if he is transferred from one office to another only release and joining information will serve the purpose on the whole.

First of all, we have to concentrate on the improvement of the accounting system and service level improvement so that our system becomes reliable and service delivery becomes quick and robust. Local deposits, criminal and civil deposits, PL accounts, issuance of LA cheques, and LA balance which are classified as deposits should be maintained in a decentralized way, but an aggregate balance must be maintained by CAFO, Pension and Fund. For example, the aggregate balance of criminal deposits throughout the country should be available at CAFO, Pension and Fund. By drilling it down we'll be able to identify the individual balance of this deposit in a particular location. While validating Finance Accounts, respective audit directorate (Civil Audit Directorate) should make sure that the balance shown in Finance Account is supported by several individual balances. The central control of the deposits should lie with CAFO, Pension and Fund.

Now, the question is whether we should go for EFT or keep on issuing cheques. The third panel Treasury (Bank) has witnessed lots of radical changes driven by the Core Banking System (CBS), RTGS, BEFTN, National Payment Switch Bangladesh (NPSB), Bangladesh Automated Clearing House (BACH) etc. These are the IT platforms of Bangladesh Bank. Bangladesh Bank investing in a big way, for further deepening of technology for the improvement of Banking system. Leveraging all the technological improvement, in future, all payments can be made through EFT dispensing altogether the cheque issuance regime.

Audit following Accounts

Article 128(1) is though very powerful provision regarding the jurisdiction of audit but when question of application comes it is correlated with the level of governance. When an audit has to depend on executive response, an alternative route like automation of complete audit cycle including getting response from the responsible parties has to be worked out and we should lay emphasis on that.

AG used to produce Appropriation Accounts and Finance Accounts together with a note stating that accounts have been examined by the auditors and after post-audit/pre-audit (sanction audit and appropriation audit) signed them off. This used to be done based on system-based accounting. As debt used to be handled centrally, AG was in a position to provide balances. These are the things of the past. AG had a fund manual, and deposit manual and we need to resurrect those manuals.

Within revenue expenditures other than the establishment, for example, supplies and services or repair and maintenance do not create any asset. These are one-off expenditures and constitute a part of the budget deficit. Managing these categories of expenditure will be the task of decentralized accounts offices.

Now we are looking for audit points without understanding the accounting system while there is no denying the fact that audit follows accounts, specially Financial Audit. Currently, in our audit report, we do not find any observations on accounts, which is a clear departure from the past practice. It is, therefore, important to bring about improvement in the accounting system. If we have already lost ground, we should create a new ground, and this will certainly be an image branding exercise.

Dealing with the expenditures on supplies and services, repairs and maintenance, grants-in-aid, and so on, the revenue expenditure side is quite straightforward. These expenditures should be pre-checked/pre-audited by respective pay and accounting offices as part of internal control process within the government and the records will go straight to the system which will be reconciled on a real-time basis. Already in iBAS++, the reconciliation system has been installed.

Cash Management

CGA is supposed to provide aggregate cash balances of the government. The central cash balance is the aggregate balance maintained in TSA. In addition to the account maintained by the government in Bangladesh Bank, the balances in various development partner funded special accounts like DOSA, CONTASA, Imprest are integral part of TSA. Under cheque issuing system always there is a balance of unpaid cheques every month. If we can move to full EFT throughout the country, we do not have to issue cheques and if Bangladesh Bank makes all payments on a daily basis, the problem of reconciling unpaid cheques will be eliminated. Moreover, there will be no role to play by Sonali Bank as an agent bank, relieving the payment and accounting system from clumsy, roundabout procedure. This will also save money on account of agency commission given to the Sonali Bank. But in terms of cash management by reducing the time lag, deposit and withdrawal from TSA there will be much larger saving in terms of minimizing borrowing costs. There will be no unnecessary borrowing. In the future, even if the service is decentralized, all information on EFT orders will come to CGA pay pointwise through Bangladesh Bank. Payment orders will be made through countrywide EFT which will come to Bangladesh Bank, Dhaka and payment will go to the individual's chosen bank account from directly from TSA. This is a direction for the future and hopefully, in five-year time, this arrangement will be in place. The information on EFT orders and the information on payments made by Bangladesh Bank will enter the system on a real-time basis. If payment is made ultimately by the Central Bank, our cash movement and balance will be robust. It would be easier to give audit assurance of the cash balance in Finance Accounts. Currently, there is a huge difference between the balance figure worked by CGA and Bangladesh Bank.

This may happen in the case of receipts through CBS as well. One of the features of CBS is that it is a branchless banking system. With CBS, all branches are individually recognized but transactions will be captured in a centralized fashion online. This provides a facility for withdrawal and deposit in any branch.

For depositing money through treasury challans, there were specific treasury branches of Sonali Bank. With the introduction of A-Challan utilizing CBS, any branch of any bank can receive deposit against Treasury Challan yielding two-fold benefits: a) creating comfort zone for the depositors and b) quick transfer of money to the TSA. We may, therefore, encourage widening the coverage of ACS. This will make service delivery easier and improved. Because of the presence of A-Callan, the branches of all banks are in fact working as counters, but recording is being done centrally. As a result, the record may come to CGA from Bangladesh Bank on a daily basis. Unfortunately, we are not keeping ourselves abreast of these technological developments. We should try to leverage the development in other sectors.

The fact that all branches of Sonali Bank will become treasury branches is not the end of development in this frontier. Why receipts through treasury challans should only be deposited into Sonali Bank? There should be an arrangement to take such deposits through other banks as well and it is now possible by using Automated Challan System (A-Challan). The ultimate target would be to do away with the system of going to the bank counter for depositing money through treasury challans. It is possible that depositors will be able to pay money going to the counter of any branch of any bank (getting rid of the hassle of going only to Treasury Branch of Sonali Bank), pay online sitting at home and also can check whether money has been deposited. We can bring about a big improvement in the accounting system as well.

Through accounting system improvement, we can manage well cash movement and strengthen cash management, lower the borrowing cost, and the savings thus generated can meet the operating expenses of the audit department for a number of years and to be precise, using the potential savings only for three months, we can run the audit department for 50 years. It is our responsibility to present before the government the benefits that will accrue.

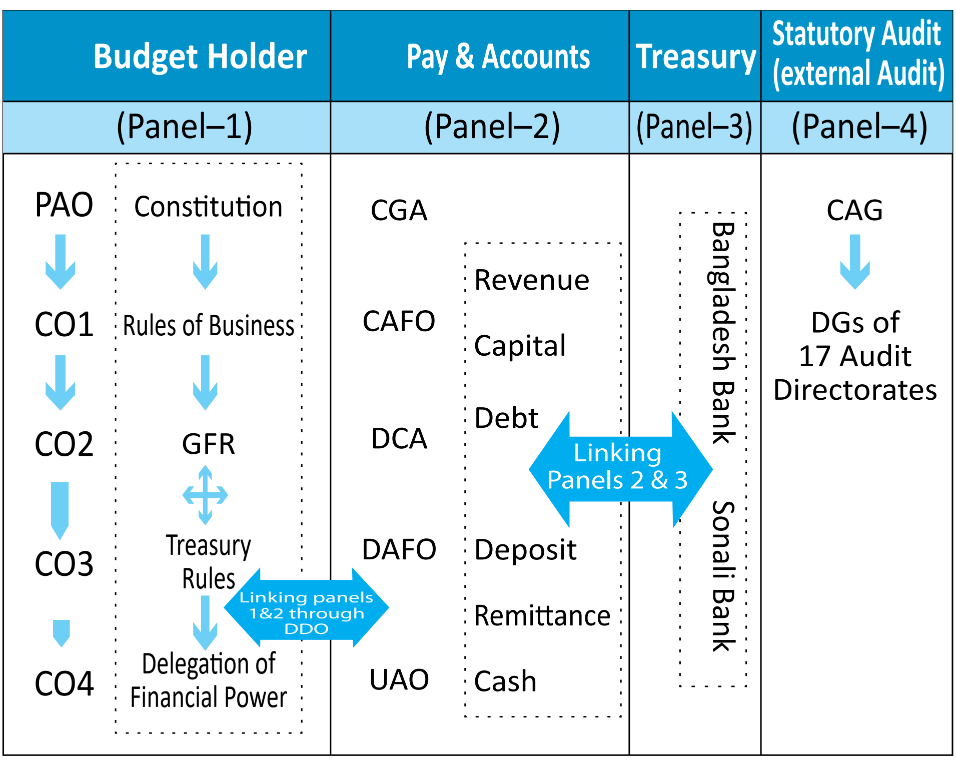

Figure: Interdependence of the panels

Many of you may think that you have got nothing to do with the CBS of the bank. In fact, through these platforms enables smooth performance of government accounting and auditing. We should think about whether without going to Sonali bank or any other bank it is possible to make payment to the government which will directly hit TSA. This will then save financing costs; money will flow directly from the individual to the government. There is a time gap issue in respect of the systems I talked about already. The time gap has a cost as well. It is evident from the treasury rules that CGA is the Paymaster General. There are provisions in TR that CGA can directly communicate with the Finance Minister, no one in between. In fact, CGA is a regulatory body, not like any other usual attached departments.

If we want to introduce an online payment system, it is critically important to put in place a platform so that the public can have access to it. Let us have an example: while purchasing an air ticket, we provide detailed information on the web portal of an airline, and this is redirected to a gateway while making payment. This could be either a national or international gateway.

National payment switch operates within the nation and then, again, an individual bank may have connectivity with an international gateway. Once payment is made at the gateway, it is redirected to the merchant website for issuing tickets and the same idea can be applied to the online payment system for government also. We may develop a web portal of A-Challan System for CGA. We should involve technical people in the design and functions of the web portal. There will be good branding of CGA if this can be connected with the CGA website. People are visiting the CGA website a number of times only for 'Online Challan Verification', because the host resides on the CGA website. Now if the A-Challan is hosted by CGA, the website of CGA will gain popularity. Ideally, this should be hosted on the CGA website as he is the Paymaster General.

Challan will be prepared in the A-challan portal, and this should be made popular by carrying out a campaign. We may go to distribute pamphlets showing the steps and procedures. After preparing the challan, the payment should be made through the E-payment gateway. The individual will then be able to make payment either through a debit card or from his account and this will directly come to TSA without being routed through any other channels. All records and scrolls can be generated from there.

By generating a scroll, we may get a real-time cash balance. However, we cannot do it overnight. There is a need for branding it in the name of CGA and this cannot be done in the name of CGDF and ADG (F) because they are connected with treasury through remittance, they do not manage cash.

If we can fully implement this scheme, there will be no need for online challan verification, A-challan will serve the purpose. We should, therefore, work on the A-challan portal. The good news is that we have already developed an A-challan portal; but unfortunately, those who are supposed to know about this development, are not aware of it. We tend to shift our responsibility to PEMSP (now SPFMS) which essentially, we should not do. We should have sent our functional requirements to PEMSP and request for providing technical support. Together with the A-Challan portal, we have developed the challan format. We have also made arrangements for an e-payment gateway through MFS (Mobile Financial Service). There is still room for improvement in whatever we have developed. To make them fully operational, we need the branding to make them popular, and once made popular there will be less demand for over-the-counter service. Electronic service will get precedence.

Both payment and receipt transactions can be done electronically through EFT and A-challan. Currently, there is a provision for over-the-counter service. Once challans are prepared, several options pop up like online payment cum challan print, depositing challan in a nearby bank. Indeed, there is a scope for further improvements bearing in mind the service level improvements. Besides, if we can bring about improvement to the second panel (pay & accounting panel), the job of the fourth panel (Audit Panel) will become much easier. The fourth panel will shift its focus more on to macro issues.

Reforms in Pension Payment

One major issue remains with the pension payment, not only payment but also recording. We have developed an employee database, and a pensioner's database linking national IDs. Prior to this development, determining the specific number of pensioners was an issue and we used to come across lots of anomalies. Bearing in mind the centralized accounting system, the date of salary increment has been kept uniform (1st July each year) because the cost of tracking increments on different dates is too high. The pensioner database is in place, and it was developed under my leadership.

The number of pensioners has not yet crossed 7 lakhs but before the introduction of the database we wasted a significant amount of resources on ghost pensioners and we could stop this leakage. A good number of employees were terminated and sent to jail. The pension disbursement used to be done through cheques and it was not possible to scrutinize the process. Many fraud cases used to be handled. The main reason for these anomalies was the breakdown of the central system and decentralization of payment system and accounting up to Upazila without establishing check and balance, and also, monthly payment by banks to the pensioners and submission of reimbursement bill to the accounts office.

Pension is first sanctioned and then payment is made. There are two parts of the pensioner's book: the pensioner's half and the disburser's half. The scope of improvement in respect of pension lies in centralizing the record keeping. Once a pension is sanctioned, payment is made through two different outlets: one is the accounts office and the other one is the bank. Abandoning the bank outlet means reducing the hassles of the pensioners but the system is not yet in place. A huge amount of reimbursement to Sonali Bank is yet to be made by the defence department. Everybody is interested in the end results, but nobody is thinking about the system in place. From now on, no bank will make pension payments and there will be no issue of reimbursement related fraud. Our staff and officers will no longer face disciplinary cases and no disbursers half will lie with any bank.

Pensioners will receive gratuity from their respective accounting offices once the pension is sanctioned. However, the records will come to CAFO/ Pension and Fund electronically. CAFO, Pension and Fund will have its own database which will contain the details of pensioners. These are our forward-looking plans. The pensioner will get a pension book which has been designed like a smart card. CAFO/Pension and Fund will keep all detailed records of pensioners up to date. While preparing the pension papers, all papers including the photograph of the spouse of the pensioner will be collected and maintained at CAFO/ Pension and Fund. Then according to the desire of the pensioner, the pension will be paid to his chosen Bank Account. Even pensioners can opt for receiving pension through MFS (Bkash and others). The pensioner will receive an SMS and it is not necessary for the pensioner to visit the accounts office. Since FY 2017-18 the pension budget has also been centralized. From now on, the budget forecast for pension will be made by CAFO/ Pension and Fund, not by the ministries. The reason is, the employee database wherefrom it is possible to gather information on who is retiring and when. This will in effect enhance the image of CGA and in the budget formulation exercise, there will be more dependence on his inputs.

Gratuity and pension budget, even the salary budget can be retrieved from the employee database with one click from the system. Even the system will tell the financial implications of any pay rise. If these work, there will be no issue associated with the wrong disbursement, and the auditors will not be harassed for admitting payment of the wrong reimbursement bill. The pensioners will no longer have to stand in a long queue for receiving their pension. If the pensioner dies, his widow will get the pension easily. Currently, the family pensioners have to obtain fresh orders sanctioning pensions from the respective departments even though the Accounts Office on its own can disburse pensions. This is another source of harassment. The advantages of a centralized pension system are many. First, the central payment, the monthly pension can be made available to all pensioners through a single EFT order. Secondly, if the pensioner dies, the family pension can be made operational in no time. Pension will reach the account of the widows in the next month. At times, some legal hurdles may come in the way, but we have to mitigate the sufferings of pensioners by putting the system in place to remove the hurdles.

Once these systems are in place, we'll get all aggregate information on budget, payment, and other details from one place. In the context of pre-audit, there will not be any pension audit, but post-audit will be there. It is possible to conduct an audit centrally from one place at much less cost by interrogating the system as to whether payments tally with the aggregate balance of pension, whether pension liability is sustainable in the future, whether it would be appropriate to keep pension unfunded, whether it is possible to turn it into a funded one (including PF). Indeed, these are the government's responsibility, but we can sensitize the government by providing relevant information.

Conclusion

What we have discussed so far, the summary will be as follows: payment system will remain decentralized including pre-auditing. However, the assets and liabilities have to be recorded in the Central Ledger at CAFO/ CGA. We have to put in place an arrangement to determine what kind of assets/liabilities should be recorded by specific CAFO and which ones should be maintained by CGA. We need to prepare relevant manuals for guidance. The accounting system will be centralized but by drilling down the central balance, if we go to the decentralized units following the audit trail it would be possible to gather information about those units. At all decentralized outfits, we'll see the individual movement of PF. This again can be centrally linked with the consolidated figure. Remittance handling will be much easier because excepting CGDF, Railway, and Postal Departments, in the civil jurisdiction the use of remittance will be minimized. The remittance will only be relevant for departmental receipts. Due to introduction of A-Challan, use of remittance head for departmental receipts (RHD, PWD, DPHE, Forest etc.) will also be significantly reduced.

In the case of payment, the cheque system will be replaced by EFT. CBS will be the linchpin of this transition. If EFT can hit Bangladesh Bank direct, there will be no role of Sonali Bank in between. In the case of receipts, 'over-the-counter' transactions will remain there, but the emphasis will be laid more on the use of the A-challan portal. There will be a portal for the pension office in which a grievance redressal mechanism will be established so that people can easily communicate their grievances and get due remedy. We should go for a publicity campaign to popularize the facilities being made available; otherwise, we'll lose ground when we have the potential to become more visible as a Paymaster and reliable accounting outfit of the government.

Chapter 4:

Institutional Arrangements within Public Sector and Overview on Budget & Accounting Classification

Introduction

To understand the classification system, we are going to talk about the institutional arrangements of the Government, the budgeting system, and the accounting system. As there will be a discussion on classification structure, we can go back to the panel we have already identified. The word panel has not been borrowed from any literature, this may mean segment also.

We have already covered the panels. However, some of the areas within those panels have been covered but there are many more areas within each panel still to cover. Today, we'll more emphasis on Panel-1 [Executive Panel (Budget Holder)]. Although we discussed this Panel earlier, we should repeat this discussion over and over again. There are advantages of revisiting the panels. While revisiting the panels, we'll be in a position to incorporate the points that we missed earlier. The message will be much clearer if we keep on revisiting them. Moreover, it will be easy to grasp the language more comfortably than what we could grasp from earlier discussion on the Panels 1, 2, 3 and 4.

The first panel the Executive (budget holder) panel as we mentioned earlier, Ministries/Divisions are included in this panel. Are these implementation or policy units? Can we remember that these are policy units; but where is it written? It is written in the Rules of Business. As per the Rule-4 of the Rules of Business, these outfits are responsible for transacting only 7 businesses. If we look at the businesses they transact, we will find no trace of implementation in them. This means that ministries and divisions are the policy units. However, the dispensation of administration is one of their functions. What kind of administration? It is related to promotion of all officers of Grade V and above. It has been kept as policy exercise perhaps bearing in mind that task of promoting high level officials has an impact on policy framework.

Below the policy unit, which outfits will be working? These are departments/directorates. Which outfits are there below department/directorate? These are subordinate offices and belong to the panel at a lower layer which we mentioned in earlier discussion. Today, we would like to talk about the implementation units. Departments, directorates with support from subordinate offices work as implementation units. The ministries frame policies and according to the policies they take up Five-year plan, Annual plan and draw up budgets. In order to implement budgets, the implementations units are created.

A question arises whether a law has to be enacted to create a Ministry/Division. If we look at the Rules of Business, we'll find that creation of any ministry/division does not call for any enactment of law. The Rules of Business makes a provision in Rule-3 that the Prime Minister may, whenever necessary, constitute a Ministry consisting of one or more Divisions. That means Prime Minister can increase or decrease the number of Ministries as and when necessary. The Allocation of Business (Schedule-1) of the Rules of Business specifies the functions of the Ministries/Divisions. When we talk about high-level of audit or performance linked audit, it is important for us to know all these stuffs. We must know what functions the policy units should perform and what interventions these units should make and in which directions these are moving. The higher level of audit should consider whether a separate piece of legislation is required to create an implementation unit. If no separate piece of legislation is required for creating a Ministry/Division, why such legislation will be required for creating a department? The government can, therefore, create a department by issuing an executive order. It can also merge two departments, split one department into two without any specific legislation for this purpose.

Budget Sector and Types of Treasury Single Account (TSA)

When we do classification for the purpose of budget and accounting, we should also identify our ministries/divisions for having appropriate segments. If we ask these questions: who controls? Who spends money? The segment will come in. This segment will be required for control purpose, accountability purpose, comprehensiveness purpose and mutual exclusivity purpose.

In the classification, we will see whether the segments are there or not. This will be required for the purpose of accountability and control. Whether these segments are there in Demand for Grants voted by the Parliament or budget allocations have been provided for them. Yes, these are provided. When Demand for Grants are submitted to the Parliament, budget is provided for the policy units as well as for each department and subordinate offices either individually or in a group. All District and Upazila accounts offices watch budgets for all subordinate offices either individually or in a group. Now we'll have to decide which level is required.

Let's talk about a side issue. Since all these units have budgets, they are technically called 'on-budget'. There is another term called 'off-budget'. When we call a department on-budget, it means that all kinds of heads of expenditure are identified. When the Parliament approves the budget through voting of Demand for Grants, it covers various expenditure heads of both policy and implementation unit.

What do you think? How many steps are required to be passed through for budget approval in the Parliament? Is it one or two? It is two. The first one is approval of 'Demand for Grants'. With the 'Demand for Grants' there is another string an 'Appropriation'. Here 'Appropriation' means charged expenditure. Does the Parliament approve it? Is the size of the Appropriation Bill big or small?

Demand for Grants is placed in the Parliament by the respective Minister and the Parliament approves it by vote. Voting by the Parliament allows the respective Ministry/Division and Department to spend the money for public service. As we know, to spend money for public service, withdrawal fund from CF is required. This withdrawal authority is also needed to be voted by the Parliament. That is the reason for placing Appropriation Bill covering all the Grants shown in the schedule attached to the Appropriation Bill. On passing of this Appropriation Bill by the Parliament, it becomes Appropriation Act. It should be worth mentioning here that as per the Article-92 of the Constitution, since the purpose of the public service already determined through voting of Demand for Grants, in the Appropriation Act purpose cannot be changed. The day when this piece of legislation is passed, it can be said that the budget has been approved to be expended by these agencies. When we'll be conducting performance audit, we should look at whether a policy unit rather than engaging itself in policy formulation is doing implementation. We can then raise questions. It is not important that we'll get response, but we should keep on raising these questions. If we find that a ministry is departing from its allocation of business we may, of course, raise questions.

Now, are the ministries along with departments and directorates are off-budget or on-budget? They are on-budget. Let's introduce a new term, 'budget sector'. We are calling it budget sector which carries a qualifier 'on' but this is not required. In the international context it is not necessary to say' on-budget sector'. Only budget sector is enough. If we say on-budget, it would mean that all expenditures will be classified against the budget of these organizations. On-budget entails only expenditures not cash disbursement. What is the recognition point of expenditure? Should we say expenditure has been incurred or we should say at which point we should recognize the expenditure. Should it be at the point of placement of work/supply order or at any other stage?

Let's repeat:

a. We have prepared a procurement plan. Do we incur expenditure at this point?
b. We have placed procurement order. Do we incur expenditure at this point?
c. Then we selected the bidder, placed order, and received goods- at this point?
d. Goods received, quality verified and certified. Can we say that this is the point of recognizing expenditure?
e. Controlling Officer/ budget holder has accorded sanction-this is another point. Can we say that this is a point where expenditure is incurred?

What kinds of rules the budget holders follow? They follow the Constitution, Rules of Business, GFR, PPA/PPR, specific orders for particular areas. To some extent, they also follow the Treasury Rules. They don't need to learn the major treasury rules. That is the job of the second and third panel. Despite that they must have a general appreciation about what these are. They don't have any cash (Please don't mix up with the cash held by DDOs for petty expenditure by the way of Imprest or Permanent Advance), then where does the cash reside? Cash is there in the Treasury Single Account (TSA) of the government as well as in the Special Accounts for Donor Funded Projects linked to TSA. The term TSA is internationally recognized, and IMF has published technical notes on TSA which is a must read for all of you. There are different kinds of

TSA: Centralized TSA, Decentralized TSA and Zero Balance TSA. You must read all of them.

A) **Centralized TSA:**
   A purely centralized arrangement is one in which all revenue, expenditure and borrowing transactions of the government pass through a single account generally maintained with the central bank.

B) **Decentralized TSA or Distributed TSA:**
   At the other extreme, a TSA could be virtually operational even though line agencies-down to the lowest level in the organizational hierarchy—are allowed to retain separate transaction accounts in the banking system. However, balances in all transaction accounts should be swept into the TSA main account at the end of each day.

C) **Zero Balance TSA:**
   In countries with well-developed PFM systems and an advanced banking network, best practice implies creating a TSA in the central bank, while a well-developed accounting system records all transactions of different entities that may have transaction accounts in commercial banks on a zero-balance basis.

Budgetary Accounting

When we'll audit the departments what kind of accounts will be audited? The departments keep record of budget execution and also registers of physical assets and stores. According to the Budget Management Act, their records are initial records for budgetary accounting. There are two sets of accounting: one is budgetary accounting kept in the departments and the other is financial accounting kept by pay and accounting offices.

Budgetary accounting is not truly accounting exercise. This is meant for only keeping track of budget vs actual expenditure. This will be clearer to you if you read through the technical notes of IMF available in IMF PFM blog. You will find it in the technical notes on classification. Financial accounting is truly accounting exercise. We know that the first panel will maintain budgetary accounting while the second panel does the financial accounting, the final outcome of which is the Finance Account.

We need to know whether there is any difference between stock and flow in budgetary accounting. Now, we can use these terms as we have already been made familiar with them. According to the current legal position, the PAO is responsible for budgetary accounting. Then as auditors what should we do? We'll carry out an appropriation audit (compliance audit). In budgetary accounting there will be only flow, no stock will be there. The accounting term for 'stock' is balance where 'stock' is the statistical term. In budgetary accounting, no balance is maintained. Appropriation stands lapsed every year on 30th June. The first panel receives fund through budget which becomes lapsed at the end of the year. That's why in budgetary accounting no balance issue comes in. It simply provides a flow statement of budget amount and actual expenditure. There will be classification of budget – original budget and the supplementary budget. There is yet another term called revised budget which has crept into the budget domain.

Creation of any Department by Law

As mentioned earlier, we do not need any piece of legislation for creating a department or directorate. But there are instances that some departments were created by Act of Parliament. Creation of Department of Environment by Bangladesh Environment Conservation Act, 1995 is an example in this case. However, any department can be created through executive order. Sometime in the law, two stipulations are made:

1. This will take immediate effect, or

2. This will take effect on a particular date published in the gazette notification.

Here, which one is the better process? If it is said in the law that this will take immediate effect, we may encounter problems which will stem from the delay in the process of creating a department. So, the best practice is to give a law an immediate effect if there is no issue of creating a department. However, if there is an issue of creating any department, the best approach is to give effect to the law after the publication of gazette notification. The implication is until the gazette notification is published the law shall not take effect. In the case of creating a department through any piece of legislation, the best process is to put on hold the publication of gazette notification till the creation of the department.

As we belong to the audit department, we must understand the implication of these stipulations in the law. If the creation of any department entails any legislation, department should be created first and thereafter should proceed with enacting the law. First the department will be established, which will be followed by the task of preparing an organogram and framing recruitment rules and other operational rules. Once these are in place, this would mean that the department has been established. Even the law, if passed by the Parliament before, can give effect through Gazette Notification on a later date once establishment of the department is completed. If this process is followed, there will be no violation of law. The law is given effect while at the same time department is established as well.

Where does a law not entail establishment of any department? Suppose the law is meant for amendment of any section of criminal procedure code, for example, extending the period of imprisonment from 3 years to 5 years for a particular offence, it may have the stipulation saying that it would take immediate effect. For the effect of such law, there is no need to wait. There is another type of legislation which should take immediate effect otherwise the spirit of the legislation will be undermined. Here, promulgation of Ordinance by the President would be an example. Why the spirit will be undermined? Because the Ordinance is promulgated when the Parliament is not in session to meet an urgency and if the Ordinance takes effect on the later, the expediency of the promulgation of the Ordinance will be questioned. An Ordinance should, therefore, take immediate effect.

Directorate vs Department

All these are part of the audit of Appropriation Accounts (Compliance audit) as they belong to the budgetary sector. The departments and directorates will be the first catch as they are the implementers. We may ask a question. What is the difference between the department and the directorates? Why should we differentiate as such? In simple term, it depends on the load of work. If the workload is light, it will be termed as Directorate and if it is heavy the outfit should be termed as Department. Now unfortunately there is a change in the culture. This conversion may take place based on the exigencies or may not. This issue may be flagged while conducting performance audit. We may raise questions on the size of the outfit giving due weightage on its role coverage with respect to policy interventions, implementation interventions and so on.

Feudal Structure and Organization Segment of BACS

Appropriation Accounts under current legal arrangements should be prepared by the executive. Is there any problem with this arrangement? There is no problem as such. When we'll talk about IFMIS, we'll come to realize that this is possible. Fund is now distributed electronically through iBAS++ Budget Execution Module, so it is possible. Fund or Budget Allocation are meant for the government service delivery. Implementation unit is now an old/thrown-out terminology. In the current context, the term 'public service delivery' has come into currency. These are now service delivery units. We should also work on the improvement of service delivery in terms of economy, in terms of efficiency and in terms of effectiveness. These outfits are basically linked with the people for service delivery because they do not operate with business motive; they spend taxpayer's money to provide service without full cost recovery from the clients. We need to look at what they are mandated to do and what they are doing.

Here a feudalistic type relationship is working which is rooted in the terminologies like subordinate offices, attached departments and so on. They also operate in a feudalistic manner. The feudal structure is hierarchical. Here decision is not taken jointly. If AD does not have delegated power to take decision, the proposal should go to Deputy Director (DD). If DD is not empowered to dispose it, then it should travel to Director and the process continues hierarchically from bottom to top - this arrangement is totally feudal.

All executive powers lie with the President. Constitutionally all powers lie with the people. People have delegated sanctioning power through constitutional provision to the Parliament. By passing Appropriation Act, the Parliament delegates spending authority to the President, President in turn delegates the authority for spending to different Ministries through Rules of Business. The Appropriation Act, therefore, stipulates that the President is authorized to withdraw from the Consolidated Fund. Hopefully we understand what it means. After independence, first we got the Constituent Assembly, which was entrusted to make Supreme Law of the country, The Bangladesh Constitution, in which the President kept in Chapter-I of Executive Part (Part-IV). It does not mean that people have lost their power. In essence, people are exercising their power through this scheme of Constitution. We also need to know the difference between the Constituent Assembly and the Parliament. Parliament is a creature of Constitution. It makes primary laws in the form of Act, amends constitution and performs other functions such as making executive accountable as per the provisions given in the Constitution and the Rules of Procedure of Parliament. The Constituent Assembly on the other hand is a one-time body constituted to frame the constitution of a country. The Constitution of Bangladesh was enacted on 4 November 1972 and given effect from 16 December 1972 through approval of the Constituent Assembly.

Have we ever seen an expenditure sanction letter in which all in the hierarchy for example, AD, DD, Director put their signature? This is not possible because of hierarchical system. We see only one signature of the official who has the delegated power to sanction. The implementation unit is delegation oriented, feudal so to say. To fulfil the policy objectives through the service delivery, the implementation units will carry out financial transactions which will be captured in the classification system against relevant organizations. If this is the case, we'll need a robust, comprehensive, hierarchical, organizational classification segment. While discussing the Organization Segment of classification, we'll test whether the relevant organizations are there, whether their grouping is correct, whether the building block is alright. So, in the classification system, we get a segment called *Organization Segment*.

We'll be looking at organization segment of budget classification and the presentation will show that this segment has been organized in a new order. The departments under BCG have been shown in hierarchical order. All are on-budget and transactions are reflected in TSA. However, if the Government feels that the existing hierarchical system is inappropriate for public service delivery, another type of organization may be created. Aside from the hierarchical structure, there are other different blocks as well and there is a link of these blocks with the current classification. These blocks will not be hierarchical; rather they will be collective, corporate and will also represent a body.

Is the Auditor General's office a body? Yes, it is single men body because it is not built around a corporate structure. While attending the ASOSAI General Assembly, I met some of the Auditors General who identified themselves as Presidents of their countries' SAIs and some as a member of the Audit Board. The SAIs of some countries has been built around a corporate culture. In contrast, our SAI has been built around a feudal culture. Here Auditor General is the sole authority to make any decision and all others including DCAGs are only support staff. While CAG is a single man body OCAG is its Secretariat. All other constitutional outfits like Election Commission, Higher Judiciary and Public Service Commission have been built around a corporate structure. We need to understand this properly.

The position of an Ombudsman has been mentioned in our Constitution. We can put a different view about this position. Can we call it a constitutional body if any position is referred to in the Constitution? When the appointment, jurisdiction, privilege and removal of the holder of a position are protected by the Constitution, only then it is purely a constitutional body. Only the provision of a position in the Constitution does not make a constitutional body as such. For Ombudsman, the Constitution has not provided anything as to his appointment, jurisdiction, and removal. A primary legislation will then be required to make these provisions effective and even if such provisions are made, the Ombudsman's office will not be a constitutional body. In fact, The Ombudsman Act has been passed by the Parliament long back in 1980, but yet to get effect.

All of us should have a clear understanding of these dynamics. It may not always be possible to deliver public service using a hierarchical/feudal structure. This requires a corporate practice. The Government should, therefore, create such outfits which will be different from the existing ones where there will not be any hierarchy. These outfits will resort to the practice of taking corporate decision rather than taking a decision by a single individual. These are the implementation units of the Government which should be different. We, therefore, can create a separate block within the Executive Panel. These are the major issues to be borne in mind for having a good understanding of classification. This block comprises autonomous, semi-autonomous and statutory bodies. No State-owned Enterprises (SOE) with the objective of profit-making are included in this block. We should take note that SOEs are internationally recognized as Public Sector Undertakings (PSU). Are autonomous, semi-autonomous and statutory bodies tax-financed? Certainly, they are tax-financed. Then where their own income will go? It will be used as a matching fund to provide public service instead of being deposited to the TSA.

Features and Financial Management of Statutory Public Authority (SPA)/Autonomous Body

The autonomous/statutory bodies are tax-financed as mentioned before. Someone may say that they also earn income. But does their income fully recover their cost? No, it doesn't. The gap that exists is financed through

‘Grants-in-Aid’ to deliver public service as per respective organization mandate. Then what is the definition of public service? A service or a product which is non-marketable, and tax financed. We have got a workable definition of public service. It would be non-marketable, tax-financed and full cost recovery not expected.

We need to understand the basic features of the bodies, and this is very important. We also need to understand their accounting and budgeting processes. One of the features of the autonomous bodies/statutory bodies is that its top-level governance structure is corporate, not hierarchical. Secondly, generally, this type of organizations can have only an executive body, without policy making body, when these organizations are not substituting government for policy decision, but getting autonomy for implementation of public service only. Thirdly, another type of organizations can have both Executive and Policy Making body when these organizations are substitution of the government for both policy-making and implementation. Fourthly, Moreover, they enjoy more autonomy than the departments or directorates. Fifthly, they are mostly extra-budgetary units, not part of the BCG.

How many features have we derived then?

In sum, we have derived the following features:

(i) Generally, they will be established by a Statute (Act of Parliament) though sometimes they can be established by Government Resolution.

(ii) They have corporate structure,

(iii) They have bodies like Executive Body only (RAJUK, CDA, KDA) and in addition to the Executive Body, also the Policy Making Body (BEZA, BEPZA, BIDA and various Commissions like BTRC, BERC, BSEC, IDRA etc. are examples in this case),

(iv) They enjoy more autonomy than the departments/directorates,

(v) Most of them do not operate their transactions under Consolidated Fund. They have got their own fund,

(vi) They can have their own Bank Account outside the TSA or they can operate under TSA through a special arrangement vis. Personal Ledger (PL) System,

(vii) Their business is not regulated under Rules of Business because by or under respective law they will have their own Rules of Business,

(viii) They will have their own Delegation of Financial Power,

(ix) They can acquire assets and incur liabilities. They can sue or can be sued.

We have, therefore, understood extra-budgetary units. It is preferable that an autonomous body/SPA should be created by law (a specific law), at least through a government resolution; that means autonomous body can be created by cabinet resolution. Why should we say 'at least'? It is because of the fact that, in 1972, some autonomous bodies through resolutions (such as Planning Commission) were created which still exist. Another example is the BKKB (Bangladesh Karmachari Kalyan Board) was originally created through Resolution subsequently Act was promulgated. In case of exigency, autonomous body can be created through Resolution, but it is preferable to enact law to replace those Resolutions.

Since you belong to the Audit and Accounts Department, it is extremely important for you to know these laws. Whether you like or not, you need to know the laws, rules and regulations of other departments as well as those of your own departments. Otherwise, it would be difficult for you to discharge your duties and responsibilities. In addition, this knowledge is essential for conducting performance audit, even for financial audit and compliance audit.

Another feature of the autonomous body/SPA is that they can acquire assets as well as incur liabilities. But the government departments can neither acquire any asset or incur liabilities. Acquiring assets or incurring liability requires allocation under Rules of Business. As per Article-144 and 145 of the Constitution, acquisition of any asset by the government is done in the name of the President. In the case of Autonomous Bodies/SPAs as by the statute they are empowered to acquire assets, they acquire the assets in the name of the entity, not in the name of the President. However, when assets are acquired by government departments, according to the Allocation of Business this function has been allocated to the Ministry of Housing & Works and Ministry of Land, not allocated to other ministries like Ministry of Health. Similarly, the function of incurring any liability on behalf of the Government has been allocated to the Finance Division, not even ERD can incur any liability which can only negotiate. Some special commercial department like Postal and Railway Department are specially authorized to acquire assets in the name of the President.

A question arises whether audit of these entities would be different as their budget and accounts are prepared following different set of rules and regulations. Should these entities be audited by the Auditor General? The CAG (Additional Functions) Act, 1974 stipulates that these entities will come under the audit jurisdiction of the Auditor General. It is a matter of concern that a new development that emerged lately. We'll have to give serious thoughts on how to manage these issues while undertaking future reforms. In the statutes of some autonomous audits, provision of audit is made only by the chartered accountants without mentioning anything about audit jurisdiction of the Comptroller and Auditor General. But there is no denying the fact that the CAG (Additional Functions) Act, 1974 is very specific about the audit mandate of CAG for these entities. So, the authority of the Auditor General in respect to audit of the autonomous body/SPA cannot be dented. For further clarification, it is worth noting that, Additional Functions Act is a specific Act related to public audit. So, no statute of specific organization can debar CAG to audit those entities even if the specific statute remains silent about CAG's jurisdiction.

The Chartered Accountants firm is many cases appointed by the executive board of the autonomous bodies. If the executive board appoints a firm of their preference, there is a likelihood of compromise and conflict of interest. Auditor General's report should highlight this issue. However, question may arise on the issue of cost of audit together with loss of efficiency and barriers to service delivery if both audits are made mandatory. As the accounts of these entities are kept on an accrual basis in most cases, it would be appropriate to appoint chartered accountant firms but with the approval of the Auditor General.

In this instance, we may emulate the practice in India. There the Auditor General prepares a panel of CA firms and selects from it the firms to audit the accounts of the autonomous bodies/SPA. Sometimes, the government auditors are also fielded to work in a joint team and produce reports with the observations of audits by the firm and the government auditors.

Autonomous bodies/SPA are provided 'Grants-in-Aid' not 'Subsidies' which has a different connotation. These entities are not included in the budgetary sector and their day-to-day transactions are carried out from their own fund not from the Consolidated Fund. Grants-in Aid is a transfer by the government to meet their revenue expenditure and capital expenditure.

We should bring more precision in the terminologies we are using and this calls vigorous study and good grasp of the system itself.

There are technical notes of IMF on extra budgetary funds/units. In Bangladesh, there are autonomous bodies which are known as fund, for example, Road Fund (by Road Fund Act) created for maintenance of road network by raising fund through road user fees and body is created to manage Road Fund. In many cases entities are created to conduct public service and to run the entities Funds are created wherein Grants-in-Aid given by the government is credited. Both categories of entities are extra-budgetary entities. We'll delve into the nuances of these terms later.

We need to understand the difference between the internal audit and the external audit more precisely. When a Chartered Accountant (CA) firm is engaged for conducting audit under any statute, it is not internal audit, it is external audit. Internal audit will only report to the executive and the internal auditors are not engaged for a fixed or single term, rather they continue to provide services under permanent arrangements with its own employees or nowadays under contractual arrangements. Audit by the CAG is not exactly external audit per se, it can be termed as State Audit or Constitutional Audit.

As per Rules of Business, each ministry has to prepare an annual report reflecting its activities. The question is whether this report should include its accounts. It is not necessary because the ministries do neither prepare their accounts nor do they make payments. However, according to the Budget Management Act, it is the responsibility of the ministries to prepare their budgetary accounts and that's why the Appropriation Accounts with the certificate from CAG should be included in the annual report. It is a simple statement, and we should encourage the ministries to include it.

The statutes of the autonomous bodies/SPA also require the entities to prepare and submit their annual reports. However, their annual reports should be a bit different from the annual report of the Ministries and these must include the complete Annual Financial Statements. In other words, these accounts should show both flow and stock. If the accounts of the autonomous bodies/SPA are not kept on accrual basis, we may recommend them to migrate to accrual accounts. These entities should also prepare their fund-based accounts and therefore they have to prepare both the financial and budgetary accounts.

Let's now look at the difference between the autonomous and semi-autonomous bodies. Among the five/six features of the autonomous bodies, two features are very important; Fund and Board. Some of the Semi-autonomous bodies may have only board not fund. In case of semi-autonomous bodies, they will have a board/council/commission without having Fund. They follow the corporate structure in taking decision, but as far as the budgeting is concerned their budget is part of the government budget. Anti-Corruption Commission, National Education Management Academy (NAEM) are examples in this case. That is why they neither acquire any asset not incur liability. An entity cannot be called fully autonomous if they do not have these two features (Fund and Body). An entity even if carries other features but lack the feature of having any separate fund should be called semi-autonomous body.

There are more entities in Bangladesh which could be cited as good examples. One of such examples is recently defunct Bangladesh of Investment (BoI). BoI and Privatization Commission have been merged into Bangladesh Investment Development Authority (BIDA). The BoI, before its conversion, did not have any fund and their bills used to be passed by AG office. But the Privatization Commission had their own fund and therefore their bills did not travel down to AG office. This means that BoI was a semi-autonomous body while Privatization Commission was an autonomous body. Now a semi-autonomous body and an autonomous body merged into an autonomous body (BIDA) which has its own fund and also carries other features and it is therefore, fully autonomous.

It is important at this stage to discuss a very important issue. If an entity does not have its own fund, it should be under pre-audit jurisdiction. Not only that, but it must also be within TSA, even though it is a separate body. This entity should be included in the budgetary sector. There is no separate definition for a statutory body. Since both semi-autonomous and autonomous bodies are established by laws, all are, therefore, statutory bodies. However, there are still some entities which may be called statutory bodies. The autonomous bodies which have more regulatory functions than the implementation functions may be called statutory body. For example, the Civil Aviation Authority, BIWTA which are more focused on regulatory activities than the service delivery ones.

The institutional framework for providing tax-financed product or service delivery is either a department or an autonomous body. For example, the

Housing Department belonged to this category. Now it has been converted into National Housing Authority (NHA). It could have been labelled as a regulatory authority had it regulated the private sector. Now it is engaged in service delivery, that is solving housing problems and as such it is not a statutory body rather an autonomous body. An authority does not always mean statutory body. An entity which has either no or less implementation function is a pure statutory body. However, an autonomous body is also a statutory body. We must have a clear idea about this. Are these entities on budget or extra-budget?

If we now talk about budget classification, budgetary accounting, will these bodies be included in budgetary accounting? Except the semi-autonomous bodies, the other bodies will not come under budgetary accounting. It is because of the fact that they have their own funds and they have their own budgeting, accounting and auditing system. If you look at the law/resolution that created NAEM, you will not find any provision for fund. It has got a board. So, it is a semi-autonomous body and the bills of this entity shall come under pre-audit jurisdiction. If it is otherwise, you must flag it as a serious irregularity.

Grants-in-aid given by the central government to the autonomous bodies -- does it explain the purpose? Say for example, Grants-in-Aid of Tk. 100 crore, are given to UGC. What will then the Finance and the Appropriation Accounts record? This figure will be recorded in Finance and Appropriation Accounts only as Grants-in-aid. So, it boils down to the fact that when various transactions (supply-service, acquisition of assets etc.) from this Grants-in-aid are done by the autonomous bodies will be reflected only in the accounts of the autonomous body and central government accounts will show the Grants-in-Aid as a Single Line Item. So, it proves that the Finance and Appropriation Account do not reflect the expenditure of all public services. Finance accounts do not cover all public expenditure of whole of the government as Grants-in-aid is shown in one line. So, it is not comprehensive.

Where do we stand now? We have introduced BACS. At the moment it is only covering the central government. For now, the day-to-day transactions of extra-budgetary organizations are not captured in BACS and iBAS++. However, this is not the future. In future it would be all-encompassing. Parliament has given the Grants (Vote) for public service. Therefore, it is an obligation to report back to the Parliament with audit report; the actual expenditure whether done through autonomous bodies or departments. For example, we have got education budget at the central level and such budget may be distributed at the local and autonomous body level. Similarly, health budget is required at every level. But at the moment full education, full health spending etc. are missing. Then what is the future? In future, we have to incorporate expenditure incurred for health or education at every level of government.

Does consolidation of expenditures of every level of government means doing away with the autonomy of autonomous body? Not, at all. They will continue to have their autonomy as stipulated in the Law and all of them will apply BACS. By this, do we mean that they will get their bills passed at AG Office? No, they will apply BACS and use iBAS++ but they will not be under the payment and accounting regime of CGA. We'll allow them to use it for their own purpose. We will have to motivate them to use it.

That's why autonomous body and local government must improve their system. Like ministries and departments deposit money through treasury challan using iBAS++, they will also deposit their income, distribute fund, execute budget, and manage accounting using this system. This does not mean that we'll be undermining their autonomy. They will continue to operate in their own way. If they use iBAS++ on real time basis, then at the end of the year we'll get to know the total expenditure on education, health etc. because this will remain linked centrally. Moreover, Asset-Liability positions of General Government (BCG + Extra BCG + Autonomous Bodies/SPA+ Local Government) can be consolidated. Then there will be one central Finance Account and there will be individual accounts for each body. In the Finance Account there will be sector wise, function-wise and institution-wise accounts and we'll get a comprehensive picture. And all these will be incorporated centrally and if we can do it in future, we'll be able to know in no moment the cash balance lying at different locations. Here it should be noted that, if we can operate PL Ledger System in all autonomous bodies without disturbing their autonomy, they can operate under TSA.

We'll get the government cash balance from the TSA. Cash balance of All autonomous bodies, local bodies can be derived from iBAS++ if at all they maintain separate bank account. However, if PL ledger system is used, there will not be separate cash balance because all cash movement will be captured in the TSA itself. We are talking about these things as our future direction- where we want to go.

In our upcoming session on classification, we will see how we identify organizations using the level of government. The Organization Segment comprises five dimensions:

Organization Segment				
Public Entry (X)	Ministry / Division (XX)	Directorate / Department (XX)	Subordinate Office / Operational Groups (XX)	Field Offices / Operating Units (XXXX)

Here Level-1 i.e. Public Entity has been categorized as follows:

1.	Budgetary Central Government
2.	Extra Budgetary Central Government
3.	Local Government
4.	Other General Government
5.	
6.	Public Non-financial Corporations
7.	Public Financial Corporations

So, if we want to Codify a Autonomous Body we should use (2) in the Public Entity Level in Organization Segment. For example, if we want to derive Organization Segment of Shishu Academy, it will look like:

Public Entity (X)	Ministry/ Division (XX)	Directorate/ Department (XX)	Subordinate Office Groups (XX)	Field Offices/ Operating Units/ Offid (XXXXXX)
2	30	00	00	XXXXXX

So, we can understand easily that, Shishu Academy is an autonomous body, the Line Ministry being Ministry of Women and Children's Affairs. When Shishu Academy will start using iBAS++ and BACS, the last 6-digits which we refer as 'Office Identification Number (Offid)' will be assigned.

Management of cash and debt is a major issue. The cash management of the government is being carried out throughout the year. This has been kept open in the classification system. In future, we'll be able to ask the autonomous bodies straight to use iBAS++ and the BACS. However, they should start with '2' in Organization segment. Other segments will remain the same. Also bear in mind that claim will be raised on TSA. Expenditure will be incurred when money will go out of the TSA. This will minimize the cost of borrowing of the government because money will be withdrawn from TSA on transaction-by-transaction basis instead of withdrawing in lump and keeping the money in Autonomous Bodies own bank account.

It is your job to see whether borrowing is being managed properly, the government is borrowing on right time and in right amount, whether unnecessary borrowing is taking place and if anything, unusual happens, flag it through raising audit observations.

Contingent Liability

The autonomous bodies can acquire/sell assets and incur liabilities. The relevant statutes for creating these entities have made such legal provision. In some cases, there are reservations about the incurrence of such liability by these entities. It is because of the fact that if these entities borrow excessively, the burden of repayment liability may be shifted to the Government. For this reason, in the statutes of the autonomous bodies/SPA there is a stipulation that they may borrow with the approval of the government. This is to be noted that the debts incurred by these entities are not reported as Debt in the Central Government Accounts. However, these are 'Contingent Liabilities' of the government meaning that these are such liabilities which may rest with the government in the event of their failure to repay the loans.

Budgetary Accounting Classification and Financial Accounting Classification

Let us now talk about two important terminologies -- budgetary accounting classification and financial accounting classification. Budgetary accounting is not true accounting, it is not accounting proper as it does not deal with any balance, it deals with the flows only. Financial accounting, what we call Finance Account, on the other hand, has got to deal with both stock and flow. If we read through relevant rule book/literature, we will come across the term 'Demand for Grants' (Appropriation Account follows Demand for Grants). In this regard, Rule-111 of Rules of Procedure of the Parliament says that, Demand for Grants will be presented in a manner decided by the Minister for Finance. That is why structure of Demand for

Grants is not the part of forms and manners of accounts, to be prescribed by CAG as stipulated in Article-131 of the Constitution.

The Demand for Grant is, therefore, for budget execution and accountability of the budget holders to the Parliament. We should emphasize that it is a very important statement; it is an accountability instrument of the budget holder to the Parliament, at the same time, is instrument of hierarchical budget control within the spending departments. It has got no relationship with prescription of accounts, nor does it have any relationship with the responsibility of deciding the forms and manners of accounts vested with the Auditor General. That's why while consulting relevant documents, we'll find that the Finance Minister will decide the forms including details of forms and procedures. On the other hand, the government accounting (including Appropriation Account) is the input for the Finance Account and the forms and manner of keeping the accounting records and accounting reports are part of the Auditor General's responsibility. When in Bangladesh, the use of the list of major and minor heads was in practice, we witnessed significant changes in the form of Demand for Grants. We may find this stuff a bit technical, but we have to grasp them for the sake professional development.

In Bangladesh, budgetary accounting and financial accounting were two separate streams as long as we practiced the list of major and minor heads. This distinction gradually got blurred when we started using 13-digit Classification Structure. You should understand what actually happened. We are using the same structure in 'Finance Account' as we use in the Demand for Grants. There is no separate structure as such. This is a mistake but this in disguise has corrected a fundamental mismatch. In the meanwhile, we have introduced a new classification system, the BACS. What new element should we look for? Should the budgetary accounting classification and financial accounting classification be separate? Or should it be the same? This is now the same. We call it Chart of Accounts (COA). Look at the title of the technical notes of IMF from IMF PFM blog. It is: Chart of Accounts: A Critical Element of the Public Financial Management Framework by Julie Cooper and Shailendra Pattanaik, both are famous authors. If you read the technical notes, you will find the reflections of what we have discussed. Here they have illustrated that, in countries where the budget classifications are not integrated with the COA, or only partially integrated, there is risk of loss of important information undermining the effectiveness of budget control and reporting.

For example, in this case it might be difficult to identify with certainty the accounting implications of a given budgetary operation, and reciprocally, identical accounting transactions may not reflect systematically equivalent budgetary operations.

In Bangladesh we call it Budget and Accounting Classification (BACS). This means we have put together budgetary and financial accounting. Henceforth, we don't need to have two separate frameworks. International best practice says that it is better to have the same framework for two sets of classification. Now it is put in the same format and being generated from the same system.

Financial Management of Local Government

For public service delivery, do we need any further institutions? Do we need to discuss further about the governance institutions? Do we have federal or unitary form of government?

Central State/ Provincial Local	Level of Government

Figure 4: Different Levels of Government

What is the difference between the state/provincial and the local government? There are differences. If we want to identify one difference what should be that one? State/Province is created by the supreme law while the local government may be created either by supreme law or by primary law. The local government does not have any legislature, but the State/Provincial government does have its own legislature; it can tax people and it will have its own CF. On the other hand, local governments can have their own funds and can impose some local taxes. In Bangladesh, we do not have any province or state. In countries where there is neither state nor province, there cannot be any federal system. However, even though we do not have any province with legislature, the local government has been recognized as government under our Constitution. We may, therefore, call the apex government as central government, not federal government. In terms of incorporating constitutional provisions on local government, Bangladesh is ahead of India. The Indian Constitution recognized the local government only in 1992 though there was Panchayat; provision for which was not provided in the constitution. In our constitution, there is a clear provision for the local government (Aritcle-59 and 60). As there is local government at the local levels (City Corporation, Pourashava, Zila Parishad, Upazila Parishad, Union Parishad) and therefore the government at the center may be called central government. Our central government is not like the central government of a federal set up. It is more of a hierarchy issue. The local government is a stage at the lower level of the unitary government and these institutions together constitute a segment of public service delivery system.

Earlier we talked about the features of an autonomous body/SPA. We don't need to delve into the features of the local government. The local government carries all the features of an autonomous body/SPA. There are two categories of local government- urban and rural. Under rural category there are Union Parishads and Upazila Parishads. In urban areas, there are City corporations. In semi-urban areas there are Pourashava. Each category of these Local Government Institutions (LGIs) has been created by separate laws under umbrella legislation. For example, there is no separate piece of legislation for Bhurungamari Upazila Parishad; all Upazila Parishads have been created under Upazila Parishad Act, 1998, an umbrella legislation. Also, there is separate umbrella legislation for all Union Parishads. Audit people should have a fair knowledge about these laws, especially the financial procedures part of the relevant laws such as Fund Management, Financial Reporting, Keeping of Accounts, Audit on Accounts, Special Fund and Investment etc.

Both local government and autonomous bodies/SPA possess the same features but there is one difference which lies in the fact that they are managed by the elected representatives. Those of you who visited the Counties in UK, they know that in the Counties there are County Councils, and they have the authority to impose local tax. However, the local government institutions are not like provinces, they don't have any legislature.

A local government may have an autonomous unit for specific service delivery. For example, within the jurisdiction of Chattogram Municipal

Corporation there is a university called Premier University. As the central government have autonomous bodies, so the local government may have within its jurisdiction autonomous bodies. Local government is itself an institution. They are not extra- budgetary entities though they possess the features of extra-budgetary units. Since local government is also a government as per Constitution, it should not be classed as extra-budgetary entity.

When a ministry provides Grants-in-aid to Upazila Parishad, how does it do it -- through paper or by sending money? It is done by issuing cheques from CAFO. The local government institutions encash the cheque and deposit the money into their own Bank Account, out of which they spend money transaction by transaction by issuing cheques. This proves that, money is taken out of the TSA in advance of incurring expenditure. But we know, the spirit of the Constitution suggests that money cannot be withdrawn from the Consolidated Fund without procuring goods and services. In this case, under this arrangement, huge amount of money remains outside the TSA without spending for public service. Wherefrom the government gets this money to give to the LGIs? As the government always runs deficit budget, natural conclusion can be drawn that, the money comes from the borrowing by the central government. So, the government is paying interest for this borrowing though the money remains in various bank accounts of the LGIs.

Those who belong to older generation know that the Zila Parishads used to receive Grants-in-Aid through allocation letters and the district treasury used to maintain this record. This means that they received only the grant order not money. There were special cheques for the Zila Parishads given by the AG (Civil) which was known as 'PL Cheque'. The treasury used to deliver blank cheques to the Zila Parishad after receiving them from AG and the Zila Parishad used to issue cheques transaction by transaction based on acquisition of goods and services. Those cheques could not be encashed without being included in the accounts of the treasury. Did the treasury do accounting for expenditure? The cheques used to travel down to the treasury once the expenditure entries were made in Zila Parishad's own accounting system. This means the expenditure autonomy of the Zila Parishad remain undisturbed. They would execute budget and acquire goods and services. Bills were not required to be submitted to AG Office or treasury and only payments used to be made after the acquisition of goods and services. Why they used to come to Treasury/AG Office at the time of payment? Because, the bank will not make payment unless the cheques are countersigned by the treasury accountant. Then budget execution, payment approval and accounting used to be done by the Zila Parishad and only payment used to be made from TSA without hampering the autonomy and legal status. We have to revert to that system to save government from unnecessary borrowing and borrowing cost. And that can happen if we reintroduce the PL ledger system and payments are done from the TSA. This can be done by strengthening iBAS++ and accounting and by switching over to electronic payment system. They will not be asked to come to DAFO/CAFO. They will be asked to enter transactions in iBAS++ and then payment will be made by EFT. Eventually, the total cash transactions will be routed through TSA. Interestingly, there is some Zila Parishad still using the old system though very few. They do not maintain any bank account but operate under TSA. So, here we are not reinventing the wheel, only talking about the old system in a modern fashion. In fact, our predecessors handed down us a solid system which we can replicate effectively by utilizing automated environments like iBAS++, EFT, A-Challan, MICR cheques etc.

Decentralization, Deconcentration and Devolution

Let's turn to some other terminologies which we need to understand to have a fair idea about the governance system of different level of Governments under different circumstances like Decentralization, Deconcentration and Devolution. Go for searching these terminologies in the Web. We need to understand the difference in the meaning of these terminologies. We mix them up at times. All the government officials including you should understand the nuances of these terminologies.

Let's, now, focus on Deconcentration, Decentralization and Devolution. If multiple bodies are there within the same department for the same service on a horizontal setting then, it is called *Deconcentration*. For example, if in future, the directorate of secondary and higher secondary education under one Ministry is bifurcated into two separate directorates, this will be called *Deconcentration*. This is horizontal.

Decentralization, on the other hand, is hierarchical. For instance, delegation of financial power, delegation of power from CGA to DCA. There are many who say that the creation of local government institutions is Decentralization. Technically this is a mix-mode of decentralization and devolution.

Had it been the state government, we could label it as *Devolution*, because it has its own legislature to frame its own laws. This is not decentralization rather devolution. *Devolution* means transfer of power, both legislative and executive from central government to local government or provincial government. Devolution does not indicate absolute transfer but the degree of transfer is significant.

Can we sensitize people by doing good accounting only? No, we cannot. We are delivering service, playing role in reducing borrowing cost and improving cash management -- all these are important, and we will feel satisfied if we can really render these services efficiently and economically. Even we can arrange workshop and ask all officials from other side of the government to listen to us. Indian CGA officials are doing all these stuffs and some of them are working with the World Bank and IMF on lien. They did away with the IMED type of monitoring. CGA (India) rendering monitoring and internal audit services. We should also start negotiating for all these by developing our own capacity.

We should be clear about one thing. Otherwise, we might get confused. The World Bank defines decentralization, deconcentration and devolution in a different way. They say that weak decentralization is deconcentration. They are absolutely right. A little more improved decentralization, improved delegation means devolution. There is deficit in our devolution. Since it is without legislature, had there been province in Bangladesh with legislature, we would have got strong devolution or had the council concept as in the UK worked well in the local government.

In our case, Upazila Parishad Act 1998, many of the services such as education, health is transferred to the local government, that is by law, these services are devolved, not delegated. Some services such as Police, Accounts, Land Registry are retained with the central government. But, unfortunately, though law provides devolution, but still their executions and budget remain under central government. Audit may raise observations on this point. Law says something but in reality, things are happening otherwise; expenditure of the 'Transferred Subjects' are incurred directly from the central government budget. This should have been 'Grants-in-Aid' from central government to local government which will constitute their fund and then they will spend from this fund. This is what should have happened according to law. However, this is not happening. Separate budget is not working. There is no separate planning thereby not complying with the Constitutional Dictate of Article-59(2)(c) and not even a separate fund is properly maintained. Consequently, a dismal situation is prevailing in the overall financial management of the Upazila Parishad making public accountability process vulnerable. As you know about the provision of the law, definitely you may raise audit observations if the budgeting system comes into conflict with the financial procedures laid down in the law. This point can well be raised while conducting compliance audit.

Two Identities of CGA

When we do government accounting, on execution of budget we then make payment. In Bangladesh, CGA operates with two identities. He is the Accountant General and also the Paymaster General. The payment related functions assigned to him by the TR are the functions of Paymaster General. On the other hand, in the Account Code, CGA has been identified as Accountant General. CGA makes payment as the Paymaster General, and as Accountant General he compiles accounts. He can prepare accounts which incorporates the balance of TSA (Cash balance of the government) as well as Revenue, Capital, Debt and Remittance. He can do it by collecting real time information from iBAS++ and electronic scrolls from Bangladesh Bank. This should be the target to achieve. The electronic payment platforms will improve service delivery by using A-challan, MICR cheques and EFT and this should be leveraged for both receipts and payments.

We don't know what is coming up in future. What would be the technological inroads such as blockchain, AI, Machine Learning, Big Data, IoT etc. We don't know in which direction the world is moving. New medium of exchange like Central Bank Digital Currency (CBDC). Internationally active research is going on the possibility of introduction of CBDC. Then how we'll deal with money supply? Money supply and monetary management will be done using automated distributed system.

To strengthen visibility of Audit and Accounts department within the government structure, you need to expand your horizon of knowledge. Take the example from Indian CGA. It is the Indian CGA which established Public Finance Management System (PFMS), our iBAS++ equivalent. We have to minimize the gap. CAFO Finance has already introduced online bill submission system for the employees of Ministry of Finance. I hope, other CAFOs may replicate it in shortest possible time.

Our areas of scrutiny (pre-audit) is now getting interesting. It has gone up to a much higher level. What we used to do in the name of pre-audit was too mundane which is now being taken care of by the technology. Auditor will not pass bill without looking at the budget. Is this practice still there? It is no longer there. Because this kind of scrutiny will, now, be carried out electronically. Electronic payment system is now a reality and inevitable. This is not far away when pre-audit parameters will be embedded with iBAS++ and the system will check electronically whether there is any deviation from the set parameters.

Other Segments of BACS

Classification is the focus of our discussion. In the classification, there has to be an organization segment for accountability and budgetary control. But we should bear in mind the fundamental concept of our accounting system. It is basically fund concept. So, we should have a fund segment which includes consolidated fund and public account of the republic. We need further break-down of the segment. We have, therefore, got two segments. Now, while making appropriation, the Hon'ble Minister does not separately prescribe the format of the Demand for Grants. Both the Demand for Grants and Accounting classification are brought under same footings. This is an advantage, because all the ex-ante and ex-post budgeting and accounting information can be generated from the same platform retaining the same structure. If iBAS++ can be extended to cover whole public sector, it would be possible to have the consolidated accounts for the whole public sector which may be brought under the certification audit/ financial audit of the Auditor General in future.

We have so far discussed two segments- Organization and Fund segments. There is parent-child relationship within each segment. The others are individual discrete segments, and they are not mixed up but interconnected. Economic Segment describes the character of a transaction. We know, as per the provision of the Constitution, Parliament approves budget for a purpose. This requirement is served with Organization, Operation and Economic Segment together.

Salary/Supplies and services represent character of transaction. The examples of purpose are: Education, health and so on. So, we need another segment called Function. Education and health are functions. Does it reflect everything? Whatever allocation is made, it is made for a program/

activity. To reflect the total public service dimension, these four segments are not enough. There is still some gap. So, we introduced another segment for Operations. All these are BACS segments.

How do we then define a transaction? All segments taken together will make a transaction. If we capture a transaction using these segments, will it be enough to get comprehensive information? If we ask what is total expenditure under CF? What is the total expenditure from CF under Fund segment? What is the share of own fund and foreign fund? We can work them out. What is the expenditure for education? If we think whether we have education expenditure according to organization/ministry and whether Cadet Colleges under defence ministry expenditure is included in education expenditure. In the function segment, it has been specified Cadet College belongs to which function. If we want to know the share of our colleges in the total education expenditure, the amount will include the expenditure against our cadet colleges also. Currently, we are not getting this information. We get fully ministry wise accounts. If we link it with function, we'll get the total education expenditure. We have understood that it's possible to get detailed report for each segment. Then again if there is expenditure in various slots under the function segment (COFOG), we'll get the education expenditure from the same place.

If we go further down, we'll get even the education expenditure of the Premier University of the Chattogram City Corporation. Is it necessary? It is required for policy input, for accountability and control purposes. We can create further segments beyond four. This will require further input and drive. However, this is what we are not going to discuss today. We should, however, mention one aspect. Included within the five segments is the geographical segment (non-posted). COFOG is an international best practice and we have included it in our classification system.

Development partners used to prescribe CONTASA, DOSA, IMPREST, SAFE for us in the absence of a robust classification system and IFMIS. In the changed circumstances characterized by the improvements in the system they will not come forward with such prescriptions anymore. The fact that they are now trying to move away from project-based finance and coming up with budget support and PforR proposals. Once we give the robust system, they will be depending more on country system rather than imposing financing through special accounts. They have already started relying on our country PFM. They are now attempting to carry out programmes using PforR. If the donors can place reliance on our accounting system, iBAS++, BACS, TSA capable of generating relevant information, they will not think of any special accounts nor will they think about ring-fenced project financing. They have taken decision in principle to rely on the country system as part of the harmonization effort under Paris Declaration and other relevant declarations. However, they will not close all the ring-fenced financing in one go.

Once we establish robust iBAS++ and generate relevant information, they will directly provide funds to CF. However, this will be classified under Mode of Financing segment and report will be generated showing how the donor funds have been utilized. Then there will be no necessity of maintaining special account outside TSA. Our accountability mechanism will not be undermined; rather it will be further strengthened.

Mapping of Segments in BACS

There is another concept called mapping. Now gender, child, climate and many other new immerging issues are coming up. We can map BACS as it is a flexible structure. We can increase the number of segments. We can expand it both horizontally and vertically. Even it can be mapped with some other classification also with minimum programming effort in the existing classification system. Earlier, our classification system was too rigid. Let's talk about the economic segment. This is the only segment where we can find the explanation about revenue expenditure and assets-liabilities. This is designed in a way that we can achieve two things in future: (i) currently under cash concept is there any recognition of assets-liabilities? No. But in future if we want to migrate to accrual accounting, is it not necessary to work out a grouping for economic transactions? We have taken it into consideration that under cash basis of accounting liabilities transactions are not recognized. If we move to accrual accounting in future, we'll face difficulties unless we do the exercise of grouping now. (ii) So, while looking at classification we will see that, there are separate coding blocks for revenues, revenue expenditure, capital expenditure within expenditure block, and also for debt; remittance is required for adjustment of accounts, cash movement and other adjustments. Now it is quite straight forward and concept of revenue (income), expenditure, asset acquisition and liability are prominently identified in the BACS.

If there is no economic code under transaction code in the Accounts, what do we stand to lose? We'll lose the character of a transaction. If we ignore fund segment, we'll violate the provision of the Constitution. If we leave out function, we'll lose both the Constitution's provision and purpose. If we leave out program, we'll lose control. So, when we say transaction code, it means the whole coding arrangement comprising 56 digits. Using the transaction code, we can generate real time fiscal reports from the system. We can also generate statistical report, accounting report, Appropriation Accounts, Finance Accounts, any management report, budget execution report and so on. Together with this, we have also developed some concepts on the improvement of parliamentary accountability which will be shared with you in details at a later stage.

There will be different fund sources under Consolidated Fund. The most interesting point is that if we pick up a transaction of a project that relates to the payment of salary amounting Tk.500.00 out of which, for example, Tk. 200.00 is paid from the own sources and Tk.300.00 from RPA (Reimbursable Project Aid), is it possible to say which portion belongs to own fund and which one belongs to foreign fund? It is possible. So, we don't have to look deep into reimbursement. The report generated from the system will tell us that an amount of Tk.300.00 has been paid from the foreign fund. This is going to be a big improvement.

Concept of General Ledger (GL)

Let's talk about debt within liability. Earlier, we mentioned, the divisions that we had in accounts include Revenue, Capital, Debt, Deposit and Remittance. Now we label them as asset, liability, revenue expenditure and acquisition of assets. If we move to the accrual accounting in future only flow will not be enough, we'll need stock figure (balance) as well. If this is the case then we'll need some codes for acquisition of assets, 2 codes for income- one for cash basis revenue and the other accrued revenue. We will also need code for advance for expenditure and expenses due/accrued. For acquisition of assets, we need two – one for flow and the other for stock. For now, should we keep the code for the stock of asset alive or dormant?

In the classification code where should we put it? Should it remain open or be kept blocked? When should we open it? We shall open it in phases as we migrate to accrual accounting. However, while developing the classification system, we tried to make it comprehensive. Actually, it has been designed comprehensively. However, some gaps are still there. You need to know them in details. Stock or balance accounting will not find place in the main ledger as long as we follow Cash-basis of accounting. You should follow the manner of extracting balance from the subsidiary ledger while compiling the Finance Account. In future, you'll gradually open them as the system gains robustness and transit to accrual accounting in phases. How many codes were there for the Provident Fund? There was only one head in the list of major heads and minor heads. However, a change was made in the 13-digit classification system. I don't know whether it was done deliberately. There were two codes for GPF. One for the receipts and the other for payments. Under BACS only one code is used for GPF, because there will be a GPF ledger where debit and credit will appear under same code. We need to see how these are handled in iBAS++. Recently, a new development has taken place. In the earlier days, we used to do accounting on the basis of the accounts received from the treasury after carrying out post audit. While compiling accounts, we'll come across some archaic terminologies like classified abstract, consolidated abstract. Now, we should do away with these terminologies. All these will be replaced by the concept of General Ledger (GL). Now subsidiary accounts will be maintained for the individual pay points of each head, and they will eventually be aggregated in the central system of CGA. This will minimize audit cost. While checking, we'll decide which office/location should be chosen for audit intervention. We should pick up the control account. What are we doing now? We visit all decentralized locations where the subsidiary ledgers are maintained, but we don't know what the aggregate is. Now how should we start? From control account balance to subsidiary accounts. Say for example, an audit team has been deployed for five days to audit a particular location. In that location, only 20 GPF Accounts are maintained. Another team is also deployed with the same man-days for a particular location where there are 500 accounts. Obviously, audit resources have not been rationalized. Now if we can establish control accounts, the payment will be decentralized and if we get the subsidiary balances with the names of the subscribers along with account number, it would be easier for us to decide where we should deploy the audit parties, where we should not. This will be the basis for working out the audit man-days. Even in some cases, we may not have to field any audit party at all because we can analyze the sensitivity of subsidiary accounts drilling down the control accounts figure.

CAFO, Pension and Fund Management has been created bearing in mind this concept. We should drive it forward. We should bring it to the attention of the government that we can ensure improved and hassle-free public service delivery in terms of minimizing audit cost and accounts balance confirmation if we can bring about improvements in the existing system. This is your issue and therefore, you should propagate. That's why you should lay emphasis on GL concept. You can see the aggregate balance of all transactions in GL. If there is any gap in iBAS++ in this regard, you should point it out and give the functional requirement to the technical support team to close the gap. We have got some technical resources within our domain also and if required, we can utilize them. You can observe the various functionalities of iBAS++ system and find out gaps if there is any and take necessary steps to resolve problems. Then you need to see to what extent the classification system is robust. You should test whether it is working properly for capturing transactions, budget execution, fund management, payment and accounts. Also, whether there is any problem with the format of Appropriation Accounts. We are now preparing appropriation accounts showing original budget, revised budget and then again re-appropriation. Who does the re-appropriation? Parliament or executive? What is the destination of Appropriation Accounts? It is Parliament. Then why we are going below the parliamentary level of accountability and making it voluminous unnecessarily.

No one feels inclined to read this huge volume. This Appropriation Account should serve the purpose of wider accountability. Then what will happen to the jurisdiction of executive accountability. What is the other name of re-appropriation? It is called 'Virement' in many countries. There are technical notes on virement published by IMF. An Indian gentleman Sandeep Saxena who studied physics is the author of this technical note. There is another gentleman called Kauffman who also authored technical notes on PFM.

General Government Sector and Public Sector

The organizations those belongs to General Government Sector do not carry out business but provide services. These services are non-marketable public services, and these are tax-financed, where full cost recovery is prohibited. The term tax-financed is important because this creates a sense of responsibility and accountability. The tax-financed services that are delivered by three categories of organization are internationally known as General Government Sector. So, the General Government is equal to central government plus provincial government plus local government (including their autonomous bodies/SPAs). It would be the ultimate goal to prepare Consolidated Financial Statement utilizing iBAS++ platform uniformly to cover whole General Government in the medium term.

However, for now we'll be focusing on only central government. Even within central government, before bringing extra-budgetary (Autonomous bodies/SPA) units within iBAS++, BACS and TSA, we have to concentrate first on getting the basics right. We do not consider for now, extra-budgetary unit of the central government which operates independently and do not use iBAS++ and BACS. That means, we'll be covering only the budgetary sector of the central government. Appropriation and Finance Accounts will be prepared for the BCG. However, in Finance Accounts, it is preferable to include some information on autonomous bodies as we used to do in the past. I guess this attempt may not work for the moment because it is dependent on external governance, but we have to keep an eye on developing some mechanism for improved reporting.

Then what we call public sector is not actually public sector. Public sector includes General Government and there is another addition which is State Owned Enterprise (SOE) and State Owned Companies (SOC). The SOEs are public sector corporations which are divided into financial and non-financial institutions and within financial institutions there are depository and non-depository categories. Do the SOEs are organized for delivering public service? Generally, not. Why? Because they are mandated to make profit. Instead of fund, SOEs use the term Capital/Equity and are not tax-financed. They are not supposed to deliver non-marketable public service, however. If they incur any loss due to Diktat of the government or due to inefficiency, the Government subsidizes or injects further capital. Here the term 'subsidy', is used instead of 'grants-in aid'. When money flows from central or local government to SOE, it is called subsidy. Grants-in-aid is meant for public service while subsidy is provided to meet the gap between the cost and the price of services of SOEs. In most cases, the SOEs are supposed to give back to the government non-tax revenues in the form of profit, but most of the SOEs are loss making. So, they are mostly dependent on subsidies or further capital. Practically, almost all SOEs are consistently receiving subsidies. If the government recapitalizes an SOE by providing loan/capital, we cannot call it Grants-in-Aid.

Recently, there is another trend to form State Owned Companies under Companies either under SOE or directly under the Ministry. DPDC, DESCO, PGCB, NESCO, GTCL are examples in case. So in summary, Public Sector can be shown as the diagram below:

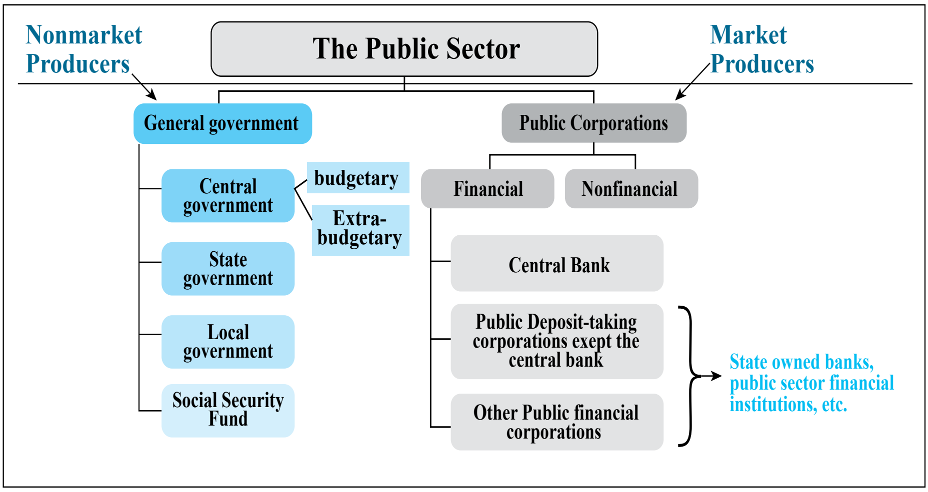

Figure: Public Sector

It is to be noted that, in our case we do not have separate Social Security Fund rather spread over 100 programs run by different ministries.

Conclusion

Let's have a recap of the whole concept. We need to understand all the terminologies we have used so far. National Social Security Strategy (NSSS) stipulates separate Social Security Fund in Bangladesh consolidating hundreds of programs run by different ministries, but implementation still remained far cry. On Social Security Fund, we have got to share lots of ideas which we will discuss later. But we have tried to explain the other terminologies used in the figure depicting the Public Sector.

You might have noticed that within the term central government, Budgetary Central Government (BCG) exists. Our discussion on PFM mostly concentrated on BCG. Can we recognize extra-budgetary organizations? Yes, of course. We can also recognize social security fund, but we have not yet explained this term. Even if we exclude it from the discussion, we understand its significance. Then general government plus SOE and SOC, what do they constitute? They constitute the Public Sector.

How many divisions are there in the SOE and SOCs? If we talk about the non-financial ones, then BCIC, BSFIC, BJMC- all these under this category. The financial ones are Bangladesh Infrastructure Finance

Fund Limited (BIFFL), Infrastructure Development Company Limited (IDCOL) - all these are public financial corporations. Sonali Bank Limited is 100% government owned entity. This has been converted as state owned company. Then there are deposit taking corporations also. How these are different from other public sector corporations?

Deposit Taking: Central Bank as a regulatory body

- Sonali Bank
- Other government owned commercial banks
- Non- deposit taking Financial Institutions such as House Building Finance Corporation (HBFC).

Our medium-term vision is to cover the financial reporting of the General government. And the long-term objective to cover the total public sector and also transit to accrual accounting. It is possible as technology is changing in a faster phase. What was possible in 20 years in the past, it is now possible in 5 years. Nothing can hold back the progression. The technology itself will create the pressure for change.

Transaction will be captured on real time. If the transactions across the public sector are captured on real time, all entities migrate to accrual accounting then there is no reason why the preparation of total public sector balance sheet will not be possible. The interesting point is that according to CAG (Additional Functions) Act, there was a responsibility of the Auditor General to prepare General Financial Statement (GFS) for the whole public sector. Because the law talks about the comprehensive total public sector, but under current manual accounting arrangement it is not possible to prepare GFS.

Chapter 5:

Prudent Fiscal Management for Deficit Financing And Relevant Audit Issues

Introduction

It is not appropriate to say that the government takes loan from the banks by issuing treasury bills/bonds because when the government issues bills or bonds, anyone can buy it and any type of investor is at liberty to do so. Even an individual can purchase bonds, bills through the primary dealers. The practice of purchasing bond by an individual investor has not yet come into currency. However, there are stray instances of purchasing bills/bonds by individuals from the primary dealers. The primary dealers participate in bill-bond auction conducted by Bangladesh Bank on behalf of the government. The individuals can also express their interest to purchase, say 5-year treasury bonds. It will be discussed in details later how Bank process it. Since the bulk of the T-Bonds and Bills are purchased by the banks (mostly to fulfil the requirement of SLR), hence the notion 'borrowing from banking system'. In fact, some of the banks and NBFIs selected by the central bank (14 or 17 in number) are the primary dealers who participate in the auction to fulfil their own and others demand.

The borrowing by the government through the issuance of treasury bonds/bills is meant for financing the budget. So where should we put it. All expenditures under budget are made from the Consolidated Fund. Where from we get the money for consolidated fund? From the revenues and all loans raised by the government. All loans domestically raised by the government are fungible because these are not meant for any particular purpose rather meant for financing the budget. This may serve any purpose and not intended to finance any particular project. Then what are the sources of budget financing. These are revenues (tax and non-tax) and fungible loans and grants which may be from both domestic and external sources.

Though as part of Paris Declaration on Aid effectiveness and harmonization efforts, things are changing, we are still hanging on to project-aid financing as far as the donor financing is conerned. All of us might have understood the changes that are taking place in treasury system. How are these changes taking place? These are coming by because we have started receiving sector budget support. Even the donors are now committed to move away from sector budget support to PforR modalities of financing which is totally fungible.

Fungible Financing

Fungible financing takes place in two ways. The first one is the sector budget support and the other one is a more improved version called the general budget support. We all know what is happening in health, primary education and higher education. They are receiving sector budget support which is increasing its fungibility. How? For PEDP-IV, they are now willing to channel funds straight to the TSA which was not the case for PEDP-III. They will then evaluate our performance based on some Disbursement Linked Indicator (DLI). Recently, they are moving away further from project financing and introducing new funding modality called PforR which is more fungible. However, there is still project type financing following the principles and procedures for operating CONTASA, IMREST and DOSA. Are they operating within the AG system or not? They are being operated outside the AG system, Pay Master General system. Added to this is the fact that the projects are not providing expenditure reports which is creating a gap in fiscal and financial reporting.

So, we proposed an idea of putting these funds under code '12' and '13' of fund segment so that we can encourage the donors asking for CONTASA, DOSA and IMPREST to accept an extra package for separate financing and accounting. The purpose is to put the loan or grant under code '12' and '13' of fund segment while entries for expenditure would be made against TSA. Instead of making entries against CONTASA, we will do it against the TSA. Thus, our cash management will improve because cash is not going out of the system. This will not only increase the transparency of accounting and fiscal reporting but also minimize our borrowing cost. We can link financing with the expenditure made out of it against the projects.

In future, when project financing will come to an end in response to international commitment as embodied in Paris Declaration of Donor Harmonization, '12' and '13' will no longer be required. We'll have to think whether for any financing in the form of general budget support, sector budget support as a separate segment will be required. If any improvement is required, we may suggest. However, that should be conceptually correct. Then there will be no need to have a separate segment for treasury bill/ bond because the proceeds will be used for fungible financing. We'll find treasury bill/bond in Economic Segment.

Divisions of Accounts in iBAS++

We'll continue to work with the same structure of government audit and accounts. Let's take it as blessings that unlike compiling accounts after post-audit, now we are compiling accounts after pre-audit across the country. We know that, Pre-audit or Pre-check was only limited to Head Quarter payments at Dhaka (So called Presidency) in the civil side is now taking place throughout the country. We have to leverage it for improvement of payment and accounting integrity. However, a discipline has to be established. While carrying out audit, we'll have to review accounts. As discussed earlier, we are using the term "review" technically. By accounts review we mean that those who will be compiling accounts after pre-audit, will be responsible for ensuring reliable and timely accounts.

In the case of SAEs (RHD, PWD, DPHE, Forest, Foreign Missions), payments are made outside the CGA system. Vouchers are coming to respective CAFOs. We cannot allow compilation of accounts without scrutinizing vouchers, looking at the sanctions and raising observations if any irregularities detected. CGA has been requested to reintroduce voucher checking system by opening the bundles of accounts sent by all RHD, PWD, DPHE, Forest, Foreign Missions. Observations will be raised on the accounts and will be forwarded to the relevant DG (Audit) as well as to CGA. And this will be followed up from the ICU of CGA. The observations will be communicated to respective Audit Directorate to use them in their statutory audit planning.

Now we would like to dwell upon a different issue. When we'll look at iBAS++, we should see whether all the divisions of new classification have been embedded in it. For example, Revenue, Capital, Debt under CF and Remittance for PAR. Debt arising from savings certificates belongs to PAR. These are not meant for financing budget rather for promoting savings. That's why we put them under PAR. This discussion will help us to get better understanding on the classification.

Revenue	CF
Capital	
Debt	
Deposit	PAR
Remittance	

Figure 5(a): Divisions/sections of accounts

Central Bank's Function Regarding Cash Mismatch

Is the revenue portion of our budget -- surplus or deficit? It is surplus but overall budget is always deficit. So even if the government follows balanced budget, on a day to day basis to match payment against revenue, government need to borrow temporarily from the Central Bank to meet the requirement of Cash Mismatch. This is done under an arrangement with the Bangladesh Bank through 'Ways and Means Advance' (WMA) or 'Overdraft' (OD). Technically speaking, this borrowing is not borrowing for budget financing, it is intended to cover cash mismatch only.

Which one is the appropriate agency to maintain TSA that is to work as a Banker to the government? Certainly, this agency is Bangladesh Bank. Long time ago when the budget size was too small around Tk.2000 crore, the government had an agreement with Bangladesh Bank in the form of 'Ways and Means Advance'. The limit of that advance was only in the region of Tk. 20 crore. But after some years when the budget size rose to around Tk.40, 000 crore, the agreement remained unchanged. The amount was not sufficient at all to cover the cash mismatch. The budget size though became 10/20 times larger; the amount in the agreement remained the same. There was no initiative from either side to enhance the limit. We need to understand all these issues. As auditor, we should have raised observations on this issues.

We all should ponder on how the British could coin such a beautiful term 'Ways and Means'. There may be an explanation which is like this: when government does not find the 'Way', it looks for the 'Means' by asking advance from Bangladesh Bank. Then how does the government lose its 'Way'? It loses the 'Way' when the receipts cannot cover payments. In order to tackle the situation, it makes an agreement with its banker, the

Bangladesh Bank to save itself from embarrassment and asks for advance in the event of any shortfall of cash. This is WMA. The size of the budget grew bigger over time but its WMA did not commensurately. Then the size of the WMA was re-fixed at Tk.5000 crore. Thereafter, it was possibly increased to Tk. 10,000 crore. WMA is not for financing deficit, it is meant for cash management. Audit should raise observation if WMA protocols are not observed. The line of observation should be–the government is not managing its cash properly. An interest rate is fixed by Bangladesh Bank linking WMA with Reverse REPO. Sometimes people tend to say, "Bangladesh Bank is the banker of the government, why then interest will be charged?" In fact, this is institutional accountability because the government and Bangladesh Bank are two separate entities.

If cash is not properly forecasted, and expenditure plan is not implemented systematically, government has to bear extra cost by way of paying interest to the Bangladesh Bank on WMA unnecessarily. In sum, we understand that the provision for Ways and Means should be there even if the budget is balanced so that it can handle mismatch between revenues and expenses. Government should time to time review the ceiling and change it in commensurate with the requirements. Then the government if needed will borrow beyond WMA to meet budget deficit. Up until 2010, the government used to borrow automatically.

Reforms in 2010 in Debt Management

What was the situation in 2010? There was no treasury bond as such except one instrument -- 2-year bond. There were several treasury bills for 28 days, 56 days, 81 days, 128 days and 364 days. Treasury bill/bond is a central bank instrument, true or false? It is definitely false as it is a borrowing instrument of the government. In 2010, we found something interesting. The government did not bother much about Ways and Means nor did it care about how to manage deficit financing. Like the government,

Bangladesh Bank was also indifferent. It's because of the fact, things were occurring automatically. There was no concern about the economic impact of the financing issues. Bangladesh Bank used to honour all cheques received from CGA system and record after payments of cheques either against Ways and Means or treasury bills. After exhausting the ceiling of the ways and means, the rest used to be recorded against treasury bills, thereby monetizing the debt of government without any plan. Truly, this arrangement indicates printing of money at will, thereby creating Higher Powered Money (M1). Though there are different tenor for T-Bills, tenor-based control was really absent.

Is the amount of bills going to Appropriation Accounts or Finance Accounts? Raising money through issuance of T-Bill and T-Bonds, will go to the Finance Accounts while repayment of T-Bill and T-Bonds will go to Appropriation Accounts. Is there any impact of treasury bills on government or on the money supply? If the Government keeps on issuing unlimited cheques, there will be an impact on money supply. This may fuel inflation and could affect monetary management.

Let us have a look at a technical issue. For instance, the government is issuing cheques and Bangladesh Bank is making payment against those cheques without raising any question. Bangladesh Bank in its Monetary policy has a target, how much credit it will provide to the government, how much be the private sector borrowing from banking system. Now, if Bangladesh Bank has to make payment against cheques of any amount exceeding the target, will this be decided by Bangladesh Bank? Paradoxically, Bangladesh Bank in its half-yearly monetary policy statement is saying that it will provide a certain amount of credit to the public sector, but on the other hand it is honouring all cheques issued by the government and as a result hot money is coming to the market. Has Bangladesh Bank ever faced any trouble for these activities? The growth in money supply will exceed what Bangladesh Bank targeted in the monetary policy and obviously this will upset the control of Bangladesh Bank on money supply. In order to restore its control over money supply, Bangladesh Bank in turn hold auctions of T-Bills and get back the money from the Market. T-bills of different tenors are sold to the primary dealers (different banks). Who is the real issuer of T-bills? It is the Government. Who is then supposed to issue T-bills and hold auctions? It is again the Government. It is not at all appropriate that Bangladesh Bank will first make payment against T-Bill to the government and then get it back from the proceeds of auction of T-Bills. The auction proceeds never touched TSA, but it should.

There should be audit observations surrounding this issue while conducting audit on Finance Accounts. Audit should check each and every item in the Finance Accounts and raise observations. So far what we have discussed whether our revenue is in surplus or deficit. As it was said before, it is in the surplus. Why then borrowing? Definitely, it is for financing Capital

Expenditure or for redeeming liabilities. This discussion can be extended to cover national accounts, macro-economy etc. but for now let us focus on fiscal economics. If we go through the book 'An Introduction to Government Audit and Accounts', we will find that it says, 'the government borrows for financing capital expenditure'. However, this is not being complied with and in that case, audit can raise observation. Who is supposed to issue T-bills and who is doing it? What ideally should have been done is that the government should decide on the financing requirement based on cash forecasting on a periodic basis. These are some clues for brainstorming both from academic and audit point of view. In 2010, government decided that there should be no more borrowing from Bangladesh Bank except WMA. Government has also added another facility of 'Overdraft' (OD) if at any point the government exhausts the ceiling of WMA. The true borrowing will be done as per the auction calendar made based on cash forecasting. In future, CGA can provide the cash flow information to the government.

How then the cash flow requirement be decided? If iBAS++ works properly, and Bangladesh Bank can provide real time online information on actual cash movement why we will not be able to work out cash flow. Even CGA can work out the cash requirement from the procurement plan of different agencies. Unless we strengthen our knowledge base, we won't be able to understand the nuances of the discussion.

The government should decide in advance how much it should borrow by selling T-bills. Bangladesh Bank under this changed arrangement, will not provide any money to TSA except through the WMA and OD. Money will come to the TSA on auction according to the calendar decided by the government. Government will decide how much it will borrow by selling different tenors T-Bills. Bangladesh Bank will circulate the dates of auction and will work as Auction Secretariat.

Individuals or bankers may participate if they want to. However, the individuals cannot do it directly. They may purchase the instruments through the primary dealers who are around 20 in number. It is as good as share market. However, problems persist. We have already known that the government will deal with the T-bills. But it does not fit into government's financing philosophy. Let us have an example. An individual is asking for a loan amounting Tk. 1.00 crore from his friend. The friend assured him that he'll pay him back in six months. The friend then asked him what you will do with the loan. He replied that he would construct a house.

The friend then asked him how you will pay it back in six months and wherefrom you will get the money. I'll get the rent and then pay you back. The conclusion of this example here is that the individual is cheating his friend. In what way? He is incurring capital expenditure with the short-term loan but promising to pay back in six months when there will be no revenue generated by the asset to do so. The proposals defy prudent financing. Like the friend's case illustrated above, if the government finances its deficit by issuing 28-day T-bills with the intent of incurring capital expenditure, how it will pay the loan back in 28-days when there will be no return in such a short period?

Government will create asset with the loan proceeds but is committing to pay the liability in 28 days. This is called asset-liability mismatch. So, the government cannot finance its deficit by issuing T-bills. Government is planning long-term investment (Capital Expenditure) with the proceeds of short-term borrowing instruments (T-Bill). As is unexpected from an individual, so it is from the government. This should be part of audit observations. Deficit financing using T-bills does not go with the basic principles of prudent public finance. If the government consistently exceeds the limit of WMA, the limit should be reviewed. If the limit is crossed on a particular day, there is an OD facility. As short-term borrowing for long term investment goes against the prudent fiscal management, government introduced from 2010, T-bond: 5-years, 10-years, 15-years and 20-years. The government makes auction calendar for T-bonds as deficit financing instruments. Long-term borrowing for long term investment is required for asset-liability matching.

Difference Between Treasury Bill and Treasury Bond

What is the difference between bill and bond? The tenor of T-bill is less than 1 year while tenor of T-bond is more than one year. In some countries there are three instruments: T-bill, T-note and T-bond. In our case, we have T-bill and T-bond. There will be auction for T-bonds for deficit financing and not for T-bills. In 2010, if government suddenly started issuing T-bonds and stopped issuing T-bills, the situation would have become chaotic. Secondly, the banks need a money market instrument. All banks invest in two types of instruments: long term instrument and money market instrument. There is an influence of money market instrument. Moreover, the bankers do not always manage their surplus by providing temporary loan; they manage it at times by investing in long-term instruments. So, the banks also need alternative for investment. On the other hand, the government does not always borrow for financing deficit, it has got to play a bigger role which is keeping the financial sector vibrant and creating a benchmark rate for investment. That's why government has auction for T-Bills also. In some countries, governments issue 100% T-bonds for financing deficit leaving issuance of T-bill like short-term instruments to separate issuer to feed the money market.

Financing through Bills and Bonds

In Bangladesh, since there is no alternative institutional framework to incentivize the money market, government has created this mix. In the first year of starting this arrangement in 2010, government decided the mix for issuing 70% bond and 30% bills. T-bill is such an instrument which can be used by the bankers for short-term liquidity management. Moreover, they have to make provision for Statutory Liquidity Requirement (SLR). They have to maintain their SLR in the form of securities. Moreover, if competitive market can be created for T-bills in future, who knows, the newspapers will publish that the 28-day T-bills are being sold at the rate of say 7% interest and the rate can provide benchmark for market lending. In USA, if a financial institution is given loans, no bargain takes place. The loan provider only provides loan and if the borrower pays it back after one month, he adds an amount following the prevailing T-Bill rate (benchmark rate) which is the interest rate.

Why T-bill is there? If there is total market perfection, T-bills will not be part of financing. This will be handled separately by another institution. However, Bangladesh has not yet arrived at that stage. We are still using T-bills for deficit financing; otherwise, banks will not find any instrument to manage short-term liquidity. Moreover, there will not be any competitive benchmark interest rate. This can be used as a reference interest rate while providing loans by Banks and NBFIs to their borrowers. We always say that the interest rate is high/low. But none can say the reason. This should be decided following the demand and supply in the market. If the demand and supply is not on a competitive environment and not fair, the reference rate also become questionable. This means that if the demand-supply friction is really competitive, those who are providing loans and those who are receiving will have full understanding of the market pricing. This is called the price discovery of financial instruments.

So, we can say that we should finance deficit by selling bonds. Why then bills will be there? This should stay there as an instrument to be used to play greater economic role by the government. All these are part of the Finance Account review by CGA. The more the CGA becomes effective, the more the CAG's audit be effective.

So far what we have discussed that our budget deficit is financed and recorded through CF. To make the understanding clearer and less complicated, let us assume that there is no funding from the PAR like: Savings Certificate. There is no Provident Fund, and there is no contractor's deposit. So, there is no PAR financing for budget deficit and the only option is CF. We have deficit and within the CF we raise our loans. Raising loan for deficit financing is the only option and the borrowing is either from external or from domestic sources. To make the discussion less complicated, let's assume once again that foreign financing is not available. In that case, we have the only option to have domestic financing. We also concluded that financing should follow the golden rule. The domestic financing golden rule is, if we look at the rule book, it is written clearly, 'No loan can be raised for meeting recurrent expenditure or revenue expenditure'. If the golden rule is violated, we also should have an audit point. Golden rule says capital expenditure should only be financed by debt. Why? Our assets and liability should match. We cannot borrow in short-term to invest in long-term or we cannot borrow in long term and invest in short term. If it happens, we can call it a mismatch. It is expected that we will also borrow for long-term investments. Long- term investment will give us the long-term returns and out of the returns we pay interest costs of all borrowings. Then our borrowings will be sustainable, and the country will grow, the economy will grow and of course, there should be one pre-condition that our capital expenditure should be quality one, i.e. there should not be wastage, leakage, corruption and we will achieve value for money through economy, efficiency and effectiveness.

We have to invest in programs that generate good returns. That is also an area where audit has points to raise while evaluating the performance of any project. As we know, until 2010 there was asset-liability mismatch; the golden rule issue was not in consideration at that time. First, Bangladesh Bank used to finance for cash mismatch through WMA, then used to finance whenever needed-even without raising any question. Whenever, a cheque is given/issued against TSA, Bangladesh Bank used to honour it without any question. Bangladesh Bank used to create a loan against the government if payments exceeded the receipts. When a loan is created, there is an impact on money supply. When cheques are drawn by the fiscal authority, it adds to the money supply. This means that monetary authority's role is being interfered and it is not being allowed to retain control on independent money supply.

So, Treasury bond was introduced in 2010. Earlier, for certain reasons a 2-year treasury bond was introduced but no auction used to take place. In Finance Accounts, perhaps you will come across some balances. However, as we said earlier, four categories of treasury bonds were introduced: 5-years, 10-years, 15-years and 20-years.

Government finances deficit through treasury bond, but side by side should also have treasury bills. That's why in 2010 government decided a 70%+30% mix of treasury bonds and treasury bills. Then the government scaled it up to 80% treasury bonds and 20% treasury bills. Why did government keep treasury bills in the mix? For two reasons. First, this will work as an instrument for the banks for liquidity management. What is the second reason? The interest rate of the treasury bills will create a benchmark as they are supposed to be sold at a competitive rate based on demand and supply. This will be useful while determining the rate for market lending and carrying out negotiation. This is called market clearing rate which implies that the interest rate should not be arbitrary. However, we'll have to work more on it and as of now we have got to go a long way.

When we started this new arrangement in Bangladesh, ACI issued a bond which was a corporate bond for five years. A question arose what should be the six-monthly coupon rate? They mentioned in their prospectus that their coupon will carry the interest rate of 182-day treasury bills as determined during auction of those bills. This gives the justification of keeping treasury bills as an instrument of guiding the process of determining the coupon rate on the Corporate Bonds. Now we are in a situation when we are not getting the scope of selling treasury bills or treasury bonds. Moreover, more financing is being carried out using treasury bills than bonds. So, what should be the audit observations? Is using criteria of golden rule in this regard not an excellent observation? At least this will sensitize the government policy makers. On which accounts will this observation cover? Finance Accounts or Appropriation Accounts? Definitely, we may raise this observation for the Finance Accounts.

Macroeconomics Concepts Essential for PFM

In Bangladesh, like any other economy there are four sectors. Out of these four sectors, one is fiscal sector which is our domain. Economy is run not only by fiscal sector; there is interplay of other sectors too. An economy cannot function well unless other sectors come into play in a synchronized manner. What are the other sectors? These are Real, Monetary and External Sectors. The Real Sector is the factory of the economy. In one hand, good and services are produced by the firm and consumed by the households; the two components of the Real Sector.

In the bipolar world, there was communist block which did not have four sectors as their economy was closed. They had three sectors. But in the present-day world, the economies are opening up. Even North Korea is opening up; China opened its economy long time back. The closed economy is, therefore outdated. With the economies being opened up, we are stepping into the process of globalization and now we are living in a globalized world. The initiative that is taking forward the agenda of globalization is through WTO. The intervention of WTO is gaining momentum. Now different blocks are being created like customs union, economic union like EU and therefore the influence of a particular sector is getting stronger and this is the external sector.

You may think that we are digressing from the main points of discussion and stepping out from our professional audit and accounts domain. In fact, we are not stepping out rather trying to reinforce our discussion, because if you fail to understand the impact of public expenditure and the interplay of all the sectors of macroeconomy, the auditor's report will turn out to be clerical and narrowly focused. Audit should raise observations based on analysis of transactions impact on four sectors. The observations should come from the critical analysis.

People talk about money, currency, banking, non-banking etc. Currency is the medium of exchange. Money creation, circulation, management and control are the functions of monetary authority. If money is not there, the barter system would have prevailed. So, we have to create money, regulate money through an authority. We are using paper currency now. However, an agenda for introduction of CBDC gradually is on the card. This will upset the whole arrangement and this will come by in a few years. There is a sector to deal with the monetary issues. This is called monetary sector. This is part of the financial sector. A strong independent regulator is required to regulate the activities of this sector. Why it should be independent?

Excess of money supply will have an effect on price. This is called Inflation. We can apply our common sense to understand the issue. What is the name of the central bank of Singapore? There is no central bank as such in Singapore. They have central monetary authority. This tells us what the monetary authority will control. It will control supply of money.

For managing credit, we need another type of institutions which should intermediate between savers and investors. Generally, those who save do not invest; investors are class apart. We need an intermediary to liaise between the two parties. The agency that will do the intermediation will collect deposits from the savers and channel it to the investors. What the intermediary will get out of it? It will make profit out of the spread. This intermediary as we know, the Banks, is part of the financial sector. However, monetary authority is linked with the financial sector as well as regulator. That's why it is called the monetary and financial sector. Then how many regulators are there to regulate the financial sector? In order to oversee the management of intermediaries, the functions of the boards, lending operations, we need regulatory authority. In some countries, this authority is separated from monetary authority. But in Bangladesh the two authorities are merged together, and this is called Bangladesh Bank.

Some people say that if the monetary authority regulates the financial sector, it may create a conflict of interest. In the UK, Bank of England does not supervise the financial sector. Their financial sector authority is separate which is called Financial Services Authority (FSA). Like Bangladesh, India has also one authority. However, they have taken some initiatives to separate some operations. In our Financial Sector, we have included both banking and non-banking entities. The four sectors are interlinked. We will find a number of publications in the website of IMF.

Reading materials on macro-economy are in abundance. There is PFM blog as well. IMF has published manuals on all four sectors like Balance of Payment Manual (for external sector), National Accounting Manual (for real sector), GFS Manual (for fiscal sector), Monetary and Financial Statistics Manual (for monetary and financial sector). Worth noting here that, international standard for GDP, GNP etc. calculations are guided by the System of National Accounts (SNA) issued by United Nations Statistics Office. We are talking so much about fiscal sector and PFM but where PFM will stand in future. Gradually SOE will be phased out from the audit block. As private sector keeps on expanding, the domain of public sector audit will gradually be contracted. There was a time when the entire financial sector was within the audit jurisdiction of the Auditor General because there were no banks other than government banks. There was no industry as such. After the promulgation of Nationalization Order 1972, almost all firms came under corporations. These are now either closing down or dying gradually. Those which are in moribund condition are still in production. Now the central fiscal sector is our main domain. In fact, we are referring to three sub-sectors in the fiscal sector: budgetary central, extra-budgetary and local government.

Fiscal Sector	**External Sector**
Budgetary Central Extra-budgetary Central Local government	None
Real Sector	**Monetary and Financial Sector**
Statutory Public Authorities/ Autonomous Bodies State-owned Enterprises State-owned Companies	Central Bank, Government Owned banks and NBFIs

Figure: Organizations under the audit domain of CAG

Fiscal sector plus SOEs and SOCs from the real sector and the government owned banks and NBFIs from the monetary and financial sector including Central Bank will now constitute our audit domain. Is the external sector under our audit jurisdiction? Is there any institution? We do not have any auditable institutions in the domain of export, import and remittance. Our focus will be only on the external borrowing for the fiscal sector in the form of Supplier's Credit, Project tight Financing and Budget Support.

Treasury Bonds vs Savings Certificate

What are the points of distinction between the features of 5-year savings certificate and 5-year treasury bond? First of all, savings certificate is not a marketable security but treasury bond is marketable. What is the difference between marketable and non-marketable securities? The securities which can be sold in primary and secondary market are called marketable securities. These securities are transferrable. What are then non-marketable securities? Here the concept of primary and secondary market will not work. We can purchase them from the issuer (National Savings Directorate) and hold them till the date of maturity or encash them before attaining maturity at discount. These securities are not transferrable.

The second feature – the interest rate of savings certificate is fixed, not decided in auction but the interest rate of treasury bond is decided in the auction. Once it is decided in the auction, the rate is fixed. So, savings certificates have a predetermined rate. On the other hand, the interest rate of bonds and bills is determined in the auction held for the purpose of selling them. There are various types of auctions, for example, price-based auctions, yield-based auctions and other types are also there. You will get to know these types by reading relevant literature.

Thirdly, treasury bonds are available in both primary and secondary market. Savings certificates can only be bought and sold by National Savings Bureau and Banks. Treasury bonds and bills can be bought and sold by the primary dealers, either on their own or on behalf of any holder of such bonds including individuals. Is there any restriction for savings certificate? Yes, there is restrictions both by investor class and the maximum amount of investment. Say for example, Pensioner savings certificate is only for pensioners. For T-bond and T-bill there is no restriction both in terms of investor class and the maximum amount of investment. Wage earners bond does not belong to savings certificate. This is not bond even. Wage earners bond, premier bond, dollar bond are not marketable bonds, they are non-marketable bonds. Though called bonds they are non-marketable securities.

Borrowing Plan of the Government and Monetary Policy Intervention

Government borrows issuing bills and bonds. However, borrowing should follow a plan. Then what should be the basis of the plan? In fiscal sector, as we have noticed, there are receipts and payments. However, they do not always match. There could be a gap between receipts and payments. In a mature economy, it is easier to determine the borrowing requirement together with forecast of revenues. We need to adopt this practice gradually. We have to borrow on the basis of a plan. We need to determine the forecasted cash inflow and cash outflow. Government's borrowing plan should be based on the forecasted cash flows. The auction calendar should be worked out based on the quantum of requirement. There is no hard and fast rule. It is only an estimate. This should be done by the public debt management department of Finance Division. However, these are a matter to be dealt with by CGA and also by statutory audit. While conducting public debt audit, we should look at the issues like whether database is being maintained properly, whether there is any manipulation in auctions. If there is any manipulation in auctions, the borrowing cost will be high which has an implication of higher fiscal cost. Who participate in the auctions? Are they individuals or institutions. Generally, institutions but individuals may be buyers as well and they can invest their savings. Even institutions like BRAC which maintain provident fund may purchase bonds. Even the foreign investors may invest in treasury bonds. However, it is yet to be made fully open. They purchase Taka bonds and then repatriate principal and interest converting them to USD. If it is made open now, it might create pressure on foreign exchange reserve. It is because of this risk; a limitation has been imposed by fixing a percentage for investment by foreign investors.

In the USA there is no percentage. That's why, despite there is a trade war between China and the USA, significant savings of China are invested in US treasury bond. China purchased trillions dollars' worth US treasury bonds. They have invested their almost entire surplus in US treasury bonds. China is financing the US budget deficit and at the same time they are engaged in trade war. Bangladesh is far from reaching this stage. Since our level of foreign exchange reserve is not that high, we cannot afford to fully open our bond market and we have, therefore, opened it partially.

We have so far proved that for financing we should use more treasury bonds as instruments than the treasury bills. Using laymen language, we can say that the government borrows from the bank. In fact, the Government borrows by issuing treasury bonds/bills. Most of the bonds/bills are purchased by banks to fulfil their SLR requirements and also for market making (by trading them). That is the reason, people and even the Finance Division use the term 'Bank Borrowing'. Bank is purchasing them as there is investor shortage in the country. There is lack of awareness as well. Individuals do not want to buy bonds. Among the institutions, the number of multinationals is only a few. There is only one-track market for treasury bills/bonds. There should be appropriate policy measure to develop and deepen the secondary bond/bill market. That would attract varied group of investors. If we open the bonds for foreign investors, a pressure will be created on our foreign exchange. Despite that we have partially opened it up as part of gradual progression to have access of global financing.

There might be a separate schedule in the Finance Accounts for bond financing. It could contain information on the inflows, outflows of treasury bill and bonds together with the outstanding of each instrument including analysis on ‘instrument type’ and ‘holder type’. We may check the Indian Finance Accounts whether they have anything of this sort. If we could have a schedule containing information on investors’ percentage, the amount held by multinationals, provident fund, pension fund of various organizations etc., it would be more informative and help us branding ourselves. We have, by now, understood wherefrom the government borrows. Ideally there should be diversified investor in the bonds which will promote competition. And this in turn will reduce borrowing cost. The government will borrow at market rate. We need to understand why the banks invest more on treasury instruments.

While calculating the level of money supply, one of the important issues that need to be considered is that the banks cannot lend 100% of the deposits they collect. That’s why Bangladesh Bank determines SLR and CRR. To fulfil SLR requirements, all banks and the FIs need to hold treasury instruments at rate determined by Bangladesh Bank. This in effect reduces the availability of loanable fund. This is the monetary policy intervention. While investing in securities, the most important criteria to be followed is that the investment has to be secured. Investment in treasury bills and bonds is the most secured investment. Prior to 2010, the banks used to invest in treasury bills only. Now they invest in treasury bonds as the government issues treasury bonds also. They participate in auction and buy securities.

The banks are purchasing very little treasury bills and bonds for market making, that is to trade in the secondary market. That’s why we have very shallow secondary market. The other institutions or individuals are not aware of it. That’s why the interest rate of treasury bonds/bills is not competitive. Some of the banks purchase bonds/bills beyond their SLR limits for making market which means that they tend to sell it in the secondary market in due course.

So, can audit raise observations to the effect that effective measures should be taken to create secondary market for marketable securities? Audit may provide a suggestion for improving both primary and secondary market.

The suggestion should point out that the absence of such market is costly to the economy. The banks and other institutions should purchase treasury bills/bonds like shares for the purpose of creating market. A question may arise to the effect that bond is sold in auction. If the interest rate is 7% and the holder of the bonds wants to sell them after six months how much interest will he get? He will get the coupon rate attached to the bond. So, in the secondary market the bond will be traded above or below the Face Value i.e. at a premium or at a discount.

For treasury bills/bonds, the secondary market should be deepened further. The more the demand and supply is created, the more the government will be benefitted by issuing treasury bonds and the interest rate (bond yield) will go down in the bond auction. And, in effect, the cost of borrowing will be less. This is what audit observation should point out. Recently the business page of the Daily Star carried the same news story saying that the banks are purchasing treasury bonds to meet SLR requirements, not for creating market. In the past couple of years, a dangerous phenomenon has emerged. A number of auctions have been cancelled. This gives a signal that there is lack of consistency in the government borrowing plan. Even if the banks want to purchase bonds beyond SLR requirement, they cannot do it as there is no auction. If it continues like this, the banks will not feel secured by investing in treasury bonds. Why has this problem cropped up? It is because of the unplanned borrowing through selling of savings certificate and being used for deficit financing. The sale surpasses in a huge way than the original estimate. And the cash is entering into TSA. There is no need for WMA even.

The CGA should provide information on the possible consequence of cash surplus. Unfortunately, that level of ownership is yet to come by. However, if we can create a congenial environment, the ownership will ultimately come by. All of us should work professionally. CGA can issue press note stating the reasons of cash surplus. Revenues are not coming but there is cash surplus in TSA because of the excessive sale of savings certificate, technically speaking which is not a public debt instrument. But we know that the deficit should be financed by raising planned public debt and that is the constitutional spirit. One of the welfare activities of the government is that it should save the small savers by issuing savings certificate. The audit observation should point out that the use of savings certificates for deficit financing does not go with the objective of issuing these instruments.

Have audit ever raised these observations in the Finance Accounts? Have audit carried out any study? Don't you think that this are the areas audit should focus? Technology will take care of the discrepancies in numbers. Work on iBAS for 15 days and you will see there are no discrepancy in numbers. Technology is giving us the scope to think big which should be our focus.

Consequences of Unplanned Borrowing through Savings Certificate

Why are the savings certificates not the public debt instruments? Planned borrowing for deficit financing is called public debt. This is unplanned borrowing not a planned borrowing for financing deficit. These instruments should be used to mobilize savings from small savers. Unfortunately, these are now used as tools for borrowing. If the concerned authority wants to take the savings instrument to CF from PAR, will it be an appropriate move? Certainly, Not. It would be suicidal because we are supposed to borrow in a planned way to finance deficit and also, that will be against the constitutional spirit.

Government cannot borrow in a planned way by selling savings instruments because it depends on the behaviour of the savers. So, this is a dangerous zone. Audit should raise observations on this. Coming back to the question on what you should do as auditor, it is common sense that the treasury bonds and bills are not used to make market. Secondary market is not being developed because bankers are borrowing mostly to meet the SLR requirements. Moreover, if there is no market and if someone purchases 5-year/10-year bonds and if he cannot sale the bonds in the event of his need, will he ask for lower or higher rate of interest? Obviously, higher because he knows that his investment will get stuck. Not only that the bond-bill ratio which was 80: 20 is now reverse. The bankers later thought that they should not get stuck their fund by buying long tenor bonds. So, they proposed that government should change ratio in the auction calendar. The government finding no other alternative changed the ratio and reduced the sale of treasury bonds and increased the sale of bills. Not only that, the government also introduced a new 2-years bond as the bankers were not comfortable with the long tenor bonds even the lower tenor of 5-years bond.

Why is this happening? This is the bad consequence of the absence of secondary market. This is a disease, and we need to take actions to get rid of the ills. But this is not happening. Why have we not stopped borrowing and using the proceeds of savings certificates? Borrowing through the savings certificate is an automatic borrowing which does not fit into the fiscal financing concept. It does not go with the golden rule of fiscal financing. Practically almost all borrowings are now made from the proceeds of savings certificate. Even many a times, the auction of treasury bonds/bills is not taking place.

Bangladesh Bank has introduced REPO (Repurchase Arrangement) and Reverse REPO to control money supply. It purchases instruments under REPO when the money supply is on the increase and sells the instruments when there is less supply of money. I am not going to delve into details rather you can go through available literature on this arrangement. For this purpose, Bangladesh Bank has its own BB-bill. As the government has T-bills, so Bangladesh Bank does have BB-bills both of which are used while carrying out REPO and Reverse REPO operations. It's a tool for monetary control, not a fiscal control /fiscal financing tool.

Borrowing through the savings certificates under PAR is now posing a major risk. The immediate consequence of this practice is that TSA is having cash surplus. This money will not be used but the government will have to bear the interest expenses that it accrues. There should be calculation on how much the government is incurring loss by paying interest on the surplus cash it retains. This will, of course, depend on how much you have been able to absorb the stuff we are discussing.

Savings certificates and provident fund were introduced under PAR in the absence of banks in this sub-continent. The treasury/sub-treasury used to provide the banking services and retain cash. As the banking system has evolved, we have now both private banks and state-owned banks. People can keep their money in the form of fixed deposit and in other products as the banks are putting in place. In this context, PAR should be down-sized. Without exaggerating much, we can say that PAR is distorting our fiscal accounts. In many countries, there is no PAR as its functions have been taken over by banks. Of course, it has got others functions like managing remittance movements. If we look at the balances of PAR, we will see that the maximum balances stand against PF and savings certificates. The relevance of PAR can be reduced significantly by improving the iBAS++ functionality and therefore, audit may recommend a review of the system.

Possible Remedy of Unplanned Borrowing

If we can take out PF and savings certificates from PAR and maintain separate bank account outside TSA, our fiscal account will become slim to a great extent. The proceeds of these instruments enter straight into TSA and when payment made (by bank and post office) it goes out of it. As savings certificates are intended to protect the savers, should it be targeted or untargeted? It should be targeted. This means that no one other than a specific income group should be allowed to purchase savings certificates. But a study tells us that 80% of the savings certificates are being bought by higher middle class to rich class, even the owners of many industries bought savings certificate amounting crores of taka 'Benami' in the name of their employees. If a business entity has a surplus of Tk. 100 crore and purchases savings certificates using it, is it necessary for the owner of the entity to carry out his business operation? Because he'll earn interest at the rate of 11.5% p.a. on the amount invested without taking any risk. He will ask his workers to give their ID and purchase savings certificates using their ID and then ask them to put their signature on the instruments. The instruments will then be kept in the closet. He'll then engage an employee to watch when the interest falls due and collect interest after certain intervals. The employees don't know anything about it. Is this practice consistent with the purpose of selling savings instruments? Rich people are becoming richer. The poor don't understand what these instruments are and wherefrom they are sold. Even if he knows, the certificates will not be sold to them. Then what should we do? We should have a look what India did long ago. The proceeds of savings certificates will not be put in TSA. A separate autonomous authority with separate law, separate fund will be created which will be vested with the responsibility of selling savings instruments. The proceeds will enter into the authority's bank account not into TSA and for that matter into the fiscal account. This is about future reforms; this will not happen immediately. But we should start speaking and it is us who should do it as professionals. It is not those who carry out normal executive function will talk about it.

How will the authority earn their income? They will have to pay interest at a pre-determined rate to the instrument holders. The authority should be declared as a primary dealer. Since the banks function as primary dealers in the auction for treasury bonds, like banks the authority will also participate in the auction as a primary dealer. What benefits will it deliver? The government will go for only planned borrowing through T-Bills/

Bonds. The authority will buy treasury bonds/bills from the auctions with the proceeds of the savings instruments. The interest it will receive from the investment in the treasury instruments will be its income and this will appear in the authority's income statement. The payment of course will be higher than their income. The gap between receipt and payment will be met by the Ministry of Finance by making budget allocation in one line. Will it not bring transparency? Is it grant or subsidy? Definitely, it is subsidy not grant. Because, it is subsidizing for protection of income of the targeted savers.

Initially though this will not deliver much benefit by way of saving interest cost by the government, this will bring transparency. However, the benefits that are likely to accrue include: (i) unplanned borrowing for budget financing by using savings instruments will be stopped (ii) the authority will maintain separate database. The holders can be identified by using NID link. Gradually, the system will link TIN. This will eventually discourage those investors who invest money to earn inordinate income. We should create barriers to deter those unscrupulous investors without creating any upheaval.

When the size of subsidy grows bigger, this will come to light in the public domain. A question will be raised: who are the recipients of this subsidy? Let's analyze our database. This will prompt the initiatives for better targeting. The interest rate will go down. However, all these are future plans. Execution of these plans calls for initiatives to be undertaken by the government. Meanwhile, without disturbing the existing arrangements of keeping saving instruments under PAR, government starts an initiative to create a database which will link NID of the investors when they will purchase savings certificates. The exercise of developing a program is going on. SPFMS of Finance Division has been tasked with the responsibility. However, as part of PFM, CGA has some responsibilities as well. A database is being prepared for the National Savings Certificates within PAR, not outside it and IT based buying and selling platform is being also developed. The violation of the principles of deficit financing is a serious issue. So, if savings certificates can be taken out of PAR in one way, it will minimize the distortion in the budget financing while making PAR much cleaner. Then we'll be in a position to work on PF on the same line. However, this is a future vision. As an oversight authority, audit may raise observations surrounding the issues. Audit should raise observations if there is any deviation from the principles of public finance. In India, PF is no longer under PAR. At times, we make comments without having the full knowledge of the Indian system. The web resources are there. You should browse the resources available at their official websites. In future, PF will not be kept under PAR. PF management can be dealt with by the same authority that will be dealing with the saving certificate. PF amount will be deducted from the salary of the employees and a cheque with the total amount deducted at month-end will go to the authority. What the authority will do with the fund? They will purchase T-bonds, either from primary market or from secondary market and at some point, will also buy 'Blue Chips' corporate bonds. In India, they not only invest in corporate bonds but also in stock. They have specified the percentage of total funds to be invested in different instruments including stocks.

The authorities will earn income from their investments, but how much will they pay to the PF subscribers? If necessary, the rate of interest may be increased say by 1%. Initially, the amount of loss will be made good by the government through subsidy.

That will be your audit issue. How much subsidy is being given? If PF and savings certificates are taken out of Finance Accounts, its volume will reduce. This is the future direction. At the moment government is creating a database for savings certificates.

Electronic Ledger of GPF

GPF is linked with the employee database and NID. Moreover, we have created CAFO/Pension and Fund. Can we create a real time central ledger? Preparation of broad-sheet and compilation according to Audit Manual are things of by-gone days. In those days, there was no employee database as we have today. Now we have linked NID with each employee and therefore, we can now maintain electronic ledger. Is it a rocket science? Does calling in the employees from field offices to Dhaka make any sense? For example, an employee submitted his GPF nomination paper while working at Teknaf and retired from Tetulia but his nomination paper is missing here. So, the nomination paper should be maintained centrally. For the PF ledger of 13 lakh employees will be equal to 1 PF control account. It is possible as open-source software is now available and even if it is not available, we can accumulate all information in iBAS++. If we centrally maintain a web portal at CAFO, Pension and Fund, we will see our GPF balance by keying in our GPF account number. We have made some progress in this direction.

Our first task is to create a central database for savings certificates without disturbing the beneficiaries. In the case of PF, we should improve service delivery. Shouldn't we now discuss the barriers to service delivery? For example, 13% interest rate is on the high side. Should we solve it? Do we need to do it? If the interest rate is even 14%, what's the harm in it? This is being given to benefit our employees. The government is also giving interest subsidy adding to their salary bill for house building loan. Systemic improvement is important. If we ask now to conduct special audit on PF, how many years will it take? It would not be possible to draw ultimate conclusion and the exercise will entail travel costs and all these. If we had a central ledger, we could drill down the GPF accounts of 13 lakh subscribers. Even it is possible to know whether the interest amount is high or less. Do we need to transfer provident fund accounts? No. LPC is also not needed. Wherever an employee moves, his salary can be traced by using NID.

We need to check whether these elements have been incorporated in iBAS++. We should check the features and give suggestions for improvement. We should see whether all aspects of public debt are included in our budgeting system. Our budgeting system covers only the BCG. So, when we say public debt it includes only BCG part. If the extra budgetary sector and local government borrow with the approval of the government, such borrowing will also be regarded as public debt. However, these are not included either in our budgeting or in our accounting system. Our future direction should be to cover all aspects of public debt. So, our Finance Account in future should cover the General Government.

Centralized Accounting and Decentralized Service Points

If, in future, all transactions of the General Government come under TSA, the future direction of Finance Accounts will be to broaden the coverage and bring the institutions like local government and extra budgetary sector (SPA and Autonomous bodies) under the government accounting domain. Bringing these institutions under the accounting domain will be challenging though. LGIs will issue cheques collected from CGA. However, if EFT is introduced operation of the accounting system under TSA will be much easier and smoother. If this is the case, they don't need to maintain separate bank account and also, relieve them of the responsibility of signing cheques.

Given this comfort, they will not disagree to the proposed arrangement. Had we proposed that you should come under single treasury and you should not maintain bank account, would they have accepted it? On the other hand, if we say that we wouldn't disturb you at all, just follow iBAS++. We will enter your transactions under iBAS++ and give payment order. Will they have anything to say? No. For example, an Engineer of PWD was telling that they are extremely happy with the new system. They couldn't have even thought of this system ten years ago. They can now see on the mobile what is happening at the sub-division level, for example, sanction of imprest, cash book entries and so on.

Our vision is to have centralized accounting and decentralized service points. If an employee posted at a remote station, wants to draw advance from his GPF A/C, does he need to come to Dhaka? No. Though records are being centralized, they can draw from the posting place and record of payments can be updated in the central system. This will minimize cost and will allow audit to step across the traditional bound. While conducting audit review, audit should rather concentrate on assessing whether the size of the GPF liability of the government is sustainable, what difference would make if it is kept under PAR or outside the PAR under different authority. A future direction should be laid out how these can be managed separately. That's why we should follow how these issues are being dealt with in India. India has already separated PF and thereafter pension in 2005. All these took place 13 years ago. Those entered into service after 2005, they accepted the funded pension regime also. They have an authority which manages funded pension and also the PF. For all that the employees are not losers, their benefit is being protected.

Since last year our pension budget has been centralized. Will the pensioners then come to Dhaka? We would say that they don't even need to come out of their residences. In a Development Fair we showed what we did to give comfort to the pensioners. Why will the pensioner move from his place to accounts office? PPO should be there in the repository maintained electronically by CAFO Pension. Why will the widows of the pensioners not get pension from next month after the pensioner's death? These are big service delivery issues. Already in iBAS++ there is a provision for maintaining e-PPO. We can accumulate them in the system right now. While studying iBAS++, we should bear in mind these points. We may have to put in extraordinary efforts to make happen all these.

Concessional and Non-Concessional Borrowing

Is there anything in USA called external borrowings? As far as the borrowing through treasury instrument is concerned, there should not be any division like external and domestic. And the holders may either be domestic or external. China is investing in T-bond of USA. This is recorded in USA Government Financial Statement which is equivalent to our Finance Accounts with a break-down according to the types of holders--domestic and external.

We may have an analysis how much we have borrowed through T-bonds of different tenors- 5 years, 10 years and so on. What is our stock and what is the flow now, how much we have repaid, how much of the borrowing is held by domestic investor and how much by external investor.

Most of the external borrowing comes from the concessional window and other comes from the non-concessional sources. There are terms of servicing which may be long-term or short-term and may be multilateral and bi-lateral. In multilateral type, WB and ADB share the significant part. In bilateral type there is JICA. More than 90% of multilateral type including bilateral JICA is also concessional. There are then other multilaterals like IDB. IMF is not generally concerned with fiscal sector rather they are concerned with external and monetary sector. However, they oversee what is happening with the fiscal sector because if anything goes wrong with the fiscal sector, the other sectors are also affected. Remember, IMF is not a lending arm. It helps to maintain stability of monetary and external sectors. IMF will come to our rescue if the foreign exchange reserve goes down to a level which weakens the country's external balance. In Bangladesh, current account is showing deficit and overall balance is also in deficit. They keep an eye on fiscal sector to see whether the government is borrowing unnecessarily and how the borrowing is being utilized.

The loan from IMF enters directly into Bangladesh Bank Account, not the TSA. If 1-million-dollar worth loan is taken, it will enter into Bangladesh Bank reserve. The loan from ADB/World Bank was meant for budget financing/ project financing. As our fiscal accounting was not reliable, there was a time when loans were project-tied. This led to the innovation of various ring-fenced modalities such as DOSA, SAFE, CONTASA, IMPREST etc.

In concessional loan, project financing innovation has somehow weakened our PFM system. Internationally, it is now recognized that bypassing the country's system of PFM is not a good practice. In Paris declaration, it was agreed that the development partners should rely on the country system and strengthen TSA rather than using special accounts like CONTASA, DOSA etc. All these were supposed to be sorted out 10 years ago but these are still in place to some extent.

However, this arrangement is now changing, and the development partners are now relying more on the country system. In the case of health, higher education and primary education sector programs, the development partners' money is now entering into TSA as Sector Budget Support. Government uses the proceed of aid under normal budgeting process and development partners follow up the results through various DLI (Disbursement Linked Indicators). They use financial data generated by our system rather than using separate financial statements. Very recently, the development partners started using another instrument in the name of PforR (Program for Result) which is directed towards relying further on the country's system. Under this modality, instead of identifying particular sector, DLIs are determined based on the result indicators from fiscal expenditure covering various sectors. Examples of P4R programs are SPFMS and PEDP-4. We should make our iBAS++ more robust so that it can encompass further to meet the emerging requirements. The concessional loan from the development partners should come in the form of general budget support. Recently we see a new trend. Non-concessional borrowing is making its in-roads. This is because of the fact that we have graduated into a lower middle-income country.

World Bank and ADB are also moving towards non-concessional regime gradually. They are providing loans and not charging market interest rate but these are not interest-free unlike concessional borrowing. This is external borrowing of our fiscal account. When Bangladesh will be entirely excluded from concessional borrowing, there will be no use of the term 'external borrowing'. Borrowing will be made through instruments. Even our treasury bond may be listed in the New York Stock Exchange and will be bought and sold there. The foreign investors will participate in the auctions. We'll borrow from New York against our bonds to be sold in auction. This could be Taka Bond or even US Dollar Bond. If our foreign exchange reserve stands at 100/200 billion dollars, we may borrow against dollar bond. We'll bear interest cost from the proceeds of the dollar bonds. These may be dream for future.

Aside from this, there is another kind of borrowing which is dangerous against which audit should raise observations. These are Suppliers' Credit and Buyers' Credit. Although the names are different, they are essentially almost same. India and China have started using these lending arrangements and many countries have started borrowing through these arrangements. Those who have excess savings and are technologically advanced have started extending loan under this type of arrangement, especially China and so has India started. They say we will construct tunnel, give money and also engage contractors. What would we do then? We don't have to do anything but using the tunnel after construction. This is called Suppliers'/Buyers' Credit. If this type of project does not generate much economic return, then there is possible risk of falling into the debt trap. The prospective bidders of our country or even international bidders cannot participate in the bidding. We don't need to come to negotiate. Supplier's credit is negotiated through intermediary like EXIM Bank China and in the case of India, EXIM Bank India and there are many other countries are establishing such lending outfits. EXIM bank is not a bank in its traditional sense; it's a lending outfit of the government. EXIM Bank makes payment to the Contractors/Suppliers and record the payment in the name of the borrower in the books of accounts, where borrower has little control over the transactions. The interest rate is high, repayment period is also short but this is now a new trend in public finance.

Conclusion

You should have a fair understanding about the macro-economy covering all the four sectors viz. Real Sector (Household and Firms), External Sector, Monetary and Financial Sector and the Fiscal Sector, though government accounting system covers only fiscal sector. As we go along the path of shifting our audit emphasis from compliance to performance, the knowledge about the interactions of the various macroeconomic variables and their impact on the government finance will be required.

Audit observations in this regard could be clear-cut but generally it is not the case. However, at least audit should raise observations from economic point of view. Audit should raise observations about what we are losing due to non-competitiveness and about the liability position as well as the sustainability of such debt. Audit may raise question about the composition: the share of domestic and external borrowing, concessional and non-concessional, the share of suppliers' credit including concomitant risk of such credit. Audit may also analyse by lending type as well. It may not come automatically. You have to improve your ability and confidence. If you understand professionally the domain, you'll enjoy your public service life in whatever position you are. It wouldn't take that long on your part to understand the dynamics as you understand the functions and are technically sound.

Chapter 6:

Features of CAG as a Constitutional Body, Accounting Arrangement for SAEs (PWD, RHD, DPHE) and Relevant Audit Issues

Introduction

Before I move on to the main session, I need to share with you an important matter. The Comptroller and Auditor General is a constitutional post. I am going to tell you what is meant by a constitutional post. If we say CAG Bangladesh is a constitutional body, we must think about whether it is right or wrong. CAG is a body but what kind of body it is. Such body is of two types: Corporate structure (EC, PSC) and Monocratic structure. Monocratic means the body is headed by a single person. CAG of Bangladesh is a single man body, so it is a Constitutional Monocratic Body. There is no scope for building consensus as there are no other persons within the body. He decides everything as a single authority. There are both advantages and disadvantages of the monocratic body.

The advantage is that he can get rid of the situation arising from differences of opinion. The disadvantages are quite obvious. The benefit of taking decision on a consensus basis is absent. The propensity to the error of judgment may increase. So, there are both positive and negative sides. CAG of Bangladesh is a body and a post as well. He does not need to share his decisions with others but the officials under him will aid and support him. However, the decision is his own. While dwelling upon the definition of a constitutional body I referred to this parameter. What parameters are required to become a full-blown constitutional body? To become a constitutional body, appointment, jurisdiction, privilege, independence, removal all these should be protected by the Constitution. The more these are protected, the more solid the constitutional body will be. If we test the constitutional status of CAG, we'll see that his appointment is protected though not solidly. Still I would say that it is protected because he is appointed through a process. He is appointed by the President, the Head of the State though the recommendation of Prime Minister is required. Protected in a sense that once appointed by the President, and he has taken oath, his appointment cannot be revoked. The reason why I am saying, the appointment is not solid is that, the CAG is not selected by independent Search Committee nor has to face any interview conducted by the any Special Committee of the Parliament. He is handpicked. There could be some select committee, opposition leaders could have been there. Some other experts could be there. Also, there can be an interview.

CAG – Constitutional Body or Constitutional Post

In some jurisdictions (SAIs), there is an even more solid arrangement. In the USA, the person who becomes the head of Government Accountability Office (GAO) has to pass through the scrutiny of the Senate Select Committee. CAG's audit jurisdiction directly incorporated in our Constitution through Article-128(1). If we look at the Indian Constitution, we'll find that CAG's functional jurisdiction is protected but ours one is more protected. In Indian Constitution, there is a stipulation on the role of the CAG but the details are there in the Act of Parliament. The related Article of the Indian Constitution says that he will audit but the details have been provided in the the CAG Duties, Powers, Conditions Act 1971. In Bangladesh, the functional jurisdiction has been detailed directly in the Constitution. So, the jurisdiction of the Auditor General in Bangladesh is more solid than that of the Indian Auditor General.

In respect of privilege, there is a Remuneration and Privilege Act for him. The privilege is covered by an Act of Parliament, not by the Pay and Allowance Order for the government employees. This parameter, in fact, is not a weak parameter. Article 147, by providing a list of constitutional positions stipulates that the privilege of these positions will be determined by the Acts of Parliament. That's why we have Privilege Act. In the Privilege Act, this Article of the Constitution should have been referred to in the Preamble. The privilege is well protected by the provision of Article-147(2), where it is mentioned that, the remuneration, privileges and other terms and conditions of Auditor General shall not be varied to the disadvantage to him during his terms of office. Therefore, if the Government thinks that it will curtail the privilege of the Auditor General, it cannot do so. Even the parliament cannot curtail his privilege by passing any Act.

As far as the Functional Independence of the Auditor General is concerned, our constitution unequivocally asserts [Article-128(4)] that, the Auditor General, in the exercise of his functions shall not be subject to the direction or control of any person or authority. Removal parameter is solid because removal of Auditor General follows the same procedure similar to the procedure as followed for the removal of the Judges of the Supreme Court. If we look at the position of the Auditor General using the lens of these parameters, we'll find that Auditor General is a full constitutional body. Some people think that the positions mentioned in the Constitution are constitutional bodies. In fact, that's not the case. The Ombudsman is an example in this case. All the parameters of the constitutional protection we have mentioned in the case of Auditor General, are absent in case of Ombudsman.

Internal Control System in the Constitutional Scheme

We have discussed 4 panels of PFM and got to know about their features. The first panel represents the spenders (Budget Holder). They are also the revenue collectors. We talked about the legal structure, institutional structure, and regulatory framework as well as the standard process of the working of the first panel. The first panel is the holder of the fund/budget as well as the spending authority. The authority of scrutiny which is called pre-audit together with the issuing of payment orders will lie with the second panel (Pay & Accounts Panel). Accounting is also the responsibility of the second panel. However, this is different from the accounting responsibility of budget holders. In fact, this is the role of the second panel of maintaining government accounts rather than budget holder's accounts (budgetary accounting). The role of the third panel (Bank) is the maintenance of TSA. The fourth panel i.e. the State Audit Panel, entrusted with the responsibility of audit of government accounts and transactions and reporting the results through audit report to the Parliament. There are three streams of audit: Compliance Audit, Financial Audit, Performance Audit. There might be some special audit also. Constitutionally speaking, in deciding coverage and type of audit, Auditor General is independent of any person or authority.

To make things more understandable to you, I kept my discussion limited to only the central government rather than covering the public sector as a whole. Most part of the central government is linked with TSA and we termed it as the 'central budget sector'. In fact, all on-budget entities are linked with TSA. Autonomous bodies are not included here. Semi-autonomous are included when they do not have separate funds. They are part of government budget.

In our constitutional scheme, internal control systems are in place. The constitution is designed in such a way that there is a separation of power and the whole state machinery is within the internal control system. The Parliament enacts the law, executive implements it and the judiciary interprets it. Among these three organs, by practice, the executive is apparently more powerful than others, because the executive has got some sort of access to other organs, specifically to the legislature. The link between the executive and legislature is through the Council of Ministers (Cabinet). That's why to minimize the conflict of interest due to this overlapping in countries where Parliamentary system is practiced further check and balance through strong intervention of Parliamentary Standing Committees/Select Committees to strengthen public accountability is worked out.

We will see the cascading of internal control scheme from the top to the downstream. Constitutional body like CAG is not included in the PARTs meant for the Legislature, Judiciary, and Executive. There is a separate PART (PART-VIII) in the Constitution for CAG. It's a huge elevation. There are PARTs in the constitution for PSC and EC as well. If the constitutional scheme flows through the three organs of the state (legislature, judiciary and executive), where do the constitutional bodies stand? They are not hanging in the balance. They are the accountability agents, though not part of these organs. They work as effective sub-organs of the State for better functioning of three State Organs. That's why CAG, PSC and EC have been kept in separate PARTs of the Constitution as Constitutional Bodies. They do not fit into any Organs. They are neither part of the legislature, nor that of the executive or judiciary. They work as accountability agents. Similarly, as far as the PFM is concerned, the three panels that we identified in PFM is a sort of separation of power. Although there is interdependency among them as well as clear line of demarcation. First Panel (Budget Holders) spends the fund for public purpose, Second Panel (Pay & Accounting Panel) is engaged in pay and accounting function while Third Panel (Bank) maintains the TSA. This proves that, within the PFM system, to enhance check and balance separation of power exist as a measure of internal control system.

As I said earlier, government accounting is done at the second panel. It is the job of the second panel to prepare initial accounts. Recording of transactions after final payment is called the initial accounts. Entry in the cash book is made, once transactions are recorded. If there is a multiplicity in transactions, they should be recorded in the subsidiary records first and then in the Cash Book. Entry in the cash book is part of the initial recording. The job of the second panel is three-fold: make payments, maintain subsidiary and initial accounts, and compile the final account which is called the monthly and yearly account.

The Parliament provides Grants through approval of the 'Demand for Grants' every fiscal year beginning. As per our Constitution, the President is also part of the executive. The President, by promulgating the Rules of Business, delegates the power to PAO who is the super controlling officer because he has got the authority to sanction expenditure. There are controlling officers at different levels who provide sanctions according to their respective delegated authorities. You should note that the Controlling Officers provide sanctions, but they do not put their signature in the bills which is done by another official nominated by him. He is known as DDO, whose specimen signature is maintained by the second panel.

The controlling Officer is the budget holder, but DDO is not. DDO's functions are linked with pay and accounts. He performs functions like the signing of bills, sending them to pay and accounting Offices, and so on. The functions of DDO and budget holders are not the same. Budget holders may become DDO themselves and they may not. Sanction is accorded by the budget holder (controlling officer) and payment order is by issuing Authority/MICR Cheques/EFT from the pay and accounting panel.

What should be the recognition point for a transaction is a matter of principle and policy. It depends on the accounting based on which transactions are recorded. Let me give you an example. The first panel sanctions expenditure on the 2nd of a month and the second-panel issues cheques on the 5th. On which date expenditure is accounted for. As we follow cash-basis of accounting, in the government accounts this transaction will be recorded on the 5th of the month. Then again, initial accounting is the basis for the final accounting. The recognition points of initial accounts and that of final accounts should match. The question is why initial accounts? Our basis of accounts is cash for finance accounts. So, as per existing policy we prepare initial accounts for Finance Accounts, not for Appropriation Accounts. Appropriation Accounts is prepared as a by-product. These accounts used to be prepared from our pay and accounting system, but now following the PMBM Act 2009, the Appropriation Account is prepared as a special purpose statement of the budget holder from DDOs record.

Self-Accounting Entities (SAE)

Under cash basis of accounts, the initial accounts are prepared at the point from which cheques are issued. Say for example, budget holders procure goods and give sanction of expenditure on 2nd of a month, but the cheque is issued on the 5th, under cash-basis of accounting the transaction will be recorded in the government accounts on 5th, not on the 2nd. Because the transaction information did not travel down to the second panel on the 2nd. Initial accounts are always for the main accounts. As we said earlier, our main account is Finance Accounts and the Appropriation Account is the by-product. When we talk about the opening and closing of accounts, it is always a balanced account. There is no balancing account in Appropriation Account. The monthly account is a balancing accounting. It includes receipts, payments, and net cash flow balance. In complete accounts, there will be receipts, payments, and opening and closing cash balances. You will not get complete picture of transactions in CAFO's accounts. But in CGA's accounts, you will get complete picture. In Railway and CGDF you will get complete picture of transactions of their accounting circle.

The initial account is the basis for the final account and it is not the basis of the appropriation account, as mentioned earlier. Expenditure of the government is the basis of the Appropriation Account. When there will be accounting with flow and stock, we'll get the Balance Sheet of the Government. Now we carry out accounting exercises on flow. We are not doing stock accounting. We keep stock by working out separate statement. So, in the Finance Accounts, all financial assets (Opening balance + inflow-outflow = Closing balance) should be reflected. In full-blown accrual accounting transaction recognition points will also shift.

Some exceptions have been made in the arrangements for payment and initial accounts function within the 2nd panel. This exception was made for some Self Accounting Entities (SAEs). By retaining final account function within the 2nd panel, initial and subsidiary accounts including payment function are the feature of these exceptional arrangement. This means that payment function, subsidiary accounts and initial accounts will not be captured directly in the second panel and only final accounting will be done in this panel. The entities where this arrangement is in place is called Self Accounting Entities (SAEs), such as PWD, RHD, DPHE, Forest, Foreign Missions etc. though the terminology SAE has not been used in any Rule Book. In iBAS++, we have included a separate SAE module. They render Initial Accounts to respective CAFO.

SAEs are under the accounting control of CGA while CGDF and Railway is recognized as separate accounting circles. Technically speaking, even payment made by SAEs is under the control of CGA. Using the delegated authority from CGA, payment, initial, and subsidiary accounts, receipts are captured by SAEs but this is the job of the second panel.

The initial account of the receipts of these special departments is done by them, though the other receipts are captured through the treasury. But they work under the accounting jurisdiction of CGA using the delegated authority. Therefore, the cheques to be issued by them using delegated authority of CGA. The proof of this authority lies to the fact that, the officers of these departments take delivery of cheque books and money receipts from the CGA.

We are not going to cover Postal, Foreign Affairs, and Forest in detail. For these departments also, same arrangement applies with some modifications here and there accommodating individual peculiarities. RHD, DPHE and PWD belonged a group and they had the same history and uniform PFM framework. Originally, they belonged to one department called C&BI (Communication, Building, and Irrigation). At a later stage, WAPDA was created from Irrigation and was moved out from the budgetary sector. WAPDA became an autonomous body. Subsequently, WAPDA was again bifurcated into PDB and WDB. Even function of WASA was part of the irrigation department. DPHE was created for Water Supply and Sanitation Service outside WASA jurisdiction. C&B was divided into PWD and RHD, of course, LGED will not be included here.

Following the accounting arrangement of the BCG including PWD, RHD, and DPHE, the Accounts Code Vol-1, 2, 3, and 4 were prepared. More specifically, Account Code Vol-3 is meant for departmental accounts (SAEs) while the basic principles have been laid down in Account Code Vol-1 which may be treated as Accounting Standards prescribed by CAG. Vol-2 contains Initial Accounts in Treasury which is now Pay and Accounts Office. Vol-4 contains the final accounts or the process of Accounts Compilation. All these volumes should be re-written considering the changed environment both technologically and functionally.

The first change is that the treasuries are no longer exist. These have been converted into Pay and Accounts Offices. The second change is that accounts are now maintained by Pay and Accounts Offices under CGA instead of treasuries which were under Deputy Commissioner/Deputy

Collector. The third change is a new classification structure for which the compilation system will be changed dramatically. This Account Code is meant for the accounting arrangement of the BCG. The authority of Auditor General's prescription of forms and manner of accounts comes from Article-131 of the Constitution. Some of the major tasks of the second panel has been given to the SAEs as we know they spend, issue cheques, prepare cash book and also prepare initial accounts. Based on the accounts rendered by SAE's, the final account after 'post-audit before compilation of accounts' are done by respective CAFOs under CGA. However, the SAEs have to follow GFR, TR, Account Code Vol-3 in addition to other Rules and Regulation applicable to payment and accounting.

The SAEs have not been given accounting authority beyond the one given by the second panel. It is difficult on their part to follow the procedures as the departmental officers are mostly engineers. But they will have to do the tasks devolved upon them by the second panel. That's why they have got a special compendium which is known as the CPWA Code. As the name of Appropriation Accounts sometimes misguides us, so does the CPWA Code. It is not, in fact, an Account Code. It's a misnomer. It is a code book i.e. a compilation of the rules extracted from GFR, TR, and Account Code Vol-3. It works as a handbook for the engineers working in those departments.

Who should then issue CPWA Code? The departments have not been exempted from compliance of the CPWA Code and TR. So, it is the responsibility of the Ministry of Finance to issue this document as internal to the government. While issuing, due respect has been given to those provisions which are already there in the rules set out in Account Code Vol-1, 3 and TR. Hence, CPWA Code has the provision of budget, sanction, execution, payment, cash book, and other related matters. If you read through CPWA Code carefully, you will understand the working relationship of the SAEs with the second panel.

CPWA Code contains the form of a Cash Book maintained by the departments. All these were automated 15 years ago. Record keeping, initial accounts keeping, cash book maintenance, cheque entry – all these are now done electronically. They are now included in iBAS++. Since the departments are working with delegated authority, some gaps may arise while implementing iBAS++. Because the departments lack knowledge to carry out all the operations even though they are involved with huge volume of expenditure. They execute their own works from their own budget, and allocated budget from other departments and also do the deposit works on behalf of SPA/autonomous bodies. When a department within BCG places budget to PWD for certain work it should not be treated as Deposit Work because, they all belong to the same TSA arrangement. Some work to be termed as Deposit Work where actual money should be deposited to the TSA by the requisitioning SPA/Autonomous body for specific constructions of them to be executed by PWD as a contracting authority.

An agent should be engaged in all these SAEs for more Audit Assurance and for ensuring propriety. They are known as Divisional Accountant (DA). DA works as an implant on behalf of the 2nd Panel. He should be appointed by the 2nd panel. They will be working in the division for doing jobs of three categories. First, they are the financial advisors to the budget holders. Second, they are the Primary Auditor (substitution for pre-audit) and the Third is, they are the accounting assistants for maintaining cash books and other initial and subsidiary accounts. There were instances that the relevant CAFOs advised the departments not to send their vouchers to them, instead they should send to CAFOs only the top sheets. It was a wrong and dangerous decision because the 2nd panel is mainly responsible for post-audit before compilation and also maintaining accounts from the original vouchers rendered by the SAEs with their monthly accounts. Since the departments work on behalf of the 2nd panel, the original vouchers must come to the 2nd panel. Departments will sanction expenditure, make payments and send bills and vouchers to CAFOs. Earlier, it used to be sent initially to AG(Civil), then subsequently to AG (Works and WAPDA) but now these are being sent to CAFOs.

While incurring budgeted expenditures, maintenance of the cash book, and maintenance of initial accounts, will basically follow the CPWA Code as it contains the relevant instructions from GFR, TR, and Account Code. The departments send monthly accounts in the prescribed format. These departments have been authorized to receive money and make payments. So, they can issue money receipts that are supposed to be provided by CAFOs. Currently, these are being issued by DAFOs, but the basic authority lies with the CGA.

The cheque books having printed centrally by CGA are distributed among the departments on the basis of their requisitions. So, the relevant

CAFOs are responsible for maintaining records for cheque books. CGA should monitor whether such records are being maintained properly. If the reconciliation of cheques is done properly, it is possible to identify any fraudulent payments made at the department level. Because, if any payment is made by printing spurious cheques, it can be detected when the departments will place their requisition of cheques to CAFOs. Let me come back to the issue that I picked up for discussion. Once the departments are delegated with the tasks of the 2nd Panel, professionally qualified people are appointed to assist them so that they can perform the delegated tasks. These professionals are posted to the departments once they pass the professional examination (DA Part-1 and Part- 2). He works for the department as a financial advisor to the budget holder (Executive Engineer) as well as the primary auditor (works for the 2nd Panel).

If the budget holder overrules any of the advice of the Divisional Accountant, he must report it to the 2nd Panel in the prescribed format. This is supposed to reduce the audit cost. Now-a-days, such reporting hardly takes place which is largely attributable to the absence of practice. We should resurrect the practice by convincing the departments about its benefits. There had been a practice in the RHD department to admit running bills before the adjustment of the previous one which was discontinued 15 years ago. This was made possible by way of motivating them. If we can develop and impose a system, it becomes beneficial to all as well as it reduces the chance of external pressure to manipulate the system. It was, therefore, easier for us to introduce iBAS++ in RHD/PWD. If we can monitor cheques and money receipts properly, it would be easier to identify audit issues. Identification of risks would be much easier If CAFO after carrying out his post-audit review, share the results with the concerned audit directorate, who can in turn use this information for risk analysis as part of statutory audit planning.

CGA is providing money receipts and cheques as it was the responsibility of AG which is there in the rule book. Both Government and AG have grown in size over the years. This has resulted in the creation of CAFOs and therefore, it is their responsibility to monitor the records of cheque books, and money receipts. Money receipt is a very important document as the alternative to treasury challan. Normally, the government officers do not receive any money but the departmental officers of these departments receive money either by cheque or by cash. Money receipt is as important as a cheque. It has got serials for which accounts should be maintained and the receipts will come under audit scrutiny. Money received through the money receipts will be entered into the cash book and the money receipt numbers will be recorded there. The individuals who tender money will get a part of the receipt. And the other part will become part of initial accounts as vouchers. The amount of receipts will be entered on the debit side of the cash book, for example, on receipt of Toll, entry in the cash book would be: Department cash- Debit, Toll Receipt-Credit. The cash debited in the departmental cash book is not the cash of TSA. When CAFO will receive accounts, he will see whether cash has been included in the accounts against which money receipts have been issued. It is now easier to see it as the system is automated. In future, it would be possible to include scanned voucher in the system.

The Finance Accounts will show the toll amount as receipts. Now the question is where does the money lie? The final destination of this money is TSA. In the BCG, all money must go to TSA. The basic idea is that if an officer makes inordinate delays (inordinate is a legal term that connotes the behaviour of an individual which is not consistent with that of an individual of ordinary prudence), it becomes a punishable offense. The audit observation in this regard will not be a mechanical one. The government makes a deficit budget. So, the retention of money by the departmental officers without reasonable justification will raise borrowing costs for which responsibility should be fixed up. CAFO will know before it comes to the notice of the audit team for how long the department retained the toll receipts in their Cash Chest which should have been remitted to TSA. DA is responsible for following-up the record of receipts properly in the cash book and ultimate remittance to the TSA. DA is responsible because he is the primary auditor and accountant. The toll receipts will be deposited through treasury challan in the form of remittance to treasury. Remittance to the treasury is a PAR transaction, often termed as ‘below the line’. The department will get a copy of the challan after the deposit of receipts.

Let me take you to a different premise. The executive engineers on many occasions without adjusting running bills make payments through hand receipts. It has been observed that 4/5 of running bills remained unadjusted for the same work. Their successors used to face a lot of difficulties to adjust the bills. The only way of getting rid of this problem is to put in place a system. Currently, the RHD cannot admit any running bill without adjusting the previous running bills as there is a system in place. Once the money is deposited through treasury challans, there should an entry in the cash book: departmental cash-Credit, remittance to the treasury–Debit. The first copy of the treasury challan will come to CAFO. While reviewing the accounts, CAFO will see whether the remittance amount and the amount shown in the treasury challan agrees.

In future, this review will not be done manually, because a copy of the challan will come to CGA through Bangladesh Bank as part of the scroll. CGA makes an entry: Cash-Debit, Remittance to Treasury - Credit. This cash is the cash of TSA and the cash shown in the departmental cash book is the 'Departmental Cash'. In iBAS++ there will be matching with accounts of the division. CAFO will supervise this operation, extract the outstanding list and see whether there is any false challan. There are instances of such practice. The challan is showing an amount of Tk. 10,000.00 while the amount shown in the scroll is Tk. 100,000.00. If I recap the whole situation, this will appear like this: an amount of Tk.10, 000.00 will be entered in the department's cash book as toll receipts and there will be a corresponding remittance entry for the same amount. There will be a reflection of this transaction in the initial accounts. In the system, there should be an exercise of pairing between challan (as voucher in the account) and scroll (from the Bangladesh Bank), and the mismatch if there is any should be detected.

There is a special caveat about the three SAEs: PWD, RHD, and DPHE. They have been given the payment authority only against departmental work, not for the standard establishment. For this reason, they are not authorized to use departmental cheques for payment of pay and allowances and normal office supplies. PWD, RHD and DPHE has come from the same root and that's why they are guided by the same code. It is not correct to say that they are outside the 2nd panel. They are using delegated authority while operating within the ambit of the 2nd Panel. A superintending engineer cannot be given cheque because they are not he executing authority. We should bear in mind that the main account should always be supported by the cash book. The term 'Closing of accounts' has come from the idea of closing the cash book. Subsidiary records are maintained for works, stocks, muster rolls etc. For example, PWD maintains cash book and the schedules and registers maintained by them are subsidiary accounts.

The departments will maintain records of contractors' deposit for security deducted from Running or Final Bills initially, though the control accounts of the records are supposed to be maintained by CAFO which used to be maintained earlier by AG Works. For payment against contractors' deposit, there is no need for budget allocation. Payment should be made against the credit balance in the Contractor's Deposit Account. CAFO is responsible for watching the movement of balance. Deposit is a liability to the government. In the Finance Accounts, the balance against deposit is shown. It should be seen through audit trail whether the total balance of deposit match with the individual ledger balances of deposit. This should be controlled like the PF ledgers are controlled. In the SAEs, another important subsidiary ledger is maintained in the name of 'Contractor's Ledger' wherein all transactions under particular contract are recorded.

Deposit Works

In the case of PWD, RHD and DPHE, the amount that is spent within budget allocation is part of Appropriation audit. But of late within many other Grants (Budget) like Police, Agriculture there is a provision for building construction and the works are done by PWD. Many people call it deposit works. Is it correct to call it deposit works? No. No money lies with 1st Panel within the budgetary central government. It cannot give cheque to PWD rather it places the budget to the PWD by sending letter. If it happens anywhere, audit should raise observations. All transactions should take place within TSA. Since Agriculture as example is part of BCG, it cannot hand over cheque in advance to PWD even though it has got budget for thousand crores of taka in papers for construction works. Agriculture ministry will issue authority through CAFO Agriculture, to CAFO Works. The system can be called 'doing work through placement of budget', not to be termed as 'Deposit Works'. If the allocation cannot be spent, it will stand lapsed at the year-end.

Then what is deposit works? Within the budgetary central government, no money lies with any entity. There are other bodies within the General Government but outside BCG. These are normatively Extra-budgetary units, but more specifically, SPAs and Autonomous bodies. The SPA/ autonomous bodies can issue cheque to PWD against the estimated cost of the works. So is the case with the local government. No deposit works will be executed under the budgetary central government. The works will be executed through the placement of budget. If any autonomous body assigns any construction work to PWD, it will issue a cheque to PWD which in turn will make an entry in its cash book like this: Cash--Debit and Deposit for that building--Credit. In CAFO's account, this will be shown as autonomous bodies deposit to PWD. A deposit ledger will be maintained both at Divisions and CAFO. Money against the deposit account is not lapsable.

No budget is lapsable if it is not part of the budgetary central government. The fund for the operation of the central government comes through the Appropriation Act. As this Act remains in force till 30th June each year, the fund stands lapsed at the end of the date. Since this deposit by SPA/ Autonomous bodies is placed to PWD through issuance of cheques is part of PAR, it will not become lapsed. PAR balance diminishes either through utilization or refund. PWD will use their own cheques to spend against the deposit. Let's suppose, BIWTA, as an autonomous body, issues a cheque for Tk. 50 crore in favour of PWD for a deposit work. PWD will show this amount as deposit in its cash book and deposit the cheque through the treasury challan. The amount will thus go to TSA. But the amount will be shown as Credit to Deposit Works under PAR so that PWD can spend by using the divisional cheques by Debiting Deposit Works. If the cheque is deposited against any other account, it must be identified as a serious lapse in audit. The reason behind transferring the amount to TSA is to ensure supervision by CGA so that the money does not go outside government accounts.

This should come under the domain of 2nd Panel as it is fiscal expenditure. Another purpose is that if the amount against deposit work is deposited into the treasury, it will reduce borrowing by the government. The amount will lie with the treasury, but the accounting record will be kept under PAR as liability to the government. And the payment will be made to the contractor using PWD divisional cheques. CAFO will follow whether the deposit remains unutilized or whether there remains any surplus after the work is done and the surplus is paid back to the autonomous body through PWD cheques. Deposit work is part of the fiscal accounting system, and no separate bank account should be maintained. Once the deposit work is completed, a completion report should be prepared along with the accounts. The completion reports along with the balance of deposit, if any, should be sent to the concerned autonomous body.

Short Discussion on Defence and Railway Accounting Circle

Now, we will briefly discuss on Defence Accounting Circle. Rule-3 of The

Initial and Subsidiary Accounts Rules, 1952 relieved the Auditor General from the responsibility of keeping accounts of the Defence Services. The forms in which the accounts should be kept in the offices of the Defence Finance Department are prescribed by the CGDF (previously MAG), but if any change have any effect on the forms of the Finance Account, it will not be made without the previous approval of the Auditor General. With CGDF as its head, the Defence Finance Department is responsible to the Auditor General that suitable accounts are maintained in respect of the three arms of the Defence Services, viz., Army, Air Forces and Navy. The Defence Finance Department is constituted of several Defence Accounting sub-circles each controlled by an Accounts Officer, commonly known as the Controller, directly responsible to the CGDF in the matter of accounts arising in his sub-accounting circle.

Controllers act as the Financial Advisor to the Commander in his payment and audit area. They also assist the Divisional Commanders and Independent Brigade Commanders in the preparation of all estimates and furnish them regularly for controlling expenditure against grants placed at their disposal. They are responsible for consolidating the Punching Media properly and preparing monthly accounts of their respective areas submitted to CGDF. There are designated Controller (Senior Finance Controller, Works) also who is responsible for the payment of bills and consolidation of accounts in connection with the Military Engineering Service (MES) whose business is much alike that of the SAEs such as PWD, RHD, DPHE. Even, the role of the Primary Auditor, Financial Advisor to the engineers which is played by DA in SAEs, Unit Accountant (UA) plays same role as DA for the Garrison Engineers (equivalent to Ex-En). In Division or Area, there are Area Finance Controllers to render prompt services to various Units/Formations in their vicinity. Area Finance Controller arranges for the periodical Local Audit and Inspection of the cash and store accounts by the units and formations under his jurisdiction. There is also Controller for Bangladesh Ordnance Factory acting as the Financial Advisor to the Commandant, BOF who is responsible for preparing the Proforma Accounts (accrual based financial statements) of BOF. There is also Senior Finance Controller, Defence Purchase, who is the Financial Advisor to the DG, Defence Purchase. All the Controller deal with the accounts, disbursements, scrutiny/pre-check, Local Audit, and compilation of the accounts of their respective jurisdictions. Now-a-days the central Pension and Fund management office under CGDF has been established naming Controller, Pension and Fund which is the counterpart of the CAFO, Pension and Fund of Civil side. It is the duty of CGDF to conduct locally, the internal check of Accounts. i.e. Ledgers, returns, Stock & due sheets and/or such other records connected with Receipts & Issue of stores, required to be maintained by Army Supply, Stores Depots and Units/Formations as prescribed for the purpose in the various Books of Regulations and other Govt. orders issued from time to time for each class of Depot or Unit/Formation. One issue very important, that is the Local audit check is distinct from statutory audit of these accounts conducted by the representatives of Defence Audit Directorate (DAD). This is very effective tool for internal control which has been practiced since the birth of Military Accounts Department i.e. Defence Finance Department. The observations of local audit should be forwarded to Director General, Defence Audit Directorate (DGDA) to consider the observation for his statutory audit plan. This reduces cost of audit, in fact, the more the coverage of local audit is increased and made more effective, external audit will become a 'Superimposed' phenomena.

Let us talk about the Railway Accounting Circle. Bangladesh Railway, being a commercial undertaking keeps the accounts on commercial as well as cash basis. The Account of Railway presented as a commercial unit are called "Capital and Revenue Accounts" Accounts maintain with the requirement of government account i.e. Finance Accounts. There is a Traffic Accounts Branch which plays a vital role in bringing into account all the earnings correctly and timely. This branch brings into account all the earnings of Railway and carries out inspection on stations, internal check of earnings and compilation of Traffic Accounts. Check of earnings is carried out based on vouchers/returns sent by stations all through the month. Internal checks are called to distinguish it from the checks carried out by the Statutory Audit on the financial transactions of the Railway by DG, Transport Audit Directorate. The main function of the Railway Accounts Department under the control of the Financial Adviser & Chief Accounts Officer (FA&CAO) is to assist the Railway Administration in considering all proposals involving financial implications in accordance with the generally accepted standards of financial prudence and propriety. Currently there are two FA&CAOs in two zones of Railway, namely FA&CAO (East) and FA&CAO (West). For railway projects there is also an FA&CAO (Project). The Financial Adviser & Chief Accounts Officer is assisted at the Headquarters office by a Deputy/Additional Financial Adviser who, in turn, has several Accounts Officers reporting to him in connection with their respective duties involving financial scrutiny of proposals emanating from various departments of the Railway Administration, such DFA (workshop), DFA (Central Locomotive Workshop) for rendering financial advice as well as make payment after pre-check. One of the important functions of the Financial Adviser relate to the estimation of budget, setting up of a satisfactory system of Budgetary Control and compilation of accounts. The scope of financial scrutiny of proposals before obtaining the sanction of the competent authority may broadly be considered under the following two situations:

i) Where a proposal is within the powers delegated to the General Manager and officers subordinate to him; or

ii) where the proposal requires reference to the higher authority, being either beyond the powers of the General Manager or Involving an important matter of principle/policy.

It is obligatory for the Railway Administration to furnish to the Board a verbatim copy of the opinion expressed by the Financial Adviser & Chief Accounts Officer with every such proposal. The Financial Adviser & Chief Accounts Officer's appreciation of the proposal accompanying the Administration's letter should be sufficiently comprehensive and should not only contain his comments, if any, on the facts adduced in justification of the proposal but should also mention its financial and budgetary implications and his views as to its financial prudence.

Conclusion

The summary of session is as follows: There are three panels (excluding statutory audit) under BCG. These panels work independently which may be labelled as separation of power. At the state level power is separated through three organs. Within the PFM domain, the 1st panel is the most active as it sanctions expenditure. The 2nd panel is responsible for payment, initial and final accounts. The 1st panel maintains subsidiary records for budget expenditure and non-tax revenue. The 3rd panel records inflow and outflow of cash including borrowing and repayment. Within this standard panel, some exceptional arrangements are for certain departments. Some of the departments are descendants of C&BI. PWD, RHD and DPHE have emerged from C&B. These three departments under the delegated authority of the 2nd Panel will carry out the PFM functions. They make payments, do initial accounts and collect receipts. However, they will not work beyond the surveillance of the 2nd Panel. We hope that in future there will be a real-time connection between CGA and these departments. Proper records of check books and receipts should be maintained. The department collects receipts through money receipts and remits them to the treasury through the treasury Challan. So, amount of money collected through money receipts and amount remitted should be watched carefully. We have also touched upon though not deeply about Defence and Railway PFM. Further to note that, the fourth panel i.e. the Statutory Audit by the audit directorates under CAG; constitutionally speaking, work as a separate and distinct panel from that of first, second and third panel, though there is a link between the fourth and second panel administratively and for human resources management. To clarify further, audit function is a constitutional responsibility of the Auditor General (Article -128) to audit and report on compliance in the form regulatory and propriety (Compliance Audit), certification of accounts as to its correctness and reliability (Financial Audit) and to evaluate economy, efficiency and effectiveness (Performance Audit) to the Parliament.

List of Abbreviations

Sl. No.	Short form	Full Form
1)	ACS	Automated Challan System
2)	ADG	Additional Director General
3)	AFS	Annual Financial Statement
4)	AG	Accountant General
5)	AI	Artificial Intelligence
6)	BACH	Bangladesh Automated Clearing House
7)	BACS	Budgeting and Accounting Classification
8)	BCG	Budgetary Central Government
9)	BCIC	Bangladesh Chemical Industries Corporation
10)	BEFTN	Bangladesh Electronic Fund Transfer Network
11)	BIWTA	Bangladesh Inland Water Transport Authority
12)	BJMC	Bangladesh Jute Mills Corporation
13)	BOF	Bangladesh Ordnance Factory
14)	BSFIC	Bangladesh Sugar and Food Industries Corporation
15)	CAG	Comptroller & Auditor General of Bangladesh
16)	CAFO	Chief Accounts and Finance Officer
17)	CBS	Core Banking Solution
18)	CF	Consolidated Fund
19)	CGA	Controller General of Accounts
20)	CGDF	Controller General Defence Finance
21)	CO	Controlling Officer
22)	CPWA	Central Public Works Accounts
23)	CRR	Cash Reserve Ratio
24)	DAFO	District Accounts and Finance Officer

Sl. No.	Short form	Full Form
25)	DC	Deputy/District Collector
26)	DDO	Drawing and Disbursing Officer
27)	DESCO	Dhaka Electric Supply Company Limited
28)	DGDA	Director General, Defence Audit Directorate
29)	DPDC	Dhaka Power Distribution Company
30)	DPHE	Department of Public Health Engineering
31)	DSPF	Defence Services Provident Fund
32)	DSOPF	Defence Services Officers Provident Fund
33)	EC	Election Commission
34)	EFT	Electronic Fund Transfer
35)	FA&CAO	Financial Adviser & Chief Accounts Officer
36)	FC	Finance Controller
37)	GAO	Government Accountability Office
38)	GPF	General Provident Fund
39)	GTCL	Gas Transmission Company Limited
40)	iBAS++	Integrated Budget and Accounting System
41)	ICU	Internal Control Unit
42)	IFMIS	Integrated financial management information systems
43)	IoT	Internet of Things
44)	LGI	Local Government Institutions
45)	LPC	Last Pay Certificate
46)	MAG	Military Accountant General
47)	MFS	Mobile Financial Service
48)	MICR	Magnetic Ink Character Recognition
49)	NBR	National Board of Revenue
50)	NBFI	Non-Bank Financial Institution

Sl. No.	Short form	Full Form
51)	NID	National Identity
52)	NESCO	Northern Electricity Supply Company Limited
53)	PAO	Principal Accounting Officer
54)	PAR	Public Account of the Republic
55)	PEDP	Primary Education Development Program
56)	PEMSP	Public Expenditure Management Strengthening Program
57)	PGCB	Power Grid Company of Bangladesh Ltd
58)	PSC	Bangladesh Public Service Commission
59)	PWD	Public Works Department
60)	RHD	Roads & Highways Department
61)	RPA	Reimbursable Project Aid
62)	RTGS	Real Time Gross Settlement
63)	SAE	Self-Accounting Entity
64)	SFC	Senior Finance Controller
65)	SLR	Statutory Liquidity Ratio
66)	SOC	State Owned Corporation
67)	SOE	State Owned Enterprise
68)	SPA	Statutory Public Authority
69)	SPFMS	Strengthening Public Financial Management to enable Service delivery
70)	SRO	Statutory Rules and Orders
71)	TR	Treasury Rules
72)	UAO	Upazila Accounts Officer
73)	UGC	University Grants Commission of Bangladesh
74)	WMA	Ways and Means Advance
75)	WTO	World Trade Organization

CAG's Profile

Mr. Mohammad Muslim Chowdhury is a highly accomplished person, had an illustrious career in the civil service spanning over 33 years before taking Oath as 12th Comptroller and Auditor General (CAG) of Bangladesh. Having an in-depth and broad-based knowledge and experience on matters of Public Financial Management, Administration and Governance, he was a member of Bangladesh Civil Service (Audit and Accounts Cadre) 1984 batch. Prior to assuming the office of Comptroller and Auditor General of Bangladesh on 17th July, 2018, Mr. Chowdhury was Finance Secretary. Before his elevation to the position of Secretary to the Government of Bangladesh, he had served as Deputy Secretary, Joint Secretary and Additional Secretary in the Finance Division, Ministry of Finance. He had also held various positions under the Office of the Comptroller and Auditor General, Controller General of Accounts and Controller General Defence Finance.

During his long and illustrious career in the civil service, Mr. Chowdhury had pioneered the Public Sector Financial Management Reform and was awarded the "Jana Prashashan (Public Administration) Award, 2017" for his contribution to the improvement of Public Service delivery system. He was passionate about introducing E-Governance in Finance and engaged in a supervisory role at the IFMIS (iBAS++) development and implementation process. He led from the front in the development of "Government Pensioners Database" and "Government Employees Database" which brought discipline in the Government Pension and Salary management. He was actively involved in the initial formulation and implementation of PPP Framework in Bangladesh and drafted the PPP Strategy and Policy issued by the Government of Bangladesh. He had steered the formulation of New Budget and Accounting Classification System (BACS) in the Government planning, budgeting and accounting from Fiscal Year 2018-19.

Mr. Chowdhury was instrumental in streamlining the Public Debt Management System and had played an active role in designing 5,10,15,20 Years Treasury Bond (G-Sec) that brought discipline in the Long-term budget financing and paved the way for Debt Market Development. Mr. Chowdhury had initiated the process of transferring money directly to various safety net beneficiaries' accounts including government pension payments through G2P mode that brought revolutionary improvement in the public service delivery system. He had steered the process of formulating the draft of the Financial Reporting Act, 2015, an Act promulgated to streamline the process and bring discipline in the Financial Reporting and Auditing practices of Public Interest Entities (PIEs).

Mr. Chowdhury has introduced the innovative idea of Automated Challan (A-Challan), a Web Portal for receiving government receipts (Tax & Non-tax) through any bank/any branch, online or through Mobile Financial Service (MFS). For government payments, EFT/MICR cheques are being used across the board under his able leadership and guidance. These innovations have created a great comfort zone for Taxpayers in terms of hassle-free service, saving time and energy. Now, all government receipts and payments hit the Treasury Single Account (TSA) maintained with Bangladesh Bank almost on a real time basis that brought a profound improvement in the overall PFM, specifically in the area of Cash Management, Fiscal Reporting, Financial Reporting, Internal and External Audit.

His departure from the Finance Ministry in the wake of his taking Oath as Auditor General marked with a Cabinet Resolution passed by the Cabinet in its meeting acknowledging and thanking him for his sincere and dedicated service to the Nation spanning over 32 Years which was published through a notification in the Official Gazette on July 16, 2018. As a Consultant, Mr. Chowdhury worked in the PFM reform area with World Bank and DFID funded projects. In the past, he worked as Director on the Board of Directors of Bangladesh Bank, Bangladesh Krishi Bank, Sonali Bank Ltd. (also was acting Chairman), Bangladesh Biman, Titas Gas Transmission and Distribution Company Ltd., Eastern Refinery Ltd., Infrastructure Development Company Limited (IDCOL) and Dhaka BRT Company Ltd. He was also a member of Judicial Service Commission (JSC), Council Member of ICMAB and National Heart Foundation. He was the first MD and CEO of the Government-owned largest Infrastructure Financing Company, BIFFL. He worked as Director to the Board of Directors of SAARC Development Fund (SDF), Headquartered in Bhutan. He was also a Deputy Chairman of the Saudi Bangladesh Industrial and Agricultural Investment Company Limited (SABINCO) and Vice-Chairman of Islamic Development Bank-Bangladesh Islamic Solidarity and Educational Wakf (IsDB-BISEW).

He is a widely travelled person and has visited countries like USA, UK, Canada, Belgium, Denmark, France, the Netherlands, Sweden, India, Pakistan, Malaysia, Indonesia, Sri Lanka, Cambodia, Nepal, Japan, Bhutan, Singapore, the Philippines, Saudi Arabia, UAE, China, Hong Kong, Myanmar, Kenya, Morocco, Peru, Germany, Austria, Fiji, Australia, Thailand, Kuwait, Vietnam, Russia, Ethiopia and Turkey.

Mr. Chowdhury was born in a respected noble Muslim family of Chittagong. In his personal life, he is married. His wife Mrs. Sabina Haque is a teacher by profession. They are blessed with two daughters.