Government of the People's Republic of Bangladesh

Public Expenditure and Financial Accountability (PEFA)

Public Financial Management Performance Report (PFM-PR)

JUNE 2016

SPEMP
Strengthening Public Expenditure Management Program
MAKING PUBLIC MONEY COUNT

GOVERNMENT OF BANGLADESH

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Boxes, Figures, and Tables

Acknowledgments

The PEFA assessment was conducted between May and September 2015 in response to a request from the Government of Bangladesh. This PFM Progress Report was prepared by the oversight team that was led by **Winston Cole** (Senior Financial Management Specialist, Task Team Leader, GGODR); and **Nicola Smithers** (Lead Specialist, Co-Task Team Leader, GGODR) and included **Suraiya Zannath** (Lead Financial Management Specialist, GGODR); **Tracey Lane** (Senior Economist, GGODR); **Gretchen Melissa Biery** (Senior Governance Specialist); **Marghoob Bin Hussein** (Senior Procurement Specialist, OPSPF); **Sadia Priyanka** (Research Analyst, GGODR); **Nafisa Rusmila** (Program Assistant, SACBD); and **Tasfia Awal Miti** (Program Assistant, SACBD). Consultants included **Paul Harnett** and **Edwin Christopher Rodin-Brown** (International Consultants, GGODR); and **Ranjit Kumar** Chakraborty (National Consultant). Peer reviewers for the concept note and draft report were Finance Division; **Theo David Thomas** (Lead Economist, GMFDR); **Pazhayannur K. Subramanian** (Lead Financial Management Specialist) from the Finance Department; **Helena Maria Grandao Ramos** (Senior Public Finance Specialist, PEFA Secretariat) and **David Gray** (from DFID representing SPEMP development partners). Contributions were also provided by **Zahid Hussain** (Lead Economist, GMFDR) and **Afroza Alam** (Short-Term Consultant, GMFDR). **Tasfia Awal Miti** (Program Assistant SACBD), Umme Saima Sadia (Team Assistant, GGODR), **Sheikh Tanjeb Islam** (Economist, GMFDR) and **Shegufta Shahriar** (Team Assistant, GGODR) provided administrative and logistics support.

The PFM Progress Report was prepared under the guidance of **Fily Sissoko** (Practice Manager, Financial Accountability and Reporting, South Asia Region) and **Johannes Zutt** (Former Country Director for Bangladesh, Nepal and Bhutan).

The team would like to acknowledge the valuable support of a number of senior officials in the Government of Bangladesh for demonstrating full country ownership and providing leadership during the assessment and for participating in various consultative workshops. In particular, the team acknowledges the contribution and leadership of **Mr. Mahbub Ahmed**, Senior Secretary; **Mr. Jalal Ahmed**, Additional Secretary, Finance Division, Ministry of Finance; **Mr. Muslim Chowdhury**, Additional Secretary, Finance Division, Ministry of Finance; **Mr. Kazi Shofiqul Azam**, Additional Secretary, Economic Relations Division, Ministry of Finance; **Mr. Md. Habibur Rahman**, Joint Secretary (Budget – 1), Ministry of Finance; **Mr. Abu Daiyan Mohammad Ahsanullah,** Deputy Secretary, Ministry of Finance.

A list of officials with whom the team interacted in the course of the PEFA assessment is provided in Annex 5. The team is grateful to all participants for their inputs and cooperation.

Currency and indicative exchange rates
Local currency unit = Bangladesh Taka (Tk)
US$1.22 = 100 Tk

Fiscal Year
July 1 to June 30

Fiscal years covered in this report
FY 2011/12, FY2012/13, and FY 2013/14
And information at the time of assessment

PEFA Check

PEFA assessment report of Bangladesh

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat,

July 13, 2016

Abbreviations and Acronyms

ADP	Annual Development Program	IDA	International Development Association
ASYCUDA	Automated System for Customs Data	IPF	Institute of Public Finance
BAC	Budget and Account Classification (System)	ISSAI	International Standards for Supreme Audit Institutions
BCC	Budget Call Circular	IMED	Implementation Monitoring and Evaluation Division
CIDA	Canadian International Development Agency	IMF	International Monetary Fund
CGA	Controller General of Accounts	INTOSAI	International Organization of Supreme Audit Institutions
COFOG	Classification of the Functions of Government	IPSAS	International Public Sector Accounting Standards
CPAR	Country Procurement Assessment Report	MBF	Ministry Budget Framework
CPI	Consumer Price Index	MDA	Ministry/department/agency
CPTU	Central Procurement Technical Unit	MoF	Ministry of Finance
DAC	Development Assistance Committee	MTBF	Medium-term budget framework
DANIDA	Danish International Development Agency	MTMPS	Medium-Term Macroeconomic Policy Statement
DFID	Department for International Development (UK)	NBR	National Board of Revenue
DMFAS	Debt Management and Financial Analysis System	NGO	Non-government organization
DMTBF	Deepening Medium-Term Budget Framework and Strengthening Financial Accountability Project	OC&AG	Office of Comptroller and Auditor-General
ECF	Extended Credit Facility	OECD	Organization for Economic Co-operation and Development
e-GP	Electronic-Government Procurement	PAC	Public Accounts Committee
EU	European Union	PEFA	Public Expenditure and Financial Accountability Assessment
FMIS	Financial Management Information System	PFM	Public Financial Management
GDP	Gross Domestic Product	PI	Performance Indicator
GFS	Government Finance Statistics	PM&BM	Public Money and Budget Management (Act)
GoB	Government of Bangladesh	PPP	Purchasing Power Parity
GNI	Gross National Income	PR	Performance Report
iBAS	Integrated Budgeting and Accounting System	PROMIS	Procurement Performance Monitoring System
ICT	Information Communications Technologies	SAI	Supreme Audit Institution
IIA	Institute of Internal Auditors	SOE	State-owned Enterprise
ISPPIA	International Standards for the Professional Practice in Internal Audit	TIN	Taxpayer Identification Number
IT	Information Technology	VAT	Value Added Tax

Executive Summary

This PEFA assessment is designed to provide the Government of Bangladesh (the Government), its development partners, and other stakeholders with a full picture of the Public Financial Management (PFM) system of the country. This is of critical importance to meeting the Government's fiscal and broader development objectives. The assessment will assist the Government in identifying remaining PFM weaknesses that may inhibit the realization of its Strategic Plans and the reform efforts currently being developed for PFM. This report provides a basis for dialogue within the Government and with Bangladesh's development partners regarding appropriate future PFM reform actions.

This PFM Progress Report reviews the performance of Bangladesh's PFM system based on an application of the 2016 PEFA assessment methodology aligned from the 2015 testing version of the PEFA Performance Measurement Framework. The assessment involved capturing a snapshot of the performance of the national (central) government PFM system, processes, and institutions in a set of 31 performance indicators (and associated dimensions), categorized into 7 critical pillars of performance. It does not assess government policies and capacity. This PEFA assessment provides a baseline against which future PEFA assessments can be measured using the same scoring criteria (see Table ES1).

As well as the 2016 framework, the information gathered was also used to score against the 2011 PEFA framework, which was the framework used for the 2010 PEFA assessment. To that extent this is also a repeat PEFA. The PEFA fieldwork was conducted from May to September 2015. The assessment covered the central government and the public corporation sector, and local government where relevant. For indicators requiring historical data, the periods covered included fiscal years (FY) 2011/12, 2012/13, and 2013/14. The last completed FY indicators came from FY2013/14 and the time of assessment for the remainder information.

Bangladesh has made positive strides in developing its PFM systems since the 2010 PEFA assessment. However, this is often not reflected in scoring as developments have not been fully implemented, for example, in procurement, internal audit, oversight of public corporations, and external audit. Weaknesses therefore remain, particularly in the control environment and tax reconciliation, as well as inefficiencies resulting from the fragmentation of the recurrent and development budgets that continue to exist. Sustainable political will is required to instill a compliance culture and to successfully implement the next generation reforms.

A. Impact of PFM Systems on Performance in Bangladesh

The PFM systems in Bangladesh have impacted on PFM performance in the following ways.

1. Aggregate fiscal discipline

The deficit targets have been met, meaning that aggregate fiscal balance has been maintained. Projections do not include different macro-forecast scenarios.[1] Risks to revenue and expenditure is discussed qualitatively in the Medium-Term Macroeconomic Policy Statement (MTMPS), however its quantitative analysis or the creation of various scenarios are not done. Both revenue and expenditures have fallen short of the original budgeted amounts during the assessment period resulting in a lack of efficiency in the use of public funds. While the lack of commitment controls has not resulted in over-expenditure, the ability of the Government to achieve its policy objectives is seriously hampered through shortfalls in expenditure against the original approved budget and functional redirection of expenditures during the year. All in all, there is room for improvement of budget credibility.

[1] Chapter 2, Medium-Term Macroeconomic Policy Statement for 2015-18.

Some improvements have been made toward fiscal risk oversight. The 2011 annual monitoring was successfully completed. The well-functioning mechanism for debt contracting and issuance of guarantees, reporting of the government guaranteed debt, and the high quality of debt data contribute to fiscal discipline. Continued improvements in the external oversight mechanisms and the parliamentary scrutiny of the government financial operations are expected to contribute to fiscal discipline.

2. Strategic allocation of resources

Progress has been made in introducing a medium-term perspective to budgeting, but weaknesses in the annual budget remain. Progress has been made in establishment of medium-term ministry budget frameworks and inclusion of performance information with budget documentation. However, the strategic allocation of resources is undermined by weaknesses in the linkage between the medium-term budget with sector strategies and performance indicators. Linkages are also weak between the development budget and non-development budget processes. In addition, there has been a significant deviation from the budget in the composition of expenditures; the scaling down of supplementary budgets would ensure that strategic priorities determined through the budget formulation process remain in place. Including a systematic annual report on the financial operations of extra-budgetary funds would enhance the Government's strategic allocation capabilities.

3. Efficient use of resources for service delivery

There is a good degree of predictability in funding for ministries, but there are weaknesses in revenue and expenditure controls and in reporting and accountability mechanisms. The current weaknesses in the procurement system could have adverse implications for the efficiency in service delivery. While e-procurement is being rolled out, it will need to be made operational and effective. Significant delays in the finalization of annual financial reports reduce the effectiveness of external audits and their scrutiny as accountability mechanisms and counter checks on inefficient use of resources. Independence in the arrangements for publicizing reports is hampered by routing through the President's Office instead of directly to Parliament. Timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function, is hampered by the backlog of submitting audit reports to Parliament. On the revenue side, operational efficiency is compromised by the lack of data on assessments and arrears. Lack of effective tax debt collection undermines credibility of tax assessments and the principle of equal treatment of taxpayers. Consolidation of cash balances would also be important for more efficient liquidity management and improve operational efficiency.

B. Overall Improvement on PFM Processes and Procedures

Overall there has been a renewed focus on PFM activities and a continued emphasis on improving PFM processes and procedures. The major PFM reform project, Deepening Medium-Term Budget Framework and Strengthening Financial Accountability Project (DMTBF), closed in 2014. However, the development of an Integrated Budgeting and Accounting System (iBAS++) has continued which when fully implemented should strengthen many control procedures, and address weaknesses in accounting and recording when implemented. There is an opportunity to expand the comprehensiveness of the budget. This can be done in tandem with the existing budget calendar and improvements in the multi-year perspective and potentially revised chart of accounts that are compliant with internal standards under iBAS++. Improvements in procurement processes are ongoing and should improve as e-procurement increases coverage. Bringing the audit of government accounts up to date by preparing the annual financial statements in a timely manner is an important task in hand. Scrutiny by the Public Accounts Committee (PAC) has started but is yet to reach the level of operating to its full potential. A new VAT Act was enacted in 2012. However, other elements of the Government's Tax Modernization Plan have not been effected.

Except for credibility, comprehensiveness, and transparency of the budget, performance of the other dimensions of the budget cycle has improved when measured on a consistent basis using the 2011 framework: 7 performance indicators improved; 14 remained the same; and 7 deteriorated. External scrutiny and audit still remain weak spots in the PFM system.

OVERVIEW OF THE SCORES OF THE PEFA INDICATORS

PFM Performance Indicator		Scoring Meth-od i.	Dimension Ratings				Rating 2015
			ii.	iii.	iv.		
Pillar I. PFM-OUT-TURNS: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	D	C	A		D+
PI-3	Revenue outturn	M1	D	B			C
Pillar II-III. KEY CROSS-CUTTING ISSUES:							
	II. Transparency of public finances						
PI-4	Budget classification	M1	C				C
PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	D*	D*	D*		D
PI-7	Transfers to subnational governments	M2	C	D			D+
PI-8	Performance information for service delivery	M2	C	B	D	D	D+
PI-9	Public access to fiscal information	M1	D				D
	III. Management of Assets and Liabilities						
PI-10	Fiscal risk reporting.	M2	D	D	C		D+
PI-11	Public investment management	M2	D	B	D	B	C
PI-12	Public asset management	M2	C	D	D		D+
PI-13	Debt management	M2	B	D	A		B
Pillars IV-VII. BUDGET CYCLE							
	IV. Policy-based fiscal strategy and budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		D+
PI-15	Fiscal strategy	M2	D	A	B		B
PI-16	Medium-term Perspective in expenditure Budget-ing	M2	A	A	D	D	C+
PI-17	Budget preparation process	M2	A	B	D		B
PI-18	Legislative scrutiny of budgets	M2	A	C	A	A	C+
	V. Predictability and Control in Budget Execution						
PI-19	Revenue administration	M2	B	D	D	D	D+
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	A	B	A	B+
PI-22	Expenditure arrears	M1	D*	D*			D
PI-23	Payroll controls	M1	B	B	C	C	C+
PI-24	Procurement management	M2	B	B	B	B	B
PI-25	Internal controls on non-salary expenditure	M2	A	D	D		C
PI-26	Internal audit	M1	D	NA	NA	NA	D
	VI. Accounting and Reporting						
PI-27	Financial data integrity	M2	D	A	D	A	C+
PI-28	In-year budget reports	M1	A	C	C		C+
PI-29	Annual financial reports	M1	D	D	C		D+
	VII. External Scrutiny and Audit						
PI-30	External audit	M1	D	D	D	C	D+
PI-31	Legislative scrutiny of audit reports	M1	D	A	A	B	B

1. Introduction

1.1 Recognizing the importance of strengthening public financial management (PFM), the Financial Management Reform Strategy and Medium-Term Rolling Action Plan were adopted by the Government of Bangladesh (the Government) in 2006 to guide the continuation of reforms initiated in the 1990s.

1.1 Rationale and purpose

1.2 The PFM reform strategy laid out the Government's vision, main objectives, and high-level reform actions to be undertaken over a five-year period. These included (a) maintaining aggregate fiscal discipline through a medium-term macroeconomic and budget framework; (b) allocating resources in accordance with Government priorities as reflected in the National Strategy for Accelerated Poverty Reduction II; (c) promoting efficient use of public resources and delivery of services through better budget execution and enhanced transparency and accountability; and (d) strengthening the role and performance of the Office of Comptroller and Auditor General (OC&AG), Bangladesh's supreme audit institution. Backing the implementation of the strategy, five development partners pooled resources of US$110 million (Tk. 7610.34 million) into a multi-donor trust fund in 2009.[2] The Strengthening Public Expenditure Management Program (SPEMP) administered by the World Bank has helped to finance the PFM reform program since 2009 and a number of analytical reports to guide the process of PFM policy development. Arrangements for monitoring and coordination of PFM reform activities include the SPEMP Joint Government/Donor bi-annual meetings.

1.3 Building on two decades of gradual transformation, PFM reforms have led to several advances. This progress has been seen in the successful introduction of a medium-term outlook to the budget, improved automation of the budget and accounting systems, and better-trained PFM personnel. There have been several advances in PFM reforms over the last 10 years: (a) consolidation and amendment of the PFM regulatory framework and the introduction of the Public Money and Budget Management Act 2009; (b) introduction of a modern procurement framework with the Public Procurement Act 2006 and Public Procurement Rules 2008 and electronic procurement system;[3] (c) development of the Tax Modernization Plan 2011-2016, which was endorsed by Parliament and the VAT and Supplementary Duty Act 2012, which is due to be brought into effect in 2016; (d) the development of a new budget classification and chart of accounts in FY14 (although this is yet to be approved and adopted); (e) upgrade of the Debt Management And Financial Analysis System (DMFAS 6.0 was installed in 2013/4) and the drafting of a new medium-term debt strategy based on a debt sustainability analysis; and (f) the establishment of an Institute of Public Finance in FY14 and a widespread investment in building the capacity of accounting, auditing, budgeting, and other PFM skills.

1.4 That said, several important PFM policy measures remain "under discussion" with proposals not receiving full endorsement, thereby introducing an element of impasse in several reform areas. The 2016-2021 PFM Reform Strategy notes that achievements and progress made toward the PFM reform action plan targeting 2007-12 goals has been disappointing, indicating the need to be realistic and more aligned to current capacity. Although many initiatives were introduced, they were mainly piloted in a few

[2] The development partners include DFID, EU, Netherlands, DANIDA, and CIDA. The Netherlands pulled out of the trust fund in 2014 as a result of changes in their program priorities.

[3] The introduction of an e-Government procurement system in 2010 is being rolled out for the efficient adoption of standard national competitive bidding. It is being used in several agencies such as Bangladesh Water Development Board, Rural Electrification Board, Roads and Highways Department, and Local Government Engineering Department.

ministries and not systematically adopted and rolled out; this was mostly a result of the need for high-level commitment and greater technical capacity required to more these initiatives forward. Several other examples have already been alluded to above: (a) an Audit Act, which provides for full independence of OC&AG, has been drafted but has been pending since 2010; (b) an Internal Audit Strategy and establishment of an internal audit cell in the Ministry of Finance (MoF) for driving implementation of the strategy across the line ministries has remained halfway through the process; and (c) the budget classification and account code has been drafted but has yet to be submitted by Ministry of Finance to the OC&AG for approval. Furthermore, several important reforms are not under active consideration despite having been recommended in the past such as the integration of the revenue and development budgets; better linkage with the national plan, sectoral- or ministry-level policies, and the budget; and the reorganization of the tax administration along functional lines.

1.5 In the case of revenue management, a comprehensive Tax Modernization Plan 2011-16, while endorsed at the highest levels, has not been brought into effect. The plan would have helped achieve the Government's aim to raise revenue as a percentage of GDP from 13 percent to 17 percent. Due in part to a lack of enthusiasm from senior leaders and within the rank and file of the National Board of Revenue, this far-reaching blueprint for major reforms has not gotten off the ground. Instead, pragmatic reforms to modernize the administration within the existing administrative arrangements, such as by the tax wing (VAT, income tax, and customs), have moved forward. In the income tax wing, there has been a cleanup of the taxpayer registration database and a drive to increase formal registration with the help of a new on-line system for issuing tax identification numbers, which is linked with the national identity number and database to avoid duplication and false registration. The main changes to the tax policy regime, which are moving forward, are in the context of the VAT and Supplementary Duty Act 2012 that, according to the Ministry of Finance in the June 5 Budget Speech, is expected to become effective July 1, 2017, once a comprehensive automation and reform of the VAT wing has been affected.

1.6 The last PFM reform strategy covered the period 2006-2011. The 2015 PEFA assessment is strategically timed to influence the debate and design of the next PFM reform strategy, which should in turn be captured in the Seventh Five-Year Plan 2016-2020. The timing of the assessment is also important from the point of view of the harmonization of development partner's assistance to the reforms as the multi-donor trust fund will close in December 2016, and all activities under the Trust Fund will end in June 2016.

1.7 The overall objective of the PEFA is to provide an evidence-based performance assessment to guide the Government's next PFM strategy and potential development partner PFM programs. The standard PEFA assessment only provides a snapshot of the PFM status, which can be used as a basis for stakeholders to coordinate and plan downstream PFM-related assessment work that the Government may be contemplating over the medium term. Such work would typically include drill-down analysis of PFM systems and processes related to specific sub-topics (e.g., procurement, as is already the case with the OECD-DAC procurement assessment tool) on the basis of system performance weaknesses identified in the PEFA assessment report. Therefore, to guide the next PFM reform strategy, the PEFA report will be used to drill-down to identify the specific causes and highlight the effects and risks in achieving the three budgetary outcomes: (a) aggregate fiscal discipline; (b) strategic prioritization of need and allocation of resources; and (c) efficient service delivery and value for money. The human resource capability and change management factors will also be considered.

1.2 Assessment management and quality assurance

1.8 The assessment was led by the World Bank and financed by SPEMP with complementary funding by the Bank budget and with Finance Division of Ministry of Finance as the main counterpart. The approach undertaken for the assessment was characterized by the following features: (a) full government ownership emanating from a request for the assessment and establishment of a Government Task Force with assigned focal points;[4] (b) training of focal points to undertake self-assessment after training on the scoring methodology and evidence requirements; (c) validation of the draft report in a participatory workshop followed by face-to-face interviews; (d) assuring government counterparts that the PEFA is not an audit even though evidence-based and that they should focus on reform implications rather than the scores; (e) involvement of non-state actors/think-tanks and development partners; and (f) robust World Bank quality assurance mechanism through peer reviewers, seeking the PEFA-Check and MoF sign-off for publication.

1.9 The PEFA was launched between May 18 and 22, 2015 during which government focal points attended training on the scoring methodology and evidence requirements. The focal points were mapped agency-wise by the performance indicators (PI) and after the training were provided with a template to do self-assessment scoring of assigned performance indicators. The participation of five Additional Secretaries at the PEFA launch workshop signaled a strong interest within government. Government ownership was also demonstrated during the assessment considering the report provided strategic input for the Seventh Five-Year Plan 2016-2020 and the next rolling PFM reform strategy. Key also was participation of civil society, professional organizations and think-tanks.[5]

1.10 The second field mission was undertaken between June 22 and 30, 2015; and mission members reviewed/facilitated the draft self-assessment scores. A wrap-up was held with the government counterparts and chaired by the Finance Division. The mission represented an important milestone in the process with sharing of initial scores based on available evidence, from which gaps were identified and requirements specified to obtain further information to justify the proposed scores or amendments to those scores. Government counterparts committed to fill identified information gaps to ensure full credit is provided for performance achieved and to brief Senior Management on the PEFA indicative scores. This was important aspect since part of the strategic communication and change management process was to avoid surprises.

1.11 During September 6-10 2015, the draft Public Financial Management Performance Report was validated by the stakeholders. Feedback received was used to update the report and include the scores using the 2011 framework. The draft assessment report was circulated for comments by virtual review on June 13, 2016. Decision Meeting Minutes were cleared on July 19, 2016. The updated report was subjected to the Bank's quality assurance by peer reviewers to seek Management approval for dissemination. The assessment management and quality assurance arrangements are described in Box 1-1 below.

[4] The overall Government PEFA Task Force focal point was Mr. Md. Habibur Rahman, Joint Secretary (Budget-1, Finance Division).

[5] Executive Director, Transparency International Bangladesh; President, Institute of Chartered Accountants Bangladesh; and Head of Relations, ACCA Bangladesh.

Box 1-1: Assessment management and quality assurance arrangements

PEFA Assessment Management Organization

Oversight Team

The PFM-PR was prepared under the guidance of Fily Sissoko (Practice Manager, Public Resource Mobilization and Management, South Asia Region); Johannes Zutt (Country Director) at concept note stage and Qimiao Fan (Country Director) for the decision meeting.

The Government Task Force (oversight committee) was led by the Finance Secretary and comprised of a group of high-level representatives such as the Additional Secretary, Budget, Finance Division; Additional Secretary, Treasury and Cash Management, Finance Division and representative from the Office of Controller General of Accounts and the Comptroller and Auditor General.

The report was prepared by a team led by Winston Cole (Senior Financial Management Specialist, Task Team , GGODR); Nicola Smithers (Lead Specialist, co-Task Team Leader, GGODR) and include Suraiya Zannath (Senior Financial Management Specialist, GGODR); Tracey Lane (Senior Economist, GGODR); Marghoob Bin Hussein (Senior Procurement Specialist, GGODR); Sadia Priyanka (Research Analyst, GGODR); and Nafisa Rusmila (Team Assistant, SACBD). Consultants include: Paul Harnett and Edwin Christopher Rodin-Brown (International Consultants); and Ranjit Kumar Chakraborty (National Consultant). Contributions were also provided by Zahid Hussain (Lead Economist, GMFDR) and Afroza Alam (Short Term Consultant, GMF06). Tasfia Awal Miti (Team Assistant SACBD); Nafisa Rusmila (Team Assistant SACBD); Sheikh Tanjeb Islam (Short Term Consultant, GGO24); and Shegufta Shahriar (Short Term Consultant, GGODR) provided administrative and logistics support.

Invited and reviewers who provided comments between April 4-19, 2015 on the Concept Note issued on April 2, 2015 for virtual review:

GoB Finance Division, Mr. Theo David Thomas (Lead Economist, GMFDR); Mr. Pazhayannur K. Subramanian, Lead Financial Management Specialist; Helena Maria Grandao Ramos (Senior Public Finance Specialist, PEFA secretariat); and David Gray, DFID (representing SPEMP development partners).

Review of the Assessment Report

GoB Finance Division; Mr. Theo David Thomas (Economic Adviser, OPSPQ); Mr. Pazhayannur K. Subramanian (Lead Financial Management Specialist); David Gray, DFID (representing SPEMP development partners); and PEFA secretariat) provided comments on the draft assessment report that was circulated for virtual review on June 13, 2016 and Decision Meeting Minutes cleared on 30th September 2016.

1.3 Assessment methodology

1.12 The 2015 upgraded PEFA Framework (testing version)[6] was used and covered FY2011/12, FY2012/13 and FY2013/14. This was later aligned to the 2016 methodology, which required extra information gathered in the field. The scope of the assessment covered the operations of the central government of Bangladesh. This includes the transfers to local governments and the transparency of intergovernmental relations. Given the centralized nature of fiscal management and public administration,[7] the scope was not extended to local government operations (Union Parishads or Pourashavas).

1.13 Pilot testing offered the following advantages: (a) improved relevance and quality of the analysis due to the new features of the upgraded framework such as new indicators covering fiscal strategy, revenue budgeting, public investment, and asset management practices; and (b) a baseline that establishes the basis of upgraded indicators for future comparison and performance monitoring at the earliest opportunity. This progress report is prepared on the basis of the 2016 PEFA Framework with an additional step of applying the 2011 framework as summarized in Annex 1(a). It was agreed with the Government in the inception phase of the work that donor practice indicators will be excluded since these will be measured by the OECD benchmarks going forward.[8]

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[6] *https://pefa.org/en/content/country-testing-version-upgraded-pefa-framework - this includes Country Testing Version of the Upgraded PEFA Framework 2015, the upgraded field guide and guidance on transition and comparability.*

[7] *As per data available of Union Parishad expenditure in FY12, it represents approximately 1.5% of total government expenditure.*

[8] *https://www.oecd.org/dac/effectiveness/20896122.pdf*

2. Country background information

2.1 Situated in a fertile low-lying river delta at the confluence of the mighty Jamuna, Padma, and Meghna Rivers, Bangladesh combines high vulnerability to floods, tropical cyclones, earthquakes, and climate change with one of the world's highest population densities with around 160 million people living in less than 150,000 square kilometers. The Sundarbans mangrove forest covers about 6,000 square kilometers of southwest Bangladesh while some hilly tracts flank its northeastern and southeastern borders with India and Myanmar. The salinity-prone southern region, whose 710-kilometer coastline includes the world's longest unbroken natural beach in Cox's Bazaar, provides around 30 percent of its total cultivable land. About 31 percent of Bangladesh's population resides in urban areas, about 5 percent lives in the national capital Dhaka, and around 2 percent in Chittagong, the main port city.

2.2 Bangladesh has experienced a variety of forms of government since its independence. Bangladesh returned to electoral democracy in 1991 after the fall of a military government, following which the Awami League and the Bangladesh Nationalist Party have rotated power through mostly free and fair polls. Lack of popular trust in elected government to conduct free and fair election prompted formation of a caretaker government in 1991 and was adopted as part of the Constitution in 1996. In 2011, the ruling Awami League abolished, through amendment of the Constitution, the system of having a caretaker government to oversee national elections. Demanding the restoration of the caretaker government provision, the opposition Bangladesh Nationalist Party boycotted the national elections in January 2014. The Awami League won the election for the second consecutive term. While in power, both parties have generally exhibited strong commitment to the country's long-term development agenda.

2.1 Country economic situation

2.3 Bangladesh has proven to be remarkably resilient and progressed well beyond expectations at the time of its independence. With the world's second-lowest, per capita income in 1975, the country was labeled "the test case for development" in view of the formidable development challenges it faced. However, Bangladesh has sustained accelerating growth (Table 2-1) and has made excellent progress in human development. It is world-renowned for its non-governmental organizations (NGOs) like Bangladesh Rural Advancement Committee and Association for Social Advancement; and microfinance institutions like the Grameen Bank, which have pioneered innovative mechanisms to provide services to the poor. Successive governments have exhibited willingness and flexibility to work with NGOs in efforts to experiment with community-based approaches to service delivery; some have achieved notable successes in several areas. Despite starting well behind India in 1971, Bangladesh ranks above its neighbor to the south in most human development indicators as well as above many other low- and lower-middle-income countries with similar or better initial conditions at the time of its independence. Bangladesh's GNI per capita has grown more than tenfold, from around US$100 (Tk.730.00) in 1972 to US$1,190 (Tk. 92,432.77) (Atlas method) in FY15.

Table 2-1: Selected economic indicators			
	FY 2013-14	FY 2012-13	FY 2011-12
GDP at current prices (in million Tk.)	13,436,744	11,989,232	10,552,040
GDP per capita (in USD)	1,110	976	880
Real GDP growth (%)	6.06	6.01	6.52
CPI (annual average change) (%)	7.35	6.78	8.69
Gross government debt (% of GDP)	35.8	36.6	37.5
External terms of trade (annual percentage change)	0.001	-0.002	-2.21
Current account balance (% of GDP)	0.9	1.5	-0.3
Total external debt (% of GDP)	15.6	16.6	17.6
Gross official reserves (months of import value)	5.9	4.7	3.3

Source: Finance Division, Bangladesh Bank, Bangladesh Bureau of Statistics.

2.4 There are five striking achievements of Bangladesh since independence that merit special mention:

- Domestic rice production (the main food crop) rose from around 12.3 million metric tons in the 1980s to 37.6 million metric tons in 2014 due to uptake of high-yield varieties, improved availability of fertilizer and other key inputs, and better irrigation.[9]
- Stronger, disaster-coping mechanisms have reduced impact of recent storms, cyclones, and floods; the Government, with active community participation, has devised effective strategies to mitigate damage from these natural disasters, including early warning and response systems and many cyclone shelters.[10]
- Development of the extensive rural road network built in the 1980s by the Local Government Engineering Division has blurred the rural-urban divide and helped develop a continuum linking Dhaka, Chittagong; and other secondary cities, towns, market centers, and villages.[11]
- Impressive achievements of the pro-active family planning program helped lower total fertility from over 6 children per woman in the 1970s to 2.3 in 2014.
- Special initiatives were taken to tackle gender inequality and promote women's empowerment,[12] including a schooling system that expanded girls' education, mobilization by NGOs of women through gender-targeted, micro credit, and—more recently—proactive recruitment of women by the fast-growing, readymade garments industry.

2.5 GDP growth in Bangladesh has accelerated during the past three decades. Annual GDP growth rose from 3.7 percent in the 1980s to 4.8 percent in the 1990s and 5.6 percent in 2000s, and over 6 percent since 2010 (Figure 2.1). Bangladesh graduated to the World Bank's low middle-income country category

[9] *Mustafa Mujeri, Nazneen Ahmed, and Mohammad Iqbal Hossain, Managing Rice Value Chain for Improved Food Security in Bangladesh, Bangladesh Institute of Development Studies, Policy Brief Number 1401, April 2014.*

[10] *See for instance Cash, R.A., S.R. Halder, M. Husain, and others, Reducing the Health Effect of Natural Hazards in Bangladesh, Lancet 2013. http://dx.doi.org/10.1016/S0140-6736(13)61948-0.*

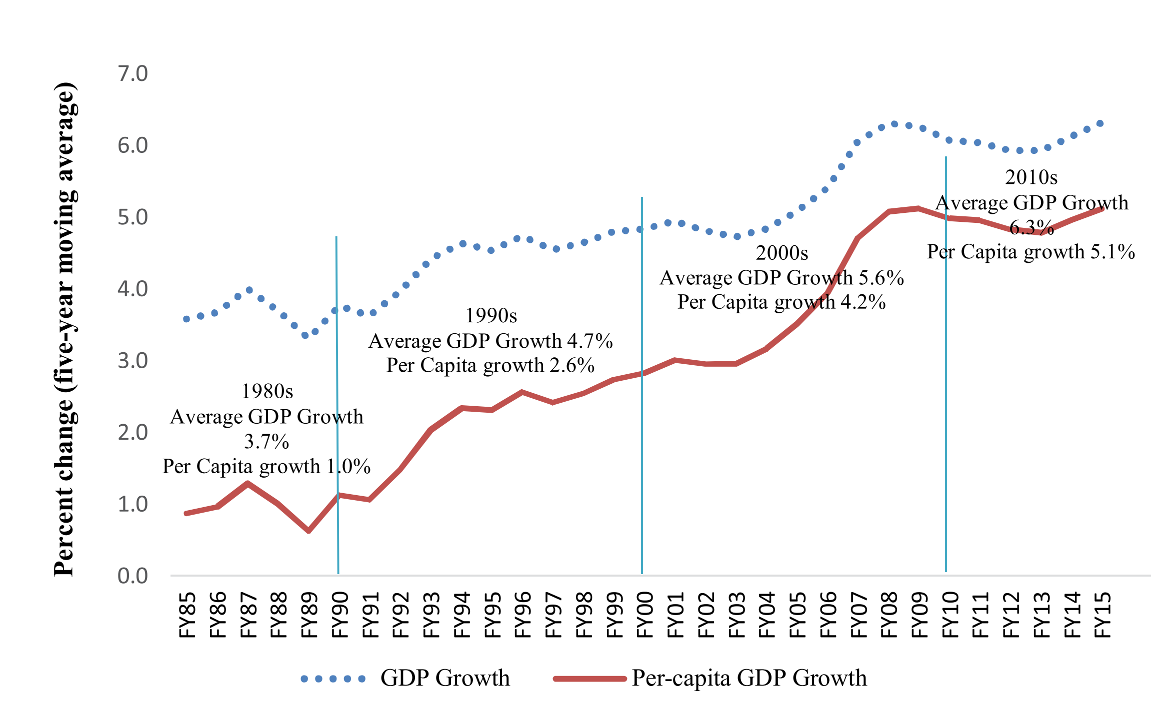
[11] *See for example, Rahman, H.Z., Bangladesh: Strategy for Accelerating Inclusive Growth (2010 DCCI Conference) at http://www.pprcbd.org/new/index.php?option=com_content&view=article&id=38&Itemid=12. Improved rural connectivity also aided commercialization of agriculture and helped reduce disaster vulnerability noted earlier.*

[12] *Amartya Sen has attributed Bangladesh's success in this particular regard to the "general determination in post-independence Bangladesh to target the elimination of female disadvantage". What's happening in Bangladesh? http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(13)62162-5/fulltext*

in July 2015, based on FY14 per capita (Atlas) GNI of US$1,080 (Tk.83,939.54) per annum. While growth in GNI in the 1980s and 1990s came almost entirely from GDP growth, remittances from workers abroad have emerged recently as a significant source of income for Bangladeshis during the past decade.

2.6 The management of public finances in Bangladesh is concentrated in two central agencies, the Ministry of Finance and the Planning Commission. The Ministry is responsible for the recurrent budget and the Planning Commission prepares the Five-Year Plans and Annual Development Plans (ADP). Five-Year Plans are indicative in nature as ADP allocations are done annually to ensure consistency with available resources, effectiveness of implementation, and evolving global environment.[13] The Planning Commission also has the lead responsibility for the national development strategy and for ensuring that a robust set of cross-sectoral and sector strategies are in place.

Figure 2-1: Trends in GDP Growth Since 1985



Source: World Bank staff estimates based on data from the Bangladesh Bureau of Statistics.

2.7 The present Government's Vision 2021 and associated Perspective Plan 2010-2021 aim to place Bangladesh in the first stages of a middle-income economy and to reduce the incidence of poverty from 40 percent in 2005 to 15 percent by 2021. The 6th Five-Year Plan covering FY11-15 (Box 2-1) was the Government's main instrument for the implementation of Vision 2021 and Perspective Plan. It highlighted the importance of developing strategies, policies, and institutions to enable Bangladesh to accelerate growth and reduce poverty. The 7th Five-Year Plan (FY16-20) is being finalized, focusing especially on sustainable productive employment for the growing labor force and a substantial increase in investment. Other key strategic elements of the plan are to pursue an environmentally sustainable development process and to also tackle the challenges of ensuring good governance. The Planning Commission is leading the preparation of this plan, for which it commissioned 35 thematic background studies that have recently been completed. Box 2-2 elaborates on PFM priorities for the 7th Five-Year Plan.

[13] *Monitoring and evaluation systems in the line ministries and the Planning Commission are expected to provide the data and periodic assessments needed to make these adjustments, though the extent to which this feedback loop functions varies considerably across different ministries and agencies.*

Box 2-1: Key Strategic Focus Areas of the 6th Five Year Plan (FY11-15)

Employment

- Strategies and actions on both the labor demand (driven primarily by economic growth) as well as the supply side (labor force growth and quality).
- Jobs for new entrants plus enable substantial labor transfer to formal sector (nearly four-fifths of the labor force employed in low-income, low-productivity jobs in the informal sector).
- Labor-intensive manufacturing is key (domestic plus export markets); emphasis on sub-contracting and small rural enterprises (furniture, toys, footwear, consumer durables).
- Reduce trade barriers (e.g., China, Korea, India, Vietnam, and Thailand) plus foster greater and more effective regional cooperation.
- Enhance income-earning opportunities in agriculture by raising land productivity and increased diversification of production (crop plus non-crop). [2008-15 National Food Policy]
- Employment abroad and remittances; continue support for export of low-skills manpower, plus also direct efforts toward improving skills through education and training.
- Harness ICT to improve total factor productivity: Digital Bangladesh initiative; technology transfer from abroad through strategic partnerships with foreign investors.
- Better land-use policies and administration; develop rural townships; tackle problems of unplanned urbanization.
- Problem of lagging regions and high inequality: build assets of the poor, increase returns to these assets, along with complementary infrastructure and better safety nets; gender dimension.

Investment

- Raise rate of investment from 24.4 percent to 32.5 percent of GDP to tackle infrastructure constraints (power, transport) and finance human development (one-fifth public, four-fifths private).
- Most financing (90:10) to come from domestic sources (higher national savings); also need critical financing from foreign sources (one-third foreign direct investment), including Public Private Partnership.

Environmentally sustainable development

- Conservation and maintenance of natural resources; reduce air and water pollution; liberate encroached rivers, water bodies, forest areas and khas land.
- Climate change: melting of Himalayan glaciers, intensified natural calamities, water scarcity; loss of livelihood, coastal submergence (17 percent of Bangladesh) leading to large-scale displacement of people.

Good governance

- Capacity constraints in public administration, occasional weaknesses in economic management, corruption: Need reforms of core institutions, public administration capacity building, strong anti-corruption strategy.
- Four main pillars: (i) strengthen civil service; (ii) promote devolution to local governments; (iii) strengthen public private partnership; (iv) reform planning and budgetary processes.

Source: 6th Five-Year Plan: Part 1, Strategic Direction and Policy Framework, Planning Commission, Ministry of Planning, Government of Bangladesh.

Box 2-2: Priority PFM actions in background papers for 7th Five-Year Plan

1. Public Investment Management. Three steps remain from the 6th Five-Year Plan that have yet to be implemented:

(a) Strengthen the project selection mechanism that (i) allows only well-designed projects with the highest chance selecting high-return projects based on long-term affordability and (ii) limits the number of new projects entering the Annual Development Plan.

(b) Strengthen project design and appraisal capacities. One activity is that all projects that go to the Planning Commission must provide a proper appraisal report along with sound analysis that shows the consistency and relevance of the project to sectoral-/economy-wide objectives, strategies, and policies. The appraisal report will do proper economic and financial analysis of the proposed project, do gender and environmental analysis as relevant, and show an implementation plan while providing clear evidence of implementation capacity.

(c) Rationalize the existing ADP portfolio. One activity is that the government will do a proper review of all approved and active projects in the pipeline in cooperation with the line ministries. The review of this portfolio stock will seek to clean out dormant or irrelevant projects and help line ministries close projects that are facing implementation problems through restructuring or through other relevant interventions. The results of this exercise will be shared with the cabinet for endorsement and approval./a

2. Financial Management Information System (FMIS). Introduce a modern FMIS capable of producing timely, comprehensive, and reliable financial statements in line with international accounting and reporting standards (cash IPSAS, GFS Manual 2001)./b To make such a system effective requires further steps:
(a) Creation of a more comprehensive, centralized Treasury Single Account linked to FMIS.
(b) Formal approval and introduction of a GFS Manual-compliant chart of accounts. This has been done and submitted for approval, but requires the commitment of policy-makers.

3. Medium-term budget framework (MTBF). The Government should follow through on implementation of the MTBF through:
(a) Removal of demarcation between non-development and development budgets and gradual joint programming of capital and recurrent spending.
(b) Institutionalization of a more strategic and policy-based approach in budgeting, including through further rollout of Medium-term strategy and business plans.
(c) Further development of line ministry's forward baseline estimates to prioritize spending based on available fiscal space./c

4. Budget and budget execution transparency.
(a) Publication of a citizens' budget immediately after the budget speech.
(b) Greater transparency of public finance data in user-friendly and editable formats, such as through an Open Data Portal.

5. Audit systems.
(a) The Government should make all recent audit reports public on its website in a user friendly and accessible format, as well as clearly indicate how these audits have been followed up, particularly in holding officials involved accountable.
(b) OC&AG is made a truly independent body with appropriate budget discretion and authority over human resources and a separate audit cadre.

6. Enhancing integrity in procurement. Further expand procurement initiatives, including e-Procurement and PROMIS; e-procurement to be rolled out in more agencies (current plans expand to four and might increase to eight by the end of the Five-Year Plan period), and Implementation Monitoring and Evaluation Division (IMED) to further expand the online procurement performance monitoring system (PROMIS).

7. Parliamentary oversight. Develop mechanisms to ensure timely responses to recommendations from the PAC, and provide easily accessible and comprehensible data for the public, including a progress report from the PAC.
Source: Hasan, M, J. Rose and S. Khair, Background Paper for the 7th Five-Year Plan of the Government of Bangladesh: Governance and Justice, December 2014.
/a A project is currently underway in the Planning Commission with support from JICA on strengthening public investment management.
/b This may or may not be iBAS ++. Since there has been some work done, it is an obvious starting point, but in many cases around the world bespoke systems have taken a long time to deliver the expected results. The existence of commercial off-the-shelf products as well as the possibility of a customized open source solution should be explored before further investments in iBAS ++. It is critical that there is greater exposure of senior policy makers in the government to (a) the extent of the issues with the current iBAS and the iBAS++ proposals, and the range of options available to solve these problems.
/c Credible Forward Baseline Estimates are still missing in Bangladesh and are a crucial design feature of a well-functioning MTBF as they provide a baseline for spending estimates so that fiscal space can be estimated and spending priorities made in line with the top-down budget system.

2.2 Fiscal and budgetary trends

2.8 Bangladesh has a good record of low fiscal deficits and sustainable public debt. Over the past decade, Bangladesh achieved an average fiscal deficit of 3.1 percent of GDP and, at 3.5 percent in FY14 (Table 2-2), the deficit was well below the South Asia average of 3.7 percent. Deficits also varied within a fairly narrow band in recent years, ranging from 3.2 to 3.9 percent of GDP. While the record in fiscal discipline has been commendable, it stems partly from a lack of capacity among some ministries to spend development budget allocations. Due to contained deficits and strong economic growth, public debt is low and declining as a share of GDP. Public debt declined steadily from 42 percent of GDP in FY06 to 34 percent of GDP at the end of FY14, among the lowest in South Asia. The latest debt sustainability analysis found that public debt was sustainable even in the event of large shocks, including significant borrowing to finance new power plants and partially recapitalize state-owned banks.

Table 2-2: Financial Operations of the Central Government

in Billion Taka *(as % of GDP)*

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY 16	FY 17
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	IMF estimate (January 06, 2016)	IMF Projection (January 06, 2016)	Budget
Total Revenue	**620.0**	**641.0**	**757.0**	**928.0**	**1138.0**	**1288.0**	**1403.0**	**1460.0**	**1765.0**	**2427.5**
Total Revenue (Excluding BTTB revenue)1/	601.2	641.0	757.0	928.0	1138.0	1288.0	1403.0	1460.0	1765.0	2427.5
Tax Revenue	494.8	528.7	625.0	796.0	952.0	1074.0	1160.0	1288.0	1503.0	2104.0
NBR Taxes	474.4	502.2	598.0	764.0	916.0	1033.0	1114.0	1240.0	1448.0	2031.5
Non-NBR Taxes	20.4	26.5	27.0	32.0	36.0	41.0	46.0	48.0	55.0	72.5
Non-Tax Revenue	125.3	112.3	132.0	132.0	186.0	214.0	243.0	172.0	262.0	323.5
Non-Tax Revenue (Excluding BTTB revenue)1/	106.5	112.3	132.0	132.0	186.0	214.0	243.0	172.0	262.0	323.5
Total Expenditure	**819.0**	**880.6**	**1013.0**	**1277.0**	**1502.0**	**1752.0**	**1881.0**	**2091.0**	**2566.0**	**3406.1**
Total Expenditure (Excluding BTTB expenditure)1/	798.1	880.6	1013.0	1277.0	1502.0	1752.0	1881.0	2091.0	2566.0	3406.1
Current Expenditure	520.5	611.0	660.0	773.0	885.0	997.0	1106.0	1190.0	1533.0	1889.7
Pay and allowances	136.6	135.0	161.0	199.0	209.0	217.0	263.0	288.0	444.0	507.8
Goods and services	80.2	80.2	86.0	101.0	108.0	131.0	151.0	165.0	172.0	206.5
Interest payments	119.7	151.8	148.0	156.0	203.0	240.0	282.0	310.0	354.0	399.5
Subsidies 2/	59.3	70.9	74.1	91.7	114.1	323.0	215.0	211.9	189.0	177.3
Transfers 3/	134.0	171.3	186.9	222.3	248.9	84.0	192.0	212.1	369.0	575.8
Block allocations	4.5	1.8	4.0	3.0	2.0	2.0	2.0	2.0	5.0	22.9
Food account surplus(-)/deficit(+)	8.1	0.6	2.0	19.0	12.0	-4.0	3.0	21.0	4.0	-5.9
Annual Development Program	185.2	193.7	256.0	335.0	363.0	500.0	552.0	651.0	821.0	1107.0
Non-ADP Capital and Net Lending 4/	88.2	74.1	95.0	151.0	242.0	259.0	220.0	229.0	208.0	415.3
Extraordinary Expenditures	17.0	1.2	0.0	-1.0	0.0	0.0				
Overall balance (excl. Grants, as reported in the budget)	**-199.0**	**-239.6**	**-256.0**	**-349.0**	**-364.0**	**-464.0**	**-477.0**	**-631.0**	**-801.0**	**-978.5**
% of GDP	*3.2*	*3.4*	*3.2*	*3.8*	*3.4*	*-3.9*	*-3.5*	*-4.2*	*-4.6*	*-5.0*
Primary Balance	**-79.3**	**-87.8**	**-108.0**	**-193.0**	**-161.0**	**-224.0**	**-195.0**	**-321.0**	**-447.0**	**-579.0**
% of GDP	*1.3*	*1.2*	*1.4*	*2.1*	*1.5*	*-1.9*	*-1.5*	*-2.1*	*-2.6*	*-3.0*
Net Financing of Reported Deficit	**199.0**	**239.6**	**256.0**	**350.0**	**363.0**	**464.0**	**478.0**	**631.0**	**801.0**	**978.5**
External	89.0	47.0	107.0	49.0	122.0	155.0	154.0	160.0	211.0	363.1
Domestic	110.0	192.6	149.0	301.0	241.0	262.0	283.0	359.0	590.0	615.5
Bank	85.0	137.9	-54.0	245.0	196.0	205.0	99.0	-23.0	276.0	389.4
Non-Bank	25.0	54.7	203.0	56.0	45.0	57.0	184.0	383.0	315.0	226.1
Cashfloat and Discrepancy						47.0	41.0	112.0	0.0	0.0
Gross Domestic Product (05-06,Billion Taka)	6286.8	7050.7	7975.4	9158.3	10552.0	11989.2	13436.7	15158.0	17295.7	19610.2

Source: Ministry of Finance & World Bank-IMF Staff Estimate

Notes: 1/ BTTB has been corporatized and its revenue and expenditure is out of FY09 government budget. For the purpose of comparison, FY06,

2/ Subsidies under current expenditure includes price subsidies only. Also food (consumption) subsidy is covered under Transfers, not Subsidies.

3/ Transfers include Grants in Aid, Contribution to International Organizations, Write-off of Loans and Advances, and Pensions and Gratuities.

4/ Non-ADP Capital and Net Lending includes Non-Development Capital Expenditure, Programs financed from Non-Development Budget, Loans, Projects outside ADP, and FFW expenditure.

2.9 Bangladesh has among the lowest revenue as a share of GDP in the world. A spurt in revenue growth raised revenue from 9.1 percent of GDP in FY09 to 10.8 percent in FY12. It since declined somewhat, leaving Bangladesh with among the lowest revenue to GDP ratio in the world. While tax collections tend to increase in line with economic growth, Bangladesh has, by and large, found it challenging to turn economic growth into revenue growth. As a result, tax revenues (which make up over 85 percent of all revenue) remain below expected for Bangladesh's level of development. In addition, Bangladesh faces the challenge of reliance on "border revenues" – customs, duties, and VAT paid on imports – which made up almost 30 percent of total revenue in FY14. Although reliance on border revenues has fallen since FY10, this underpins the importance of mobilizing domestic collections as well as considering ways to shore up border revenues with minimal negative economic consequences. There are serious concerns regarding the weak reconciliation between tax assessment, actual collection, and tax arrears.

2.10 With low revenues, the low fiscal deficits reflect low public expenditures. Bangladesh had the world's lowest public expenditures at around 14 percent of GDP in FY14. An inability to absorb resources by some ministries, in both recurrent and development budgets, contribute to the low expenditure. Around 60 percent of the budget goes to recurrent expenditure, but there has been a shift toward investment or development over the last five years. Between FY10 and FY15, public expenditure more than doubled. While both recurrent and development expenditure saw significant increases in real terms, the priority clearly shifted toward development spending during the period. The realized size of the Annual Development Program increased from TK256 billion (US$ 3.7 billion) in FY10 to TK690 billion (US$ 8.87billion) in FY15.

2.11 Actual budgetary allocations, which are based on the revised budget for both the recurrent and development budgets are broadly in line with the Government's development plan (Table 2-3) and the related percentage of budget allocations by economic classification are shown in Table 2-4.

Table 2-3: Budget allocations by Government functions

	FY2011-12		*FY2012-13*		*FY2013-14*	
Functions/Sectors	***Crore Taka***	***%***	***Crore Taka***	***%***	***Crore Taka***	***%***
1. Public services	17,407	12	24,111	14	32,094	16
2. Local government and rural development	12,008	8	14,215	8	14,800	7
3. Defense services	12,225	8	12,887	8	14,458	7
4. Public order and safety	8,592	6	9,218	5	10,537	5
5. Education and technology	8,753	13	22,145	13	26,093	13
6. Health	8,150	6	9,333	6	9,470	5
7. Social security and welfare	10,328	7	10,981	6	12,366	6
8. Housing	1,370	1	1,459	1	1,779	1
9. Recreation, culture, and religious affairs	1,538	1	1,601	1	1,746	1
10. Fuel and energy	7,957	6	9,544	6	11,351	6
11. Agriculture	14,347	10	14,457	9	17,471	9
12. Industrial and economic services	1,561	1	2,769	2	3,206	2
13. Transport and communication	10,462	7	13,317	8	20,596	10
14. Interest	19,796	14	23,302	14	27,743	14
Total expenditure	**144,494**	**100**	**169,339**	**100**	**203,710**	**100**

Source: Finance Division, extracted from iBAS according to classification used by Government.

Table 2-4: Budget allocations by economic classification (% of total expenditure)			
Economic head	*FY2011/12*	*FY2012/13*	*FY2013/14*
	1. %	2. %	3. %
Compensation of employees	14	12	12
Use of goods and services	10	11	11
Consumption of fixed capital	39	41	42
Interest	11	12	12
Subsidies	6	8	7
Grants	11	9	8
Social benefits	6	5	5
Other expenses	4	3	3
	100	**100**	**100**

Source: Finance Division.

2.3 Legal and regulatory arrangements for PFM

2.12 The Constitution of Bangladesh (Articles 81-92) lays down the legal framework of the basic financial procedures to be followed in managing public finance. The Public Money and Budget Management (PM&BM) Act 2009 further elaborates these procedures and brings specificity in certain areas by defining core PFM elements. In addition, there are financial rules (General Financial Rules, Treasury Rules), codes (Account Codes), manuals (Public Expenditure Management Manual and Internal Control Manual), and executive orders to guide the operation of a PFM system. The Rules of Business issued by the Cabinet Division specify how the Government will transact its business and the Allocation of Business made thereunder determine the functions of each ministry/division.

2.13 The legal framework that guides the process of generating tax revenues originates from the Bangladesh's Constitution. The Constitution is elaborated by relevant enactments, rules, and codes like Value Added Tax Law 2012, Income Tax Ordinance 1984 (as amended up to July 2014), Customs Act 1969, and VAT (Alternative Dispute Resolution) Rules. Both the Income Tax Ordinance and Customs Act are however in the process of being revised. Apart from these codes and laws, the Government issues Statutory Regulatory Orders to bring about any changes in the Finance Act authorizing the Government to levy and collect taxes.

2.14 In addition, a tested regulatory framework (Public Procurement Act 2006 and Public Procurement Act 2008) consistent with the international best practices is also in place to guide the public procurement functions in the country.

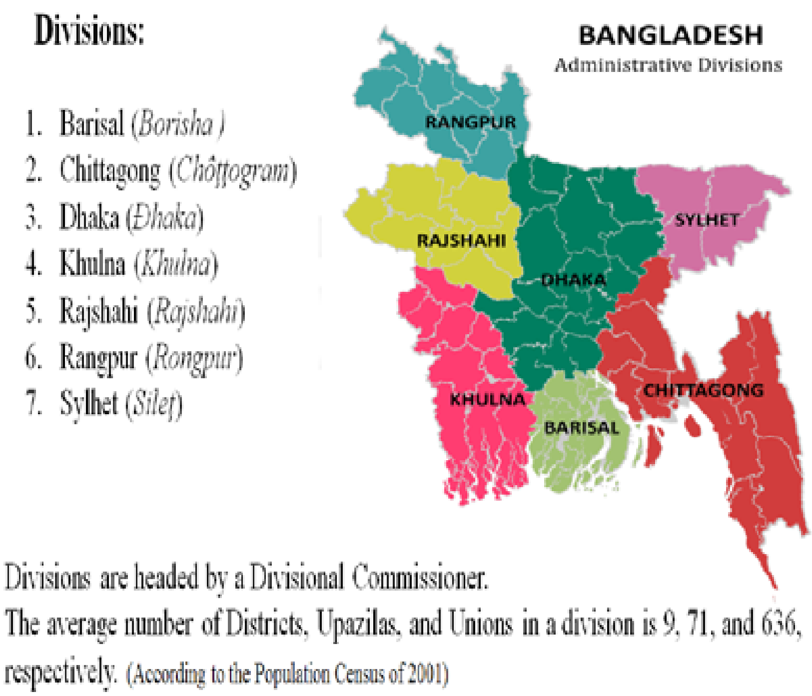
2.4 Institutional arrangements for PFM

2.15 The public sector in Bangladesh comprises the central government, local governments, state-owned enterprises, and statutory authorities. Being a unitary state, Bangladesh has no provincial/state government within the governance structure. Bangladesh has a two-tier government system. The ministries/divisions at the Secretariat together constitute the policy-tier while the other tier is engaged in general administration (law and order, land administration, and revenue collection), delivery of public services, and implementation of development programs carried out at the subnational levels (districts, and *Upazilas* that represent the ministries/divisions). There are 7 central government divisions (Figure

2-2);[14] 11 city corporations; 223 municipalities (*Pourashavas*); 64 district councils (*Zila Parishads*); 500 *Upazilla Parishads*; and 4,451 *Union Parishads*. The public sector as a whole absorbs a significant part of workforce in the country (Table 2-5).

2.16 Ministries /Divisions. Ministries/divisions are responsible for policy formulation and for monitoring the progress of implementation of various government programs intended to meet the development policy objectives. While the political head of a ministry is a minister or a state minister, the administrative head and principal accounting officer responsible for managing the ministry's tasks is the Secretary. A ministry could be made up of one or more divisions. Currently, there are as many as 51 ministries/division across the government. In addition, several constitutional offices in the Government sector like the President's Office, National Parliament, Supreme Court, Election Commission, Public Service Commission, and Office of the Comptroller and Auditor General work independently within the remit of the legal provision made in the Constitution.

Figure 2-2: Bangladesh Administrative Structure



[14] Barisal, Chittagong, Dhaka, Khulna, Rajshahi, Rangpur, and Sylhet.

Table 2-5: Structure of the public sector (number of entities)

2012-13	*Public sector*				
	Government subsector		*Social security funds* [/a]	*Public corporation subsector*	
	Budgetary units	Extra-budgetary units [/c]		Non-financial corporations	Financial public corporations
Central [/b]	262	149	-	46	8
1st tier subnational (state) [/d]	-	-	-	-	-
Lower tier(s) subnational government [/e]	5,249	-	-	-	-

[/a] No social security fund has been created as a public sector entity.

[/b] Central government budgetary units include ministries/divisions, departments, directorates. and the constitutional offices like the President's Office, National Parliament, Supreme Court, Election Commission, Public Service Commission and Office of the Comptroller and Auditor General.

[/c] There are as many as 203 state-owned enterprises and statutory authorities in the domain of public sector, 54 fall under public corporation subsector and 149 under extra-budgetary units.

[/d] Bangladesh is a unitary state and therefore does not have any subnational-level state government structure.

[/e] At different administrative tiers (division, district and sub-district) of central government, there are local government institutions such as city corporations, municipalities, Upazila Parishads, and Union Parishads.

2.17 Departments/Directorates. Tasks of implementing the Government's development programs as well as ministry-level policies lie primarily with departments/directorates. Currently, there are 205 departments/directorates under various ministries/divisions. Departments differ greatly, not only in size but also in status and character. Some of the directorates have a significant interface with the public such as the Directorate Secondary Education, Directorate of Primary Education, and Directorate General of Health Services.[15]

2.18 Local government. Local government has different tiers and includes a large network of local government institutions. There are the city corporations and *Pourashavas* (municipalities) at the urban level; Z*ila Parishads* headed by Deputy Commissioner (Deputy Secretary appointed by the government from Administration Cadre); *upazila parishads* headed by an Executive Officer; and the lowest tier in the local government sub-sector is the elected *union parishad* working at the grassroots to deliver public services.

2.19 Autonomous bodies and corporations. There are as many as 203 state-owned enterprises (SOEs) and statutory authorities in the public sector domain set up as statutory organizations under special Presidential Orders, Ordinances, and Acts. The state-owned enterprises are expected to play an important role in shaping economic development of the country by contributing to GDP, ensuring value addition, and generating employment. However, most make significant losses and the privatization program of these entities are continuing. Currently there are 46 non-financial public sector corporations under various sectors as defined in Bangladesh Standard Industrial Classification. In the public sector, there are also financial institutions like 6 state-owned commercial banks and 2 specialized banks (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank).

[15] *Government That Works: Reforming the Public Sector,* Washington D.C., World Bank, 1996.

2.20 The financial structure of the central government is shown below in Table 2.6 (budget estimates) and 2.7 (actual expenditure).

Table 2-6: Financial structure of central government - budget estimates

Year: 2012-13		*Central government budget estimates (Taka in Crore)*		
	Budgetary unit (Taka in Crore)	***Extra-budgetary units***	***Social security funds***	***Total aggregated***
Revenue	144,767	-	-	144,767
Expenditure	162,401	-	-	162,401
Transfers to (-) and from (+) other units of general government	Chapter 1 (38,823) [a]	-	-	(38,823)
Liabilities [b]	40,403	-	-	40,403
Financial assets	26,741	-	-	26,741
Nonfinancial assets [c]	-	-	-	-

[a] The amount represents transfers to local government institutions (city corporations, municipalities, district councils, upazilla parishads, and union parishads), state-owned enterprises, and all social safety net related programs.

[b] Liabilities include the net borrowings from domestic and external sources.

[c] Since the Government prepares accounts following cash-based system, non-financial assets are not captured in the annual finance accounts.

Table 2-7: Financial structure of central government - actual expenditure

2012-13 [a]		*Central government actual expenditure (Taka in Crore)*		
	Budgetary unit (Taka in Crore)	***Extra-budgetary units*** [b]	***Social security funds*** [c]	***Total aggregated***
Revenue	142,324	-	-	142,324
Expenditure	151,130	-	-	151,130
Transfers to (-) and from (+) other units of general government	(37,034)	-		(37,034)
Liabilities	33,276	-	-	33,276
Financial assets	31,110	-	-	31,110
Nonfinancial assets	-	-	-	-

[a] Data on actual expenditure for FY2013-14 is yet to be finalized at time of the assessment.

[b] iBAS does not capture any financial information of extra-budgetary units; therefore, the column of extra-budgetary units does not show any figures.

[c] The Government has not set up any social security fund as a separate entity; hence, the column shows no figure.

2.5 Other important features of PFM and its operating environment

2.21 Progress in PFM reforms in Bangladesh, overall, has been uneven in the last decade. While the PFM statutory framework is comprehensive, there are significant challenges with implementation especially with respect to budget execution, oversight, and enforcement of procedures. Bangladesh has benefited from significant financial support for PFM reforms under a large multi-donor trust fund administered by the World Bank, Strengthening Public Expenditure Management Program (SPEMP). Despite available resources, the results have been mixed and the pace of reform slow. Under SPEMP, the Government rolled out a medium-term budgetary framework (MTBF) to all 59 line ministries, provided substantial training for finance and budget staff, and strengthened the institutional arrangements that included the reconstitution of Budget Management Committees and the creation of Management Wings/Branches staffed with government officials in all line ministries. Investments were made in hardware, and the financial management information system was rolled out to the large network of accounts offices across the country. Additionally, SPEMP-financed projects supported capacity building at the Office of the Auditor-General and the Parliamentary Secretariat and oversight committees.

2.22 Notwithstanding these developments, budget management continues to suffer from fragmentation between the revenue and development budgets as well as from weak financial systems and controls. A new software for an enhanced financial management information system (iBAS++) was initiated under SPEMP although not finalized before the project came to an end. While the software, still in development, has the potential to enhance the financial management accounting and reporting system, related policy decisions such as the adoption of a new chart of accounts remain pending; and eventually hardware and training components will also be required. There are also serious concerns regarding the lack of commitment controls, delay in annual financial reporting, weakness in bank reconciliation, and poor public investment management.

2.23 The Government is developing a new PFM strategy for 2016-2020 to chart a new path for reform. The World Bank and collaborating donor partners will support the strategy development, drawing on lessons from PFM reforms globally as well as the experience in Bangladesh over the last decade. The strategy will need to be prioritized and sequenced, and receive sufficient leadership and broader buy-in for success. The new PFM strategy will be informed by the PEFA assessment. The strategy will also help inform the Bank's and partners' decisions to support future PFM reforms in Bangladesh.

2.24 Bangladesh has had modern procurement legislation since 2008 based on principles of economy and efficiency, but procurement practices have yet to catch up with the tenets of the reformed legislation. The Government in 2012 began rolling out an electronic procurement system (e-GP), which is proving to be effective in increasing the transparency of transactions and the credibility of nationally bid procurement decisions. The e-GP system does not yet cover all government procurement as there are threshold restrictions for large-size contracts. Efforts are underway to strengthen the professional capacity of public procurement officers through certification programs. At present the system is in transition, so the procurement process remains susceptible to manipulation through practices such as short bidding periods, poor advertising, nondisclosure of selection criteria, poor technical specifications, negotiations with bidders, and rebidding without adequate justification.

2.25 The dominant role that central financial agencies, particularly Ministry of Finance, play in budget management and ex ante agreements on the overall budget envelope and deficit limits has contributed to Bangladesh's strong record of aggregate fiscal discipline. At the same time, the PFM administration at the line ministry level is a collection of de-concentrated units of the central financial agencies, specifically the Ministry of Finance and Planning Commission. In addition to being inefficient, these vertical reporting (or loyalty lines) outside the line ministry structures divert responsibility and undermine the system of checks and balances that can be established to minimize waste and corruption in public funds. Both MTBF and improved external audit practices place a renewed emphasis on departmental secretaries taking their responsibilities as pay and accounts officer more seriously. Formal responsibilities exist, but in practice they are not applied, monitored or enforced.

2.26 While much progress has been made, more is needed to make OC&AG the key institution of accountability and independent of the Executive. Audit reporting is improving both in terms of content and relevance. The external audit approach is being modernized in terms of adopting systems-based approach to ministry-wide audits, which are complemented by performance/value-for-money audits. Audit staff have been trained in new techniques and in using INTOSAI- and ASOSAI-compliant manuals. Increasingly the audit work is being assisted by the use of computers. However, the coverage of the audit work remains constrained by the limited number of qualified audit staff available and currently working at 80 percent of approved capacity (2012 data). The OC&AG has 22,000 auditable units (including state-owned enterprises) to cover, but only 3,500 staff are assigned to conduct field-level audits.

2.27 The Office of Comptroller and Auditor General (OC&AG) should gradually gain its full independent status. In most countries with an effective accountability structure, the OC&AG or its equivalent is independent of the Executive and reports directly to the Parliament. In Bangladesh, the OC&AG, to a large extent, is still part of the Executive. The OC&AG role and its independence in Bangladesh is still evolving. The Comptroller and Auditor General of Bangladesh is appointed by the President on the advice of the Prime Minister. Although the OC&AG has full liberty in choosing auditable entities and scope of audit, the independence of OC&AG is severely constrained by its dependence on the Executive for administrative and personnel issues. The OC&AG cannot make independent decisions in case of staff recruitment or promotion of officers without the approval of the Ministry of Finance and Ministry of Public Administration.

2.28 According to the Rules of Business, audit reports are routed through the Prime Minister's Office to the President prior to submission to the Parliament. There are delays in submitting audit reports to the legislature, which by INTOSAI standards should be done directly from the Supreme Audit Institution to the legislature. For example, the latest audit report issued as of FY14 relates to FY11. Audit reports are not published on the OC&AG website on a regular basis and therefore public access is limited. Public debate of OC&AG reports is few and far between. As a start, an Audit Act can provide full independence to the institution so that it can decide its own staffing; budget; reporting; and disclosure of audit reports, including implementation of its own strategic business plan.

3. Assessment of PFM performance

3.1 Chapter 3 provides the assessment of key elements of the PFM system in Bangladesh as captured by the 31 performance indicators (PIs) and, where applicable, reports on progress made in improving these. The PFM performance for each of the performance indicators was assessed and assigned ratings of "A" to "D" as per the scoring criteria for each indicator that must be met in entirety. A score of D due to insufficient information is distinguished from D scores for low-level performance by the use of an asterisk—that is, D*. The scores may be broadly interpreted as follows:

A	Represents performance that meets good international practice; the criteria for the indicator are met in a complete, orderly, accurate, timely, and coordinated way.
B	Typically represents a level of performance ranging from good to medium by international standards.
C	Represents a level of performance ranging from medium to poor.
D	Indicates either that a process or procedure does not exist at all, or that it is not functioning effectively.

3.1 Pillar I Budget reliability

PI-1: Aggregate expenditure outturn		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI-1 Aggregate expenditure outturn.	**Score** **B**	
1.1 Aggregate expenditure outturn	B	See table below. Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years. *See annex 3 for data.*

Year	Aggregate expenditure outturn
2013-14	84.6%
2012-13	91.3%
2011-12	93.2%

3.2 This indicator assesses the credibility of the budget by calculating the extent to which actual aggregate expenditure deviates from the original budget for the last three years of available data (including expenditures financed externally by loans or grants reported in the budget, along with contingency vote and interest on debt). If expenditure consistently varies from the original budget, this points to issues with the quality of budget planning and/or challenges in budget execution. The assessment of this indicator is based on the information available for the FY2011/12 to FY2013/14.

PI-1.1 Aggregate expenditure outturn

3.3 Aggregate expenditure outturn was between 90 percent and 110 percent of the approved aggregate budgeted expenditure in at least two of the last three years. Aggregate expenditure (including debt charges and externally funded project expenditure) variance was 15.4 percent, 8.7 percent, and 6.8 percent for FY2013/14, FY2012/13, and FY2011/12, respectively. The difference widened over the review period as political instability increased. Government also regularly enacts a supplementary (revised) budget halfway during the financial year, which undermines the planning and budgeting process, as it is expected that significant changes will be made. According to Section 12 of the Public Money and Budget Management (PM&BM) Act 2009, the Parliament can enact a Supplementary Appropriation Act during the fiscal year.

3. PI-2: Expenditure composition outturn		
	Minimum Requirements (Scoring Method M1)	
	2015	*Explanation*
PI-2 Expenditure composition outturn.	**Score** **D+**	
2.1 Expenditure composition outturn by function	D	<table><tr><th>Year</th><th>Functional composition variance</th></tr><tr><td>2013-14</td><td>23.0%</td></tr><tr><td>2012-13</td><td>17.6%</td></tr><tr><td>2011-12</td><td>20.7%</td></tr></table>Variance in expenditure composition by functional classification was more than 15% in the last three years.
2.2 Expenditure composition outturn by economic type	C	<table><tr><th>Year</th><th>Economic composition variance</th></tr><tr><td>2013-14</td><td>16.9%</td></tr><tr><td>2012-13</td><td>10.4%</td></tr><tr><td>2011-12</td><td>10.8%</td></tr></table>Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.
2.3 Expenditure from contingency reserves	A	Bangladesh does not use a significant contingency budget as it was on average 2.2% of the annual budget over the review period.

PI-2.1 Expenditure composition outturn by function

3.4 This dimension measures the variance between budgeted and actual expenditure at the disaggregated ministry/department/agency (MDA) level, controlling for the variance in the aggregate expenditure. It reflects the government's ability to pursue its policy objectives as intended and stated in the budget. Significant variance in disaggregated expenditure renders the budget less credible as a policy intent statement. The indicator requires separate consideration of expenditures met from contingency reserves as they tend to influence the variance in disaggregated expenditure. The scoring of dimension 2.1 requires calculating the absolute value of the variance between adjusted expenditure (i.e., the original budget for each budget agency multiplied by the aggregate actual expenditure divided by the original aggregate budget) compared to the original budget for each MDA and then summing these as a percentage of the total adjusted budget to determine an overall variance.

3.5 Composition variance by sector (excluding contingency and interest on debt) has been significantly over 15 percent for the review period. A major reason for this is that the Ministry of Finance retains funds under the public services budget line (as evidenced in the annex 3) which it knows will be transferred to MDAs during the course of the year, largely for expenditure control purposes and not contingency (e.g., subsidies). It reflects the institutionalization of the revised budget as well as weak control mechanisms across government.

PI-2.2 Expenditure composition outturn by economic type

3.6 This dimension measures the extent to which reallocations between budget items by economic classification during execution have contributed to variance in expenditure composition. The composition of the budget by economic classification is important for showing the balance between different categories of inputs (i.e., capital and recurrent expenditures). This allows an assessment of the extent to which inputs by economic category are in accordance with policy intent. The categories of expenditure are the same as for dimension 2.1, with the addition of interest on debt as this is one of the categories of economic classification. The calculation uses the second level of the Government Finance Statistics (GFS) classification (2 digits) or equivalent.

3.7 The table in the annex 3 shows composition variance by economic classification of over 10 percent for all the review period. Although its performance is better than by sectoral classification, it is still a cause for concern given the large percentage of the budget, which is targeted toward wages and salaries. Consumption of fixed capital has regularly realized significantly less than budgeted.

PI-2.3 Expenditure from contingency reserves

3.8 Bangladesh does not use a significant contingency budget, reflecting the use of the supplementary budget instead for any contingencies that may occur. Amount to be spent from the contingency vote is first moved to the relevant ministry responsible to undertake the expenditure. It is consistently under 2.5 percent of the budget (see annex 3 for raw data), and was on average 2.2 percent over the review period.

<table>
<tr><th colspan="3">PI-3: Revenue outturn</th></tr>
<tr><th rowspan="2"></th><th colspan="2">Minimum Requirements (Scoring Method M2)</th></tr>
<tr><th>2015</th><th>Explanation</th></tr>
<tr><td>PI-3 Revenue outturn.</td><td>Score
C</td><td></td></tr>
<tr><td>3.1 Actual revenue compared to that provided for in the originally approved budget</td><td>D</td><td><table><tr><th>Year</th><th>Revenue outturn</th></tr><tr><td>2013-14</td><td>83.8%</td></tr><tr><td>2012-13</td><td>91.8%</td></tr><tr><td>2011-12</td><td>96.9%</td></tr></table>In two of the review years, revenue fell short of the budgeted target by over 8 percent.</td></tr>
<tr><td>3.2 Revenue composition outturn</td><td>B</td><td><table><tr><th>Year</th><th>Revenue composition variance</th></tr><tr><td>2013-14</td><td>6.7%</td></tr><tr><td>2012-13</td><td>7.1%</td></tr><tr><td>2011-12</td><td>30.6%</td></tr></table>The variance in revenue composition was under 10 percent in two of the last three years</td></tr>
</table>

3.9 This indicator measures the variance between the actual revenues collected and the revenue estimates presented in the annual budget. Variance in revenue collection impacts overall budget credibility. Having sound revenue forecasts in the budget is essential for fiscal planning as significant variances in actual revenue outcomes will require either in-year adjustments to expenditures and/or changes in external funding in order for deficit targets to be reached. Under-realization leads to larger deficits and/or spending cuts, whereas over-realization tends to result in unplanned spending running the risk of sub-optimal resource utilization.

PI-3.1 Aggregate revenue outturn

3.10 The difference widened over the review period as political instability increased, exchange rates fluctuated impacting on customs duties, as well as growth targets not being met, with the result that collections did not reach targets. There is also concern that targets are not calculated so much on the basis of macro forecasts and policy changes but rather as an "incentive" for the revenue authority to collect as much as possible, with an established tradition that targets are rarely, if ever, achieved.

PI-3.2 Revenue composition outturn

3.11 The variance in revenue composition was under 10 percent in two of the last three years as shown in annex 3.

3.2 Pillar II Transparency of public finances

PI-4: Budget classification		
	Minimum Requirements (Scoring Method M1)	
	2015	*Explanation*
PI-4 Budget classification	**Score** **C**	
4.1 Budget classification	C	Government uses a classification system made up of administrative and economic codes (no functional codes) used for formulation, execution, and reporting with bridging to at least level 2 of the GFS standard of 2 digits of GFS Manual 2001 used for reporting annually to the IMF.

3.12 This indicator assesses the quality of the classification system used for formulating, executing, and reporting of the central government's budget. The assessment is based on the classification system in place for the 2013-14 budget formulation and execution and reporting processes.

PI-4.1 Budget classification

3.13 The Government's classification adopted in 1998 and approved by OC&AG is used for formulation, execution, and reporting with bridging to at least level 2 of the GFS standard of 2 digits in GFS Manual 2001 used for reporting annually to the IMF. The budget classification for 2013/14 (the last completed financial year) is described in Table 3-1. The iBAS has a module for budget formulation, which is not integrated with the execution module. Although there have been initiatives to move toward a program budget framework, this has not materialized. The revenue and the development budgets are still developed as two separate processes.

Table 3-1: Current chart of accounts used in iBAS (adopted in 1998)

Budget Classification / Chart of Accounts (13 digits)			
Level	***No of Digits***	***Segment***	***Description***
1	X	Legal (7 codes)	Receipts, Payments, Consolidated Fund, Public Accounts, Development Expenditure, Charged Expenditure, Other.
2	XX XX	Ministry, division, or other agency department/group of activities/transfers to autonomous bodies	Accountable to Parliament for the grant (vote).
3	XX XX	Operational unit/ development project	Together with level 2 can identify activities and projects.
4	XX XX	Economic detail	Economic and object classification of all receipts and payments.

Source: Public Expenditure Management Manual.

3.14 A new Budget and Account Classification (BAC) System with roll-ups and side tables has been developed in iBAS++. The new BAC System better meets current and future demands of the PFM system of Bangladesh as it is capable of deriving financial statements that meet IPSAS format, IMF GFS, and COFOG. The overall structure of the proposed BAC System comprises "Core Segments" and "Derived Segments" (Table 3-2).

3.15 Core segments are assigned to all transactions by users at the time that they are posted into computer-based iBAS++. Conversely, users do not need to enter coding for derived segments since reports are produced automatically from the posted core segments. Core segments comprise four posted segments of 35 digits. These segments are Organization (11 digits), Operation (9 digits), Fund (8 digits), and Economic (7 digits). There are another 3 non-posted segments: Authorisation (1 digit), Function (COFOG, 4 digits), and Budget Sector (4 digits) that are derived within the iBAS++ based on posted data. Two new tables for additional information —Mode of Payment (1 digit) and Location (8 digits) — are also proposed in iBAS++ to facilitate budget preparation, control, and reporting. Unlike the core posted segments, these will not be posted for all transactions. Furthermore, each segment can be configured to provide for varying levels of detail, as deemed appropriate, to expand on existing monitoring/control requirements, or to introduce new informational segments and related reporting elements.

Table 3-2: Overall structure of the new BAC System

Segment	***Digits***	***Purpose***
Posted Segments (Users to enter data in iBAS++)		
1. Organization	11	Identifies the organisational unit (ministry/division, department, and operating unit) responsible for a transaction.
2. Operation	9	Identifies whether a transaction is for development or non-development purposes and, if part of an activity/project, to which activity/project it relates.

Table 3-2: Overall structure of the new BAC System		
Segment	***Digits***	***Purpose***
3. Fund	8	Identifies the fund in which a transaction is recorded (Consolidated Fund, Public Account); and for those transactions within the Consolidated Fund identifies whether the Government, a foreign grant, or a foreign loan funds the transaction.
4. Economic	7	Identifies the economic nature of the transaction (tax or non-tax receipts, salaries, goods and services, grants, etc.).
Derived Segments (Pre-defined in iBAS++)		
5. Authorization	1	Identifies whether an expenditure transaction is charged or other expenditure.
7. Function	4	Identifies the purpose of a transaction according to COFOG.
8. Budget sector	4	Identifies the budgetary sector to which a transaction should be attributed.
Additional Information		
1. Mode of payment	1	Identifies whether a transaction is reimbursable project expenditure or direct project assistance.
2. Location	8	Identifies the location to which a transaction should be attributed.

3.16 The new BAC System is designed to be capable of accommodating the Finance Division's reform agenda for the foreseeable future. The rollout plan is that iBAS++ in the first year of rollout (FY2016/17) would use the old BAC System, and then move to new BAC System in FY2017/18). The proposed BAC System has been endorsed by the Minister of Finance and awaits approval from OC&AG.

PI-5: Budget documentation		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI-5 Budget documentation	**Score** **B**	
5.1 Budget documentation	B	Budget documentation fulfills all basic elements (1-4) and 5 of the additional elements.

3.17 This indicator assesses whether the coverage of the annual budget documentation, as submitted to the legislature for scrutiny and approval, presents a complete picture of central government fiscal forecasts, budget proposals, and outturn of previous years. The assessment of this indicator is based on the documentation for the 2013-14 budget, which was presented to the legislature.

PI-5.1 Budget documentation

3.18 The Medium-Term Macroeconomic Policy Statement (MTMPS) contains comprehensive macroeconomic assumptions apart from exchange rate assumptions and estimates of the budgetary impact of policy changes, not only for the next budget year but also for the medium term. These include estimates of aggregate growth, CPI inflation, GDP deflator, but not the exchange rate. The forecasts cover the real, monetary, fiscal, and external sectors.

3.19 The *Budget in Brief* document is part of the budget documentation presented to Parliament every year. The "Budget-at-a-glance" table in *Budget in Brief* provides a full fiscal overview containing both the fiscal deficit and its financing, describing anticipated financing that covers the current year, past fiscal year, and the forthcoming fiscal year. The budget documents produce in a comparable fashion the prior year's outturn in the same format as the budget proposal. This is reflected in all the statements in the *Budget in Brief* and other documents, including MTMPS (Table 3-3). The *Budget in Brief* contains summarized budget data for both revenue and expenditure according to the main heads of budgetary classification containing data for previous, current, and forthcoming budget years. The level of debt stock at the beginning of the financial year is now available in the budget documents. The level and trajectory of debt stock is available in the MTMPS broken down by broad category of domestic and external debt. Details of financial assets for the beginning of the year are also available in MTMPS.

3.20 While the Budget Speech contains details of new policy initiatives included in the budgetary estimates, a description of their budgetary implication especially on the revenue side is not available. Evidently, these are included in budget estimates but are not reported separately. The policy initiatives on the expenditure side are sometimes reported. This requirement is therefore not fulfilled.

Table 3-3: Budget documentation - basic and additional elements

Basic elements	**Status**
1. Forecast of the fiscal deficit or surplus (or accrual operating result).	Yes - MTMPS
2. Previous year's budget outturn, presented in the same format as the budget proposal.	Yes - MTMPS and *Budget in Brief*
3. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes - MTMPS and *Budget in Brief*
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-4 Classification of the budget), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates.	Yes - MTMPS and *Budget in Brief*
Additional elements	
5. Deficit financing, describing its anticipated composition.	Yes - MTMPS and *Budget in Brief*
6. Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	No exchange rate
7. Debt stock, including details at least for the beginning of the current year (presented in accordance with GFS or other internationally recognized standard).	Yes - MTMPS
8. Financial Assets, including details at least for the beginning of the current year (presented in accordance with GFS or other internationally recognized standard).	Yes - MTMPS
9. Summary information of fiscal risks (including contingent liabilities, such as guarantees, and contingent obligations embedded in PPP contracts, etc.).	Yes - MTMPS
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	No
11. Documentation on the medium-term framework.	Yes - MTMPS
12. Quantification of tax expenditures.	No

PI-6: Central government operations outside financial reports		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-6 Central government operations outside financial reports	**Score** **D**	
6.1 Expenditure outside financial reports	D*	No extra-budgetary operations were reported in fiscal reports for 2013-14
6.2 Revenue outside financial reports	D*	No extra-budgetary operations were reported in fiscal reports for 2013-14
6.3 Financial reports of extra-budgetary units	D*	No extra-budgetary operations were reported in fiscal reports for 2013-14

3.21 This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. This is needed to provide a complete picture of government revenue, expenditures across all categories, and financing. The assessment of this indicator is based on the information and reports available for 2013-14.

PI-6.1 Expenditure outside financial reports

3.22 In Bangladesh, there are various kinds of extra-budgetary funds existing in the budget. Some are investment in nature and some are by contribution such as endowment funds and grants. These latter funds primarily exist for social welfare to disadvantaged segments of society such as provided by Climate Change Trust Fund, Bangladesh NGO Foundation Endowment Fund, Gas Development Fund/Renewable Energy Development Fund, Bangladesh Municipal Development Fund, Prime Minister's Discretionary Grant/Fund, and others. The Institute of Public Finance has an endowment fund used to run its operations, including training classes. Information on these funds is not readily available, and they are not included in central government accounts.

1.23 However, in FY12 the Finance Division of Ministry of Finance prepared a comprehensive report — Revolving Microcredit, Endowment and Investment Funds 1974-2010 — that outlined the number of funds created over the last three decades or so and detailed the nature of funds, total allocation as well as number of ministries/divisions involved in implementing the funds. It is evident that around Tk750 million (inflation adjusted) (US$9.57 million) was allocated to 78 funds during 1974-2010. Taking into consideration that these funds have been operational up to 2013-14, then the calculation for the period 1974-2014 would equal about 3 percent of Budgetary Central Government. However, if extra-budgetary allocations for the FY2013-14 are considered as a share of total Budgetary Central Government, it would be less than 1 percent, indicating a reduction in the allocation to such funds. Accurate information on current funds is not available.

1.24 There are more than 300 statutory bodies engaged in regulatory, developmental, and other government functions overseen by their respective administrative ministries. They are funded from the government budget and other sources such as user fees and donor grants; their expenditure is more than the transfers they receive from the Consolidated Fund. Expenditure against these organizations/institutions over government transfers is omitted from the overall fiscal accounts of the central government. The major examples are the public universities, Bangladesh Rural Development Board, Bangladesh Education Board, Bangladesh Standards and Testing Institute, Bangladesh Council for Industrial and Scientific Research, Bangladesh Atomic Energy Commission, Bangladesh Computer Council, Bangladesh Livestock Research Institute, Bangladesh Fisheries Development Corporation, Textbook Board, and Bangladesh Agricultural Research Institute. There is a separate wing in the Financial Division to monitor the performance/activities of these organizations.

PI-6.2 Revenue outside financial reports

3.25 See dimension 6.1. There is currently no information of revenues outside of financial reports.

PI-6.3 Financial reports of extra-budgetary units

3.26 Essentially there is no information from FY2013-14.

PI-7: Transfers to subnational governments		
	Minimum Requirements (Scoring Method M2)	
	2015	***Explanation***
PI-7 Transfers to subnational governments	**Score C+**	
7.1 System for allocating transfers	C	The horizontal allocation of a majority transfers to subnational governments from central government is determined by transparent, rule-based systems. Formula transfers represent just over 51% of all transfers.
7.2 Timeliness of information on transfers	D	The bulk of financial transfers are provided alongside the first reliable information on size of transfer 2 months into the FY.

3.27 This indicator assesses intergovernmental financial relations, including key issues related to the transfer and distribution of funds from central government to subnational government, the timeliness and accuracy of information on funds to be transferred, the requirements for reporting from subnational government to central government and the risk exposure of central government to subnational government operations.

PI-7.1 System for allocating transfers

3.28 The horizontal allocation of most transfers to subnational governments from central government is determined by transparent, rule-based systems. Table 3-4 represents the budgeted and actual transfers from central to local government. In addition, local governments can submit development project proposals to the Planning Commission; those successful will qualify for co-financing by central government. Decisions on qualifying projects are made by the Planning Commission, with the final decision made by Executive Council of the National Economic Council (Planning Council). Formula transfers following transparent, rules-based systems represent just over 51 percent of all transfers.

Table 3-4: Sample budget and actual transfers from central to local government												
	City corporations		***Poroshaba***		***District***		***Upazilla***		***Union***		***All local government***	
	TK million	***%***	***TK million***	***%***	***TK million***	***%***	***TK million***	***%***	***TK million***	***%***	***TK million***	***%***
Formula transfer	940	**21.9**	1,290	25.4	2,200	35.7	3,370	44.3	8,612.8 [/a]	100	16,412.8	51.7
Non-formula transfer	3,260	**76.1**	3,710	73.0	3,950	64.0	2,780	36.6	-	-	13,700.0	43.1
Additional transfer (grants-in-aid) [/b]	85	**2.0**	80	1.6	8	0.03	1,450	19.1	-	-	1,663.0	5.2
Total	**4,285**	**100**	**5,080**	**100**	**6,158**	**100**	**7,600**	**100**	**8612.8**	**100**	**31,775.8**	**100**

FY2014-15 (Revised Budget Data).

[/a] Allocation under 2nd Local Governance Support Project (LGSP-II).

[/b] For salary support; based on the need and the number of employees.

PI-7.2 Timeliness of information on transfers

3.29 The Local Government Division makes the formal delivery of information regarding transfers to local governments about 2 months into the financial year, at the same time as sending of the first quarterly tranche. The Minister of Local Government makes the final decision on transfer amounts at about this time. Additional transfer decisions are made after the revised budget and may arrive in the final month of the fiscal year. A further constraint to local governments in budget planning is the timing of the quarterly transfer, which can be 2 months into the quarter. As a result they operate on own source revenues for the first two months of the fiscal year and face a rush to spend allocations at year-end to avoid returning unspent funds to the treasury.

PI-8: Performance information for service delivery		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-8 Performance information for service delivery	**Score D+**	
8.1 Performance plans for service delivery	C	A framework of performance indicators relating to outputs or outcomes of all the ministries is in place. This is documented in the ministry budget framework of the line ministries. However, weak linkages between planned performance and expenditures exist.
8.2 Performance achieved for service delivery	B	Information is published annually on the quantity of outputs achieved for all ministries.
8.3 Resources received by service delivery units	D	iBAS can generate budget allocation utilization reports. At MDA level the Secretary sits with agency heads to monitor ADP implementation every month using iBAS reports (including budget implementation reports), IMED Reports and MDA quarterly reports. However, MDAs do not assemble this information to detail resources received by delivery units.
8.4 Performance evaluation for service delivery	D	Only the supreme audit institution conducts performance evaluations. Only 4 performance evaluations have been prepared in the last 3 years which is less than 2% of service delivery function.

3.30 This indicator examines the service delivery performance information in the Executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded to enable the achievement of annual and medium-term performance targets as well as strategic sector objectives.

PI-8.1 Performance plans for service delivery.

3.31 All ministries report annually on their relevant performance indicators for the previous year in ministry budget framework (MBF) reports, which are a legal requirement. A framework of performance indicators relating to outputs or outcomes of all the ministries is in place. This is documented in the ministry budget framework of the line ministries. However, there is no link between planned performance and expenditures through the budget.

PI-8.2 Performance achieved for service delivery.

3.32 All ministry budget frameworks report annually on activities, output indicators, targets, and performance results; this is a legal requirement. Outcomes are not included. These reports are also posted on the MoF website. The MTMPS includes performance targets and past actuals.

PI-8.3 Resources received by service delivery units

3.33 Details of financial resources allocated to service delivery units are readily available in iBAS reports at cost center level of the chart of accounts and used in reports of the Ministry of Planning's Implementation, Monitoring and Evaluation Division (IMED) and MDA quarterly reports. In practice no MDA is currently collecting this information and assembling it into reports, though there are plans to initiate this under the development of sector-wide plans in both Directorate Secondary Education and Directorate of Primary Education. At MDA level, the Secretary meets with agency heads to monitor ADP implementation every month. Besides, ministries are required to submit a budget implementation status report to the Ministry of Finance on a quarterly basis. After review and compilation, a quarterly report has been prepared and placed before Parliament by the Minister for Finance according to the PM&BM Act 2009.

PI-8.4 Performance evaluation for service delivery

3.34 Since 1999, a total of 22 performance audit reports have been submitted to Parliament,[16] of which the following 3 reports were discussed in the PAC: (a) Jamuna Fertiliser Co. Ltd. under Bangladesh Chemical Industries Corporation; (b) performance audit on Bangladesh Jatiyo Grontho Kendro; and (c) performance audit on Dhaka Electric Supply Authority. The PAC of the 9th Parliament has established 5 sub-committees to address all files pending. Reports on the evaluations of the efficiency and effectiveness of some ministries within the last three years are yet to be published.

PI-9: Public access to information		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI- 9 Public access to key fiscal information	**Score** **D**	
9.1 The documents for which public access is provided (in order to count in the assessment, the full specification of the information benchmark above must be met).	D	The Government makes available to the public only 3 of the basic elements and 3 of the additional elements

PI-9.1 The documents for which public access is provided

3.35 This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. As presented in Table 3-5, the Government makes available all required information to the public with the exception of the audited annual report (due to it not being completed despite the steady reduction of the SAI backlog) and the pre-budget statement.

[16] http://www.cagbd.org/in.php?cp=perfoaud

Table 3-5: Public access to key fiscal information	
Basic elements	***Status***
1. *Annual Executive budget proposal documentation.* A complete set of Executive budget proposal documents (as assessed in PI-5 Comprehensiveness of information included in budget documentation) is available to the public within one day of the Executive submitting them to the legislature. http://www.mof.gov.bd	Yes - website
2. *Enacted budget*. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Yes – website and extraordinary Gazette
3. *In-year budget execution reports*. The reports are routinely made available to the public within one month of period-end. Where a more comprehensive and analytical mid-year report is produced, publication should take place within 3 months of period-end.	Yes – quarterly, website
4. *Audited annual financial report, incorporating or accompanied by the external auditor's report*. The report(s) are made available to the public within 12 months of the year-end.	Not within 12 months
5. *Annual budget execution report*. The report is made available to the public within 6 months of the fiscal year-end.	No. Although they are published as soon as they reach Parliament, there is a backlog of a few years.
Additional elements	
6. *Pre-budget statement.* The broad parameters for the Executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least 4 months before the start of the fiscal year and 2 months before the Executive budget proposal is submitted to the legislature.	No
7. *Other external audit reports*. All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	Yes – website
8. *Summary of the budget proposal*. A clear, simple summary of the Executive's budget proposal and/or the enacted budget accessible to the non-budget experts (often referred to as a "citizens' budget" and, where appropriate, translated into the most commonly spoken local language) is publicly available within two weeks of the Executive budget proposal being submitted to the legislature and within one month of the budget's approval, respectively.	Yes – "Budget in Brief" on website
9. *Macroeconomic forecasts.* The forecasts, as assessed in PI-14.1, are available within one week of its endorsement.	MTMPS - website

3.3 Pillar III Management of assets and liabilities

PI-10: Fiscal risk reporting		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI- 10 Fiscal risk reporting	**Score** **D+**	
10.1 Monitoring of public corporations	D	Government receives financial reports from just under 30% of public corporations within 9 months of fiscal year-end.
10.2 Monitoring of subnational government	D	Subnational governments are prohibited from taking out loans by law. No reports from subnational governments are published.
10.3 Contingent liabilities and other fiscal risks	C	There is no comprehensive monitoring resulting in a report. Under the ECF program with IMF, there is a structural benchmark setting out the ceiling on guarantees to be issued. This is monitored to meet the program obligation.

3.36 This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations; financial positions of subnational governments or public corporations; and contingent liabilities from the central government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The assessment of this indicator is based on the information available for 2013-14.

PI-10.1 Monitoring of public corporations

1.37 The Government does not perform a routine monitoring of the financial flows and liabilities of public corporations, which is consolidated into a report. The Monitoring Cell of the Ministry of Finance performs continuous monitoring of most public corporations that would flag any significant issues, but there is no consolidation and presentation of fiscal risk to the Government. Only 12 out of 45 public corporations send their audited annual financial statements to the Ministry of Finance within 6 months at the end of the fiscal year. The remaining 33 entities are non-compliant. Only13 out of 45 public corporations submit their financial reports within 9 months of the end of the fiscal year. The remaining 32 are non-compliant. No financial statements are published. The last comprehensive report on autonomous bodies was compiled by Ministry of Finance in 2012, with no reporting since that time.

PI-10.2 Monitoring of subnational government

1.38 Subnational governments are prohibited from taking out loans by law: Local Government (City Corporation) Act 2009 (Section-70); Local Government (Pourashava) Act 2009 (Section-89), and Local Government (Union Parishad) Act 2009 (Section-53). No reports from subnational governments are published, but in the Annual Report of the Local Government Division only the budget information of city corporations covering FY 2014-15 was published in November, 2015.

PI-10.3 Contingent liabilities and other fiscal risks

1.39 The structural benchmark under IMF's Extended Credit Facility (ECF) program required Government to "adopt guidelines for the credit risk assessment, approval and issuance of loan guarantees provided by the central government". This is monitored to meet the program obligation. Also, based on one of the findings of the Debt Management Performance Assessment conducted by the World Bank, the

Government adopted in July 2014 guidelines for the approval and issuance of government-provided loan guarantees (a structural benchmark). The MoF Finance Division in its Budget Brief for FY2013 published a list of guarantees against loans negotiated by various state-owned financial and non-financial enterprises; most of them are for implementing different public policies and programs. A new guideline requires that contingent liabilities should be monitored quarterly. This would provide a good basis for an annual report. No budget units quantify their implicit or explicit contingent liabilities in their financial reports.

PI-11: Public investment management		
	Minimum Requirements (Scoring Method M2)	
	2015	***Explanation***
PI- 11: Public investment management	**Score** **C**	
11.1 Economic analysis of investment proposals	D	There is no formal economic appraisal process.
11.2 Investment project selection	B	Prior to their inclusion in the budget, all major investment projects are prioritized by a central entity on the basis of standard criteria for project selection.
11.3 Investment project costing	D	There is no formal linkage between recurrent costs as laid out in project documents and the budget.
11.4 Investment project monitoring	B	Project implementation monitoring and reporting arrangements are in place for ensuring value for money and fiduciary integrity. The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place. Annual reports covering physical and financial monitoring for all approved projects of the Annual Development Program, which cover all ministries/ divisions, are available on the Ministry of Planning website.

PI-11.1 Economic analysis of investment proposals

3.40 After a project is approved at MDA level, it is forwarded to the appropriate sector division of the Planning Commission for further appraisal. It should be noted that the sector division is not fully independent as it is usually engaged in assisting the MDA in designing the project before MDA approval. However, there appears to be no formal appraisal process functioning in the Planning Commission, though guidelines are being prepared. It has staff with the skills to perform such tasks, but it appears that project approval is taken on non-transparent rather than technical grounds. The MDA-level appraisal is therefore not challenged by any independent institution with respect to economic analysis. No economic analysis is published.

PI-11.2 Investment project selection

3.41 Each year the Planning Commission issues comprehensive guidelines for project selection in Bangla. This applies to all investment projects and guides the prioritization of projects by the Planning Commission.

PI-11.3 Investment project costing

3.42 Given that the recurrent and development budgets are developed separately, there is no formal linkage between recurrent costs as laid out in project documents and the budget. The Budget Call

Circular (BCC) requires such information for ongoing projects to be included in MDA project documents, but the link between such information and the MTBF is not systematic. Recurrent expenditures in practice are regularly requested for completed investment projects after completion. The Ministry of Finance has piloted a medium-term strategy and business plan in the Ministry of Agriculture. This is intended to support inclusion of recurrent costs into the medium-term strategies and business plans going forward for all sectors.

PI-11.4 Investment project monitoring

3.43 Project implementation monitoring and reporting arrangements are in place for ensuring value for money and fiduciary integrity. The major spending ministries maintain databases on the financial and physical progress of approved projects (about 1,200 at present). Financial performance is reported to IMED at least every month. The IMED staff go to the field for monitoring purposes and prepare reports on a monthly and quarterly basis. Annual reports covering physical and financial monitoring for all approved projects of the Annual Development Program, which cover all ministries/divisions are available on the Ministry of Planning website. The MDAs also produce progress reports on project implementation. The database is not completely accurate with respect to physical monitoring. Although IMED may comment on the reports submitted, there is no clear procedure for ensuring that any comments are acted upon.

PI-12: Public asset management		
	Minimum Requirements (Scoring Method M2)	
	2015	***Explanation***
PI-12: Public asset management	**Score** **D+**	
12.1 Financial asset monitoring	C	The Government maintains a record of its holdings in major categories of financial assets
12.2 Nonfinancial asset monitoring	D	Fixed asset registers exist. Reports on assets are not produced.
12.3 Transparency of asset disposal.	D	Rules exist as laid down by Government but non-compliance occurs. However, information is not provided in budget documents, financial reports, or other reports to the legislature or the public on transfers and disposals of assets.

PI-12.1 Financial asset monitoring

3.44 The Controller General of Accounts (CGA) reports on financial assets annually in its Annual finance accounts. At CGA, financial assets are recorded as capital expenditure (i.e., not following IMF rules). The Debt Service Liability Management Reports present financial assets arising from on-lending to state-owned enterprises, etc. Equity is also included in these reports. The Finance Division maintains detailed records of its holdings in major categories of financial assets, and it is reported through a publication titled *Debt Service Liability (Lending-On lending) Accounts and Guidelines*. The report is available at the Finance Division's website: www.mof.gov.bd

PI-12.2 Nonfinancial asset monitoring.

3.45 Monitoring of non-financial assets is disaggregated and only occurs at MDA level, where there are fixed asset registers. Reports on assets are not produced by MDAs. Consequently, there is no consolidation of non-financial assets from each MDA into a report. Rules exist though are not included in the legislation. Information on usage and age is patchy depending on the budget unit. The Bureau of Mineral Development is responsible for leasing out and issuing licenses for subsoil assets but does not maintain a comprehensive register of subsoil assets.

PI-12.3 Transparency of asset disposal.

3.46 Responsibility for sale and disposal of non-financial assets is with MDAs and the Privatization Commission under the Prime Minister's office. The MoF General Financial Rules, Chapter 8, lays out procedures for asset transfer. These rules apply to small assets such as vehicles and furniture. It is not included in legislation but follows standard MoF procedures. There are examples of noncompliance with these rules in audit reports (e.g. Ministry of Health and Family Welfare 2014 audit report). There are no reports that include details of sales.

PI-13: Debt management

	Minimum Requirements (Scoring Method M2)	
	2015	***Explanation***
PI-13: Management and reporting on debt and expenditure arrears	**Score** **B**	
13.1 Reporting of debt and guarantees	B	MoF has taken over the responsibility for debt sustainability analysis and now produces monthly, quarterly, and annual reports on domestic and foreign debt. Data is accurate since there has been no significant issues with the reconciliation of data over the review period. There is a time lag of six weeks after the month-end to finalize the monthly accounts based on complete set of data n inputted in the database outside of DMFAS.
13.2 Approval of debt and guarantees	D	Only the Minister of Finance can undertake loans and issue guarantees although this is not detailed in primary legislation. They are made against transparent criteria but not against fiscal targets.
13.3 Debt management strategy	A	A Medium-Term Debt Management Strategy is now prepared annually. The strategy is available on the MoF website. The MTMPS, which is presented before Parliament with the budget documents, reports on the status of debt. The 2014 report covered domestic and foreign debt over a 3-year horizon. It sets target levels for interest rates, refinancing, and exchange rate risk, which is used for annual planning.

3.47 This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

PI-13.1 Reporting of debt and guarantees

3.48 Ministry of Finance has taken over the responsibility for debt sustainability analysis and now produces monthly, quarterly, and annual reports on domestic and foreign debt. Data is accurate since there has been no significant issues with the reconciliation of data over the review period. There is a time lag of six weeks after the month-end to finalize the monthly accounts based on which debt data are reconciled. Quarterly and annual reports include management and statistical reports covering debt service, stock, and operations. Although there have been problems with DMFAS functionality, a complete set of data has been inputted in the database outside of DMFAS for over a year.

PI-13.2 Approval of debt and guarantees

3.49 In accordance with government circular but not primary legislation, loans and the issuance of guarantees can only be undertaken by the Minister of Finance. Annual borrowing is approved by Parliament.[17] The loans and guarantees are made against transparent criteria but not against fiscal targets. New guidelines are currently being prepared for issuing government guarantees, and the fiscal targets will be the same as outlined in the Medium-Term Debt Management Strategy.

PI-13.3 Debt management strategy

3.50 The Medium-Term Debt Management Strategy was prepared in FY2014 with the intention of being updated annually. The 2014 report covered domestic and foreign debt over a 3-year horizon. It sets target levels for interest rates, refinancing, and exchange rate risk based on thorough sustainability analysis, including a cost-risk analysis of alternative debt management strategies. The Medium-Term Debt Management Strategy is available on the MoF website. The MTMPS, which is presented before Parliament with the budget documents, reports on the status of debt.

3.4 Pillar IV Policy-based fiscal strategy and budgeting

PI-14: Macroeconomic and fiscal forecasting		
	Minimum Requirements (Scoring Method M2)	
	2015	Explanation
PI-14: Macroeconomic and fiscal forecasting	**Score D+**	
14.1 Macroeconomic forecasts	C	The Government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.
14.2 Fiscal forecasts	C	The Government prepares forecasts of revenue, expenditure, and the budget balance for the budget year and the two following fiscal years.
14.3 Macro-fiscal sensitivity analysis	D	The macro-fiscal forecasts prepared by the Government do not include a qualitative assessment of the impact of alternative macroeconomic assumptions.

PI-14.1 Macroeconomic forecasts

3.51 Macroeconomic forecasting informs the top-down elements of the budget process. The Government prepares and uses macroeconomic projections in the preparation of the annual budget covering GDP growth, inflation, expenditure, budget deficit, revenue, and other key indicators, which includes risks to debt but not revenue and expenditure. This is done for the upcoming fiscal year and two-year projections and is presented in an accessible manner in the Medium-Term Macroeconomic Policy Statement, which accompanies the budget. Projections do not include different macro-forecast scenarios.[18] Risks to revenue and expenditure is discussed qualitatively in the MTMPS, however its quantitative analyses or the creating of various scenarios are not done. Documented evidence of detailed assumptions made in the estimates for fiscal revenue were not provided at the time of the PEFA assessment.

[17] The criteria have been established by a government circular and uploaded in the Finance Division website: www.mof.gov.bd/en/#.

[18] Medium-Term Macroeconomic Policy Statement for 2015-18, Chapter 2.

PI-14.2 Fiscal forecasts

3.52 The initial revenue forecast exercise is done within the Macroeconomic Wing of the Finance Division. These forecasts are then presented and discussed with the working group for the Medium-Term Macroeconomic Framework with representation from National Board of Revenue (NBR), Bangladesh Bank, External Resources Division, Bangladesh Bureau of Statistics, Planning Commission, and relevant agencies having involvement in economic affairs. Upon assessment by various agency members, the forecasts are presented before the Coordination Council for final approval. Then, the headline numbers are provided to the National Board of Revenue, which in turn segregates them into difference sources of revenue considering ongoing and future policy and administrative changes.

3.53 This procedure has been followed for at least three years and is specified in the Medium-Term Macroeconomic Policy Statement, which includes figures and summary information on the assumptions and methodology used for major revenue types. There is no comprehensive assessment of the fiscal impact of policy changes. This is presented in the macroeconomic context that is the foundation of the Medium-Term Macroeconomic Policy Statement that accompanies the budget.[19] This document also details expenditure and budget balance forecasts as noted above. There is no explanation of upside and downside risks.

PI-14.3 Macro-fiscal sensitivity analysis.

3.54 The macro-fiscal forecasts prepared by the Government do not include a qualitative assessment of the impact of alternative macroeconomic assumptions.

PI-15: Fiscal strategy		
	Minimum Requirements (Scoring Method M2)	
	2015	Explanation
PI-15 Fiscal strategy	**Score** **B**	
15.1 Fiscal impact of policy proposals	D	The Government prepares estimates of the fiscal impact of some proposed changes in revenue and expenditure policy for the budget year.
15.2 Fiscal strategy adoption	A	The Government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years.
15.3 Reporting on fiscal out-comes	B	The Government has submitted to the legislature along with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set.

PI-15.1 Fiscal impact of policy proposals

3.55 The Macroeconomic Wing, with involvement of the National Board of Revenue, conducts some fiscal analysis on major revenue changes but not expenditure, which has some qualitative weaknesses according to Government. It prepares a working paper on significant changes (e.g., revised VAT), which is provided to the ministerial-level Coordination Council as part of the Council's decision-making process.

[19] Medium-Term Macroeconomic Policy Statement for 2015-17, Chapter 4.

In some cases, NBR produces a more limited assessment of changes to duty rates by conferring with trade bodies; and external institutions may conduct impact studies to tax changes, such as the IFC's Regulatory Impact Assessment for the changes proposed to Customs Act.

3.56 The fiscal impact of the policy changes is measured using simple estimation or value judgment within the Medium-Term Macroeconomic Framework rather than using a standard econometric model. Documents detailing these fiscal impact assumptions and methodology were not available at time of this assessment.

PI-15.2 Fiscal strategy adoption

3.57 The Government has set at least three-year medium-term fiscal objectives (with quantitative targets) in a fiscal strategy document for each of the last three years at the start of the annual and medium-term budget process. These objectives and targets are stated in the MTMPS, which accompanies the budget submission to Parliament as required by the 2009 Public Money and Budget Management Act. The Statement includes an analysis informing the budget allocations. Based on just one macroeconomic scenario with some specific assumptions on exchange rate, growth, etc., the Government sets three-year quantitative targets (in percent of GDP) for core indicators (revenue, expenditure, fiscal deficit, financing, and debt) for the upcoming fiscal year and two subsequent fiscal years.[20]

3.58 The debt sustainability analysis covers both external and domestic debt. In 2011, the IMF and IDA conducted a full debt sustainability analysis; updates were prepared in 2013 and 2014. In 2014, Government prepared its own debt sustainability analysis, which was completed in August 2015. In 2013, the Government approved a medium-term debt strategy.[21]

PI-15.3 Reporting on fiscal outcomes

3.59 The MTMPS accompanies the budget presented to the legislature and is published. It does not describe progress made against its fiscal strategy in any detail. However, the Minister for Finance in his budget speech provides some explanation for any deviation. There is a separate chapter on this in his budget speech.[22] In addition to the budget speech, the Minister for Finance presents quarterly report on budget implementation before Parliament as required by the PM&BM Act 2009, which provides sufficient explanation for the reasons for any deviations. Both documents provide an explanation of the reasons for any deviation from the objectives and targets in the fiscal strategy.

[20] MTMPS 2015-18, Chapter 1; MTMPS 2014-17, Chapter 2; and MTMPS 2013-18 Chapter 2.

[21] Debt Sustainability Analysis and Finance Division website.

[22] Budget speech for FY2015-16 (Chapter III: Budget Adjustments and Amendments for FY 2014-15).

PI-16: Medium-term perspective in expenditure budgeting		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-16 Medium-term perspective in expenditure budgeting	**Score C+**	
16.1 Medium-term expenditure estimates	A	The budget present estimates of expenditure for the budget year and the two following fiscal years by economic, functional, and administrative classifications
16.2 Medium-term expenditure ceilings	A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by Government before the first budget circular is issued. The budget ceilings are approved by the Budget Monitoring and Resource Committee sometime in October, and the budget circular is issued in early November.
16.3 Alignment of strategic plans and medium-term budgets	D	Medium-term strategic plans are prepared for some ministries. No expenditure policy proposals in the annual budget estimates align with the strategic plans.
16.4 Consistency of budgets with previous year's estimates	D	The budget documents do not provide an explanation of any of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget even at the aggregate level.

PI-16.1 Medium-term expenditure estimates

3.60 The budget presents estimates of expenditure for the budget year and the two following fiscal years by economic, functional, and administrative classifications

PI-16.2 Medium-term expenditure ceilings

3.61 The Budget Monitoring and Resources Committee determines the ceilings for the current and subsequent 2 fiscal years by reflecting the annually updated macro fiscal framework. The Budget Monitoring and Resource Committee approves the budget ceilings sometime in October, and the budget circular is issued in early November. The ceilings take into account government priorities as laid out in the 5-year plans and ministry policy documents (e.g., strategies) as well as absorptive capacity of ministries and historical allocations. However, there is limited evidence of linkages between planning documents and strategies and the determination of budget ceilings for the current and forecasts based on review of several key ministries. Therefore, it cannot be said that the budget process allows for reconciliation of the budget ceilings with a ministry's costed budget based on strategic plans.

3.62 Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by Government before the first budget circular is issued.

PI-16.3 Alignment of strategic plans and medium-term budgets

3.63 The Government of Bangladesh prepares a MTBF that presents the most recently approved budget and two-year forecasts for all ministries. The MTBF includes ministry budget frameworks for each ministry that provides projections for respective development and non-development expenditures for the current and subsequent two years. Since the last PEFA, the MTBF process encompasses all ministries, a significant development. The MTBFs and ministry budget frameworks are produced on an annual basis with the current year's budget request and forecasting of the following two years' recurrent and investment expenditures. Ministry budget frameworks state expenditure priorities and expenditure allocation by ministries and divisions. There appears to be a link between the MTBF's second-year estimates and setting of the annual budget for the following fiscal year for most MDAs. In this case, the analysis was conducted based on the FY2014-15 forecast in the FY2013-14 budget and the actual budget submission for FY2014-15. According to government officials, the ceilings are to take into account prioritization reflecting the five-year plans and other strategic documents as well as absorptive capacity, although this was not evidenced in dimension 16.2.

3.64 The ministry budget frameworks do not include the strategic direction of each ministry. This is being addressed with the development of a medium-term strategy and business plan, although to date this has only been prepared by the Ministry of Agriculture.

PI-16.4 Consistency of budgets with previous year's estimates

3.65 The evidence indicates that the ministry budget framework forecasts for a majority of ministries are used as a guide for the next year's ceiling for both the development and non-development budget. The submitted FY2014-15 budget was roughly similar to the FY2014-15 projections (in the FY13-14 budget) for both development and non-development budgets with some notable exceptions. One such exception was the Ministry of Education, which had a large deviation with the FY2014-15 development budget projections substantially higher (by approximately US$450 million (Tk.35,460 million) and the non-development projections lower (by approximately US$300 million (Tk.23,302 million) than the FY2014-15 budget submission. The differences in the forecasted budget relative to the submitted budget are not clearly explained in the ministry budget frameworks but likely reflect changes in government priorities and reallocation of funds accordingly. The Government engages in a deliberative process during which there is the possibility of changes to the initial budget allocations before final ceilings are agreed for the development and non-development budgets. These changes can be made afterwards in a tri-partite ministerial meeting that includes the Finance Ministry, Planning Commission, and the line ministry. The budget ceilings are confirmed in the tri-partite meetings although there is a possibility for limited adjustments to the development budget in select cases thereafter, including in the National Economic Council meeting chaired by the Prime Minister

PI-17: Budget preparation process		
	Minimum Requirements (Scoring Method M2)	
	2015	***Explanation***
PI-17: Budget preparation process	**Score B**	
17.1 Budget calendar	A	After receiving BCC1, ministries are given roughly two months to produce their budget framework. There is a fixed budget calendar that is largely adhered to.
17.2 Guidance on budget preparation	B	A comprehensive and clear budget circular exists. Two budget circulars are issued to budgetary units. BCC1 provides one aggregate ceiling for both development and non-development budgets, and BCC2 provides a separate ceiling for each. Prior to BCC2, a ministerial-level Budget Monitoring and Resources Committee (chaired by the Minister for Finance, and including major spending ministries) approves the budget ceilings.
(iii) Budget submission to the legislature	D	The budget proposal is always submitted on the first Thursday of June (i.e., between June 1 and 7) and approved by June 30, giving the legislature less than a month to review the budget.

PI-17.1 Budget calendar

3.66 There is a fixed budget calendar that is largely adhered to (Annex 6). There are two budget call circulars. After receiving BCC1, usually around mid-November, ministries are given over two months to produce their budget framework based on one budget ceiling encompassing both the development and non-development budget. Ministries are allowed about three weeks after the issuance of BCC2 in mid-April to produce their final budget submission. However, ministries are in discussions with the Ministry of Finance before BCC2 to determine the different ceilings for the development and non-development budget so they should have a sense of the amounts earlier.

3.67 The Finance Division is flexible if any ministry asks for time within the schedule for the tripartite meeting, which begins in February and continues till end-March. Ministries meet the final deadline for submission of ministry budget framework to the Finance Division. The calendar is strictly monitored by relevant budget desk officers of the Finance Division. Also, Finance Division prepares a checklist every year that is submitted to the Minster and the Additional Secretary in charge of coordination of budget setting process monitors the progress of actions.

PI-17.2 Guidance on budget preparation

3.68 Two budget circulars are issued to budgetary units. BCC1 provides one aggregate ceiling for both development and non-development budgets, and BCC2 provide a separate ceiling for each. Prior to BCC2, a ministerial-level Budget Monitoring and Resources Committee (chaired by the Minister for Finance and including major spending ministries) approves the budget ceilings; and after BCC2, there is still some limited scope for adjustments to the development budget before budget submission to the Cabinet to ensure the budget reflects government's priorities. The budget is typically submitted to the Cabinet with limited time for its review before the budget is sent to Parliament. While a Cabinet committee on economic affairs has the authority to review the draft budget in detail, it does not do so and leaves this review to the full Cabinet.

PI-17.3 Budget submission to the legislature

3.69 The budget proposal is always submitted on the first Thursday of June (i.e., between June 1 and 7) and approved by June 31, giving the legislature less than a month to review the budget.

PI-18: Legislative scrutiny of budgets		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI-18: Legislative scrutiny of budgets	**Score C+**	
18.1 Scope of budget scrutiny.	A	The legislature initiates debate and review on all aspects of revenue and expenditure, fiscal policies, MTMPS, and priorities therein
18.2 Legislative procedures for budget scrutiny.	C	The Rules of Procedures of Parliament have been approved by the legislature. The procedures do not allow for committees to scrutinize the budget although this happens in practice.
18.3 Timing of budget approval.	A	The budget is always approved by June 30 in time for the start of the fiscal year <table><tr><th>Year</th><th>Date of Budget Approval</th></tr><tr><td>2011-12</td><td>June 29</td></tr><tr><td>2012-13</td><td>June 28</td></tr><tr><td>2013-14</td><td>June 30</td></tr></table>
18.4 Rules for budget adjustments by the executive.	A	Only allowed under a revised budget, which has strict procedures for enactment and is always adhered to.

PI-18.1 Scope of budget scrutiny

3.70 Documents scrutinized include all noted in PI-5. Once the Executive has reviewed the draft budget, it is passed to the legislature to initiate debate and review on all aspects of revenue and expenditure, fiscal policies, MTBF, and priorities therein. All legislative decisions are published in the Official Gazette.

PI-18.2 Legislative procedures for budget scrutiny

3.71 The budget review procedure is laid down in the Rules of Procedure of Parliament (Rules 111-129), which are respected by Members and by the Executive. The legislature has at least three weeks for deliberations/debates in line with the Rules of Procedures. The budget is approved by Parliament by end of June. Parliamentary rules only allow for a general discussion of the budget. An Estimates Committee is mandated to scrutinize estimates as referred to it by Parliament to improve efficiency of public expenditure. However, the functions of the Committee are not quite visible. Significant adjustments to the budget are rare.

PI-18.3 Timing of budget approval

3.72 The budget is always approved by June 30 in time for the start of the fiscal year.

PI-18.4 Rules for budget adjustments by the executive

1.73 The revised budget, although following strict procedures for enactment, is usually approved by the legislature as proposed by the Executive. The rules on in-year amendments to the budget are laid down by the Constitution, General Financial Rules, and PM&BM Act 2010 (Box 3-1) and are always adhered to. Amendments to the budget are only allowed under the revised budget, which typically takes place once a year.

1.74 Article 90 of the Constitution prohibits overspending of any appropriation to a ministry or division. However, on occasions, appropriations are sometimes overspent and then regularized by a supplementary appropriation at the end of the year. Article 91 states that the President can authorize expenditure in excess of the appropriation but must present a supplementary financial statement setting out the estimated amount of expenditure to Parliament or setting out an excess financial statement setting out the amount of the excess.

Box 3-1: Rules for in-year amendments to the budget without ex ante legislative approval

PM&BM Act 2010, section 12 - Revised budget
(1) If necessary, the Finance Minister shall lay before Parliament a revised budget of each financial year.
(2) The revised budget, as far as possible, shall be laid within the month of March of each year.

PM&BM Act 2010, section 14 - Fund transfer and re-appropriation
(1) Without prior approval of the Parliament, no fund shall be transferred or re-appropriated from one grant to another grant or from charged expenditure to other expenditure except from the unexpected expenditure head.
(2) Without prior consent of Finance Division, no re-appropriation shall be made from revenue expenditure to capital expenditure or from capital expenditure to revenue expenditure within the same grant or from pay and allowances codes to any other codes.

3.5 Pillar V Predictability and control in budget execution

PI-19: Revenue administration		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-19 Revenue administration	**Score D+**	
19.1 Rights and obligations for revenue measures	B	There is a single website for the three wings of the NBR (Income Tax, Customs, and VAT) detailing up-to-date legislation, tax liabilities, procedures and rights of redress. The Appellate Tribunal is independent and provides redress for all 3 types of tax.
19.2 Revenue risk management	D	Entities collecting less than 50% of revenues use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for some revenue streams.
19.3 Revenue audit and investigation	D	Entities collecting the majority of government revenue undertake audits and fraud investigations but do not use a compliance improvement plan nor complete the majority of planned audits and investigations.
19.4 Revenue arrears monitoring	D	The Annual Report of NBR for FY2012-13 indicates that tax arrears stood at Tk72.68 billion (US$.0.91 billion) and collection of Tk9.91 billion (US$ 0.124 billion). This data is unreliable as arrears are not fully monitored.

PI-19.1 Rights and obligations for revenue measures

3.75 There is a single website for the three wings of the NBR (income tax, customs, and VAT) detailing up-to-date legislation, tax liabilities, procedures, and rights of redress.[23] Self-assessment has been introduced for some income tax categories with rules for those who can self-assess. A web-based tax calculator makes tax filing convenient to some sections of taxpayers. Older tax laws are in English while subsequent laws are drafted in Bangla. Most tax laws are now available both in Bangla and English, though the later laws in English are unofficial translations. There is as yet no official English language version of the VAT Act 2012.

3.76 Customs filing has been automated and uses the ASYCUDA software. This has reduced the time spent in processing exports and imports. However, it is still usual to use a customs agent as many customs duties are not easily apparent to importers.

3.77 Income tax and VAT constitute over 50 percent of all government revenues according to Ministry of Finance. In FY12, against the total NBR target revenues of Tk918.7 billion,(US$ 11.62 billion) the share of income tax and profit stood at Tk275.6 billion (US$ 3.48 billion) and that of VAT stood at Tk343 billion (US$ 4.34 billion). In FY13 against total target of Tk1,122.5 billion (US$ 14.19 billion), income tax share was Tk.353.0 billion (US$ 4.46 billion) while VAT share stood at Tk404.6 billion (US$ 5.12 billion). In FY2014, total NBR target was Tk1,360.9 billion (US$ 4.56 billion), of which income tax share was Tk482.9 billion (US$6.11 billion) while VAT share stood at Tk499.5 billion (US$ 6.32 billion).

3.78 The Appellate Tribunal is independent and provides redress for all 3 types of tax.

[23] NBR website: http://www.nbr.gov.bd/

PI-19.2 Revenue risk management

3.79 Audit for returns under the Universal Self-Assessment System is conducted on the basis of the guidelines issued in Bangla by the NBR Secretariat. In addition, the guidelines also set out a number of criteria against which the returns should be brought under audit interventions. In other cases (e.g., customs and non-self-assessment), there is little capacity to carry out risk assessment. Often audits are carried out on the recommendation of field officers. Over half of NBR's risk assessment therefore is limited in scope.

PI-19.3 Revenue audit and investigation

3.80 Audit is carried out in respective NBR wings: income tax, customs and VAT. This is organized according to guidelines set by the NBR Secretariat, including a set of revenue risk factors (e.g., first time submitted, whether previously audited in the past 4 years, whether the incomes are exempted from tax, and whether the taxpayer concealed any income). Fraud investigation is carried out by one entity covering all NBR. The NBR accounts for more than 75 percent of government revenues. Self-assessed income tax is audited on a sample of 2-3 percent of submitted forms as shown Table 3-6. With respect to VAT, no systemic risk assessment is carried out by NBR before executing audits. There is no systematic audit plan to adhere to. The Intelligence Wing provides information on VAT evasion by the VAT-paying agencies. The directorate also receives information from other sources (e.g., complaints and tip-offs). In addition, there is an acute shortage of skilled staff to carry out quality audit. There are only 25 staff members (managerial and non-managerial) to provide audit coverage throughout the country. Regarding customs, there is evidence of recovery at the instance of audit, but no systematic approach to audit is in place. The Large Tax Payer Units carry out risk assessment for income tax.

Table 3-6: Statement showing settlement of cases in the audit list and collection of taxes

Assessment year	*Total number of returns submitted under universal self-assessment system*	*Number of returns selected for audit*	*Percentage of returns selected for audit*	*The number of cases settled*	*Cases under process*
2010-11	4,95,527	10,094	2.04%	10,094	-
2011-12	6,89,448	16,991	2.45%	16,911	-
2012-13	8,47,556	20,584	2.43%	20,581	3
2013-14	9,37,506	31,562	3.55%	9,425	22,137

Source: National Board of Revenue (Audit, Intelligence and Investigation Wing)

PI-19.4 Revenue arrears monitoring

3.81 The Annual Report of NBR for FY 2012-13 indicates that tax arrears stood at Tk.72.68billion and (US$ 0.92 billion) collection of Tk. 9.91 billion (US$. 0.13 billion) However, the practice of field offices submitting arrears figures on a regular basis has not been maintained and these figures are likely to be an underestimate of actual arrears.

PI-20: Accounting for revenues		
	Minimum Requirements (Scoring Method M1)	
	2015	*Explanation*
PI-20 Accounting for Revenues	**Score C+**	
20.1 Information on revenue collections	A	Ministry of Finance compiles a consolidated report on a monthly basis covering all revenue types and the period covered by the collection
20.2 Transfer of revenue collections	A	All revenue reaches a treasury account within a day of payment either directly to a treasury account or branch of Sonali Bank.
20.3 Revenue accounts reconciliation	C	Reconciliation only occurs between collections and receipts (immediately), not assessments and arrears.

PI-20.1 Information on revenue collections

3.82 Revenue data collection accounting is on a cash basis, with no arrears recorded in iBAS. It is a continuous process for all revenue sources, with each agency (e.g., three wings of NBR) collecting taxes, and compiling and supplying information to the Ministry of Finance. The Ministry of Finance compiles a consolidated Monthly Fiscal Report covering revenue types and the collection period; the report is circulated to NBR, Finance Division, and within the Ministry of Finance.[24] More frequent reports can also be generated by iBAS.

PI-20.2 Transfer of revenue collections

3.83 All cash revenue received is paid into or transferred immediately to the Bangladesh Bank Treasury Single Account by the Sonali Bank, which has clear instructions to effect immediate transfer for any amount under Tk10,000 (US$126.43). Offices that are linked to the treasury such as customs are treated in similar manner with no receipts held in situ. Income tax payment orders for amounts over Tk10,000 (US$126.43) are paid by bank draft or pay order. The CGA officials explained to the review team that revenue collections can be delayed briefly in depositing to the Bangladesh Bank by the local tax collecting office, but the system works immediately once deposits are made.

PI-20.3 Revenue accounts reconciliation

3.84 Each cash deposit is reconciled immediately by the Bangladesh Bank to transfer information sent via the bank connectivity backbone. Same reconciliation is shown for all "ins" and "outs". Reconciliation is done between collections and transfers. However, it is not carried out for tax assessments and arrears; this creates a gap for CGA and other interested stakeholders on vital revenue information that could represent a substantial loss of resources for the budget (in accordance with CGA). Payment orders and checks can be retained by tax officers with a view to manipulating targets.

[24] Monthly Fiscal Report available at http://www.mof.gov.bd.

PI-21: Predictability of in-year resource allocation		
	Minimum Requirements (Scoring Method M2)	
	2015	Explanation
PI-21 Predictability of in-year resource allocation	**Score B+**	
21.1 Consolidation of cash balances.	C	The CGA consolidates all treasury single accounts daily and related sub-accounts monthly.
21.2 Cash forecasting and monitoring.	A	Cash flows are prepared annually alongside the budget. They are then forecast and monitored, and updated monthly on the basis of actual receipts and payments.
21.3 Information on commitment ceilings.	B	MDAs can plan and commit expenditures at least a quarter in advance. The quarterly budget is the rigid ceiling, running for the first three quarters; budget units expenditures are reviewed for the fourth quarter, at which point the last quarter ceiling can be revised. In the case of non-development budget, MDAs can spend against the budget allocation for which no quarterly fund release is required with the exception of grant transfers to different agencies.
21.4 Significance of in-year budget adjustments.	A	Significant adjustments to budget allocations only take place through the revised budget of which there is one per FY. This is carried out in a clear and transparent way.

PI-21.1 Consolidation of cash balances

3.85 Accounting reconciliations are not carried out although there is a module in place in iBAS. Instead, all amounts transferred to the treasury single account are reconciled and tracked individually.

3.86 The Government maintains a treasury single account with the Bangladesh Bank for all of central government. There are related sub-accounts for MDAs. The Sonali Bank acts as an agent for the Bangladesh Bank (apart from the 9 Bangladesh Bank outlets in the country), with all balances at its branches cleared daily to Bangladesh Bank. The Sonali accounts are used to channel most government revenues and expenditures. The CGA reconciles all accounts daily and sub-accounts monthly. Loans by Bangladesh Bank to the Government are reported to CGA and consolidated in their monthly accounts. Issues, redemptions, and interest payments on retail debt instruments in all distribution channels are also reported to, booked, and consolidated by CGA on a daily basis, using debit scrolls with relevant bank branches dealing with retail debt instruments.

PI-21.2 Cash forecasting and monitoring

3.87 Cash flows are prepared annually alongside the budget. They are then monitored, updated monthly on the basis of actual receipts and payments, and reported monthly to the Cash and Debt Management Committee that meets quarterly. The Committee is chaired by the Senior Secretary of the Finance Division and includes senior officers from Bangladesh Bank, Economic Relations Division, CGA, and NBR.

PI-21.3 Information on commitment ceilings

3.88 While there is no formal commitment system in place, there are quarterly expenditure availabilities presented at the beginning of the year for each MDA based on their budget execution reports, enabling them to plan at least a quarter in advance. In the current process, the quarterly budget is the rigid ceiling running for the first three quarters; budget unit expenditures are reviewed for the fourth quarter at which point the last quarter ceiling can be revised down if the previous quarters were underspent, or the allocation can be revised up if approval has been processed through the correct channels, although this is the exception rather than the rule. As no unit is allowed to carry forward expenditures or arrears from one budget year to the next, there are no overruns (over-commitment) of budget across government. After strict reviews at the end of the third quarter, the fourth quarter allocations are then released, providing MDAs with ceilings for expenditure commitment at least 3 months in advance. In the case of non-development budget, the MDAs can spend against the budget allocation for which no quarterly fund release is required with the exception of grant transfers to different agencies.

PI-21.4 Significance of in-year budget adjustments

3.89 The internal rules and regulations for adjustments to original budget appropriations are published on the MoF website in Bangla and English. All rules for virements and adjustments are clearly documented for all levels ranging from Parliament to MDAs. Significant adjustments to budget allocations only take place through the revised budget of which there is one per fiscal year. This is carried out in a clear and transparent manner.

PI-22: Expenditure arrears		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI-22 Expenditure arrears	**Score D**	
(i) Stock of expenditure arrears.	D*	CGA implements a strict cut-off date for submission of current year invoices/claims to ensure that all tokens are cleared before year-end. However, systems and processes are not yet in place to generate reliable arrears data.
(ii) Expenditure arrears monitoring	D*	Systems and processes are not yet in place to generate reliable arrears data. As noted in PI-28.3, expenditure for both the commitment and payment stages are not provided in in-year budget reports.

PI-22.1 Stock of expenditure arrears

3.90 There is no data on expenditure arrears from iBAS. The Financial Division issues a circular each May to all budget units reminding them that all invoices, bills, and other payments due should be finalized and paid by June 20 with zero tolerance for invoices submitted after that date. As noted in PI-28.3, expenditure for both the commitment and the payment stages are not provided in in-year budget reports. This inability to generate data on stock and composition of expenditure arrears is a major PFM problem that allows false comfort about the status of arrears.

PI-22.2 Expenditure arrears monitoring

3.91 Arrears data was not provided during the assessment. As noted under PI-21.3, information on commitment ceilings is made available to spending units, but weaknesses in effectiveness of expenditure commitment controls (PI-25.2) hamper the production of arrears data. Although there are indications that unpaid bills do exist at MDA level, they are not inputted into iBAS; therefore, reporting on outstanding bills is not available. The Finance Division maintains that the amounts due on these invoices are negligible. Recent history has not revealed any major emergence of payment of arrears displacing allocation of current years' budget.

PI-23: Payroll controls		
	Minimum Requirements (Scoring Method M1)	
	2015	*Explanation*
PI-23 Payroll controls	**Score C+**	
23.1 Integration of payroll and personnel records.	B	The manual payroll in each MDA is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring is controlled against positions approved by the Ministry of Public Administration and Ministry of Finance. Promotion is also guided by set rules where the number positions to be filled by promotion is clearly defined.
23.2 Management of payroll changes.	B	It can take up to 3 months to process changes to personnel records, though the majority is made within a month. Retroactive payments exist but are not widespread.
23.3 Internal control of payroll.	C	Changes can only be made by two staff signatures (including certifying officer) providing a full audit trail. Reconciliation and aggregation is not carried out at central level.
23.4 Payroll audit.	C	Annual partial audit is in place by the supreme audit institution for each MDA.

PI-23.1 Integration of payroll and personnel records

3.92 The reconciliation is still manual although there is thorough (and time-consuming) cross-checking, including an absentee list, service book, and monthly random checks. From the centralized office down, each level has the tools for responsible control. Staff hiring is controlled against positions approved by the Ministry of Public Administration and Ministry of Finance. Promotion is also guided by set rules where the number positions to be filled by promotion is clearly defined. According to the Chief Accounts Office Dhaka, errors are considered less than 3 percent based on retroactive adjustments.[25] There is monthly code-wise reconciliation by each responsible officer whose reconciliation is checked by another officer to avoid collusion. External audit sample checks as part of their audit process. An IT system is in the process of being populated for testing.

3.93 The payroll function is decentralized to line ministries/divisions and even down to local offices of ministries. Personnel records are kept, in some instances computerized, by relevant line departments. The records update is based on update of payroll at the pay points and is not always reconciled at the central level. Ministry of Finance has recently introduced an employee database to facilitate payroll reconciliation and updates of records between CGA and line ministries/divisions. But this is yet to be fully operationalized. The documents maintained at the ministry/division level are often updated with personnel records in a database kept by the Ministry of Public Administration; but the updates are not systematic, and there is no evidence that discrepancies are monitored and acted upon in a timely manner. If viewed from an IT perspective, it could be construed that the integrity of the payroll is undermined by lack of regular reconciliation of personnel records with payroll data. However, the manual system has several independent stringently applied control processes with random checking, which is also subject to external audit scrutiny.

[25] The review team confirmed this by observed records and audit reports.

PI-23.2 Management of payroll changes

3.94 All staff movements and changes are tracked with placement certificates from the Ministry of Public Administration communicated by post resulting in delays in notification. In remote areas it can take up to 3 months to process changes to personnel records though the majority are made within a month, particularly if affected officers follow up on their own changes. Any salaried person without complete documentation, including placement certificate, is not paid. Retroactive payments exist but are not widespread as witnessed by an examination of payroll documentation and external audit reports.

PI-23.3 Internal control of payroll

3.95 Internal controls of changes to personnel records and the payroll are covered by specific rules. The service book, last change certificate, and the fly-leaf book are all required to be changed and can only be done so by two staff signatures (including certifying officer). This provides a full audit trail and sign-off. However, most of the changes are done manually on payroll registers/ledgers, some of which are torn with multiple, hand-written comments and signatures making it difficult to identify the most recent updates.

3.96 The payroll system has not been fully addressed under any reform intervention so far. Under SPEMP-A, there was an attempt to create an employee database but due to sudden closure of SPEMP-A the process was stalled. As a result, the database could not be used for the purpose for which it was established. Currently, under a bridging program supported by government, the agenda is being pursued. Additionally, the Government is also considering technical assistance support to link other cross-cutting issues with the payroll and pension database and streamline the payroll system with staff ID numbers.

PI-23.4 Payroll audit

3.97 There is no separate payroll audit to identify control weaknesses in the system. Payroll audit is part of the annual compliance audit by OC&AG, which is carried out by various audit directorates. With regards to its standard audit program, civil audit and local audit directorates are mainly responsible, on a sampling basis, to carry out the payroll audit of ministries, corporations, and local government employees.

PI-24: Procurement		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-24 Procurement	**Score B**	
24.1 Procurement monitoring	B	Records are maintained for most procurement methods of goods, works, and services covering type of procurement, value, and awardees' name with price. It compares well with procurement plans and analyzes date for e-procurement contracts as stored in database. E-procurement covers over 30% of contracts. Over 90% of procurement of Roads and Highways Department, Local Government Engineering Department, Bangladesh Water Development Board, and Bangladesh Rural Electrification Board are conducted through e-procurement, which is about 25% of total procurement by value. These agencies report quarterly on procurement performance through the e-procurement system.
24.2 Procurement methods	B	Most agencies follow open competitive methods by default as per the law, which is systematically implemented and records maintained at agency level. Non-competitive methods require approval of agency head. Open procurement method is over 70% of total value of contracts.
24.3 Public access to procurement information	B	All legislation and regulations, government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints but not annual procurement statistics are posted on the CPTU website covering most procurement of government operations (over 75%). The process of updating the website is continuous as and when a document is updated or approved. For example, procurement plan in e-procurement is uploaded immediately upon approval and is immediately available.
24.4 Procurement complaints management	B	The complaints system meets most criteria (5 out of 6), including mandatory criteria uninvolved in any capacity in procurement transactions or in the process leading to contract award decisions.

PI-24.1 Procurement monitoring

3.98 Records of public procurement contracts, including nature of procurement, value of procurement, and awardee name, are maintained for most procurement methods for goods, works, and services. Following the regulatory requirement, each agency keeps such records. E-procurement currently covers over 30 percent of total procurement, which is rapidly increasing over time as the government plans to cover all procurement in e-GP by 2018. The e-GP systematically collects data and analyzes performance on successfully completed procurement processes compared to procurement plans in term of numbers and values. It also analyzes financial information such as the original contract price compared to the completion cost of contracts.

3.99 The Roads and Highways Department, Local Government Engineering Department, Bangladesh Water Development Board, and Bangladesh Rural Electrification Board spend over 35 percent of development budget; that amount constitutes about 25 percent of total procurement by value. These agencies' procurement performance reports are published every quarter, measuring efficiency transparency, and competitiveness of the system.[26]

[26] http://www.cptu.gov.bd/Publication.aspx

PI-24.2 Procurement methods

3.100 Open competition is the default method of procurement in Bangladesh. Most agencies follow open procurement method except for small value procurement and some emergency works. Agencies maintain records of most procurement, including methods as per the procurement plan. In terms of method, open procurement covers over 70 percent of total value of contracts. Changes in the legal framework allow limited tendering with qualification relaxation, which from a functional consideration and such option may open room for compromising with quality of works. By law, the head of procurement agency approves all non-competitive tenders through the procurement plan.

3.101 E-government procurement can be attributed to the improvements shown in Table 3-7 and the following:

- Electronic procurement rolled out fully in 4 key government agencies;
- Total registered user in e-GP is about 25,000.
- The number of registered tenderers has grown 40-fold, from 525 in 2012, to 21,000 in 2016.
- The number of tender invitations has grown over 380 times from 144 in 2012, to 55,000 in 2016.
- The value of tender invitations has grown over 320 times from US$18 million (Tk.1,424 million) in 2012: to US$5,800 million (Tk.454,720 million) in 2016.
- As mentioned before, e-GP has led increased competition in national tendering by almost 75%.

Table 3-7: Comparison of how e-GP improves procurement

	Without e-GP	*With e-GP*
Increased competition	2007: Average of 4 tenderers per tender	2015: Average of 7 tenderers per tender
Enhanced transparency	2007: 15% of contract awards were published	2015: 100% contract awards were published online
	2007: 70% of tender invitations were published in newspapers	2014: 100% of tender invitations published online
Improved efficiency: ***time needed for awarding a contract (tender opening to award)***	2012: 51 days	2015: 29 days

3.102 No segregated data is available at centralized level with Central Procurement Technical Unit (CPTU); however, data are available in details for all procurement at the agency level.

PI-24.3 Public access to procurement information

3.103 The country has established legal/regulatory framework for procurement, including secondary legislation and bidding documents. Most agencies carry out procurement following the procurement plan. Also, bidding opportunities for all procurement and contract award information are available on the CPTU website along with the legislation. It covers all public sector procurement in government operations (over 75 percent).[27]

[27] Procurement plans and contract awards information above certain thresholds are published in CPTU website, http://www.cptu.gov.bd, and www.eprocure.gov.bd.

PI-24.4 Procurement complaints management

3.104 Table 3-8 below outlines the key questions concerning the procurement complaints process and Table 3-9 shows a summary of the decision of the procurement review panel. The complaints system meets all 6 criteria.

Table 3-8: Effectiveness of an independent administrative procurement complaint system	
Key questions	***Responses***
Are complaints reviewed by a body that…	
…is not involved in any capacity in procurement transactions or in the process leading to contract award decisions?	Review panel is not involved in contract awards. All 3 members are retired government officials: 1 ex-government official, 1 judiciary, 1 business community from Chamber of Commerce.
…does not charge fees that prohibit access by concerned parties?	Fee charge is Tk3,500 (US$44.25) per session, 3 hearings, 12 days to dispose the case. Maximum allowed: 3 times 3,500 = TK10,500 (US$132.75). Fee reimbursed for complaints that go in favor of the appellant.
…follows processes for submission and resolution of complaints that are clearly defined and publicly available?	Guidelines published on website based on legislation.
…exercises the authority to suspend the procurement process?	Procurement award cannot be announced until appeal finished.
…issues decisions within the timeframe specified in the rules/regulations?	Timeframe specified. 3 hearings, 12 days to dispose the case Maximum 3 days times 3,500 = Tk10,500 (US$ 132.75).
…issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)?	Binding on all parties that can then go to court if dispute unresolved.

Table 3-9: Review panel decisions result summary

Year	Decision in favor of		Available decisions	Percentage	
	Procurement Entity	Appellant		Public enterprise	Appellant
2005	0	1	1	0	100
2006	6	4	10	60	40
2007	3	4	7	43	57
2008	7	4	11	64	36
2009	13	13	26	50	50
2010	13	12	25	52	48
2011	14	14	28	50	50
2012	20	21	41	49	51
2013	23	10	33	70	30
2014	27	18	45	60	40
2015	10	11	21	48	52
Total	**136**	**112**	**248**	**55**	**45**
Percentage	**54.84**	**45.16**	**100.00**		

Source: CPTU Newsletter July 2015 (http://www.cptu.gov.bd/Publication.aspx)

PI-25: Internal controls on non-salary expenditure		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-25 Internal controls on non-salary expenditure	**Score C**	
25.1 Segregation of duties.	A	A generic manual has appropriate segregation of duties prescribed throughout the expenditure process. Responsibilities are clearly laid down. The functions of authorization, recording, custody of assets, reconciliation and audit are well organized on paper; however, as confirmed by OC&AG Audit Reports, the gap between reality and theory remains an issue.
25.2 Effectiveness of expenditure commitment controls.	D	There is no formal commitment control system.
25.3 Compliance with payment rules and procedures.	D	SAI reports indicate that compliance is a significant problem, but no data exists to indicate to what extent. Exceptions are usually properly authorized and justified.

PI-25.1 Segregation of duties

3.105 The MoF Finance Division developed a generic manual for internal control in 2005 although it has not been adapted to any specific MDA. The functions of authorization, recording, custody of assets, reconciliation, and audit are well organized on paper, yet, as confirmed by OC&AG audit reports, the gap between reality and theory remains an issue. Where there is no formal reconciliation, authorization can be circumvented with the same person performing many duties. Recording and custody of assets appear satisfactory according to interviews in CGA with the Internal Control Unit staff and senior CGA staff (including Head of the IT unit) who showed statistics indicating a satisfactory situation. The CGA has put in place an Internal Control Unit that works on tracking exceptions reported by the system with a good degree of success for cases that have been identified and resolved.

PI-25.2 Effectiveness of expenditure commitment controls

3.106 There is no formal commitment control system. The only semblance of commitment control is the process by which the budget is allocated to each spending unit, which cannot spend more than the budget allocated. The iBAS is expected to strengthen commitment controls through features for cash forecast from ministries and spending limit imposed by Treasury.

PI-25.3 Compliance with payment rules and procedures

3.107 Segregation and authorization controls exist as bills are prepared and posted into iBAS, but checks are drawn manually, albeit by a different officer than the iBAS person responsible for input. However widespread infringement of Financial Rules and Regulations was consistently reported in the 2013 and 2014 OC&AG reports, though there is no data to indicate how significant.

PI-26: Internal audit		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI-26 Internal audit	**Score D**	
26.1 Coverage of internal audit.	D	There is no formal internal audit function in place despite the fact that some personnel are assigned as internal audit heads.
26.2 Nature of audits and standards applied	NA	Ex post checking is carried out on a compliance basis, not on a risk basis. Standards applied are not ISSAI based, and MDAs lack qualified internal auditors. Personnel gain experience on the job and through workshops and some training programs that the relevant MDA may organize.
26.3 Implementation of internal audits and reporting.	NA	Internal audit effectiveness is limited; there are no systematic audit plans. Ex post review reports are issued to MDA management, but these are not circulated to the supreme audit institution or Ministry of Finance.
26.4 Response to internal audits.	NA	There is no formal annual audit program. There is no mechanism to assess the extent to which action is taken by management on ex post review of transactions.

PI-26.1 Coverage of internal audit

3.108 There is no formal internal audit function in place despite the fact that some personnel are assigned as internal audit heads. There are pockets of an internal audit function emerging in some ministries (e.g., Ministry of Planning, Ministry of Roads and Highways, Ministry of Housing and Public Works, Ministry of Health). The IMED is not mandated to carry out any internal audit function. It monitors implementation of different ADP projects and carries out concurrent evaluation. Where it exists, it has few qualified auditors. Their functions are largely transaction and compliance testing, according to MDA audit heads, and are responsible to their secretaries or principal accounting officers. The Finance Division does have an Internal Audit Manual and intends to strengthen its function in the future.

PI-26.2 Nature of audits and standards applied

3.109 Ex post checking is carried out on a compliance basis, not on a risk basis. Standards applied are not ISSAI based, and MDAs lack qualified internal auditors. Personnel gain their experience on the job and through workshops and some training programs that the relevant MDA may organize.

PI-26.3 Implementation of internal audits and reporting

3.110 Internal audit effectiveness is limited; there are no systematic audit plans. Ex post review reports are issued to MDA management, but these are not circulated to the supreme audit institution or Ministry of Finance.

PI-26.4 Response to internal audits

3.111 There is no formal annual audit program. There is no mechanism to assess the extent to which action is taken by management on ex post review of transactions.

3.6 Pillar VI Accounting and reporting

PI-27: Financial data integrity		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-27 Financial data integrity	**Score C+**	
27.1 Bank account reconciliation	D	Bank reconciliation from an accounting control perspective does not take place. The iBAS bank reconciliation functionality is not in use.
27.2 Suspense accounts	A	All government entity suspense accounts are cleared rigorously every financial year, barring one. The Bangladesh Railway suspense account is never cleared although close inspection reveals it to be an emergency contingency account.
27.3 Advance accounts	D	Reconciliation of advance accounts is carried out quarterly and within one month of the end of a given period. Advance accounts are never cleared except for salary related accounts.
27.4 Financial data integrity processes	A	Access and changes to iBAS records is restricted and recorded, resulting in an audit trail. As the internal control unit within MoF, CGA has a formal charter to check paper work and supporting documents and vouchers for all accounts, payments, sub-ledger, provident funds, and pensions.

PI-27.1 Bank account reconciliation

3.112 No Bank reconciliation process takes place in terms of accounting practice. All receipts and payments are reconciled individually at Bangladesh Bank level. While current iBAS has a reconciliation module, it is not used and so there are no bank reconciliations. The only reconciliation process that exists is at the "pay points" with the Sonali bank, or Bangladesh Bank, where moneys are paid in. The process there is for each amount to be transmitted immediately to the Bangladesh Bank into the Government treasury single account, and each amount sent through is reconciled with the accompanying information to ensure that there are no differences between the reported amounts and the actual amount received. This is not an accounting reconciliation process. However, this does not mean there is no control on payments and receipts passing through the bank accounts. The Government has adopted an alternative approach whereby checks issued are recorded as paid when they have been returned by the Bangladesh Bank and can be verified against the accounting vouchers to ensure accuracy; then a transaction is complete. The checks that are outstanding are pending but not reconciled as in a commercial environment; however, an inventory of such outstanding checks is maintained as a separate report. The balance at the bank for a given end of period report is the balance reported by the Bangladesh Bank, according to CGA.

PI-27.2 Suspense accounts

3.113 Government rules for suspense accounts state that these must all be cleared at the end of the financial year. Reconciliation takes place monthly by the end of the month. The suspense accounts, with the exception of the Bangladesh Railway, are cleared normally by September 30, three months following the end of the Government's financial year (June 30), according to the Finance Division. There is a maximum clearance deadline of October 22. The exception to this process is the Bangladesh Railway, which is never cleared and increases from year to year at the rate of roughly 2.5 to 2.6 percent per year, and runs at approximately 0.9 percent (Tk57.75billion; US$0.73 million) of expenditure. The suspense account arises because every year there are major incidents for which there is no budget, or contingency, and these have to be paid as part of the current way Bangladesh Railway is financed.

PI-27.3 Advance accounts

3.114 There are approximately 25,000 advance accounts with each drawing and disbursing officer in existence run as classic accounting "imprest" accounts with imprest ceilings set at between Tk200 to Tk90,000 (US$ 2.53 to 1,137.85) depending on the budget expenditure foreseen and historically recorded. There is no fixed bank for these accounts, so any commercial bank can be used. There are clear treasury rules for the management and control of these accounts. Reconciliation of these accounts is carried out quarterly and within one month of the end of a given period, according to CGA. The accounts are not cleared as they are considered permanent. The imprest ceilings are periodically reviewed and adjusted up or down depending on the expenditure review. For travel and transfer (being moved from one service unit to another), advances have to be cleared within 6 months, or at the end of the Government's fiscal year, whichever is earlier. Salary advances must be cleared in the month following in which it was obtained, according to CGA.

PI-27.4 Financial data integrity processes

3.115 Data integrity processes are to a large extent ensured by an Internal Control Unit within MoF CGA, which has a formal charter to check paper work and supporting documents and vouchers for all accounts, payments, sub-ledger, provident funds, and pensions, using a checklist that is updated regularly. Checking is done on a random sampling basis. The unit reports to a Deputy CGA.

3.116 The iBAS requires passwords to be changed by individual users (who have varying levels of access) every 3 months; if a user does not follow this rule, they are locked out. However this is not always fully enforced. All transactions through the system therefore have a complete audit trail. Any transaction that does not fall into standard parameters generates an exception report that is delivered automatically to the Internal Control Unit for follow-up and action.

PI-28: In-year budget reports		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI-28 In-year budget reports	**Score C+**	
28.1 Coverage and comparability of reports.	A	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates, including transfers to de-concentrated units.
28.2 Timing of in-year budget reports.	C	Accounts for April, May, and June (preliminary) 2015 were closed and reported on June 7, July 9, and August 23, 2015, respectively, (i.e., within 8 weeks of month-end).
28.3 Accuracy of in-year budget reports	C	Reports are useful but data inaccuracies (usually regarding revenue estimates) are not highlighted. Expenditures made to de-concentrated units are included within the reports. Expenditure is captured at payment stage.

PI-28.1 Coverage and comparability of reports

3.117 The MoF Macroeconomic Wing has responsibility for producing expenditure and revenue reports on a monthly basis and uploading it on the MoF website; but they are currently four months in arrears, so only the reports for June 2015 and before could be reviewed. These reports are multi-dimensional, covering all items of budget estimates, as well as being GFS 2001 compliant and allow direct comparison with the original budget.

PI-28.2 Timing of in-year budget reports

3.118 Reports reviewed by the team are prepared on a monthly basis, normally within 40 working days of the period-end. There are occasional delays caused by the Bangladesh Bank submitting its bank data late, but this never exceeds 4 days. Accounts for April, May, and June (preliminary) 2015 were closed and reported on June 7, July 9, and August 23, 2015, respectively. Bangladesh Railway, which is a self-accounting entity, still remains the main cause of delay.

PI-28.3 Accuracy of in-year budget reports

3.119 Although there is no formal commitment system, the information is used by a wide audience beyond the Government of Bangladesh, including civil society organizations. Provisional estimates of revenue collection can contain inaccuracies that are not highlighted in reports according to the Finance Division. Reports are useful, but data inaccuracies (usually regarding revenue estimates) are not highlighted. Expenditures made to de-concentrated units are included within the reports. Expenditure is captured at payment stage. There is a mid-year analysis of the budget.

PI-29: Annual financial reports		
	Minimum Requirements (Scoring Method M1)	
	2015	***Explanation***
PI-29 Annual financial reports	**Score D+**	
29.1 Completeness of annual financial reports	D	Reports compare expenditure to budget but do not allow for revenue comparisons with the budget. Cash balances are included.
29.2 Submission of the reports for external audit	D	Financial reports are submitted for external audit more than 9 months after fiscal year-end.
29.3 Accounting standards	C	Reports are based on accounting standards (combination of Bangladesh Government and IPSAS standards) and consistently applied over time and disclosed in financial reports.

PI-29.1 Completeness of annual financial reports.

3.120 The Government of Bangladesh prepares two sets of financial reports annually: Annual Appropriation Accounts and Annual Finance Accounts. The principal accounting officers of the ministries/divisions are under obligation to sign annual appropriation accounts prepared on a cash accounting basis for their respective expenditure jurisdictions. This account by definition is meant for showing comparison between original and actual outturn for expenditure. The Annual Finance Accounts are prepared by CGA, showing both receipts and expenditure together with the balances deduced from the books of accounts maintained. Therefore, financial reports are complete. State-owned enterprises are covered by a separate report (in Bangla) compiled by the Monitoring Cell of the Finance Division.

3.121 The Government cash basis supposedly clears all outstanding amounts payable before closing a fiscal year. Although negligible, there is no method to account for creditors that should have been paid in a given fiscal year. The few cases that arise are obliged to create new invoices for submission in the following fiscal year for payment. This could potentially represent a material liability for the Bangladesh Government, though historically it has not been the case. As indicated above, all suspense accounts with the exception of the Bangladesh Railway are cleared. Advances are cleared and imprest accounts reconciled; however, bank accounts are not reconciled.

PI-29.2 Submission of reports for audit

3.122 Financial reports take long for preparation and submission for external audit. The most recent available financial statements submitted to OC&AG is for FY11/12 (Table 3-10). The FY12/13 and FY13/14 statements were still outstanding at the time of the assessment. Until the backlog is dealt with and accounts submitted on time for audit, the usefulness of financial reports will be undermined.

Table 3-10: Timing of submission of financial statements and audit reports

FY	*Submitted by CGA to OC&AG*	*Certified by OC&AG*	*Submitted to the President by OC&AG*	*Submitted to the Parliament*
2011/12	Annual Appropriation A/c: 22nd April 2014 *(22 months from year-end)* Annual Finance A/c: 10th July 2014 *(25 months from year-end)*	Annual Appropriation A/c: 26th October 2014 *(6 months from receipt from CGA)* Annual Finance A/c: 29th September 2014 *(3 months from receipt from CGA)*	Annual Appropriation A/c: 19th April 2015 *(13 months from receipt from CGA and 28 months from year-end)* Annual Finance A/c: 19th April 2015 *(9 months from receipt from CGA and 28 months from year-end)*	Not yet submitted Not yet submitted

PI-29.3 Accounting standards

3.123 Annual financial reports are prepared using a combination of IPSAS and Bangladesh Government accounting standards, which accommodate the 'modified-cash' basis of accounting. These standards are consistently applied in all financial reports over time and disclosed in the most recent financial statements.

3.7 Pilar VII External scrutiny and audit

PI-30: External audit		
	Minimum Requirements (Scoring Method M1)	
	2015	*Explanation*
PI-30 External audit	**Score D+**	
30.1 Audit coverage and standards	D	Coverage is less than 50% of government entities over the last 3 years. Audit is mainly compliance. OC&AG has adopted INTOSAI standards.
30.2 Submission of audit reports to the legislature	D	The timeliness of legislature's scrutiny, which is a key factor in the effectiveness of the accountability function is of serious concern. For FY11/12, the Annual Appropriation took 13 months from receipt from CGA and 28 months from year-end; and the Annual Finance A/c took 9 months from receipt from CGA and 28 months from year-end for submission to the President. The report is yet to be caused to be laid before Parliament for legislative scrutiny. Independence in the arrangements for publicizing reports is hampered by routing through the President instead of directly to Parliament.
30.3 External audit follow-up	D	There is a process for timely and systemic follow-up of external audit recommendations and/or observations for an audited entity but there are aberrations. A formal response was not made by the Executive or the audited entity on audits for which follow-up was expected during the last three completed fiscal years.

30.4 Supreme audit institution independence	C	Independence of OC&AG is guaranteed by its constitutional mandate. Independence in the arrangements for publicizing reports is hampered by routing through the President instead of independently to Parliament. The approval of the budget is not independent of the Executive, for example, by PAC pre-approving the SAI budget as an agent of the legislature.

PI-30.1 Audit coverage and standards

3.124 The OC&AG and has adopted INTOSAI standards.[28] The OC&AG generally audits 10-12 percent of total expenditure of central government, though risk assessment may deepen and widen the audit of relevant entities.

3.125 Audit activities cover public enterprises and autonomous government agencies, but coverage is limited due to inadequate resources. The OC&AG has a workforce of approximately 4,000; It can field roughly 1,200 teams of 3 auditors, which is insufficient to cover the large network of over 22,000 auditable units that OC&AG must cover. Coverage is less than 30 percent of central government entities over the review period. This is an improvement over other years that covered a maximum of 10 percent.

3.126 The OC&AG's main external audit thrust is compliance auditing. Other auditing (risk and performance) is on a demand basis given the limited resources the office has. Performance audit has been done for the following projects: circular waterways, local government MBTF, hospital waste management, and food quality.

3.127 OC&AG produces an annual report each year available on its website.[29]

PI-30.2 Submission of audit reports to the legislature

3.128 Audit reports are 2 year in arrears (see PI-29.2). Article 132 of the Constitution requires the President to cause the financial reports to be submitted to Parliament. This is normally done by the Minister of Finance. At present, no reports for the review period have been submitted to Parliament. Independence in the arrangements for publicizing reports is hampered by routing through the President instead of directly to Parliament. The Lima Declaration of Guidelines on Auditing Precepts that was adopted by acclamation of the delegates in October 1977 at the IX INCOSAI in Lima (Peru) stipulates that the supreme audit institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body. This report shall be published. In Bangladesh, arrangements for publicizing reports are contained in Article 132 of the Constitution, *Reports of Auditor-General to be laid before Parliament;* the reports of the Auditor-General relating to the reports of public accounts of the Republic shall be submitted to the President, who shall cause them to be laid before Parliament.[30]

PI-30.3 External audit follow up

3.129 A feature of the audit report review process in some instances is that the Executive does not pay adequate attention to the audit observations raised in OC&AG.[31] The coordination between OC&AG and the line ministries on follow-up of audit observations has been quite weak. There is no departmental audit committee in the line ministries to timely review "draft audit paragraphs" within the official timeline of 45 days. There is a total of 90-days' time limit to finalize audit paragraph to be included in the final audit report of OC&AG.

[28] http://www.cagbd.org/methodology/gov_aud_standard/govt_auditing_standards_frd.pdf

[29] http://www.cagbd.org/in.php?cp=plist&ty=areport

[30] The latest publicly available reports: Summary of 15 Audit Reports Sep 2014 submitted to the Parliament (Bangla).

[31] 1st PAC Report of the 10th Parliament

3.130 In recent years, PAC recommendations have been issued; after four meetings, progress on follow-up is examined in the fifth meeting. Responses are generally slow, and audit observations are not acted upon in conformity with official timeline. There is no accountability mechanism in place that can hold the line ministries responsible to timely resolve audit queries.

PI-30.4 Supreme audit institution independence

3.131 Independence of OC&AG is guaranteed by its constitutional mandate.[32] The Auditor-General shall not be removed from his office except by an order of the President. This order must be passed pursuant to a Parliamentary resolution supported by a majority of not less than two-thirds of total members of Parliament, on the grounds of proven misbehavior or incapacity; or the Auditor-General can resign.

3.132 The OC&AG budget, like other budgeting entities, is approved by Parliament and independently executed by OC&AG. The OC&AG plans its audit engagements independently consistent with its criteria, clearly defined in the standards and manuals that are online. The OC&AG has unrestricted access to records, documentation, and information of the entities audited.

PI-31: Legislative scrutiny of audit reports		
	Minimum Requirements (Scoring Method M2)	
	2015	*Explanation*
PI-31 Legislative scrutiny of audit reports	**Score B**	
31.1 Timing of audit report scrutiny	D	There is a two-years backlog of audit reports, as PAC of the 10th Parliament has so far reviewed audit reports on the financial statement covering the period from 2008-09 to 2010-11. FY2011/12 audit reports are yet to be laid before Parliament.
31.2 Hearings on audit findings.	A	In-depth hearings presently occur 2 times a month with responsible officers from audited entities and also OC&AG officers to explain findings of audits. The hearings take place in presence of OC&AG staff.
31.3 Recommendations on audit by the legislature.	A	Recommendations are issued and after four meetings progress on follow-up is examined in the fifth meeting.
31.4 Transparency of legislative scrutiny of audit reports.	B	Although hearings are not in public, PAC has encouraged public hearings as a general rule and also briefs the press after hearings. Committee reports are provided to the full chamber of the legislature and published on an official website or by any other means easily accessible to the public

PI-31.1 Timing of audit report scrutiny

3.133 Timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function, is hampered by the backlog of submitting audit reports to Parliament. Current legislation includes procedures for the review of audit reports by the legislature. Currently there is a backlog of two years of not submitting audited financial reports to the legislature (see Table 3.10). The PAC of the 10th Parliament has so far reviewed audit reports on the financial statement covering the period from 2008-09 to 2010-11.

32 http://www.cagbd.org/in.php?cp=constitution

PI-31.2 Hearings on audit findings

3.134 In-depth hearings presently occur twice a month with responsible officers from audited entities and also OC&AG officers to explain findings of audits exactly. These are sufficient to cover all audited entities with significant findings.[33] Rule 199 of the Rules of Procedure of Parliament indicate that the sittings of committees should be held in private, but the PAC is informally holding press briefings after hearings to facilitate transparency. There is need to formalize this arrangement in the Rules of Procedure of Parliament.

PI-31.3 Recommendations on audit by the legislature

3.135 Recommendations are issued; after four meetings, progress on follow-up is examined in the fifth meeting. Procedures require no more than ten days between hearings.

PI-31.4 Transparency of legislative scrutiny of audit reports

3.136 Although hearings are not in public by legislation, PAC has encouraged public hearings as a general rule and also conducts post-hearing briefings for the press. The PAC report along with hearing minutes are provided to the full chamber of the legislature as well as published.[34] The PAC Secretariat also uploads on the website analytical reports on the performance of PAC.

33 1st PAC Report of the 10th Parliament.

34 PAC reports published on website (www.parliament.gov.bd/pac).

4. Conclusions on analysis of PFM systems

4.1 Overall budget performance indicates recent deterioration in credibility; the budget is not fully implemented as intended. Comprehensive and critical fiscal information is not made available to the public on time. Macroeconomic forecasting informs the top-down elements of the budget process for the upcoming fiscal year and two-year projections; however, medium-term budgeting is not operating as a dynamic process taking into consideration there is no explanation of differences between corresponding years. In-year predictability of funding to MDAs is generally good. Budget execution does not reflect many of the reforms that have yet to be implemented particularly in internal controls. Tax administration has weaknesses particularly in recording of assessments and arrears. E-procurement processes now cover 21 percent of tenders. In-year reporting is generally good. There are weaknesses in accounting and recording, and a key issue is the delay in submission of the annual financial reports for audit and legislative scrutiny.

4.1 Integrated assessment of PFM performance

4.2 This section provides a summary of the seven pillars of PFM performance as assessed by the PEFA.

4.3 Budget reliability. The credibility of the budget has steadily deteriorated between FY2011/12 and FY2013/14 in aggregate terms, both on the expenditure and revenue sides. This trend is also somewhat reflected in the variation between sectoral and economic categories of expenditure, which has also increased since FY2011/12. Reasons for shortfall in actual expenditure include the institutionalization of a supplementary budget, rendering original budgets of less importance. Political instability has also been cited as a reason for the worsening credibility as economic activity has decreased and revenue targets not realized, with subsequent impact on expenditures. Revenues were also impacted by exchange rate fluctuations. Sectoral composition also reflects the institutionalization of allotting a budget held by the Ministry of Finance for subsidies with public services, which is subsequently spent by the respective MDA when transferred. Arrears situation is difficult to ascertain due to unavailable data in iBAS.

4.4 Transparency of public finances. Bangladesh performs well with respect to the comprehensiveness of budget documentation and also public access to key fiscal information. The poor scoring for the latter results from the lateness of audit reports being prepared and approved rather than lack of disclosure. Less well performing is the reporting and monitoring of extra-budgetary operations (though a comprehensive report was prepared 3 years ago providing a good template for the future) and local governments; performance information on service delivery, which is a new cross-cutting indicator, has generally scored well, reflecting a positive application of iBAS as well as the existence of monitoring committees at both MDA and Planning Commission level. Unfortunately any monitoring is not strongly linked to budgeted expenditures and the lack of performance audits (still in its infancy at the OC&AG) have weakened the overall score.

4.5 Management of assets and liabilities. Asset and liability management is generally weak, with no centralized asset registers. Fiscal risk management is weak with no comprehensive monitoring of contingent liabilities of public corporation sector. The Finance Division operates a flagging system dealing with risk on a one-by-one basis rather than consolidating all risk into a report. The "C+" score is only achieved because local government is prohibited from taking out loans. Contingent liabilities are in the process of being reported on comprehensively, but this has not occurred as yet.

4.6 Public investment management has witnessed economic and other analysis being carried out at

MDA level but thereafter not reviewed by an entity other than the sponsoring entity. Despite budget instructions requiring linkages between investment projects and future recurrent costs, these are typically not forwarded by MDAs to Ministry of Finance. Financial assets are now monitored by the Debt Wing in the Finance Division. Non-financial assets are registered at each MDA, but there is no central agency report on non-financial assets. Governance of the sale of non-financial assets falls under the MoF Manual, but OC&AG reports that sales are often concluded outside of these guidelines. The Government has taken significant steps to build its capacity in debt management.

4.7 Policy-based fiscal strategy and budgeting. A comprehensive, medium-term expenditure framework exists. Macroeconomic forecasts are prepared but lack analysis of risk to revenue or various optimistic or pessimistic scenarios. Revenue forecasting suffers from a lack of documentation of the methodology and assumptions, just as the impact of policy changes does. Evidence indicates that the forecasts for a majority of ministries are used as a guide for the next year's ceiling for both the development and non-development budget. Sector strategies exist and are well costed for only three large ministries. However, the separation of the recurrent and development budgets is generally reflected in the lack of fully costed strategies. Related to this is the lack of bottom-up reconciliation with sector strategies to the MTBF. There are few links explained in documents between a past medium-term framework and the upcoming budget.

4.8 There is orderliness in the budget calendar though the usual practice of issuing two budget calendar circulars undermines the clarity of the first BCC. The legislature always has less than 4 weeks to scrutinize the budget. The legislature can review and scrutinize all aspects of the budget; but while procedures exist, they do not allow for committee scrutiny of the budget. Budgets are always approved on time for the coming fiscal year. Virements are governed by legislation, and supplementary budgets are the only mechanism for significant amendments to the budget above virements, requiring legislative procedures equal to the original budget.

4.9 Predictability and control in budget execution. Revenue administration has structural weaknesses. The taxation system is based on comprehensive legislation providing information on taxpayers' liabilities. Support for this comes from information leaflets that can be accessed online as well as from departmental offices. The appeals mechanisms are clearly defined in all tax acts with independent tax appeal commissions. However, little risk-based auditing is implemented with audit plans adhered to in the VAT Wing but not the Income Tax Wing.

4.10 Most worryingly is the lack of data on tax arrears that is not routinely submitted by field officers. This may be due to lack of demand from institutions outside of NBR since there is no reconciliation of assessments and arrears presented to CGA. Only collections and revenues are reconciled, with information on these delivered to and reported on by the Ministry of Finance. All transfers reach a treasury (or agent) account within a day of payment.

4.11 The Government has reduced the number of bank accounts considerably; but these are not consolidated fully although all funds transferred to the treasury single account are reconciled and tracked individually. On the expenditure side, there is a cash-forecasting model that is established at the beginning of the year for each month, and this is updated based on actual collection/expenditure. Expenditure is based on monthly allocations, which are adjusted on a monthly basis according to actual receipts and payments.

4.12 Personnel and payroll records are manual**.** They are generally consistent with each other, and payroll controls are in place and backed up by partial payroll audits conducted by the supreme audit institution for each MDA. Significant reform has occurred in the legal framework governing public procurement, and the rollout of e-procurement is underway. With only 21 percent procurement at present, the aim is to achieve over 70 percent coverage within 2 years.

4.13 Overall financial management controls are in place with good segregation of duties and procedures. However, the supreme audit institution reports that compliance with procedures is a significant problem. Also, information on commitment ceilings is made available to spending units, but the weaknesses in effectiveness of expenditure commitment controls hampers the production of arrears data. And finally, internal audit activities consist primarily of ex post reviews focused on financial compliance although plans exist to upgrade these activities to a full internal audit function according to international standards.

4.14 Accounting and reporting. Bank reconciliation does not occur despite iBAS supporting such a function. Financial data integrity is sound because access and changes to iBAS records are restricted and recorded, resulting in an audit trail that is checked by the Internal Control Unit within the Ministry of Finance, CGA, based on exception reports. Suspense accounts have been brought under control in recent years, and advance accounts are reconciled in reasonable time.

4.15 The quality of in-year budget reports is good, but timeliness could be improved. Data inaccuracies are limited to revenue estimates. The production of annual financial reports is incomplete and untimely; this undermines the credibility of annual financial reports. Modified cash accounting standards are used and are easily understood.

4.16 External scrutiny and audit. Timeliness of legislative scrutiny, which is a key factor in the effectiveness of the accountability function, is hampered by the backlog of audit reports submitted to Parliament. The external audit of government financial statements has never been completed in a timely manner. Audit reports are two years behind the due submission date. Defence and railway agencies always compromise the auditing of total government accounts due to delays in consolidating their financial data. The Audit Department is active in carrying out mainly compliance audits as well as some follow-up audits on departments, projects, and statutory bodies. Risk and performance audits are done on a demand basis. The Audit Department has adopted INTOSAI auditing standards to govern its work. Follow-up audits indicate that recommendations are not consistently implemented. The Constitution specifies independence of the OC&AG, which does not report directly to the legislature; its budget is not separate from the government budget process. The legislature is currently going through a 9-month backlog of audit reports. In-depth hearings on audit reports have been held with well-abided, follow-up procedures. Hearings are not legally required to be made public, but the current PAC has initiated public hearings.

4.2 Effectiveness of the internal control framework

A. Internal controls

4.17 An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the four control objectives: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse and damage.

4.18 Internal controls and internal audit remain an area of substantial weakness across the PFM system, notwithstanding progress that has been made since the last PEFA. The control environment is dependent on detailed financial rules and regulations that outline in great detail internal controls that should be followed for all transactions; however, as noted in OC&AG reports and by those working in the administration, the detail, which is quite explicit and theoretically well-constructed, is often circumvented by officers themselves to expedite their workloads. Also, to further complicate the issue, as the systems are mechanized and modernized, the rules and regulations do not follow the changes in business processes and methods of work that go hand in hand with modern information technology systems. Incorporating these business process changes is a factor that needs to be addressed with greater timeliness.

4.19 Internal control objectives are statements of the desired result or purpose to be achieved by implementing control activities (procedures).[35] Controls include policies, procedures, and practices (tasks and activities) established by management to provide reasonable assurance that specific objectives will be achieved (e.g., safeguarding of assets, authorization and authentication, segregation of duties, availability of information technology services) and information on automated systems is current and secure from improper access. Internal audit is an essential component of a well-functioning internal control system.

4.20 As noted in section 2.3, the Constitution of Bangladesh (Articles 81-92) lays down the legal framework of the basic financial procedures to be followed in managing public finance. The Public Money and Budget Management Act 2009 further elaborates these procedures. However, OC&AG reports point to aberrations that indicate the legal framework is not achieving the intended objectives. In light of these findings, a policy note on the PFM legal framework proposed that the Government of Bangladesh appoint a formal commission to review the existing PFM legal and regulatory framework by identifying potential amendments to existing laws, rules, and regulations or enacting new laws if necessary.

4.21 The OC&AG reports indicate that compliance with internal controls is a significant problem (*see PI-25 internal controls on non-salary expenditure*). There is need to establish/strengthen efficient internal controls such as authorization and approval procedures; segregation of duties (authorizing, processing, recording, reviewing); verifications; reconciliations; and supervision. In determining whether a particular control (preventative, detective, or corrective) should be established, the likelihood of the risk occurring and the potential effect on the entity are considered along with the related costs of establishing a new control. For the controls to be effective, rules must be accepted as fair, workable, and legitimate.

4.22 Annex 2 provides a table detailing the situation in Bangladesh regarding the five internal control components identified by international standards: control environment, risk assessment, control activities, information and communication, and monitoring.

B. Internal audit

4.23 Internal audit goes hand-in-hand with internal control despite the two being distinct and separate in their functions and aims. While there has been substantial progress since the last PEFA, internal audit does not play a substantial role within the overall controlling framework for Bangladesh. There are pockets of internal audit in certain ministries, but the reports produced are neither used by OC&AG nor do they carry any great weight within the administrative structure (see P-26).

4.24 Internal audit should play an important monitoring role in evaluating the effectiveness of the control systems within Government operations in meeting the strategic objectives in the Five-Year Plan. To discharge its functions effectively, the Government internal audit function lacks the key twin attributes of (a) professionalism (audit practice should be in accordance with IIA-issued ISPPIA) and (b) independence (not involved in maintaining the controls for which it is supposed to evaluate). For these to be in place, a suitable legal framework should be adjusted to meet not just current demands and expectations but to also empower an internal audit function that could be relied on by OC&AG.

4.25 There is need to develop a strategy to transform/modernize the Internal Control Unit with a proper internal audit function and adopt risk-based audit methods concentrating on systemic issues with the objectives of ensuring (a) conformity to the Government's strategy, (b) effectiveness and efficiency of operations, (c) reliability of financial reporting, and (d) compliance with applicable laws and regulations.

[35] INTOSAI: *Guidelines for Internal Control Standards for the Public Sector* issued by the Internal Control Standards Committee at www.intosai.org

4.3 PFM strengths and weaknesses

4.26 Bangladesh's recent growth has rendered it in a sustainable position with respect to debt, and therefore the incentive for fiscal discipline has not been paramount. However, PFM processes have not been modernized in line with the growth of public finances, most markedly in NBR and public investment management. In particular, tax receipts remain low with a correspondingly, relatively small share of GDP in the public domain. Public investment management processes require strengthening since the levels of public investment increase markedly.

A. Aggregate Fiscal Discipline

4.27 Both revenue and expenditure forecasts are under-realized. This results in a lack of efficiency in the use of public funds. While the lack of commitment controls have not resulted in over-realization of expenditure forecasts, the ability of government to achieve its policy objectives is seriously hampered through low expenditures as well as the redirection of expenditures to institutions with relatively high absorption capacities during the year.

4.28 Continued improvements in the external oversight mechanisms and the parliamentary scrutiny of the government financial operations will enhance fiscal discipline. Improved monitoring of fiscal risk from autonomous agencies also mitigates the size of extra-budgetary revenues and expenditure that pose risk to fiscal discipline. The completion of the 2011 report on fiscal discipline augurs well for annual monitoring. The well-functioning mechanism for debt contracting and issuance of guarantees, reporting of the government guaranteed debt and the high quality of debt data contribute to enhance fiscal discipline.

B. Strategic allocation of resources

4.29 The strategic allocation of resources is undermined by the absence of an effective medium-term budget linked to sector strategies and performance indicators. The scaling back of supplementary budgets would ensure the strategic priorities determined through the budget formulation process remain in place. Including a systematic annual report on financial operations of extra-budgetary funds would enhance government's strategic allocation capabilities. This would aid government's own strategic resource allocation capability by providing a more comprehensive view of its operations.

C. Efficient use of resources for service delivery

4.30 Current weaknesses in the procurement system could have adverse implications for efficiency in service delivery. While being rolled out, e-procurement will need to be made operational and effective. Weaknesses in the accountability mechanisms, including timeliness of financial statements, makes external audits and their scrutiny ineffective as counter-checks for recognizing inefficient use of resources. On the revenue side, operational efficiency is compromised by the lack of data on assessments and arrears. Lack of effective tax arrears collection undermines credibility of tax assessments and the principle of equal treatment to taxpayers. Consolidation of cash balances would also be important for more efficient liquidity management and improve operational efficiency.

4.4 Performance changes since previous assessment

4.31 Bangladesh has made some positive strides in developing their PFM systems since the previous PEFA though some PFM reforms have not been enacted. The Treasury and Debt Management Wing of the Finance Division has deepened its work on debt management; the new VAT Act 2012 was passed; plans are in preparation for strengthening Internal Audit; monitoring and reporting of extra-budgetary funds and state-owned enterprises has improved, though only for one year for the former. The main reverse has been with regards to the credibility of the budget, which has suffered as a result of political turmoil and exchange rate fluctuations as well as overoptimistic estimates of revenue and expenditure. In addition, steps toward better government would be furthered along by securing a stronger PAC and eliminating the audit backlog of government accounts by gradually reducing delays in production of financial reports, although effectiveness is still compromised by a 2-year time lag.

4.32 Overall there has been a mixed focus on PFM reform activities resulting in mixed evidence of improving PFM processes and procedures. Except for credibility, comprehensiveness, and transparency of the budget, the performance of other dimensions of the budget cycle has improved. External audit and scrutiny remained flat when measured on a consistent basis using the 2011 framework: 7 performance indicators improved; 14 remained the same; and 7 deteriorated (Table 4-1). Predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit still remain a weak spot in the PFM system (Figure 4-1). These weaknesses adversely affect delivery of services to citizens and general accountability.

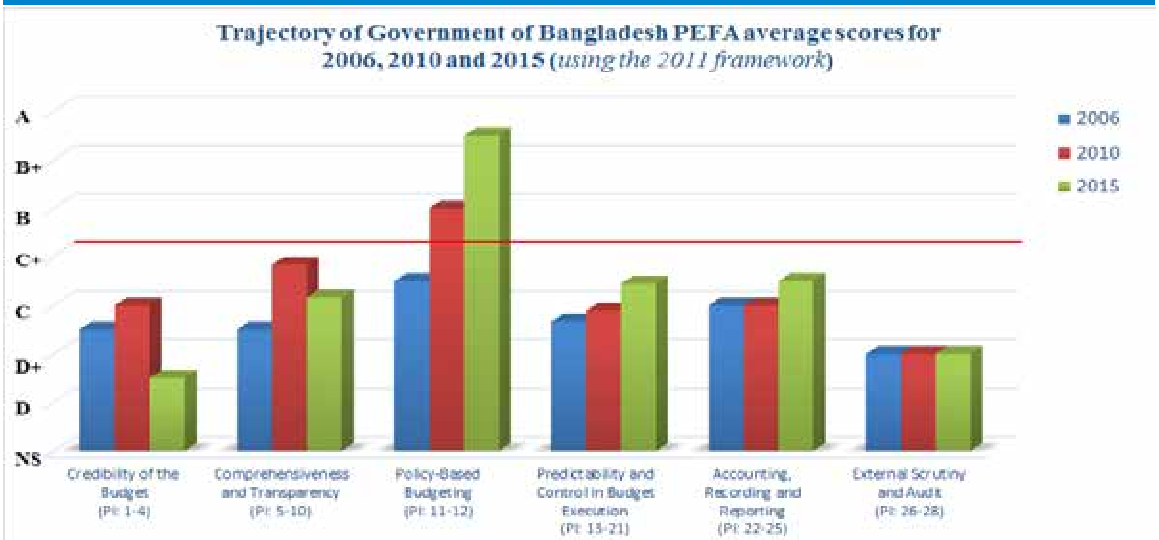
Table 41: Performance indicator changes between 2010 and 2015

PEFA 2011 Methodology Performance Indicators	2010 PEFA scores	2015 PEFA scores	Change
PI-1 Aggregate expenditure outturn compared to original approved budget	B	C	↓
PI-2 Composition of expenditure outturn compared to original approved budget	D+	D+	↔
PI-3 Aggregate revenue outturn compared to original approved budget	B	D	↓
PI-4 Stock and monitoring of expenditure payment arrears	NS	NR	↔
PI-5 Classification of the budget	B	C	↓
PI-6 Comprehensiveness of information included in budget documentation	B	A	↑
PI-7 Extent of unreported government operations	B	NR	↓
PI-8 Transparency of Inter-Governmental Fiscal Relations	D	D+	↑
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	D+	D+	↔
PI-10 Public Access to key fiscal information	B	B	↔
PI-11 Orderliness and participation in the annual budget process	B	A	↑
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	B+	↑
PI-13 Transparency of taxpayer obligations and liabilities	C	C	↔
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C	B	↑
PI-15 Effectiveness in collection of tax payments	D+	NR	↓
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	B+	↑
PI-17 Recording and management of cash balances, debt and guarantees	C+	C+	↔
PI-18 Effectiveness of payroll controls	D+	C+	↓
PI-19 Competition, value for money and controls in procurement	B	B	↔
PI-20 Effectiveness of internal controls for non-salary expenditure	D+	D+	↔
PI-21 Effectiveness of internal audit	D	D	↔

Table 41: Performance indicator changes between 2010 and 2015

PEFA 2011 Methodology Performance Indicators	2010 PEFA scores	2015 PEFA scores	Change
PI-22 Timeliness and regularity of accounts reconciliation	B	D	↓
PI-23 Availability of information on resources received by service delivery units	D	A	↑
PI-24 Quality and timeliness of in-year budget reports	C+	C+	↔
PI-25 Quality and timeliness of annual financial statements	D+	D+	↔
PI-26 Scope, nature and follow-up of external audit	D+	D+	↔
PI-27 Legislative scrutiny of the annual budget law	D+	D+	↔
PI-28 Legislative scrutiny of external audit reports	D+	D+	↔

Figure 4-1: Trajectory of Government of Bangladesh PEFA pillars aggregated scores for 2006, 2010, and 2015



4.33 The upgraded 2016 framework, which has tougher benchmarks, shows overall performance is below average (Figure 4-2). The current scores should act as baselines for the next generation of PFM reforms.

Figure 4-2: PEFA pillars aggregated for 2015 using the 2016 Framework

5. Government PFM reform process

5.1 Up until early1990s when the Government of Bangladesh (Government) embarked on PFM reforms, the PFM systems and processes were essentially traditional and not quite supportive of the country's development agenda. The input-focused budget formulation remained an annual exercise having no link with policy and performance. Inefficient budget execution was characterized by the rush of expenditure toward the end of the fiscal year, tending to compromise the quality of spending. Treasury operations had been highly centralized, and clients were deprived of delivery of their entitled services. The accounting and reporting system driven manually failed to generate quality fiscal data on time to be used for informing decisions by policy-makers. External audit and legislative oversight, due to lack of adequate support, were not strong enough to hold the Executive accountable for their actions.

5.1 Approach to PFM reforms

5.2 Over the past two decades, reforms in public financial management have been high on Bangladesh's development agenda. During this period, the country has come a long way in implementing reforms to bring about improvements in PFM systems and processes. Two basic principles mainly guided these reforms. First, the reforms have been country-led as evidenced by government's initiative to constitute the high-level Committee on Reforms in Budgeting and Expenditure Control in 1989 to identify the basic flaws in the PFM system. Second, a gradualist approach was adopted to avoid any upheaval in the wake of change.

5.3 In designing and sequencing as well, the reform champions were on guard, which is again evident from two distinct phases of reforms. In its first phase, the reform agenda focused on technical issues like revision of budget classification and financial rules and regulations and use of information technology in budgeting and accounting to lay the foundation for the next phase. However, the enabling subsidiary PFM legislation to support modern PFM practices have yet to be pronounced. The second phase, more strategic issues — improving budget management through MTBF, improving financial management systems, using integrated budgeting and accounting system (iBAS), and developing capacity in the civil service — helped to broaden the scope of reforms.

5.2 Recent and on-going PFM reform actions

5.4 Public expenditure in Bangladesh has significantly grown in volume in recent years (17.2 percent of GDP as of FY15-16) to meet the growing demands arising from the multiple priorities of three broad sectors, namely social infrastructure, physical infrastructure, and general services. The potential of its strong developmental impact calls for a sound PFM system to ensure high-quality public spending. The recent and ongoing reforms to improve PFM systems speak of government's recognition to the importance of this critical issue.

5.5 The PFM Reform Strategy and Medium-Term Rolling Action Plan, officially adopted in 2006, laid out the government's vision, main objectives, and high-level reform actions to be undertaken. These included: (a) maintaining aggregate fiscal discipline though a medium-term macroeconomic and budget framework, (b) allocating resources in accordance with government priorities as reflected in plan documents, (c) promoting efficient use of public resources using IT and enhanced transparency and accountability, and (d) strengthening the role of oversight institutions like OC&AG and parliamentary financial committees.

5.6 The PFM Reform Strategy (2007-2012) drew the attention of a number of development partners leading to the formation of a five-year, multi-donor trust fund. Administered by the World Bank, the trust fund supported the comprehensive *Strengthening Public Expenditure Management Program (SPEMP),* which took effect in 2010 with three discrete projects covering institutions: Finance Division (SPEMP-A), OC&AG (SPEMP-B), and Parliament Secretariat (SPEMP-C). To complement the agenda of these projects, SPEMP included several Bank-executed technical assistance programs to provide a series of practical and just-in-time analytical inputs like PEFA, iBAS review, M&E framework, PFM perception survey, and public investment management assessment. It is to be noted that SPEMP-A came to a sudden closure in September 2014 while the other two projects are continuing.

5.7 The overarching objective of SPEMP was to strengthen government institutions and build capacity for budget management and accountability mechanisms, with a particular focus on MTBF performance and establishment of a comprehensive government-wide accounting, reporting, and financial management system. In order to broaden the constituency of reforms, it also focused on strengthening OC&AG capacity to bring quality in external auditing and improved legislative oversight by the financial committees of national parliament. The SPEMP drew lessons from implementation of the Financial Management Reform Program and its predecessor project, Reforms in Budgeting and Expenditure Control.

5.8 The SPEMP-A led by the Finance Division, in particular, sought to deepen and institutionalize MTBF and build a more strategic and performance-oriented budget management process while strengthening financial accountability in central and line ministries. Initially, the project began its operation with 9 components; subsequently, realizing the difficulties in managing 9 components, it was scaled down to 3 components. These 3 components are (a) strategic policy, planning, and budget management; (b) public financial systems, and (c) capacity building and training. The main areas included in these components are listed in Box 5-1.

Box 5-1: SPEMP-A Components and areas covered

Component 1, *Strategic policy, planning and budget management*

- Macro-fiscal policy and management
- Debt, treasury, and cash management
- Budget management and MTBF
- PFM legislation and regulations

Component 2, *Public financial systems*

- Accounting and financial reporting -- iBAS design and development, accounting procedures and standards, budget and accounts classification and fiscal reporting, capacity building of FSMU, and self-accounting entities
- Payroll, pension, loans, and advances; government provident fund and assets

Component 3, *Capacity building and training*

- Capacity building and training for improved PFM
- Creating Institute of Public Finance (IPF) as the sustainable institution for PFM training

Source: Revised Technical Assistance Project Proforma, February 2012 of restructured Deepening MTBF Project (SPEMP-A).

A. Integrated Budgeting and Accounting System (iBAS++)

5.9 After the Deepening Medium-Term Budget Framework (DMTBF) Program closed in September 2014, the Government of Bangladesh initiated in November a self-financed program for Strengthening Financial Management, Accounting, and Reporting through which development of iBAS++ is managed by the Public Expenditure Management Strengthening Program. The iBAS is currently used in 49 chief account offices and 64 district offices on a daily basis to electronically record payment transactions and electronically reconciled with Sonali and/or Bangladesh Bank with debit and credit scroll. The 420 upazila accounts offices can connect to iBAS primary data center.

5.10 The new iBAS++ platform is designed to integrate budget preparation, budget execution, accounting, reporting, and payroll functions (for nearly 1 million public employees and 600,000 pensioners) using a new budget classification/chart of accounts. Main system modules include (a) configuration, (b) budget preparation, (c) accounting, (d) security, and (e) chart of accounts. Budget preparation module supports Budget Call Circular 1 and Budget Call Circular 2, and central-level budgets. The budget module includes various budget execution functions, including distribution of funds, release of funds, and appropriation/ re-appropriation. Development of budget preparation module with functionality for MTBF has been completed and first piloted in the Ministry of Primary and Mass Education, which used this module to prepare FY15/16 budget with the old budget classification in parallel to new classification through the existing iBAS. The budget preparation module was then implemented across line ministries and departments for FY16/17 budget. In addition, the annual financial statements and Demand for Grants (Budget Book) were prepared and printed using the iBAS++.

5.11 Parallel run of iBAS++ accounting module was conducted in two chief accounts offices (CAO Labor and Employment, and UAO Keranigan) and later went live in 15 chief account offices; one district account office, and 5 upazila account offices. More test operations are planned for 15 drawing and disbursing officers during June 2016. Piloting of the execution module is ongoing in Director General's Office, Education and expected to be rolled out in July 2016.

B. Procurement reforms

5.12 In Bangladesh, until the adoption of the Public Procurement Act 2006 and Public Procurement Rules 2008, the procurement function used to be seen as a routine administrative work even though the bulk of budgetary resources is spent on acquisition of inputs for delivering services to the citizens. There were guidelines here and there, but no comprehensive regulatory framework was in existence. As a result, it was difficult to establish probity, fairness, and transparency in the procurement process as well as to achieve the best value for money.

5.13 The Country Procurement Assessment Report (CPAR) prepared by the World Bank in 2002, identified major deficiencies in the procurement system of the Government of Bangladesh. Some of these deficiencies are:

- Generally poor quality bidding documents and bid evaluation,
- Ineffective administration of contracts,
- Absence of adequate mechanism for ensuring transparency and accountability.

5.14 Following the CPAR, Bangladesh has been implementing reforms in procurement to make the function more transparent, fair, and competitive since 2002 with the assistance from IDA. Under the Public Procurement Reform Program (2002-2007), the Government made considerable improvements by implementing a set of major policy actions like issuance of Public Procurement Regulations 2003 as a precursor to the Public Procurement Act 2006 and Public Procurement Rules 2008, establishment of the Central Procurement Technical Unit, development of a comprehensive set of standard bidding documents, and creating a critical mass of national trainers for procurement.

5.15 The reforms entered into another phase in 2007 to further deepen the reforms undertaken earlier and to digitize the business process by introducing e-GP in major procuring entities. The procurement reforms implemented so far have enhanced transparency in this area. It is evident from the fact that in 2007 the Central Procurement Technical Unit used to upload on its website only 10 percent procurement-related information supplied by procuring entities, which in 2014 increased to 75 percent.

5.16 Implementation of e-GP is also making progress. As many as 50 agencies have implemented e-GP at varying levels. Local Government Engineering Department, Rural Electrification Board, Water Development Board, and Roads and Highways Division have implemented e-GP at 100 percent in the case of local procurement below Tk20 crore (US$255 million). The remaining 46 agencies could implement only 20 percent of the target. A survey conducted by the World Bank confirms that in June 2012, the number of registered bidders/suppliers and bid invitations (national competitive bidding and others) stood at only 294 and 14, respectively, with a value of tenders amounting US$3 million; the numbers in November 2014 increased to 11,727 and 14 284, respectively, with a value of US$1,364 million.[36] The survey also suggests that e-GP is preferred by bidders themselves since it largely reduces their processing costs. In addition, it promotes fair competition among the bidders and deters collusive practice, which pollutes the bidding process.

C. Revenue reforms

5.17 Alongside the reforms in public expenditure management, the National Board of Revenue, over the last few years, has been implementing wide-ranging reforms in revenue management to broaden its revenue base and to scale-up the revenue/GDP ratio from its current level of 10.6 percent. As part of tax policy reforms, a new VAT Law has been enacted, an alternative dispute resolution mechanism has been introduced, and a new direct tax code and a new Customs Act have been drafted. Side by side, several reforms in tax administration have also been undertaken that include, among others, revamping organizational structure; wider computerization of revenue administration, including Taxpayer Information Number (TIN) registration with linkage to national ID; e-filing of income tax returns; installing Automated System for Customs Data (ASYCUDA) in all custom houses and 4 land custom stations; and e-filing of VAT returns.

D. PFM reform strategy

5.18 The design of the next PFM reform strategy will benefit from the 2015 PEFA assessment and other recent analytic work, notably the Public Expenditure Review Update and the Public Investment Management Roadmap. While these provide a considerable analytic foundation, the PEFA assessment provides neither the root causes of PFM weaknesses nor an indication of sequencing and timing for the reform activities to be implemented. To supplement PEFA, several priority topics are being analyzed. These priorities are relevant to strengthening PFM in Bangladesh where gaps have been identified and ways to provide new knowledge help answer where and how to start with improving PFM practices in this challenging environment. The analyses of priority topics include the following:

- ***Policy note on legal and regulatory framework.*** The Public Monies and Budget Management Act 2009 provides a sound PFM foundation in Bangladesh; however, the ad hoc nature of the budget circulars demonstrates the challenges arising from inadequate regulations to guide the budget process. In addition, the budget cycle does not give time to various players in the process to both prepare the budget (especially from the bottom up) and conduct legislative review. The policy note would assess the progress made in strengthening of regulations for budget preparation and execution, implications of regulatory weaknesses identified, and options for reform

- ***Policy note on strengthening policy-budget link and integration of non-development and development budgets.*** This policy note would examine progress and constraints in strengthening the linkage of the MTBF and annual budget to policy priorities as they affect spending departments. One area of focus will be the progress and constraints on integration of the non-development (revenue) and development budgets, and the impact on resource allocation. This work will draw from and complement the IMF Fiscal Affairs Department mission (July 2015) on elements of budget preparation, including budget classification and chart of accounts. It will also draw from the Strengthening Budget Transparency Technical Assistance Project.

[36] Annex 6 to the Aide-Memoire of World Bank Review Mission (November 2014-December 2014) on Public Procurement Reform Project II.

- ***Policy note on institutional and change management dimensions of iBAS++ and fiscal transparency.*** The iBAS++ system currently under development is critical to strengthening budget execution, commitment control, full transaction processing and recording, and comprehensive and timely reporting. Building on the World Bank's periodic advisory support, the policy note would provide an update on progress on iBAS++ development, functionality, and plans for completion. It will also examine the readiness and steps for implementation, including institutional constraints and hurdles that need to be overcome for iBAS++ to be rolled out, which includes the adoption of the new chart of accounts. It will also examine the change management challenges and plans in order to support implementation. It will consider implications of the likely iBAS++ implementation for meeting overall PFM needs in future,[37] and identify potential steps for the short and medium term. This note will also develop recommendations on what and where to disclose more fiscal information consistent with the Right to Information Act and the Public Monies and Budget Management Act, and how to strengthen use of information by stakeholders. This will draw on the open public finance data report prepared under SPEMP.

- ***Preliminary analysis on SOE financial reporting and oversight***. This preliminary analysis is expected to assess the state oversight and governance arrangements of state-owned enterprises, including implications for fiscal impact, service delivery, and transparency of state-owned enterprises.

5.19 Using the draft PEFA report and the policy notes, Government has prepared a PFM reform strategy for 2016-2021 with the following goals and objectives:

Goal 1, Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth

1.1 Enhance tax revenues to create fiscal space for key public investments and priority social expenditure.

1.2 Improve the role of the macro model to determine resource parameters and maintain fiscal discipline.

1.3 Improve the management of fiscal risks, debt and cash to maintain fiscal discipline

Goal 2, Allocate resources consistent with Government priorities as reflected in National Plan

2.1 Improve the link between the budget and government policies and priorities.

2.2 Strengthen the management of public investments.

2.3 Strengthen the financial and performance management capacity within line ministries.

2.4 Strengthen PFM capacity of local government.

Goal 3, Promote efficient use of public resources and delivery of services through better budget execution

3.1 Improve business processes and strengthen internal controls for service delivery.

3.2 Adopt International Standards of Procurement Practice.

3.3 Improve accounting and reporting to international standards.

3.4 Modernize internal audit.

Goal 4, Promote accountability through external scrutiny and transparency of the budget

4.1 Raise the profile of external auditing practices to international standards in terms of quality, coverage, and timeliness to provide adequate assurance that the public funds are used efficiently and effectively.

4.2 Enhance capacity and commitment of the relevant financial committees of Parliament and their respective secretariats.

4.3 Enable civil society and other citizen groups to engage on budget formulation, budget execution, and oversight.

[37] For example, it is understood that commitment control functionality will not be implemented as part of the initial launch of IBAS++ but only plans to have the technical development available.

Goal 5, Enhance the enabling environment for improved PFM outcomes
5.1 Put in place a comprehensive and clear legal framework.
5.2 Put in place policies, processes, and skills to manage and deliver a comprehensive training and capacity development program.
5.3 Leverage iBAS++/BAC System, e-procurement as enablers to improve PFM.
5.4 Implement BAC System covering the whole of general government.
5.5 Develop organizational change agility.

5.3 Institutional considerations

A. Government leadership and ownership

5.20 Over the last two decades PFM reforms have been a government-led agenda and brought about improvements in the country's PFM system through a process of gradual transformation. Notable achievements include (a) establishment of new budget institutions such as Budget Management Committees, Budget Working Groups, Budget Management Wings, and branches and sections in all line ministries with clear terms of reference; (b) consolidation and revision of PFM regulatory framework; (c) penetration of IT into budget and accounting process; (d) introduction of an all-numeric budget and accounts classification system; (e) development of strengthened expenditure management through MTBF in all line ministries; (f) introduction of PM&BM Act 2009 to ensure enhanced accountability in public resources management; (g) introduction of the Public Procurement Act 2006 and Public Procurement Rules 2008; and (h) introduction of e-GP on a pilot basis in selected agencies.

B. Coordination across government

5.21 Coordination is effected generally through steering committees and project management units. In implementing SPEMP, a high-level strategic oversight committee, the National Coordination Committee, chaired by the Minister of Finance and comprising members of major stakeholder ministries, Planning Commission, among others, was constituted to provide high-level strategic direction and to monitor results given the transformative nature of SPEMP and to adjust and amend the strategy and work program as necessary. Below this level, a Joint-Government Donor Committee was established to ensure overall management of the multi-donor trust fund and to align it with the government's agenda. In addition, there were steering committees to look at the operations of all projects within SPEMP and project management and coordination units to deal with the tactical issues relative to project implementation. In each steering committee, representation from the relevant ministries and agencies was ensured to allow input of their views on progress in terms of planned activities and also to inform the committee whether adjustments in work plans are required to address any issues arising from realities on the ground.

C. Sustainability of the reform process

5.22 Sustainability of PFM reforms across government is critically dependent on several factors such as broad-based ownership, capacity to internalize reforms, institutional set-up, and stakeholders' understanding about the benefits of changes. In Bangladesh, these are the broad issues surrounding the sustainability of reforms. For example, budget setting by line ministries using MTBF still requires constant mentoring from the Finance Division following the issuance of budget call circulars. Absorption of the advanced level of penetration of information technology (through iBAS++) by stakeholders is still weak despite several rounds of earlier IT intervention in the business process. Cash management still remains weak because the line ministries are not yet in sync with requirements for submitting expenditure plans together with procurement plans to the Finance Division. Monitoring key performance indicators established in line ministries following introduction of MTBF remains an issue. Internal oversight through internal audit has not yet been institutionalized in the line ministries.

5.23 The budget management units of line ministries responsible for implementing budget reforms are not well resourced. Full buy-in of reforms by top management in line ministries falls short of expectations.

Audit, mandated by the Constitution, is still by and large geared to compliance-based approach (85-90 percent), which does not meet the current legislative concerns. Legislative oversight through financial committees is constrained due to lack of adequate institutional support.

5.24 Overall, the process of sustaining the results of reforms calls for strengthening the institutions and capacity on one hand, and sensitizing key stakeholders about the benefits of changes on the other.

D. Transparency of the PFM program

5.25 Reform program documents are not publicly accessible, but the program's financing is fully reflected in the government's budget documentation ex ante and ex post.

ANNEXES

ANNEX 1: PERFORMANCE INDICATOR SUMMARY

Indicator/dimension	Score	Description of requirement met
PI-1. Aggregate expenditure outturn 1.1 Aggregate expenditure outturn	**B**	Aggregate expenditure outturn was between 90% and 110% of approved aggregate budgeted expenditure in at least two of the last three years.
PI-2. Expenditure composition outturn	**D+**	
2.1. Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was more than 15% in the last three years.
2.2. Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.
2.3. Expenditure from contingency reserves	A	Bangladesh does not use a significant contingency budget as it was on average 2.2 percent of the annual budget over the review period.
PI-3. Revenue outturn	**C**	
3.1 Actual revenue compared to that provided for in the originally approved budget	D	In two of the review years, revenue fell short of the budgeted target by over 8 percent.
3.2 Revenue composition outturn	B	The variance in revenue composition was under 10 percent in two of the last three years
PI-4. Budget classification 4.1 Budget classification	**C**	Government uses a classification system made up of administrative and economic codes (no functional codes) used for formulation, execution, and reporting with bridging to (at least level 2 of GFS standard—2 digits) of GFS Manual 2001 used for reporting annually to the IMF.
PI-5. Budget documentation 5.1 Budget documentation	**B**	Budget documentation fulfills all basic elements (1-4) and 5 of the additional elements.
PI-6. Central government operations outside financial reports	**D**	
6.1 Expenditure outside financial reports	D*	No extra-budgetary operations were reported in fiscal reports for 2013-14
6.2 Revenue outside financial reports	D*	No extra-budgetary operations were reported in fiscal reports for 2013-14
6.3 Financial reports of extra-budgetary units	D*	No extra-budgetary operations were reported in fiscal reports for 2013-14

Indicator/dimension	Score	Description of requirement met
PI-7. Transfers to subnational governments	**D+**	
7.1 System for allocating transfers	C	Some horizontal allocation transfers to subnational governments from central government is determined by transparent, rule-based systems. Formula transfers represent just over 51% of all transfers.
7.2 Timeliness of information on transfers	D	The bulk of financial transfers are provided alongside first reliable information on size of transfer 2 months into the FY.
PI-8. Performance information for service delivery	**D+**	
8.1 Performance plans for service delivery	C	A framework of performance indicators relating to outputs or outcomes of all ministries is in place. This is documented in ministry budget framework of line ministries. However, weak linkages between planned performance and expenditures exist.
8.2 Performance achieved for service delivery	B	Information is published annually on quantity of outputs produced achieved for all ministries.
8.3 Resources received by service delivery units	D	iBAS can generate budget allocation utilization reports. At MDA level, Secretary sits with agency heads to monitor ADP implementation every month using iBAS reports (including budget implementation reports), IMED reports, and MDA quarterly reports. However, MDAs do not assemble this information to detail resources received by delivery units.
8.4 Performance evaluation for service delivery	D	Only supreme audit institution conducts performance evaluations. Only 4 performance evaluations have been prepared in the last 3 years, which is less than 2% of service delivery function.
PI- 9 Public access to key fiscal information	**D**	
9.1 The documents for which public access is provided	D	The Government makes available to public only 3 of the basic elements and 3 of additional elements.
PI- 10 Fiscal risk reporting	**D+**	
10.1 Monitoring of public corporations	D	Government receives financial reports from just under 30% of public corporations within 9 months of fiscal year-end.
10.2 Monitoring of subnational government	D	Subnational governments are prohibited from taking out loans by law. No reports from subnational governments have been published.

Indicator/dimension	Score	Description of requirement met
10.3 Contingent liabilities and other fiscal risks	C	There is no comprehensive monitoring resulting in a report. Under ECF program with IMF, there is a structural benchmark setting out the ceiling on guarantees to be issued. This is monitored to meet program obligation.
PI- 11: Public investment management	**C**	
11.1 Economic analysis of investment proposals	D	There is no formal economic appraisal process.
11.2 Investment project selection	B	Prior to their inclusion in the budget, all major investment projects are prioritized by a central entity on basis of standard criteria for project selection.
11.3 Investment project costing	D	There is no formal linkage between recurrent costs as laid out in project documents and budget.
11.4 Investment project monitoring	B	Project implementation monitoring and reporting arrangements are in place for ensuring value for money and fiduciary integrity. The total cost and physical progress of major investment projects are monitored by implementing government unit. Standard procedures and rules for project implementation are in place. Annual reports covering physical and financial monitoring for all approved projects of the Annual Development Program, which cover all ministries/divisions, are available on Ministry of Planning website.
PI-12: Public asset management	**D+**	
12.1 Financial asset monitoring	C	The government maintains a record of its holdings in major categories of financial assets.
12.2 Nonfinancial asset monitoring	D	Fixed asset registers exist. Reports on assets are not produced.
12.3 Transparency of asset disposal	D	Rules exist as laid down by government, but noncompliance occurs. However, information is not provided in budget documents, financial reports, or other reports to the legislature or public on transfers and disposals of assets.
PI-13: Debt Management	**B**	
13.1 Reporting of debt and guarantees	B	Ministry of Finance has taken over responsibility for debt sustainability analysis and now produces monthly, quarterly, and annual reports on domestic and foreign debt. Data is accurate as there has been no significant issues with reconciliation of data over PEFA review period. There is a time lag of six weeks after the month-end to finalize monthly accounts based on complete set of data inputted in database outside of DMFAS.

Indicator/dimension	Score	Description of requirement met
13.2 Approval of debt and guarantees	D	Loans and issuance of guarantees can only be made by Minister of Finance although this is not detailed in primary legislation. They are made against transparent criteria but not against fiscal targets.
13.3 Debt management strategy	A	A Medium-Term Debt Management Strategy is now prepared annually. The strategy is available on MoF website. The MTMPS, which is presented before Parliament with the budget documents, reports on the status of debt. The 2014 report covered domestic and foreign debt over a 3-year horizon. It sets target levels for interest rates, refinancing, and exchange rate risk, which is used for annual planning.
PI-14: Macroeconomic and fiscal forecasting	**D+**	
14.1 Macroeconomic forecasts	C	The Government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.
14.2 Fiscal forecasts	C	The Government prepares forecasts of revenue, expenditure, and budget balance for the budget year and the two following fiscal years.
14.3 Macro-fiscal sensitivity analysis	D	The macro-fiscal forecasts prepared by the Government do not include a qualitative assessment of impact of alternative macroeconomic assumptions.
PI-15 Fiscal strategy	**B**	
15.1 Fiscal impact of policy proposals	D	The Government prepares estimates of fiscal impact of some proposed changes in revenue and expenditure policy for budget year.
15.2 Fiscal strategy adoption	A	The Government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based, quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years.
15.3 Reporting on fiscal outcomes	B	The Government has submitted to the legislature along with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from objectives and targets set.
PI-16 Medium-term perspective in expenditure budgeting	**C+**	
16.1 Medium-term expenditure estimates	A	The budget presents estimates of expenditure for the budget year and two following fiscal years by economic, functional, and administrative classifications.

Indicator/dimension	Score	Description of requirement met
16.2 Medium-term expenditure ceilings	A	Aggregate and ministry-level expenditure ceilings for the budget year and two following fiscal years are approved by Government before first budget circular is issued. The budget ceilings are approved by the Budget Monitoring and Resource Committee sometime in October. The budget circular is issued in early November.
16.3 Alignment of strategic plans and medium-term budgets	D	Medium-term strategic plans are prepared for some ministries. No expenditure policy proposals in the annual budget estimates align with the strategic plans.
16.4 Consistency of budgets with previous year's estimates	D	The budget documents do not provide an explanation of any of changes to expenditure estimates between the second year of last medium-term budget and first year of current medium-term budget even at the aggregate level.
PI-17: Budget preparation process	**B**	
17.1 Budget calendar	A	After receiving BCC1, ministries are given roughly two months to produce their budget framework. There is a fixed budget calendar, which is largely adhered to.
17.2 Guidance on budget preparation	B	A comprehensive and clear budget circular exists. Two budget circulars are issued to budgetary units. BCC1 provides one aggregate ceiling for both development and non-development budgets. BCC2 provides a separate ceiling for each. Prior to BCC2, ministerial-level Budget Monitoring and Resources Committee (chaired by Minister for Finance and including major spending ministries) approved the budget ceilings.
17.3 Budget submission to the legislature	D	The budget proposal is always submitted on the first Thursday of June (i.e., between June 1 and 7) and approved by June 30, giving the legislature less than a month to review the budget.
PI-18: Legislative scrutiny of budgets	**C+**	
18.1 Scope of budget scrutiny	A	The legislature initiates debate and review on all aspects of revenue and expenditure, fiscal policies, MTMPS, and priorities therein.
18.2 Legislative procedures for budget scrutiny	C	Rules of Procedures of Parliament have been approved by the legislature. The procedures do not allow for committees to scrutinize the budget, although this happens in practice.
18.3 Timing of budget approval	A	The budget is always approved by June 30 in time for the start of the fiscal year.
18.4 Rules for budget adjustments by the Executive	A	Only allowed under a revised budget that has strict procedures for enactment and is always adhered to.

Indicator/dimension	Score	Description of requirement met
PI-19 Revenue administration	**D+**	
19.1 Rights and obligations for revenue measures	B	Entities collecting the majority of revenues provide payers with access to comprehensive and up-to-date information on main revenue obligation areas and on rights, including, at a minimum, redress processes and procedures.
19.2 Revenue risk management	D	Entities collecting less than 50% of revenues use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for some revenue streams.
19.3 Revenue audit and investigation	D	Entities collecting majority of government revenue undertake audits and fraud investigations but do not use a compliance improvement plan nor complete the majority of planned audits and investigations.
19.4 Revenue arrears monitoring	D	The Annual Report of NBR for FY12/13 indicates that tax arrears stood at Tk72.68 billion and collection of Tk9.91 billion. This data is unreliable as arrears are not fully monitored.
PI-20 Accounting for Revenues	**C+**	
20.1 Information on revenue collections	A	Ministry of Finance compiles a consolidated report on a monthly basis covering all revenue types and period covered by the collection.
20.2 Transfer of revenue collections	A	All revenue reaches a treasury account within a day of payment either directly to a treasury account or branch of Sonali Bank.
20.3 Revenue accounts reconciliation	C	Reconciliation only occurs between collections and receipts (immediately), not assessments and arrears.
PI-21 Predictability of in-year resource allocation	**B+**	
21.1 Consolidation of cash balances	C	CGA consolidates all treasury single accounts daily and treasury single sub-accounts monthly.
21.2 Cash forecasting and monitoring	A	Cash flows are prepared annually alongside the budget, then forecasts are made. Cash flows are monitored and updated monthly on basis of actual receipts and payments
21.3 Information on commitment ceilings	B	MDAs can plan and commit expenditures at least one quarter in advance. The quarterly budget is the rigid ceiling running for first three quarters; budget units' expenditures are reviewed for fourth quarter, at which point the last quarter ceiling can be revised. In the case of non-development budget, MDAs can spend against budget allocation for which no quarterly fund release is required, with the exception of grant transfers to different agencies.

Indicator/dimension	Score	Description of requirement met
21.4 Significance of in-year budget adjustments	A	Significant adjustments to budget allocations only take place through the revised budget of which there is one per fiscal year. This is carried out in a clear and transparent way.
PI-22 Expenditure arrears	**D**	
22.1 Stock of expenditure arrears	D*	CGA implements a strict cut-off date for submission of current year invoices/claims to ensure that all tokens are cleared before year-end. However, systems and processes are not yet in place to generate reliable arrears data.
22.2 Expenditure arrears monitoring	D*	Systems and processes are not yet in place to generate reliable arrears data. As noted in PI-28.3, expenditure for both commitment and payment stage are not provided in in-year budget reports.
PI-23 Payroll controls	**C+**	
23.1 Integration of payroll and personnel records	B	The manual payroll in each MDA is supported by full documentation for all changes made to personnel records each month and checked against previous month's payroll data. Staff hiring is controlled against positions approved by Ministry of Public Administration and Ministry of Finance. Promotion is also guided by set rules where number of positions to be filled by promotion is clearly defined.
23.2 Management of payroll changes	B	It can take up to 3 months to process changes to personnel records although majority are made within a month. Retroactive payments exist but are not widespread.
23.3 Internal control of payroll	C	Changes can only be made by two staff signatures (including certifying officer) providing a full audit trail. Reconciliation and aggregation is not carried out at central level.
23.4 Payroll audit	C	Annual partial audit is in place by supreme audit institution for each MDA.
PI-24 Procurement	**B**	
24.1 Procurement monitoring	B	Records are maintained for most procurement methods of goods, works, and services covering type of procurement, value, and awardees' name with price. It compares well with procurement plans and analyzes date for e-GP contracts as stored in database. The e-GP covers over 30% of contracts. Over 90% of procurement of Roads and Highways Department, Local Government Engineering Department, Bangladesh Water Development Board, and Bangladesh Rural Electrification Board are conducted through e-GP, which is about 25% of total procurement by value. These agencies report quarterly on procurement performance through the e-GP system.

Indicator/dimension	Score	Description of requirement met
24.2 Procurement methods	B	Most agencies follow open competitive methods by default as per the law, which is systematically implemented, and records are maintained at agency level. Non-competitive methods require approval of head of agency. Open procurement method is over 70% of total value of contracts.
24.3 Public access to procurement information	B	All legislation and regulations, government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints but not annual procurement statistics are posted on CPTU website covering most procurement of government operations (over 75%). The process of updating the website is continuous as and when a document is updated or approved. For example, procurement plan in e-GP is uploaded as soon as approved and is then immediately available.
24.4 Procurement complaints management	B	The complaints system meets most criteria (5 out of 6), including mandatory criteria of not involved in any capacity in procurement transactions or in the process leading to contract award decisions.
PI-25 Internal controls on non-salary expenditure	**C**	
25.1 Segregation of duties	A	A generic manual has appropriate segregation of duties prescribed throughout expenditure process. Responsibilities are clearly laid down. The functions of authorization, recording, custody of assets, reconciliation, and audit are well organized on paper, yet as confirmed by OC&AG Audit Reports, the gap between reality and theory remains an issue.
25.2 Effectiveness of expenditure commitment controls	D	There is no formal commitment control system.
25.3 Compliance with payment rules and procedures	D	SAI reports indicate that compliance is a significant problem but no data exists to indicate to what extent. Exceptions are usually properly authorized and justified.
PI-26 Internal audit	**D**	
26.1 Coverage of internal audit	D	There is no formal internal audit function in place despite fact that some personnel are assigned as internal audit heads.
26.2 Nature of audits and standards applied	NA	Ex post checking are carried out on a compliance basis not on risk basis. Standards applied are not ISSAI based. MDAs lack qualified internal auditors. Personnel gain experience on the job and through workshops and some training programs that the relevant MDA may organize.

Indicator/dimension	Score	Description of requirement met
26.3 Implementation of internal audits and reporting	NA	Internal audit effectiveness is limited; there are no systematic audit plans. Ex post review reports are issued to MDA management, but these are not circulated to the supreme audit institution or Ministry of Finance.
26.4 Response to internal audits	NA	There is no formal annual audit program. There is no mechanism to assess extent to which action is taken by management on ex post review of transactions.
PI-27 Financial data integrity	**C+**	
27.1 Bank account reconciliation	D	Bank reconciliation from an accounting control perspective does not take place. The iBAS bank reconciliation functionality is not in use.
27.2 Suspense accounts	A	All government entity suspense accounts are cleared rigorously every financial year, barring one. The Bangladesh Railway suspense account is never cleared although close inspection reveals it to be an emergency contingency account.
27.3 Advance accounts	D	Reconciliation of advance accounts is carried out quarterly and within one month of end of a given period. Advance accounts are never cleared except for salary-related accounts.
27.4 Financial data integrity processes	A	Access and changes to iBAS records is restricted and recorded, resulting in an audit trail. Internal Control Unit within CGA/MoF has a formal charter to check paper work and supporting documents and vouchers for all accounts, payments, sub-ledger, provident funds, and pensions.
PI-28 In-year budget reports	**C+**	
28.1 Coverage and comparability of reports	A	Coverage and classification of data allows direct comparison to original budget. Information includes all items of budget estimates, including transfers to de-concentrated units.
28.2 Timing of in-year budget reports	C	Accounts for April, May, and June (preliminary) 2015, were closed and reported on June 7, July 9, and August 23, 2015, respectively (i.e., within 8 weeks of month-end).
28.3 Accuracy of in-year budget reports	C	Reports are useful but data inaccuracies (usually regarding revenue estimates) are not highlighted. Expenditures made to de-concentrated units are included within the reports. Expenditure is captured at payment stage.
PI-29 Annual financial reports	**D+**	
29.1 Completeness of annual financial reports	D	Reports compare expenditure to budget but do not allow for revenue comparisons with the budget. Cash balances are included.

Indicator/dimension	Score	Description of requirement met
29.2 Submission of the reports for external audit	D	Financial reports are submitted for external audit more than 9 months after fiscal year-end.
29.3 Accounting standards	C	Reports are based on accounting standards (combination of IPSAS and Government standards) and consistently applied over time and disclosed in financial reports.
PI-30 External audit	**D+**	
30.1 Audit coverage and standards	D	Coverage is less than 50% of government entities over last 3 years. Audit is mainly compliance. OC&AG has adopted INTOSAI standards.
30.2 Submission of audit reports to the legislature	D	Timeliness of legislature's scrutiny, which is a key factor in effectiveness of accountability function, is of serious concern. For FY11/12, the Annual Appropriation A/c took 13 months from receipt from CGA and 28 months from year-end; and the Annual Finance A/c took 9 months from receipt from CGA and 28 months from year-end for submission to the President. The report has not yet reached Parliament for legislative scrutiny. Independence in the arrangements for publicizing reports is hampered by routing through the President instead of directly to Parliament.
30.3 External audit follow up	D	There is a process for timely and systemic follow-up of external audit recommendations and/or observations for an audited entity, but there are aberrations. Neither Executive nor audited entity has made a formal response on audits for which follow-up was expected during the last three completed fiscal years.
30.4 Supreme audit institution independence	C	Independence of OC&AG is guaranteed by its constitutional mandate. Independence in the arrangements for publicizing reports is hampered by routing through President instead of independently to Parliament. The approval of budget is not independent of Executive, for example, by PAC pre-approving SAI budget as an agent of the legislature.
PI-31 Legislative scrutiny of audit reports	**B**	
31.1 Timing of audit report scrutiny	D	Currently there is a two-year backlog. The PAC of the 10th Parliament has so far reviewed audit reports on the financial statement covering 2008-09 to 2010-11. FY11/12 audit reports are yet to be laid before Parliament.

Indicator/dimension	Score	Description of requirement met
31.2 Hearings on audit findings	A	In-depth hearings presently occur 2 times a month with responsible officers from audited entities and OC&AG to explain findings of audits. The hearings take place in presence of OC&AG staff.
31.3 Recommendations on audit by the legislature.	A	Recommendations are issued, and after 4 meetings progress on follow-up is examined in fifth meeting.
31.4 Transparency of legislative scrutiny of audit reports	B	Although hearings are not held publicly, PAC has encouraged public hearings as a general rule and also briefs the press after hearings. Committee reports are provided to the full chamber of the legislature and published on an official website or by other means easily accessible to the public.

ANNEX 1(A):
COMPARISON OF PEFA SCORES OF 2010 AND 2015 (2011 FRAMEWORK)

	2010	*2015*	*Description of met requirements in current assessment*	*Changes between 2010 and 2015*
A. PFM-OUT-TURNS: (1) Credibility of the Budget				
PI-1 Aggregate expenditure outturn compared to original approved budget (excluding externally financed project expenditure)	**B**	**C**	Deviation deteriorated from 9.3% in 11/12, 10.5% in 12/13, and 17.9% in 13/14.	Aggregate budget credibility deteriorated.
PI-2 Composition of expenditure outturn compared to original approved budget	**D+**	**D+**		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	Variance was 20.7% in 11/12, 17.6% in12/13, and 23% in 13/14.	Variance was 19.3% in 07/08, 14.9% in 08/09, and 30.6% in 09/10.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	A	A	Contingency only 2.5% of expenditure.	Contingency was nil during 2010 report review period.
PI-3 Aggregate revenue outturn compared to original approved budget	**B**	**D**	Deviation -3.1% in 11/12, -8.2% in 12/13, and -16.2% in 13/14.	Deviation was +4%, in 07/08, -7% in 08/09, and -4% in 09/10.
PI-4 Stock and monitoring of expenditure payment arrears	**NS**	**NR**		
(i) Stock of expenditure payment arrears and a recent change in the stock	NR	NR	There is no data on expenditure arrears from iBAS.	No reliable data on arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	NR	There is no data on expenditure arrears from iBAS.	No reliable data on arrears.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	**B**	**C**	No sub-functional classification in budget or execution reports.	Government uses a classification system made up of administrative and economic codes, no functional codes, used for formulation, execution and reporting.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
PI-6 Comprehensiveness of information included in budget documentation	**B**	**A**	8 of 9 elements are included in budget papers. Macro assumptions do not include estimates of exchange rates.	In 2010, debt stock and explanation of budget implications of new policy initiatives were only partial. Financial assets were missing.
PI-7 Extent of unreported government operations	**B**	**NR**		
(i) Level of unreported government operations	B	NR	No data for 2013/14.	Level of extra-budgetary operations below 5%. Weak reporting.
(ii) Income/expenditure information on donor-funded projects	B	B	Over 85% of information available.	Over 80% of information available.
PI-8 Transparency of inter-governmental fiscal relations	**D**	**D+**		
(i) Transparency and objectivity in the horizontal allocation among subnational governments	D	B	Just over 50% of budgeted and actual transfers are formula based on transparent criteria.	This improvement is largely as a result of World Bank loan requiring formula-based transfers.
(ii) Timeliness and reliable information to subnational governments on their allocations	D	D	Estimates of transfers are provided about 2 months after the local government budget is finalized. These estimates can also change during the year.	No change.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	D	D	No consolidation of fiscal data is made in a report.	No change.
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	**D+**	**D+**		
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	D	Government does not perform routine monitoring of financial flows and liabilities of autonomous government agencies and public enterprises, for consolidation into a report detailing fiscal risk.	In 2010 most major autonomous government agencies/SOEs submitted fiscal reports to central government annually, but a consolidated overview was significantly incomplete.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(ii) Extent of central government monitoring of subnational governments' fiscal position	D	A	Subnational governments cannot generate fiscal liabilities for central government.	No assessment of subnational fiscal position in 2010.
PI-10 Public access to key fiscal information	**B**	**B**	Year-end financial statements and external audit reports are in significant backlog. Even after completion, they take over 6 months to be published. Resources available to primary service units are not published.	No change.
C. BUDGET CYCLE				
C (i) Policy-Based Budgeting				
PI-11 Orderliness and participation in the annual budget process	**B**	**A**		
(i) Existence of, and adherence to, a fixed budget calendar	B	A	After receiving BCC1, ministries are given roughly 2 months to produce their budget framework. Possibly not scored correctly in 2010.	In 2010 budget preparation was measured at 4 weeks after BCC2. However, it was established that useful budget preparation was carried out after BCC1 in 2015.
(ii) Guidance on the preparation of budget submissions	C	B	Ceilings are provided in BCC1. Cabinet equivalent then discusses and approves ceilings, which are refined in BCC2.	In 2010 Cabinet only involved after detailed estimates were presented.
(iii) Timely budget approval by the legislature	A	A	The budget proposal is always approved by June 30.	No change.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B**	**B+**		
(i) Multiyear fiscal forecasts and functional allocations	A	A	MTBF satisfies all requirements.	No change.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(ii) Scope and frequency of debt sustainability analysis	B	B	Debt sustainability analysis for external and domestic debt is undertaken at least once during the last three years,	No change.
(iii) Existence of costed sector strategies	C	B	Three large expenditure institutions (primary education, health, and agriculture) have fully costed ministry strategies or plans for recurrent and investment expenditures with medium-term budget projections constituting just over 25% of primary expenditure.	In 2010 68% of expenditure covered but not fully costed in that expenditures not reflected.
(iv) Linkages between investment budgets and forward expenditure estimates	C	D	Although required in BCC, investment projects routinely seek recurrent funding after projects are completed.	In 2010 it was far from clear that all investment decisions were made on basis of strategic planning documentation and that future recurrent cost implications were systematically included in forward estimates.
C(ii) Predictability and Control in Budget Execution				
PI-13 Transparency of taxpayer obligations and liabilities	**C**	**C**		
(i) Clarity and comprehensiveness of tax liabilities	D	D	Tax procedures for 3 main taxes are not common and operate independently. Legal framework is comprehensive. However, in the case of income tax, there are tax provisions granting exemptions and concessions that are outside the main law. The granting of tax incentives continues.	No change.

		2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	B	Income tax and VAT provide good web-based information. (Customs duties are hard to fathom so agents frequently used.) Some old tax laws are still only in English (not Bangla).	No change.
(iii)	Existence and functioning of a tax appeal mechanism	C	C	The tax appeals system is burdened with cases. The pendency of tax cases at all levels is high even though the trend is downwards. Taxpayers increasingly use the writ option to directly file cases with the high court and avoid paying a portion of the disputed tax when filing under the regular process. The Alternative Dispute Resolution System is working well for income tax but less so in other areas.	No change.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment		**C**	**B**		
(i)	Controls in the taxpayer registration system	C	B	The Taxpayer Identification Number (TIN) system has been recently improved in that it is now linked with the national ID system. eTIN has been introduced rendering the database complete. Many multiple TINs have been weeded out.	eTIN had not been introduced in 2010 and no linkage to national ID.
(ii)	Effectiveness of penalties for noncompliance with registration and declaration obligations	C	B	Recent changes in the laws have introduced penalties for incorrect quoting of TINs. Enforcement has improved as TINs are now linked to ID cards and eTIN has been initiated.	In 2010 there was no enforcement of the law.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(iii) Planning and monitoring of tax audit and fraud investigation programs	C	C	Entities collecting over 50% of revenue perform audits but plans are not adhered to.	No change.
PI-15 Effectiveness in collection of tax payments	**D+**	**NR**		
(i) Collection ratio for gross tax arrears	D	NR	There is no comprehensive data on tax arrears.	Arrears stood at 9% of collections, but data was presumed inaccurate. Since, arrears are more than 2% of total annual collections.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	A	All revenue reaches a treasury account within a day of payment either directly to a treasury account or branch of Sonali Bank.	Revenue reached Treasury within 3 days of depositing in a bank in 2010.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	D	D	Reconciliation only occurs between collections and receipts, not assessments and arrears.	No change.
PI-16 Predictability in the availability of funds for commitment of expenditures	**C+**	**B+**		
(i) Extent to which cash flows are forecasted and monitored	A	A	Cash flows are prepared annually alongside the budget. Forecasts are then made, and cash flows monitored and updated monthly on the basis of actual receipts and payments.	No change.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	B	While there is no formal commitment system in place, there is a form of limiting commitment control in form of the quarterly expenditure commitment availabilities for each MDA, which applies also to lump sum payments that are also paid in quarterly installments.	In 2010 ministries/ divisions were provided reliable information on expenditure ceilings quarterly in advance.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	C	A	Significant adjustments to budget allocations only take place through the revised budget of which there is one per FY. This is carried out in a clear and transparent way.	In 2010 significant in-year budget adjustments were frequent but undertaken with some transparency.
PI-17 Recording and management of cash balances, debt and guarantees	**C+**	**C+**		
(i) Quality of debt data recording and reporting	C	B	Domestic and foreign debt records are complete, reflecting improvements in debt management.	In 2010 debt data records and reports were incomplete and un-reconciled. Data is now accurate as there have been no significant issues with reconciliation of data; complete set of data inputted in the database outside of DMFAS.
(ii) Extent of consolidation of the government's cash balances	B	C	CGA reconciles all treasury single accounts daily and treasury single sub-accounts monthly.	In 2010 most cash balances were calculated and consolidated at least weekly, but some extra-budgetary funds remained outside the arrangement.
(iii) Systems for contracting loans and issuance of guarantees	C	C	Loans and issuance of guarantees can only be made by Minister of Finance. They are made against transparent criteria and total debt limits but not against fiscal targets.	In 2010 central government contracting of loans and guarantees were approved by a single government entity, but not decided on the basis of clear guidelines, criteria, or overall ceilings.
PI-18 Effectiveness of payroll controls	**D+**	**C+**		

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(i) Degree of integration and reconciliation between personnel records and payroll data	D	B	Manual payroll in each MDA is supported by full documentation for all changes made to personnel records each month and checked against previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions. Possibly incorrectly scored in 2010.	In 2010 integrity of the payroll was significantly undermined by lack of regular reconciliation of personnel records with payroll data.
(ii) Timeliness of changes to personnel records and the payroll	B	B	It can take up to 3 months to process changes to personnel records although the majority is made within a month. Retroactive payments exist but are not widespread.	No change.
(iii) Internal controls of changes to personnel records and the payroll	C	C	Changes can only be made by 2 staff signatures (including certifying officer), providing a full audit trail. Reconciliation and aggregation is not carried out at central level.	In 2010 controls existed but were not adequate to ensure full integrity of data.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	D	C	Annual partial audit is now in place by supreme audit institution for each MDA.	In 2010 there were no audits
PI-19 Competition, value for money and controls in procurement	**B**	**B**		
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B[1]	A	Existing legal and regulatory framework governing procurement in Bangladesh satisfies all 6 listed requirements, except for a few recent amendments for small-value works contracts.	All indicators under PROMIS/PMIS show significant improvement in 4 target agencies that implement 50% of development budget. Data used are for open tendering only (limited tendering contracts removed from population).

		2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(ii)	Use of competitive procurement methods	B	C	Open tendering is default method. However, changes in the legal framework allow limited tendering with qualification relaxation. From functional consideration, such option may open room for compromising with quality of works.	Limited tendering is mostly used for low-value decentralized works contracts depending on the circumstances.
(iii)	Public access to complete, reliable and timely procurement information.	C	A	All government contracts are advertised and published in CPTU website - www.cptu.gov.bd	This is 100% compliant which was not the case in 2010.
(iv)	Existence of an independent administrative procurement complaints system.	B	A	Complaint redress mechanism is working well for both administrative and impartial independent review panel.	This is fully compliant. Furthermore core agencies reported that complaints have reduced drastically since introduction of e-GP.
PI-20 Effectiveness of internal controls for non-salary expenditure		**D+**	**D+**		
(i)	Effectiveness of expenditure commitment controls	D	D	There is no formal commitment control system.	No change.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	C	C	Internal control rules and procedures exist but are not properly understood by those directly involved in their application. Some rules and procedures are detailed on paper, but overall controls are deficient in reality.	No change.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(iii) Degree of compliance with rules for processing and recording transactions	D	D	Revenue accounting is on cash basis. There are arrears issues for NBR, which are not easy to detect and could easily lead to them being overlooked. The actual pay order system could lead to fraud as there is no easy automated cross-checking and reconciliation process.	No change.
PI-21 Effectiveness of internal audit	**D**	**D**		
(i) Coverage and quality of the internal audit function	D	D	There is no formal internal audit.	No change.
(ii) Frequency and distribution of reports	D	D	There are no formal audit plan engagements.	No change.
(iii) Extent of management response to internal audit function.	D	D	There is no formal internal audit. There is no centralized database of internal audit function findings.	No change.
C(iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	**B**	**D**		
(i) Regularity of bank reconciliation	B	D	From an accounting perspective, no bank reconciliation process exists. The functionality exists in iBAS but is not operational. Possibly incorrectly scored in 2010.	In 2010 bank reconciliations for all Treasury-managed bank accounts took place at least monthly, usually within 4 weeks from end of the month.
(ii) Regularity and clearance of suspense accounts and advances	B	D	Reconciliation of suspense accounts is carried out annually, by October 22 following the FY-end.	In 2010 reconciliation and clearance of suspense accounts and advances takes place at least annually within 2-3 months year-end. Some accounts have uncleared balances brought forward.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
PI-23 Availability of information on resources received by service delivery units	**D**	**A**	iBAS reports, IMED reports, MDA quarterly reports. At MDA level the Secretary sits with agency heads to monitor ADP implementation every month. Improvement reflects that iBAS is now generating such reports.	In 2010 systems in the education and health ministries did not provide information on resources received by primary schools or primary health clinics.
PI-24 Quality and timeliness of in-year budget reports	**C+**	**C+**		
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates, including transfers to de-concentrated units. There is no commitment system.	No change.
(ii) Timeliness of the issue of reports	B	B	Accounts for April, May, and June (preliminary) 2015 were closed and reported on June 7, July 9, and August 23, 2015, respectively.	No change.
(iii) Quality of information	C	C	Reports are useful and data inaccuracies (usually regarding revenue estimates) highlighted. Expenditures made to de-concentrated units are included within the reports.	No change.
PI-25 Quality and timeliness of annual financial statements	**D+**	**D+**		
(i) Completeness of the financial statements	C	D	Reports do not allow for revenue comparisons with the budget though expenditure and cash balances are included.	In 2010 a consolidated financial statement was prepared annually. However, information was not always complete and timely, but the omissions are not significant.

	2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(ii) Timeliness of submissions of the financial statements	D	D	Financial reports are submitted for external audit more than 15 months after FY-end, when submitted.	In 2010 the date of submission for audit was indeterminate as OC&AG did not necessarily accept the statements at the first submission by CGA.
(iii) Accounting standards used	D	C	Reports are based on both Bangladeshi and international standards (IPSAS cash basis).	In 2010 statements did not disclose accounting standards.
C(iv) External Scrutiny and Audit				
PI-26 Scope, nature and follow-up of external audit	**D+**	**D+**		
(i) Scope/nature of audit performed (including adherence to auditing standards)	C	C	The ministries that OC&AG select account for at least 60% of government expenditure. The entity selection is considerably less than 50% as there are over 22,000 auditable entities and OC&AG does not have physical or financial resources to field enough teams. Audit itself is mainly compliance.	No change.
(ii) Timeliness of submission of audit reports to the legislature	D	D	Audit report on financial statements not received by the legislature in last 3 FYs.	In 2010 audit reports were submitted to the Parliament more than 12 months from the end of the period covered.
(iii) Evidence of follow up on audit recommendations	C	C	There is a process for timely and systemic follow-up of external audit recommendations and/or observations for an audited entity. But there are aberrations.	In 2010 evidence of follow-up is weak and sometimes delayed.
PI-27 Legislative scrutiny of the annual budget law	**D+**	**D+**		

		2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(i)	Scope of the legislature scrutiny	C	C	The legislature initiates debate and review on all aspects of revenue and expenditure, fiscal policies, MTBPS, and priorities therein, but only when detailed proposals have been finalized.	No change.
(ii)	Extent to which the legislature's procedures are well established and respected	B	B	Procedures exist but they are not comprehensive. In particular they do not allow for committees to scrutinize the budget. They are respected.	No change.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	Less than 1 month for scrutiny.	No change.
(iv)	Rules for in-year amendments to the budget without ex ante approval by the legislature	C	A	Only allowed under a revised budget, which has strict procedures for enactment.	In 2010 rules existed but were not followed.
PI-28 Legislative scrutiny of external audit reports		**D+**	**D+**		
(i)	Timeliness of examination of audit reports by the legislature	D	D	There is 2-year backlog of audit reports as PAC of 10th Parliament has reviewed audit reports on financial statement covering period from 2008-09 to 2010-11. FY11/12 audit reports are yet to be laid before Parliament.	In 2010 PAC had not made a report to Parliament in the previous 3 years.

		2010	2015	Description of met requirements in current assessment	Changes between 2010 and 2015
(ii)	Extent of hearing on key findings undertaken by the legislature	A	A	In-depth hearings presently occur 2 times a month with responsible officers from audited entities and also OC&AG officers to explain findings of audits. The hearings take place in presence of CAG.	No change.
(iii)	Issuance of recommended actions by the legislature and implementation by the Executive	D	D	Just in last few years, recommendations are issued; and after 4 meetings, progress on follow-up is examined in the fifth meeting. However, no evidence of implementation.	In 2010 there was no direct evidence of recommendations.

ANNEX 2.
SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK

Internal control components and elements	*Summary of observations*
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	The lack of tailored manuals in MDAs and effective internal audit results in widespread noncompliance with internal control rules that exist. This is compounded by the lack of coverage of supreme audit institution.
1.2 Commitment to competence	This is compromised by lack of capacity to undertake existing tasks; and so, even if Finance Division is committed to improvements, this does not necessarily filter down to MDAs.
1.3 "Tone at the top" (i.e., management's philosophy and operating style)	Management is more preoccupied with day-to-day tasks than widespread reform that will require extra capacity.
1.4 Organizational structure	Despite OC&AG noting lack of compliance with internal control procedures, evidence of sanctions are few.
1.5 Human resource policies and practices	No information available from the PEFA assessment.
2. Risk assessment	
2.1 Risk identification	This is a serious deficiency with respect to tax. OC&AG does identify risk, but coverage is weak. Weak internal audit does not focus on systems at all.
2.2 Risk assessment (significance and likelihood)	Few entities assess risk.
2.3 Risk evaluation	Given the above, this is weak.
2.4 Risk appetite assessment	Few entities assess risk.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	There is little evidence of response to risk.
3. Control activities	
1.1 Authorization and approval procedure	Procedures are good but often not complied with according to OC&AG.

Internal control components and elements	*Summary of observations*
1.2 Segregation of duties (authorizing, processing, recording, reviewing)	Procedures exist but are often not complied with according to OC&AG.
1.3 Controls over access to resources and records	Procedures exist but are often not complied with according to OC&AG.
1.4 Verifications	No information available from the PEFA assessment.
1.5 Reconciliations	Of particular weakness in tax with respect to assessment and arrears.
1.6 Reviews of operating performance	No information available from the PEFA assessment.
1.7 Reviews of operations, processes and activities	No information available from the PEFA assessment.
1.8 Supervision (assigning, reviewing and approving, guidance, and training)	No information available from the PEFA assessment.
4. Information and communication	
5. Monitoring	
1.1 Ongoing monitoring	No information available from the PEFA assessment.
1.2 Evaluations	No information available from the PEFA assessment.
1.3 Management responses	No information available from the PEFA assessment.

ANNEX 3:
CALCULATION SHEETS FOR PI-1 to PI-3

PI-1 Aggregate expenditure outturn and PI-2.1: Expenditure composition variance

Data for year =	2013-14					
2013-14 Functional head	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Public Services	293,960	141,200	237,803.6	(96,603.6)	96,603.6	40.6%
Local Government and Rural Development	147,170	138,960	119,055.5	19,904.5	19,904.5	16.7%
Defence Services	144,580	139,170	116,960.3	22,209.7	22,209.7	19.0%
Public Order and Safety	104,020	116,690	84,148.6	32,541.4	32,541.4	38.7%
Education and Technology	259,670	252,860	210,064.1	42,795.9	42,795.9	20.4%
Health	93,420	88,280	75,573.6	12,706.4	12,706.4	16.8%
Social Security and Welfare	123,110	108,670	99,591.8	9,078.2	9,078.2	9.1%
Housing	17,400	16,630	14,076.0	2,554.0	2,554.0	18.1%
Recreation, Culture and Religious Affairs	17,040	16,090	13,784.8	2,305.2	2,305.2	16.7%
Fuel and Energy	113,510	98,390	91,825.7	6,564.3	6,564.3	7.1%
Agriculture	173,490	167,710	140,347.5	27,362.5	27,362.5	19.5%
Industrial and Economic Services	31,720	23,120	25,660.4	(2,540.4)	2,540.4	9.9%
Transport and Communication	205,950	138,380	166,606.5	(28,226.5)	28,226.5	16.9%
Other Expense	187,810	101,280	151,931.8	(50,651.8)	50,651.8	33.3%
21 (= sum of rest)						
allocated expenditure	1,912,850	1,547,430	1,547,430.0	0.0	356,044.5	
contingency	34,660	52,420				
Interest	277,430	282,210				
total expenditure	**2,224,940**	**1,882,060**				
overall (PI-1) variance						**15.4%**
composition (PI-2) variance						**23.0%**
contingency share of budget						**2.4%**

2012-13 Functional head	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Public Services	205,900	76,210	184,880.1	(108,670.1)	108,670.1	58.8%
Local Government and Rural Development	141,440	136,130	127,000.7	9,129.3	9,129.3	7.2%
Defence Services	128,820	123,570	115,669.1	7,900.9	7,900.9	6.8%
Public Order and Safety	91,910	96,010	82,527.1	13,482.9	13,482.9	16.3%
Education and Technology	218,580	204,190	196,265.7	7,924.3	7,924.3	4.0%
Health	91,590	80,960	82,239.8	(1,279.8)	1,279.8	1.6%
Social Security and Welfare	109,070	96,480	97,935.3	(1,455.3)	1,455.3	1.5%
Housing	14,060	13,260	12,624.6	635.4	635.4	5.0%
Recreation, Culture and Religious Affairs	15,330	16,070	13,765.0	2,305.0	2,305.0	16.7%
Fuel and Energy	94,760	100,780	85,086.2	15,693.8	15,693.8	18.4%
Agriculture	141,900	192,510	127,413.8	65,096.2	65,096.2	51.1%
Industrial and Economic Services	27,190	24,500	24,414.2	85.8	85.8	0.4%
Transport and Communication	132,680	126,240	119,135.0	7,105.0	7,105.0	6.0%
Other Expense	223,990	183,170	201,123.4	(17,953.4)	17,953.4	8.9%
21 (= sum of rest)						
allocated expenditure	1,637,220	1,470,080	1,470,080.0	0.0	258,717.2	
contingency	47,140	37,430				
Interest	233,020	242,730				
total expenditure	**1,917,380**	**1,750,240**				
overall (PI-1) variance						**8.7%**
composition (PI-2) variance						**17.6%**
contingency share of budget						**2.0%**

Data for year =	2011-12					
2011-12 Functional head	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Public Services	221,990	108,150	205,197.9	(97,047.9)	97,047.9	47.3%
Local Government and Rural Development	120,570	103,670	111,449.6	(7,779.6)	7,779.6	7.0%
Defence Services	117,620	122,120	108,722.8	13,397.2	13,397.2	12.3%
Public Order and Safety	84,250	86,940	77,877.0	9,063.0	9,063.0	11.6%
Education and Technology	190,730	180,510	176,302.5	4,207.5	4,207.5	2.4%
Health	61,690	72,030	57,023.5	15,006.5	15,006.5	26.3%
Social Security and Welfare	109,230	88,060	100,967.4	(12,907.4)	12,907.4	12.8%
Housing	14,740	12,960	13,625.0	(665.0)	665.0	4.9%
Recreation, Culture and Religious Affairs	16,650	13,060	15,390.5	(2,330.5)	2,330.5	15.1%
Fuel and Energy	83,110	78,240	76,823.3	1,416.7	1,416.7	1.8%
Agriculture	121,040	142,980	111,884.1	31,095.9	31,095.9	27.8%
Industrial and Economic Services	12,770	14,420	11,804.0	2,616.0	2,616.0	22.2%
Transport and Communication	112,510	91,990	103,999.3	(12,009.3)	12,009.3	11.5%
Other Expense	120,790	167,590	111,653.0	55,937.0	55,937.0	50.1%
21 (= sum of rest)						
allocated expenditure	1,387,690	1,282,720	1,282,720.0	0.0	265,479.6	
contingency	68,270	38,280				
Interest	179,970	203,510				
total expenditure	**1,635,930**	**1,524,510**				
overall (PI-1) variance						**6.8%**
composition (PI-2) variance						**20.7%**
contingency share of budget						**2.3%**

Calculation Sheet for Expenditure by Economic Classification Variance PI-2.2

2013-14 Economic head	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Compensation of employees	260,380	269,290	217,203.1	52,086.9	52,086.9	24.0%
Use of goods and services	240,510	188,500	200,628.0	(12,128.0)	12,128.0	6.0%
Consumption of fixed capital	957,290	656,170	798,549.6	(142,379.6)	142,379.6	17.8%
Interest	278,090	282,210	231,976.4	50,233.6	50,233.6	21.7%
Subsidies	154,430	134,340	128,822.0	5,518.0	5,518.0	4.3%
Grants	176,000	187,030	146,815.2	40,214.8	40,214.8	27.4%
Social benefits	116,460	107,770	97,148.3	10,621.7	10,621.7	10.9%
Other expenses	74,010	57,570	61,737.5	(4,167.5)	4,167.5	6.8%
Total expenditure	2,257,170	1,882,880	1,882,880.0	0.0	317,350.1	
overall variance						**83.4%**
composition variance						**16.9%**

2012-13 Economic head	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Compensation of employees	237,330	220,370	219,811.1	558.9	558.9	0.3%
Use of goods and services	201,440	162,000	186,570.4	(24,570.4)	24,570.4	13.2%
Consumption of fixed capital	786,050	660,750	728,026.4	(67,276.4)	67,276.4	9.2%
Interest	233,020	242,730	215,819.2	26,910.8	26,910.8	12.5%
Subsidies	144,450	156,280	133,787.2	22,492.8	22,492.8	16.8%
Grants	166,830	167,410	154,515.2	12,894.8	12,894.8	8.3%
Social benefits	91,650	107,070	84,884.7	22,185.3	22,185.3	26.1%
Other expenses	53,430	56,290	49,486.0	6,804.0	6,804.0	13.7%
Total expenditure	1,914,200	1,772,900	1,772,900.0	0.0	183,693.4	
overall variance						**92.6%**
composition variance						**10.4%**

2011-12 Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	223,950	213,500	214,628.3	(1,128.3)	1,128.3	0.5%
Use of goods and services	159,030	135,120	152,410.5	(17,290.5)	17,290.5	11.3%
Consumption of fixed capital	628,830	537,350	602,655.5	(65,305.5)	65,305.5	10.8%
Interest	180,320	203,520	172,814.3	30,705.7	30,705.7	17.8%
Subsidies	93,010	115,080	89,138.5	25,941.5	25,941.5	29.1%
Grants	171,500	164,820	164,361.5	458.5	458.5	0.3%
Social benefits	97,090	103,230	93,048.7	10,181.3	10,181.3	10.9%
Other expenses	63,600	77,390	60,952.7	16,437.3	16,437.3	27.0%
Total epxnediture	1,617,330	1,550,010	1,550,010.0	0.0	167,448.5	
overall variance						**95.8%**
composition variance						**10.8%**

Results Matrix		
	PI 1	PI 2.2
Year	total expenditure deviation	composition variance
2013-14	83.4%	16.9%
2012-13	92.6%	10.4%
2011-12	95.8%	10.8%

Calculation Sheet for PI 3: Revenue outturn

Data for year =	2011-12					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	275,610	281,590	266,996.1	14,594	14,593.9	5.5%
Taxes on payroll and workforce	-	-				
Taxes on property	23,000	23,970	22,281.2	1,689	1,688.8	7.6%
Taxes on goods and services	484,330	473,070	473,070.0	0	0.0	0.0%
Taxes on exports	300	670	290.6	379	379.4	130.5%
Other taxes	168,910	168,040	163,630.9	4,409	4,409.1	2.7%
Social contributions						
Social security contributions	-	-				
Other social contributions	-	-				
Grants						
Grants from foreign governments	-	-				
Grants from international organizations	25,040	24,390	24,257.4	133	132.6	0.5%
Grants from other government units	18,450	25,310	17,873.4	7,437	7,436.6	41.6%
Other revenue						
Property income	7,080	6,260	6,858.7	(599)	598.7	8.7%
Sales of goods and services	55,660	56,080	469,192.8	(413,113)	413,112.8	88.0%
Fines, penalties and forfeits	2,380	3,960	2,305.6	1,654	1,654.4	71.8%
Transfers not elsewhere classified	123,090	83,510	119,243.0	(35,733)	35,733.0	30.0%
insurance and standardized guarantee schemes	-	-				
Sum of rest	-	-				
Total revenue	**1,183,850**	**1,146,850**	**1,565,999.6**	**(419,150)**	**479,739.3**	
overall variance						**96.9%**
composition variance						**30.6%**

Results Matrix		
Year	*Total revenue outturn*	*Composition variance*
2011-12	96.9%	30.6%
2012-13	91.8%	7.1%
2013-14	83.8%	6.7%

Data for year =	2012-13					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
	Tax revenues					
Taxes on income, profit and capital gains	353,000	344,030	324,154.9	19,875	19,875.1	6.1%
Taxes on payroll and workforce	-	-				
Taxes on property	27,850	27,190	25,574.3	1,616	1,615.7	6.3%
Taxes on goods and services	571,630	529,310	524,919.8	4,390	4,390.2	0.8%
Taxes on exports	400	-	367.3	(367)	367.3	100.0%
Other taxes	209,280	168,830	192,178.9	(23,349)	23,348.9	12.1%
	Social contributions					
Social security contributions	-	-				
Other social contributions	-	-				
	Grants					
Grants from foreign governments	-	-				
Grants from international organizations	27,450	9,710	25,206.9	(15,497)	15,496.9	61.5%
Grants from other government units	-	-				
	Other revenue					
Property income	7,570	6,300	6,951.4	(651)	651.4	9.4%
Sales of goods and services	66,350	58,700	60,928.3	(2,228)	2,228.3	3.7%
Fines, penalties and forfeits	3,790	4,570	3,480.3	1,090	1,089.7	31.3%
Transfers not elsewhere classified	118,250	127,300	108,587.3	18,713	18,712.7	17.2%
insurance and standardized guarantee	-	-				
Sum of rest	11,130	6,630	10,220.5	(3,591)	3,590.5	35.1%
Total revenue	**1,396,700**	**1,282,570**	**1,282,570.0**	**0**	**91,366.7**	
overall variance						**91.8%**
composition variance						**7.1%**

Data for year =	2013-14					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
	Tax revenues					
Taxes on income, profit and capital gains	482,970	378,270	404,863.3	(26,593)	26,593.3	6.6%
Taxes on payroll and workforce	-	-				
Taxes on property	32,640	28,810	27,361.4	1,449	1,448.6	5.3%
Taxes on goods and services	671,200	560,570	562,652.5	(2,082)	2,082.5	0.4%
Taxes on exports	450	-	377.2	(377)	377.2	100.0%
Other taxes	218,530	185,730	183,189.0	2,541	2,541.0	1.4%
	Social contributions					
Social security contributions						
Other social contributions						
	Grants					
Grants from foreign governments	-	-				
Grants from international organizations	25,180	9,260	21,107.9	(11,848)	11,847.9	56.1%
Grants from other government units	-	-				
	Other revenue					
Property income	7,950	8,010	6,664.3	1,346	1,345.7	20.2%
Sales of goods and services	73,270	55,780	61,420.7	(5,641)	5,640.7	9.2%
Fines, penalties and forfeits	4,270	3,380	3,579.4	(199)	199.4	5.6%
Transfers not elsewhere classified	46,930	44,940	39,340.4	5,600	5,599.6	14.2%
insurance and standardized guarantee	-	-				
Sum of rest	111,173	129,000	93,193.9	35,806	35,806.1	38.4%
Total revenue	**1,674,563**	**1,403,750**	**1,403,750.0**	**0**	**93,481.9**	
overall variance						**83.8%**
composition variance						**6.7%**

ANNEX 4: LIST OF PERSONS MET DURING 2015 PEFA ASSESSMENT MINISTRY OF FINANCE (FINANCE DIVISION)

1. **Mr. Mahbub Ahmed,** Senior Secretary
2. **Mr. Jalal Ahmed,** Additional Secretary
3. **Mr. Mohammad Muslim Chowdhury,** Additional Secretary
4. **Mr. Md. Habibur Rahman,** Joint Secretary (Budget – 1)
5. **Mr. Mohammed Rashedul Amin,** Deputy Secretary
6. **Mr. Shirajun Noor Chowdhury,** Deputy Secretary
7. **Mr. Iqbal Abdullah Harun,** Joint Secretary (Debt Management)
8. **Mr. Abu Daiyan Mohammad Ahsanullah,** Deputy Secretary
9. **Mr. Mahedi Masuduzzaman,** Sr. Assistant Secretary
10. **Mr. Kazi Nahid Rasul,** Sr. Assistant Secretary
11. **Mr. Farid Ahmed,** Assistant Chief (Macro-economic Wing)
12. **Mr. Syed Khaled Bin Hafiz,** Research Officer (Monitoring Cell)
13. **Md. Humayun Kabir,** Deputy Secretary, Internal Resource Division
14. **Md. Abdur Rouf Talukder,** Executive Project Director (Additional Secretary), SEIP Project

Cabinet Division

15. **Md. Mahiuddin Khan,** Additional Secretary

iBAS++ team from Public Expenditure Management Strengthening Program (PEMSP), Finance Division

16. **Mr. Mohamamd Fazlul Bari,** Additional Program Director
17. **Mr. Abu Saleh Zainal Abedin,** Lead IT Consultant
18. **Mr. Abu Ahsan Mohammad Aminul Mohaimen,** IT consultant
19. **Mr. Mohammad Saiful Islam,** Training Coordinator
20. **Mr. Sabbir Ahmed Khan,** Consultant

Office of the Controller General of Accounts

21. **Md. Jashimuddin,** Deputy Controller General of Accounts
22. **Md. Munan Howlader,** Deputy Controller General of Accounts
23. **Md. Fakhruddin Ahmed,** Deputy Chief Accounts Officer (Health)
24. **Md. Nazrul Islam,** Audit and Accounts Officer
25. **Mr. Shaer Iqbal,** Programmer
26. **Mr. Ayubur Rahman Senior,** System Analyst
27. **Mr. Mohammad Atiar Rahman,** System Analyst Economic Relations Division
28. **Mrs. Farida Nasreen,** Additional Secretary

Line Ministries

29. **Mr. Ashok Madhab Roy,** Additional Secretary, Local Government Division
30. **Mr. Chowdhury Mufad Ahmed,** Additional Secretary, Ministry of Education
31. **Mr. Faruque Hossain,** Director General, Central Procurement Unit, Implementation Monitoring and Evaluation Division, Ministry of Planning
32. **Mr. Akkas Ali Pradamir**, Ministry of Works, Director, Internal Audit
33. Ministry of Housing and Public Works, Internal Audit

Office of the Comptroller and Auditor General

34. **Mr. Masud Ahmed,** Comptroller and Auditor General
35. **Dr. Shyamal Kanti Chowdhury,** Deputy Comptroller and Auditor General
36. **Dr. Zakir Hossain, Director General,** Performance Audit Directorate
37. **Mr. AHM Shamsur Rahman,** Director, Directorate of Foreign Aided Projects
38. **Mr. Kamalesh Chandra Roy,** Additional Deputy Comptroller and Auditor General

National Parliament (PAC Secretariat)

39. **Dr. Mohiuddin Khan Alamgir,** MP, Chairman, Public Accounts Committee
40. **A.K Mohiuddin Ahmad,** Joint Secretary(CS), Bangladesh Parliament Secretariat
41. **Mr. Faisal Morshed,** Senior Committee Officer, PAC Secretariat

Planning Commission

42. **Mr. Ashrafuzzaman,** Sr. Assistant Chief (Programming)

National Board of Revenue (NBR)

43. **Mr. Farid Uddin,** Member (Customs Policy)
44. **Mr. Sirajul Islam,** First Secretary (Tax)
45. **Saifur Rahman,** First Secretary (Customs)
46. **Mr. Mohammad Saifur Rahman,** Second Secretary (Customs)
47. **Mr. Belal Ahmed,** Director General, Central Intelligence
48. **Mr. S.M. Humayun Kabir,** Commissioner, Customs Valuation and Internal Audit Commissionerate
49. **Mr. Md. Iftekharul Alam Bhuiyan,** Assistant Commissioner, Customs Valuation and Internal Audit Commissionerate
50. **Dr. Abdur Rouf,** Additional Director General, Directorate General of VAT Audit, Intelligence and Inspection
51. **Mr. Sirajul Islam,** First Secretary (Tax)
52. **Mr. Shah Ali,** Joint Commissioner, Large Tax Payers' Unit

World Bank

53. **Christine Kimes,** Operations Manager
54. **Winston Percy Onipede Cole,** Sr. Financial Management Specialist and Task Team Leader
55. **Nicola Smithers,** Lead PFM Specialist and Co-Task Team Leader
56. **Tracey Lane,** Senior Economist
57. **Suraiya Zannath,** Lead. Financial Management Specialist
58. **Gretchen Biery,** Senior Governance Specialist
59. **Toufiq Ahmed,** Senior Procurement Specialist
60. **Sadia Priyanka,** Research Analyst
61. **Tasfia Miti,** Program Assistant
62. **Paul Harnett,** Lead Consultant
63. **Edwin Rodin Brown,** Deputy Consultant
64. **Ranjit Kumar Chowdhury,** National Consultant

Development Partners (DPs)

65. **Mr. David Gray,** DFID (Representing SPEMP Development Partners).
66. **Mr. Jason Smith,** Deputy Director, Democracy/ Governance
67. **Mr. Richard Butterworth,** Senior Governance Adviser
68. **Ms. Anna Lixi,** Head, Governance Section, European Union
69. **Mr. Rubayat Jesmin,** Senior Program Officer, European Union
70. **Mr. Omar Farooq Khan,** Senior Development Adviser, Canadian High Commission

Civil Society and Think-tanks

71. **Dr. Iftekharuzzaman,** Executive Director, Transparency International Bangladesh,
72. **Dr. Ahsan H. Monsur,** Executive Director, Policy Research Institute (PRI)
73. **Professor Mustafizur Rahman,** Executive Director, Centre for Policy Dialogue
74. **Debapriya Bhattacharya,** PhD, Distinguished Fellow, Centre for Policy Dialogue
75. **Mr. Md. Shafiul Islam (Mohiuddin),** First Vice President, The Federation of Bangladesh Chambers of Commerce and Industries (FBCCI)
76. **Ms. Alison S B,** Director, SUPRO
77. **Mr. Traikul Islam Khan,** AEPD

Professional Organizations

78. **Mr. Mosih Malik Chowdhury,** President, Institute of Chartered Accountants Bangladesh- 2015,
79. **Mr. Nasrin Sultana Luna,** Head of Relations, ACCA Bangladesh

ANNEX 5:
SOURCES OF INFORMATION USED FOR SCORING EACH PERFORMANCE INDICATOR

PFM Performance Indicators	*Data Source*	*Reference*
Pillar I. PFM-OUT-TURNS: Budget reliability		
PI-1 Aggregate expenditure outturn	iBAS database of Finance Division and Controller General of Accounts	-
PI-2 Expenditure composition outturn	iBAS database of Finance Division and Controller General of Accounts	-
PI-3 Revenue outturn	iBAS database of Finance Division and Controller General of Accounts	-
Pillar II-III. KEY CROSS-CUTTING ISSUES:		
II. Transparency of public finances		
PI-4 Budget classification	Finance Division, Ministry of Finance	Public Expenditure Management Manual (2005), Finance Division/ Ministry of Finance
PI-5 Budget documentation	Budget Wing and Macroeconomic Wing, Finance Division, Ministry of Finance	
PI-6 Central government operations outside financial reports	Finance Division, Ministry of Finance	"Revolving Microcredit, Endowment and Investment Funds 1974-2010", report prepared by Macroeconomic Wing of Finance Division
PI-7 Transfers to subnational governments	Finance Division/Ministry of Finance, Local Government Division, Ministry of Local Government, Rural Development and Cooperatives	
PI-8 Performance information for service delivery	Finance Division/Ministry of Finance, Line ministries and OC&AG	Ministry budget framework, MTMPS
PI-9 Public access to fiscal information	Finance Division/Ministry of Finance, OC&AG	Finance Division website:http://www.mof.gov.bd
III. Management of Assets and Liabilities		
PI-10 Fiscal risk reporting.	Finance Division (Monitoring Cell)/ Ministry of Finance, Local Government Division, Ministry of Local Government, Rural Development and Cooperatives	Budget-in-Brief, Local Government (City Corporation) Act 2009 (Section-70), Local Government (Pourashava) Act 2009 (Section-89), and Local Government (Union Parishad) Act 2009 (Section-53)

PFM Performance Indicators	Data Source	Reference
PI-11 Public Investment Management	Planning Commission (Programming Division), IMED/Ministry of Planning, Ministry of Agriculture	Guidelines for project selection issued by Programming Division of Planning Commission, IMED annual reports (MoP website), medium-term strategy and business plan of the Ministry of Agriculture
PI-12 Public Asset Management	CGA/Finance Division, Bureau of Mineral Development, OC&AG	"Debt Service Liability (Lending-On lending) Accounts and Guidelines"
PI-13 Debt management	Finance Division, Economic Relations Division	Medium-term Debt Strategy
Pillars IV-VII. BUDGET CYCLE		
IV. Policy-Based Fiscal Strategy and Budgeting		
PI-14 Macroeconomic and fiscal forecasting	Finance Division/Ministry of Finance	MTMPS
PI-15 Fiscal strategy	Finance Division, National Board of Revenue	IFC's Regulatory Impact Assessment, MTMPS, Medium-Term Macroeconomic Framework, Debt Sustainability Analysis, Budget Speech FY15-16
PI-16 Medium-term perspective in expenditure budgeting	Finance Division, Line ministries	MTBF, Ministry Budget Framework
PI-17 Budget preparation process	Finance Division, Ministry of Finance	Budget Call Circular 1 and 2
PI-18 Legislative scrutiny of budgets	Parliament Secretariat	Bangladesh Constitution, Rules of Procedure of Parliament, PM&BM Act 2009
V. Predictability and Control in Budget Execution		
PI-19 Revenue administration	National Board of Revenue	NBR Annual Report
PI-20 Accounting for revenue	Finance Division/CGA and NBR	Monthly fiscal report, http://www.mof.gov.bd
PI-21 Predictability of in-year resource allocation	Finance Division/CGA	Internal rules and regulations for budget adjustment published in MoF website
PI-22 Expenditure arrears	Finance Division	Circular issued by the Finance Division on submission of bills
PI-23 Payroll controls	Ministry of Public Administration, CGA, Chief Accounts Office,	Payroll records, Posting orders (Placement orders)
PI-24 Procurement management	CPTU website (http://www.cptu.gov.bd/Publication.aspx).	-

PFM Performance Indicators	*Data Source*	*Reference*
PI-25 Internal controls on non-salary expenditure	OC&AG	OC&AG audit reports
PI-26 Internal audit	Ministry of Planning, Ministry of Roads and Highways, Ministry of Housing and Public Works, Ministry of Health	Internal Audit Manual issued by Finance Division
VI. Accounting and Reporting		
PI-27 Financial data integrity	CGA (Internal Control Unit), Bangladesh Railway	Account code issued by CGA. Interview with Data Integrity Unit
PI-28 In-year budget reports	MoF website	Monthly Fiscal Report
PI-29 Annual financial reports	CGA, and Principal accounting officers of line ministries	Annual Finance Accounts, Annual Appropriation Accounts
VII. External Scrutiny and Audit		
PI-30 External audit	OC&AG	Summary of Audit Reports, Bangladesh Constitution
PI-31 Legislative scrutiny of audit reports	PAC Secretariat (www.parliament.gov.bd/pac)	1st PAC Report of the 10th Parliament

ANNEX 6:
BUDGET CALL CIRCULAR

Budget Calendar for Line Ministries and Departments for FY2013-14
(Annex 6 of BCC-1)

Steps to be Taken	Responsibility	Deadline
1. Revising and update the draft of MBF Part-A (Sections 1- 5)	Relevant officers of the ministry/ division	29 November 2012
2. Preparation of draft department/agency revenue targets and expenditure ceilings (Forms 1-2)	Relevant officers of the ministry/ division	29 November 2012
3. Detail review of MBF (Part-A), including draft department/ agency revenue targets and expenditure ceilings and preparation of recommendations for Budget Management Committee	Budget Working Group	02 December 2012
4. Review and approval of MBF (Part-A) including draft department/agency expenditure ceilings and revenue targets	Budget Management Committee	05 December 2012
5. Forwarding Part-A of MBF to the departments/agencies and requesting them to prepare the Part-B of MBF and submit it to the ministry/division	Respective ministry/ division	06 December 2012
6. Revising of Part-B of MBF by the departments/agencies	Relevant officers of the department/agency	13 December 2012
7. Preparation of preliminary expenditure estimates and projections for operation units/programs/projects	Relevant officers of the department/agency	17 December 2012
8. Review and approval of Part B of MBF, including preliminary expenditure estimates and projections	Department/Agency Budget Management Committee	18 December 2012
9. Forwarding Part-B of MBF to ministry/division by departments/ agencies	Respective Department/ Agency	20 December 2012
10. Review and finalization of Part-B of MBF	Budget Working Group	26 December 2012
11. Sending to respective Sector Division and Programming Division of Planning Commission for their consent on the program-/project-wise expenditure proposal and on over-all size of non-development and development expenditure	Budget Management branches/wings, line ministries	27 December 2012
12. Informing the line ministries/divisions and Programming Division about the written consent of the concerned sector division on the program/project wise expenditure proposal and on the over-all size of the non-development and development expenditure	Designated officers of the concerned sector division	10 January 2013
13. Intimating the concerned line ministries/divisions and sector divisions about the consent of the Programming Division on the program-/project-wise expenditure proposal and on over-all size of its non-development and development expenditure	Designated officers of programming division	14 January 2013
14. Finalization of MBF of ministry/division	Budget Management Committee of the line ministries/divisions	17 January 2013
15. Sending MBF to Finance Division and Planning Commission	Respective ministry/ division	20 January 2013

BUDGET CALENDAR- BCC2

Actions to be taken	*Responsibility*	*Timeline*
1. Revision/refixation of expenditure ceilings of ministries/divisions and the attached departments, autonomous bodies, private sector entities receiving government grants.	Budget Management Committees	18 April, 2013
2. Sending requests to attached departments/ agencies to submit budget estimates for FY13/14 and projections for FYs 14/15, 15/16, 16/17 and 17/18.	Respective ministries/ divisions	18 April, 2013
3. Submission of budget estimates for FY13/14 and projections for FYs 14/15, 15/16, 16/17 and 17/18 to the ministries/divisions by respective departments/agencies having duly approved by the departmental Budget Management Committees.	Respective departments/ agencies	23 April, 2013
4. Sending project-wise allocation proposals together with estimates and projections of non-development and development budget to Economic Relations Division, Programming Division of and relevant sector divisions of Planning Commission duly recommended by the Budget Working Groups of the ministries/ divisions.	Respective ministries/ divisions	24 April, 2013
5. Delivering opinion by Economic Relations Division, Programming Division and relevant sector division of Planning Commission on the project-wise allocation proposals together with the estimates and projections received from the ministries/divisions. Economic Relations Division will only give opinion project aid allocation.	Economic Relations Division, Programming Division, and relevant sector division of Planning Commission	30 April 2016
6. Approval of the total budget estimates and projections after examining the recommendations of Budget Working Group and opinion delivered by Programming Division and relevant sector division of Planning Commission and Economic Relations Division on estimates and projections of non-development and development budget received from departments/agencies together with the Secretariat.	Budget Management Committees	5 May 2013
7. Submission of budget estimates for FY13/14 and the projections for FYs 14/15, 15/16, 16/17 and 17/18 to the Finance Division and Planning Commission having entered relevant data in iBAS.	Respective ministries/ divisions	6 May, 2013

8. **(Footnotes)**

1 This scores A in 2010 but was given B in the summary.

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