

70359

POLICY NOTE

Restructuring Public Financial Management Institutional Arrangements – a Case for Separation of Accounting from Auditing Functions, Government of Bangladesh

SARFM
June 2010



World Bank Office, Dhaka

ACKNOWLEDGEMENTS

The preparation of this note was carried out during June 2008 to July 2009. The task was led by Suraiya Zannath, Sr. Financial Management Specialist, South Asia Region under the overall guidance of Robert J. Saum, (former Manager SARFM) and Ismaila Ceesay, Lead Financial Management Specialist, SARFM and with consulting support from Vinod Sahgal, (ex. Lead Financial Management Specialist, SARFM) and Mr. Sajedul Karim (ex. Secretary, Govt of Bangladesh). In addition, a large number of retired govt officials contributed to factual information of this report. Invaluable contribution received from the Office of the Comptroller and Auditor General of the GOB and the Controller General of Accounts, GoB and peer reviewers – James A. Brumby, Sector Manager, Governance and Public Sector (PRMPS), Leslie I. Kojima, Sr. Financial Management Specialist (SARFM) and Mr. Siddiqur Rahman Chowdhury, Ex. Secretary, Ministry of Finance. Touhid Ahmed, Consultant and Hasib Ehsan Chowdhury, Program Assistant, (FM) provided support during preparation of the report.

ACRONYMS

ACAO	Assistant Chief Accounts Officer	DFA	Deputy Financial Adviser
ACFA	Assistant Chief Adviser	DFC	Deputy Finance Controller
ACIA	Assistant Chief of Internal Audit	DOSA	Dollar Special Account
ACGA	Assistant Controller General of Accounts	DPA	Direct Project Aid
AFC	Assistant Finance Controller	FA	Financial Adviser
ADG (F)	Additional Director General (Finance), Railway	FD	Finance Director
ADCGA	Additional Controller General of Accounts	FC	Finance Controller
ADDL. DCGA	Additional Deputy Controller General of Accounts	GoB	Government of Bangladesh
BCS	Bangladesh Civil Service	JFC	Joint Finance Controller
BMC	Budget Monitoring Committee	MoF	Ministry of Finance
BWG	Budget Working Group	MTBF	Medium Term Budget Framework
C&AG	Comptroller & Auditor General of Bangladesh	NSAPR	National Strategy for Accelerated Poverty Reduction
CAO	Chief Accounts Officer	PAC	Public Accounts Committee
CGA	Controller General of Accounts	PAO	Principal Accounting Officer
CGDF	Controller General Defence Finance	PFM	Public Financial Management
CIA	Chief, Internal Audit	PSC	Public Service Commission
DAO	District Accounts Officer	RIBEC	Reforms in Budgeting and Expenditure Control
DCA	Divisional Controller of Accounts	SAS	Subordinate Accounts Service
DCAO	Deputy Chief Accounts Officer	SFC	Senior Finance Controller
DCIA	Deputy Chief of Internal Audit	SRF	Standard Reporting Format
DCGA	Deputy Controller General of Accounts	UAO	Upazila Accounts Officer
DDO	Drawing & Disbursing Officer	WAN	Wide Area Network

CONTENTS

CONTEXT	1
OBJECTIVE	2
1. EXECUTIVE SUMMARY	3
PREVAILING CONCERNS	3
THE PROPOSED WAY FORWARD	4
MAIN RECOMMENDATIONS	5
2. BACKGROUND	8
INTRODUCTION	8
EVOLUTION OF THE ACCOUNTING AND AUDITING FUNCTIONS	10
PARADOX OF EXISTING FRAMEWORK: COMBINED CADRE	11
3. RESTRUCTURING AND STRENGTHENING THE ACCOUNTING AND AUDITING FUNCTIONS	14
ACHIEVEMENTS TO DATE	14
NEED FOR RESTRUCTURING AND STRENGTHENING	14
THINKING AHEAD	15
SIGNIFICANT BENEFITS	16
THE WAY FORWARD	16
4. MAIN RECOMMENDATIONS	18
RESTRUCTURING AND STREAMLINING	18
<i>CONTROLLER GENERAL OF ACCOUNTS</i>	18
<i>CHIEF ACCOUNTS OFFICERS</i>	18
<i>FINANCIAL ADVISORS</i>	19
<i>INTERNAL AUDIT</i>	19
<i>MANUALS AND INSTRUCTIONS</i>	20
SEPARATION OF THE ACCOUNTS FROM AUDIT CADRE	20
<i>BCS: FINANCIAL MANAGEMENT & ACCOUNTS CADRE</i>	20
<i>BCS: AUDIT CADRE</i>	21
<i>ADMINISTRATION OF THE TWO CADRES</i>	21
HUMAN RESOURCE DEVELOPMENT	22
5. CLOSING COMMENTS	233
Box 1: “CGA AND THE CIVIL ACCOUNTS ORGANIZATION”- INDIA	24
Box 2: CANADA’S CHIEF FINANCIAL OFFICER (CFO) MODEL - KEY ELEMENTS	25
ANNEX 1: COMMENTS FROM THE OFFICE OF COMPTROLLER & AUDITOR GENERAL	26
ANNEX 2: COMMENTS FROM THE OFFICE OF CONTROLLER GENERAL OF ACCOUNTS	

CONTEXT

Bangladesh's public financial management and accountability system which includes the functions of accounting and auditing has its genesis in the Westminster form of Governance which Bangladesh adopted in 1971 and which Pakistan and India adopted previously at the time of their Independence in 1947.

Article 128 of the Bangladeshi Constitution requires that Controller & Auditor General (C &AG) shall audit and report on the public accounts of the Republic.

The Additional Functions Act 1974 required the C & AG to perform additional functions which include *inter alia*, keeping the Government Accounts, preparation of Appropriation and Finance Accounts etc. The Act was amended twice in 1975 and 1983, creating provision to entrust the responsibility of keeping accounts to an authority other than the C&AG¹. This step was undertaken by the then Government in recognition of the principle that accounting is an important executive function and therefore that Comptroller and Auditor General, the Government's external auditor, should be relieved of this executive function.

A new post of the Controller General of Accounts (CGA) was created in 1984 under the umbrella of *the* C&AG for the maintenance and compilation of the government's Financial Statements. While the C&AG did retain the overall responsibility for human resources management and control over CGA personnel, this step towards bifurcation of roles and responsibilities was the first move towards separation of accounting and auditing functions.

In Bangladesh, regardless of the aforesaid legislation in 1984 the C & AG continued to perform both accounting and auditing function until 2002, and at which time the functional responsibility of the Office of Controller General of Accounts (CGA) was placed with an attached department under the Finance Division of the Ministry of Finance, thus relieving the C & AG from the responsibility of preparing the Finance and Appropriation Accounts. This initiative partially separated audit from the accounts and led to establishing the Chief Accounts Officer (CAO) position for every Ministry and the creation of country wide accounting offices linked to the CGA. Though the official cessation of accounts from C & AG had taken place at this juncture, the responsibility for personnel administration of Bangladesh Civil Service Cadre officers and SAS officers under CGA (with a common seniority list with the rest of officers of C & AG) continued to be discharged by C & AG.

It is now widely recognized at senior levels of the government that the process of separation of the two functions that was initiated in 1983 and later formalized in 2002 as afore mentioned is falling behind schedule in comparison to similar practices in other countries². In addition, the lack of clarity of government's firm standing has kept the issue in the limbo for long.

Over the last several years, improvements have been made in the overall public financial management through a series of reform programs which address key weaknesses in financial

¹ A similar decision was taken in India in July 1975 and separation of accounts from Audit was effected in a phased manner in consultation with the C&AG. The Office of the Controller General of Accounts was created in November 1976 in the Department of Expenditure of the Ministry of Finance for establishing and maintaining a technically sound accounting system in the Ministries and departments.

² The process of departmentalization of accounts has progressed in most countries of the British Commonwealth including the UK, India, Canada, Australia and others

management. However, reforms so far carried out in the areas of PFM are highly technical and lack appropriate sequencing. Thus, without organizational re-structuring and re-engineering of business processes along with appropriate technical solution and policy reforms, it is unlikely to help achieve the transformational changes that are required to meet Bangladesh upcoming challenges.

This paper examines the current state of accounting functions in view of the growing demand for better financial management performance. It also attempts to analyze whether a separate cadre can better respond to the needs and demand for strengthening the accounting and auditing function of the government.

Although past attempts for separation of accounts from auditing has not been fully successful, the need for this has been strongly felt in recent years among policy makers in the government. The Finance Division of the Ministry of Finance has already initiated a three year plan, aimed at implementation of the separation in phases. This note is an input to the government initiative by highlighting innovative ideas and core issues which should be addressed in working towards a gradual separation and management structure for an independent cadre.

OBJECTIVE

The note focuses on how the Government of Bangladesh can respond in the context of growing demand for better financial management performance, by strengthening the accounting and auditing functions of the government through a distinct cadre. The note also proposes the broader role of the accounting and auditing function in view of contemporary reform in the areas of public financial management and necessary institutional framework that needs to be in place before separation takes place.

In addition to these, the note also provides the Government with updated information on the current state of the accounting function vis-a-vis the accounting and auditing cadre and the essential pre-requisites that would need to be addressed before full separation of the cadre is initiated. It is believed that the set of principle-based improvements to the accounting framework being suggested in this note would help create the environment for separation of the cadre and facilitate the process for more effective financial management arrangements in line Ministries. It does not provide any time frame for implementation of the recommendations leaving the detailed implementation plans to the GoB. Rather, it sets out policy decisions that need to be taken on a priority basis to accelerate the separation process.

1. EXECUTIVE SUMMARY

PREVAILING CONCERNS

The Government's audited financial statements do not conform fully to contemporary professional reporting standards. The trend globally is towards the preparation of financial statements that reflect the true and fair financial position of the government's assets and liabilities, going well beyond the mere accuracy of the transactions recorded in the public accounts.

The independence of the external auditor (C & AG) from the executive arm of government is also now recognized as crucial for effective accountability of the executive to Parliament. Departures from this principle have had an adverse impact on both the quality of accounts and financial management as well as auditing services.

Additionally, in Bangladesh there have been persistent weaknesses in internal controls that contribute to the heightened operational risk in a number of line Ministries. These weaknesses are attributed partly to (i) dual institutional reporting arrangements whereby separate financial accounts are being maintained by the line departments (under the supervision of Drawing and Disbursement Officers) from those maintained by the CGA (under the supervision of the Chief Accounts Officers – CAOs), (ii) lack of a clear definition of the role of the CAO and the CGA, (iii) slowness in the adoption of more modern financial reporting and auditing policies as being practiced in many countries with similar systems of Governance, and (iv) lack of sound financial advice available to the line ministries on a timely basis.

There are only a few numbers of appropriately qualified accountants belonging to accounts and audit cadre that can take on the challenge posed by the demand for more effective financial management and auditing arrangements including accounting and reporting policies and practices in accordance with international standards. This problem is compounded by the limited authority of the CGA over the CAOs as the personnel are managed and controlled by the C & AG. This anomaly often leads to the best candidates of the combined cadre getting assigned by the C & AG to the external audit function, thus exacerbating the continuing inherent weaknesses in the accounting function and the continuation of conflicts of interest. Furthermore, it is widely believed that the audit function is more rewarding from a career progression point of view. The accounting function appears to have less opportunity for career prospect and viewed as mere transaction processing by support staff for providing routine accounting information to the CGA. The existing arrangements also do not foster an institutional relationship that integrates CAO function as part of the line ministries and departments.

Over the years attempts have been made to make CAO an integral part of the financial management of the respective line ministry, but this has not worked. The dual relationship the CAO is required to maintain with the Secretary of the line ministry and the CGA under his existing mandate is a bit unrealistic in the context of the Bangladesh's civil service culture. This has hampered the desired integration.

The lack of motivation for ministries to integrate the CAO to their mainstream and at the same time lack of enthusiasm and keenness of the CAO to change his sense of belonging from the Audit and Accounts Department have also contributed to the non-realization of this integration.

The budget management framework (MTBF) developed by the Ministry of Finance clarifies the role and responsibilities for financial management at both the central as well as at the line ministry levels. However the MTBF implementation process without organizational restructuring at the CGA, the C & AG and line Ministries is unlikely to help achieving the overarching objectives of MTBF. The introduction of MTBF necessitates that overlapping responsibilities need to be minimized; roles and responsibilities of personnel must be well clarified, conflicts of interest between accounting and auditing personnel needs to be resolved and a new accounting and audit technique need to be developed.

In recent years, the economy has expanded with diverse development program including social safety net, climate change and public-private partnership programs. To ensure appropriate technical know-how, the ministries have been operating through a number of independent regulatory bodies. All these call for specialization both in the areas of accounting and auditing. However existing skills and knowledge of accounts and audit cadres are not equipped or geared towards meeting these emerging challenges.

THE PROPOSED WAY FORWARD

The note calls for a more empowered CGA as well as more independent C & AG regarding personnel management and policy formulation affecting the proposed two cadres. It draws from the experience of other countries such as India that have separated the cadre (Box 1) and taken the steps necessary in the seventies for smoothly effecting the change. It points to the need for transitional arrangements for a number of critical areas such as strengthening the role of the CGA and the CAO of line Ministries for the accounting function and the link of the CAO to the CGA at the MOF so that the evolution in the accounting framework to continue progressively towards contemporary professional accounting standards alongside the proposed separation of audit and accounts into two cadres.

Stronger functional leadership from the Ministry of Finance and the Controller General of Accounts for the accounting function and provision of sound financial management advice to line ministries is being proposed in this note. This broader approach to government-wide streamlining, albeit ambitious, to implement fully in the short term it is necessary to help develop an environment for implementing the proposed reforms essential for meeting the growing demand for a more effective and results oriented set of budget management, control and audit practices. At the same time the potential for career progression underlying this approach would make the process of separation of cadres more attractive to the personnel impacted.

Furthermore there is the eventually important need to gradually integrate the line Ministry accounting function with the broader financial management function such that there is better team effort among the Principal Accounting officer, the Budget Management Committee, the Chief Internal Auditor (CIA) with a central role for the Financial Advisor for upgrading the financial management and accounting services being provided to the respective Principal Accounting Officers and the Budget Management Committees. Such measures assume even greater significance in Ministries identified by the MOF for MTBF where a substantial portion of GoB resources are to be more effectively managed. A better way to integrate financial management with operating management needs to be thought through carefully.

MAIN RECOMMENDATIONS

The Policy Note recommends strengthening the Institutional Framework for both accounting and auditing as precondition for the separation of the cadres, restructuring of the financial management organizational set up and streamlining of the related processes through appropriate regulations and rules. It also proposes a phased plan necessitating changes from organizational restructuring to business process reengineering. It also refers to the concurrent need to modernize the internal audit function given the increasingly complex environment in which public resources are to be managed by Principal Accounting Officers in line ministries.

This note suggests a phased approach that starts with functional reorganization of accounting framework and business process, deployment of accounts service more directly to ministries, creating new position to better manage resources and redefining the role and responsibilities of budget holders.

Phase 1

Restructuring of financial management and accounting functions as first step towards separation

- **Strengthened the Office of the Controller General of Account:** Recognize the Controller General of Accounts as the Chief Accountant of GoB and head of all accounting personnel and provide the capacity to make him/her responsible for maintaining the accounts of GOB and financial reporting in accordance with contemporary professional accounting standards and policies.

CGA shall act as the Chief Accountant of the Republic and the position should be upgraded to G-1. In the proposed restructuring of accounting functions, the CGA will be released from carrying out the pre-audit responsibility; the function will be transferred to the line ministries /departmental DDOs. The statutory obligations on the part of Government for the preparation of Annual Appropriation Accounts by CAOs and Annual Finance Accounts by CGA for enabling CAG for his statutory audit must be continued during any restructuring.

- **Executive control of CAOs:** Make the office of CGA responsible for overseeing the work of all accounting staff including the appointment of CAOs and providing subsequent executive control over their performance and career development.

Once above organizational restructure is completed within the CGA system, the next step should be the deployment of CAOs in line ministries. The CAO shall act as the financial accountant of the ministry who will continue to constitute CGA's operational structure under the MOF and will have the opportunity to rotate across the ministries. The position will functionally report to the Secretary of the ministries and administratively to CGA. Existing CAOs from the combined cadre, as a transitional measure, can be posted in the ministry. This may be introduced in large and MTBF ministries which may motivate existing CAOs to take up expanded financial management role and gradually become a natural force towards a separate BCS: Accounts cadre. To discharge the duties and responsibilities within the proposed accounting structure, there is need for redefining CAOs function.

- **Financial Management in Line Ministry:** A financial management unit in each ministry is highly recommended. The proposed re-organization of FM functions in Ministries would mainly include the creation of Financial Accounting Unit (FAU) in LMs consisting of Principle Accounting Officer (PAO), Finance Advisor (FA), Chief Accounts Officer (CAO) and Chief Internal Auditor (CIU) and their deputies. The size of the unit will depend on the complexity, strategic importance and size of the sector or line ministries. The FAU can effectively ensure the answerability of the Principal Accounting Officers to the Public accounts Committee for Ministry level financial management and control of all public resources under their jurisdiction, follow up of audit observations with the office of the C & AG and prepare action taken note based on PAC recommendations.
- **Redefining Budget Holders i.e Drawing and Disbursing Officers' function:** Budget holders of the line ministry and its departments will be responsible for processing payments and accounting of receipts and expenditure in consultation with accounts offices. DDOs should continue to coordinate their activities through their respective departments. The DDOs shall be functionally accountable to CAOs of the line ministry for maintenance of proper expenditure records and for scrutiny by the office of the CAO and Chief of Internal Audit (CIA) of the ministries.
- **Office of the Financial Adviser (FA):** At present the line ministries do not have any branch/wing/unit to provide advice on important financial matters to the PAO (Secretary). Immediately after the emergence of Bangladesh, financial advisory position was introduced by the MOF as an attempt to decentralise financial power and to advise PAOs on finance related issues. Financial Advisor with the rank and status of Joint Secretary, drawn mostly from erstwhile central and provincial administrative services with some or no finance background was appointed by the MOF to exercise delegated financial power in the line ministry. The FAs were administratively responsible to the MOF and functionally to the line ministry. Because of the complexity of dual reporting between MOF and line ministry and MoF's desire to hold FAs responsible for micro management of financial matters, the position has been discontinued.
- Under the restructuring of accounting framework, it is proposed that FA position should be reintroduced in line ministry, especially in large ministries using 80% of public resources. The FAs should bring financial expertise in assisting the PAOs of the administrative ministry in planning, budget monitoring and performance evaluation of Annual Development Program (ADP).
- **Office of the Chief of Internal Audit (CIA):** The internal audit needs to be effective in order for financial management function to be effective. Despite govt policy and procedures on internal audit, the function remains weak and ineffective in line ministries. The decentralised accounting system and the MTBF require a strong internal audit in the line ministries to report on the level of financial propriety and effectiveness of various programmes/activities. An office of the Chief internal auditor in line ministries needs to be created with supervisory responsibility entrusted with FAs for reviewing internal audit and programmes, reports and action.
- **Human Resource Development:** The proposed changes call for a massive HR development program to reorient the civil servants to the domain of broader public financial management issues. A policy decision or technical solution without concurrent HR program will not help

achieve the desired outcome of the proposed restructuring. It is therefore important to draw up a comprehensive training strategy and program both at local and international level. Additionally, strengthening the local institutions such as Public Finance Foundation (PFF) and Financial Management Academy (FIMA) through partnership or twining arrangement with international bodies and making these bodies to further the overall objective to enhance professionalism and specialization of government accountants and auditor has considerable merit and require a well thought out plan. The long term objective of HR policy is to transform the present accountant and auditor into public finance manager.

Phase II

Proposed BCS: Accounts (FM) Cadre and Audit Cadre

- As mentioned above, the need for broader role of accounts and audit function should start with redefining the roles and responsibility of accounting and audit institutions, restructuring CGA function, making line ministries more accountable for financial management including auditing and strengthening the office of the CAG. The restructuring of Public Financial Management Institutional Arrangements would lay the basis for Separation of BCS (Audit & Accounts) Cadre into two distinct cadre.
- **Full Separation:** Implement the proposal to complete the separation of accounts from audit function into two professional disciplines by the separating the existing BCS (accounts and audit cadre) into two segments - one for Financial Management (including accounts) personnel under the auspicious of the Ministry of Finance and one for audit personnel under the Comptroller and Auditor General.
- **New Audit legislation:** Introduce legislation (Audit Act) to empower the Comptroller & Auditor General and more independence in administration of the audit personnel and their postings, promotions, etc. across GoB. CAG's mandate to prescribe the form and contents of the accounts of the government should be retained.

2. BACKGROUND

INTRODUCTION

Bangladesh's public financial management and accountability system, including the functions of accounting and auditing, has its genesis in the Westminster form of governance which Bangladesh adopted in 1971 and which Pakistan and India adopted previously at the time of their Independence in 1947. Within each government ministries, the primary accountability for the effective management of public resources rests, as is the case in the UK and elsewhere, with the Principal Accounting Officer (PAO) - the senior most official of the Ministry entrusted with the funds supporting parliamentary appropriations. The responsibility for tabling Government's Financial Statements normally rests with the Minister of Finance along with the ownership of the budget presentation and accounting functions. The responsibility for auditing the government's accounting and Financial Statements rests with the Comptroller and Auditor General, and the responsibility for legislative scrutiny of the public purse rests with the Public Accounts Committee of Parliament.

Article 128 of the Bangladeshi Constitution requires that C & AG shall audit and report on the public accounts of the Republic. Establishing the accounting and reporting framework has also been the domain of C & AG as per Article 131 of the Constitution of the Peoples Republic of Bangladesh wherein it says that "the accounts be kept in such form and manner as the Auditor General may prescribe with the approval of the President".

In Bangladesh the C & AG continued to perform both accounting and auditing function until 2002 when the functional responsibility of the CGA was placed under the Finance Division of the MOF, thus relieving the C& AG from the responsibility of preparing the Government Finance Accounts. The determination of the form of the accounts of the government remain however as a cardinal responsibility of the C & AG. This initiative partially separated the audit function from the accounting function and it led to expanding the number of CAOs positions in every ministry and to the creation of country-wide accounting offices, linked to the CGA.

Though the C & AG has officially stopped the maintaining the government accounts, he continues to retain the responsibility for personnel administration of BCS Cadre officers and SAS officers under CGA. This is in contrast to the practices in most other countries with similar governance arrangements including those in South Asia such as India (Box 1), Nepal and Sri Lanka. In Pakistan the functions are separated but the cadres are still not fully³ separated.

Government of Bangladesh has in recent years, and in partnership with the donor community, commenced a process for modernizing its public financial management and accountability systems and procedures to bring them in line with good international practice. For instance, Bangladesh is strengthening its budget management practices signified by the introduction of Medium Term Budget Framework (MTBF) in several Ministries. It is enhancing its auditing capacity with more advanced training in performance auditing. A new chart of accounts based on all-numeric classification structure has been effective since 1998. Computerization of accounts has been advanced to cover all receipts and expenditure. Ministries have begun the process of preparing their own accounts and

³ The Auditor General of Pakistan still has responsibility for the accounting staff – those staff at and above grade 17.

reconciling them with the Banks. The government wide compilation of accounts has been automated and the central expenditure processing unit is well linked with all accounting units at districts, Ministries and departments.

Bangladesh has also been strengthening the institution of the Public Accounts Committee for more effective scrutiny of the public purse. It is also examining additional ways to further strengthen its internal control and internal audit systems. Such measures look promising although the expected gains will take time to be realized, the momentum for reforms however is dependent on the political will as well as the interest shown by key agencies such as the Ministry of Finance, the Secretaries of line Ministries that act as Principal Accounting Officers, and the co-operation, and willingness to support, of others such as Establishment Ministry and the Members of the Public Accounts Committee.

The main objective of this note is therefore to make the case for full separation of the accounts and audit cadre of the Bangladesh Civil Service. In this regard this Note is a vehicle to provide the Government with updated information on the current state of the accounting function vis-a-vis accounting and auditing cadre and the issues that would need to be addressed and decisions required in pursuit of full separation of the cadres. It is believed that the comprehensive set of improvements to the accounting framework suggested in this note would help build capacity for better quality accounting and auditing as well as stronger financial management across GOB. At the same time the suggestions being made should create the institutional and operating environment for facilitating over time greater decentralization of authority and eventual departmentalization leading towards a more contemporary system of public financial management and control as practiced in advanced economies and the progressive developing countries.

The note calls for both a more empowered CGA and the C & AG regarding personnel management and policy formulation affecting the proposed separate cadres. It draws from the experience of other countries such as India that have separated the cadre and took the steps necessary for smoothly effecting the change back in the seventies. It points to the need for transitional arrangements for a number of critical areas necessary for the evolution to continue progressively towards full separation of the functions with greater dispatch.

The note was prepared in consultation with MOF, CGA, C & AG and other stakeholders in order to further strengthen the regimes of accounting and auditing with appropriate focus on the human resource issues that would necessarily have to be dealt with concurrently with great care.

The Policy Note:

- Gives recognition to the various efforts made in the past by GoB to bring about improvements in public financial management, including preliminary initiatives towards separation of these two functions.
- Examines the evolution of the structure of accounting and auditing in GoB.
- Identifies a number of specific measures that need to be taken as pre-requisites of separation of cadres to strengthen the broader accounting framework of GoB, such as restructuring of the organization for financial management including the appointment of Financial Advisors where appropriate to address the need of Secretaries of line ministries to have strong support to deal with complex financial management issues and growing public private partnerships,

and the re-examination of the responsibility for functions of accounting and auditing at the central agencies of the Ministry of Finance and /of the respective line ministries.

- An argument put forward is that in addition to the separation of accounts from the audit function that took place several years back and now expected to move forward with separate and distinct cadres, as being envisaged by the Finance Division, there is concurrent need for re-emphasizing the role of the Principal Accounting Officer, the Secretary of the line Ministry vis-a-vis financial management, and streamlining the existing accounting structures and financial management services across Ministries in line with contemporary requirements for a more modern system for budget management and control.
- Stronger leadership from the Ministry of Finance and the Controller General of Accounts for the financial management and related accounting function is being proposed. This broader approach to government wide streamlining would be ambitious to implement fully in the short term. This approach is nevertheless necessary. It would help develop an environment for implementing the essential reforms being proposed for meeting the growing demand for a more effective and results oriented set of budget management, control and audit practices as well as meeting the requirement of contemporary professional financial reporting standards.
- At the same time, the potential for career progression for government accountants underlying this approach, if implemented with dispatch, would make the process of separation of the cadre more attractive to the personnel impacted. It is envisaged that the Ministries will in due course increasingly become more empowered and accountable for budget performance, providing a more challenging and more visible role for financial management and accounting personnel, with considerably more scope for future appointments of accountants at higher levels in the bureaucracy than in the past.

EVOLUTION OF THE ACCOUNTING AND AUDITING FUNCTIONS

The Constitution of Bangladesh laid down the mandate and authority of the office of the Comptroller & Auditor General (C & AG) with almost the same functions it used to perform in the erstwhile East Pakistan and at which time the C&AG was responsible for both the accounts and the audit function. The Additional Functions Act 1974 required the C & AG to perform additional functions which include inter alia, keeping the Government Accounts, preparation of Appropriation and Finance Accounts etc. However, the Act was amended twice in 1975 and 1983, creating provision to entrust the responsibility of keeping accounts to an authority other than the C&AG⁴. This step was undertaken by the Governments at those times, in recognition of the principle that accounting is an important executive function and therefore that Comptroller and Auditor General, the external auditor, should be relieved of this management function. A new post of the Controller General of Accounts (CGA) was created in 1984 under the umbrella of the C & AG for the maintenance and compilation of the government's Financial Statements. This bifurcation, though ostensibly weak, was the first significant move towards separation of accounting and auditing functions.

⁴ A similar decision was taken in India in July 1975 and separation of accounts from Audit was effected in a phased manner in consultation with the CAG. The Office of the Controller General of Accounts was created in November 1976 in the Department of Expenditure of the Ministry of Finance for establishing and maintaining a technically sound accounting system in the ministries and departments.

The functions of both accounting and auditing have been improving gradually over time⁵. The momentum picked up further in 2002 when the Public Administration Reform commission recommended the separation and the CGA was moved by an Office Order to the Ministry of Finance. The CGA became an attached department of this Ministry. Chief Accounts Officers were appointed for each Ministry and country wide pay points accounting offices were placed under the CGA. These were the second major set of steps towards separation of the accounting function from the auditing function.

Henceforth the external auditor's role and responsibilities were to be restricted to auditing the government's financial transactions and related public accounts, although determining the form of the public accounts continue as part of the C & AG's remit. However, the responsibility for personnel administration of the Bangladesh Civil Service cadre for both audit officers and accounts officers was also left with the C & AG. Thus the CGA, an officer of the Ministry of Finance, along with all the Chief Accounts Officers allocated to line ministries and their subordinate staff remained as members of the joint cadre controlled by the C & AG. Very little has transpired by way of constructive movement towards the preparation of audited financial statements that would meet contemporary professional standards such as the cash based International Public Sector Accounting Standards, effective implementation of budget within MTBF⁶ framework, and getting away from the existing dual reporting arrangements.

PARADOX OF EXISTING FRAMEWORK: COMBINED CADRE

The officers of existing BCS: Audit and Accounts Cadre - have been conducting audit of the accounts for which they are also responsible for preparation and maintenance. The principle of independent audit has been compromised in this respect. Since officers of the combined cadre are eligible for posting in both Accounts and Audit positions, they may be interchanged and transferred as and when the C & AG considers necessary. Usually the rotation varies from 2 months to 2 years. The potential for conflict of interest has been a long standing concern.

Although attempts to separate accounting function from audit have been undertaken in the past, effective separation remains incomplete due to the continued existence of the combined audit and accounts cadre. It is not unusual that the person responsible for keeping accounts of a particular entity may at a future date be responsible for auditing the same accounts. Apart from this, conflict of interest might also arise from cadre seniority (auditing the work of an accounts officer who is senior to the auditor) and fellow-feeling (officers of the same cadre might develop a 'spirit-de-corps' feeling).

There has also been an incorrect notion that recruitment to accounts and audit cadre does not require specialized education background. And this too has been a constraint to rapid advancement of these professions as well as to recognizing the strategic role they play in the management process. Given the advancement in the accounting and auditing standards globally these separate professions have become highly advanced and therefore require ongoing specialized training and professional development for the successful application of accounting and auditing principles in an increasingly sophisticated digital environment.

⁵ In 2002 The Public Administration Reforms Commission recommended separation take place.,

⁶ The medium Term Budget Framework being adopted at Bangladesh reflects good international practice and is in line with the direction recommended by the donor community for introduction in a number of developing countries

It has also been argued for a long time that integration of audit and accounts in one cadre has disadvantages. First, if the accounts officer is senior to the auditor, the auditor might feel insecure as there is always a chance that this officer might come back to the audit directorate and be his/her line supervisor. Second, in hierarchical accountability 'fellow feeling' matters as the superior has interest in making the subordinate accountable for his own survival and for retaining his/her command. But where there is no hierarchical relationship between two officers of a same cadre, one engaged in keeping accounts and the other to audit those accounts, there is more probability of informal collusion between the two for it to be equally beneficial.

Next, the CGA does not have direct control over accountants (CAOs), though functionally, CAOs have a dotted relationship to the CGA. The accounting function is also viewed as a clerical function and the accounts processing task is seen as a book keeping function. Furthermore unlike the C & AG, the position of CGA has limited exposure to the outside professional world and has very limited independence in the policy making process and decisions. The CGA's position is considered a pre-retirement post with grade and level not conforming to the stature of the job nor of the equivalent office in more advanced or similar economies.

Furthermore, there are only a few numbers of appropriately qualified accountants belonging to accounts and audit cadre that can take on the challenge posed by the demand for more effective financial management, including accounting and reporting in accordance with international standards. One reason is the current generalized recruitment system that requires for entry through possession of a bachelor's degree in any discipline. This, at times, results in selection of accounts and audit officers from candidates having education unrelated to audit and accounts or financial management functions.

In addition the BCS (Accounts and Audit) cadre has very limited opportunity for career progression. Personnel can serve on a managerial position in a Ministry or Public Sector para-statal only on deputation. CGA and the supporting accounts structure are traditionally considered to be providing accounting information to the C & AG and MoF rather than providing financial information support services to all GoB Ministries.

There has also been continuation of weaknesses in internal controls that contribute to the heightened operational risk in a number of line Ministries. These are attributed partly to the dual reporting arrangements whereby separate financial accounts are maintained by Drawing and Disbursement Officers in line departments from those maintained by CAOs who have functional reporting relationship with the CGA and partly to lack of a clear definition of the role of the CAO. The current combined cadre does not encourage integration of CAOs with line management nor provide effective executive control from the CGA. This problem is compounded partly by the limited clout of the CGA over the CAOs because they belong to a cadre controlled by the C & AG. Often the best candidates get assigned by the CAG to the audit function. The audit function is perceived and seen to be more rewarding.

In addition the parallel sets of accounts being maintained are often left un-reconciled and are incomplete. And the combination of the functions of the CAO and the CGA is seen more so as a tool for preparing government wide accounts rather than drivers for provider of timely accounting and information services to Principal Accounting Officers and Drawing and Disbursement Officers in support of budget management and control of resources at the disposal of line Ministries.

The management framework developed by the Ministry of Finance for MTBF clarifies the role and responsibilities for financial management at both the central and at the line levels. However it is unlikely to effectively support the MTBF implementation process without organizational restructuring the country wide pay points under the control of the CGA, and line Ministries and subordinate departments/ agencies. Overlapping responsibilities are to be minimized; roles and responsibilities of personnel clarified/redefined and conflicts of interest between accounting and auditing personnel need to be resolved.

At stake is the completeness of the Government's accounts, fair presentation of its financial position as well as timeliness of the audit reports being prepared by the C & AG. In the existing environment of conflicting responsibilities and loyalties, the accountability for the quality of the Government's Accounts and Financial Statements has remained unclear. Neither the Ministry of Finance nor the C & AG have made any significant improvements to the form and contents of the Government's Financial Statements, nor have they substantially reduced the operational risk associated with the delivery of government services. Proposed legislation for the external audit function too remains in the early stages of promulgation and so far there are no concrete initiatives underway to introduce parliamentary legislation or amendment to Rules aimed at modernizing the system of financial management and related internal controls.

3. RESTRUCTURING AND STRENGTHENING THE ACCOUNTING AND AUDITING FUNCTIONS

ACHIEVEMENTS TO DATE

The Government of Bangladesh (GoB) had undertaken series of reform initiatives to improve the quality of budgeting and accounting.

There are praiseworthy change in budgeting and accounting regime in the wake of successful reform initiatives over the last 13 years. A new chart of accounts based on all-numeric classification structure had been effective since 1998. To meet the growing demand of financial information, ministry wise (49) CAOs were created in 2002. The office of Divisional and Upazilla Accounts Offices have been restructured. Computerization of accounts which is essentially an ex post processing of payments and receipts allow timely production of accounts. The computerised system has also replaced the manual accounting system for GoB's receipts and expenditure.

Ministry wise accounts with relevant bank account have been introduced. In a bid to decentralise the management of Public Account⁷ of the Republic it has been functionalised into line ministry replacing its central management by the Finance division centrally. The compilation of accounts has been automated with computer based system (integrated Budgeting and Accounting System-iBAS). A central database has been established in Finance Division on with its back up at CGA to capture each and every transaction of all the District Accounts Offices (DAOs) and CAOs through WAN connectivity.

With the introduction of MTBF, line ministries are now responsible for preparation of sectoral budget in accordance with strategic priorities and policy objectives of the 'National Strategy for Accelerated Poverty Reduction' (NSAPR). With the objective of phased implementation across the government, 16 large ministries⁸ have been preparing MTBF covering 59% of the national budget. The rest of ministries will come under MTBF by FY 2011.

NEED FOR RESTRUCTURING AND STRENGTHENING

Despite above achievements and various attempts to improve the quality of accounts, timely reporting, reconciliation and automated budget planning and execution system, the developments are far from satisfactory, primarily due to current accounting function which is unable to take up broader role in the wake of strategic challenges facing public financial management institutions.

Reforms so far carried out in the areas of PFM are highly technical and lack appropriate sequencing. Therefore the progress also remains uneven across the various segments of PFM. Technical solution

⁷ As per Article 84(2), all other public moneys excluding moneys received as revenues and loans forming part of Consolidated Fund (Article 84(1) shall form part of Public Account. For example State Provident Fund, Civil & Criminal Deposits are part of Public Account.

⁸ Ministries of Education, Agricultur, Social Welfare, Women & Children Affairs, Health & Family Welfare, Roads & Highways and Railways Division, Local Government Division, Primary & Mass Education, Fisheries & Livestock, Water Resources, Food & Disaster Management, Science and Information & Communication Technology, Environment & Forest, Rural Development & Cooperatives, Land, Shipping have prepared MTBF for 2008-2009 fiscal year.

without organizational re-structure and re-engineering of business process did little in maximizing the optimal benefits of reforms carried out to-date by the GoB.

To ensure a separate cadre as a natural consequence of restructured and strengthened accounting and auditing function, following factors require careful consideration:

- Though most of the DDOs perform budget management function as non- finance manager, they are not considered an integral part of the accounting framework. DDOs who belong to multiple cadres have limited understanding of financial management procedures. Despite massive changes in budget planning and execution, there are no changes on DDO's roles and responsibility and their approach to budget management, accounting and reporting.
- Under MTBF process, it is essential that budget implementation is actively managed at the line ministry level. The current accounting structure cannot be considered as fully supportive of the new MTBF system which requires greater responsibilities of the line ministries for budget preparation, execution and performance monitoring. The traditional accounting function through CGA needs to be changed to financial management support service to MTBF ministries.
- The merger of development and revenue budget under MTBF requires one unit to be responsible for management, accounting and reporting of single resource envelop. Current system is not supportive to this and thus necessitates organizational restructure at all tiers i.e. ministries, departments/agencies.
- GoB's civil accounts have been computerised over the years and 80 percent transactions are now recorded in a central database, but the quality of data is yet to be assured. The Annual Finance Accounts produced from CGA's office are still to meet the international standards and far from public understanding.

THINKING AHEAD

It is now widely recognized at senior levels of the government that the process of separation of the two functions that was initiated in 1983 and later formalized in 2002 as afore mentioned is out of line with the evolution in global best practice⁹. Taking full responsibility for the accounting function along with the cadre and government wide restructuring would be a major administrative reform. It would require some realignment of Rules for selection, appointment and engagement of civil servants involved with the accounting profession. The introduction of modern management accounting would be a significant dividend accruing from the eventual internalization of accounts within the line ministries. More timely, complete and accurate flow of financial information for planning, programming, budgeting and evaluation of various activities and for the optimum utilization and efficient monitoring of resources would also be possible apart from more effective exchequer control - the need which has been continually emphasized by the C & AG. Thus, the potential for improving both financial management and external auditing is noteworthy.

⁹ The process of departmentalization of accounts has progressed in most countries of the British Commonwealth including the UK, India, Canada, Australia and others albeit with varying degrees of success.

SIGNIFICANT BENEFITS

In summary, the following ongoing benefits are likely to progressively accrue from the separation of audit from accounts along with the proposed restructuring of the accounting function and the overall streamlining of the public financial management and accountability system:

- Clarity in roles and responsibilities as well accountability of various stakeholders
- Strengthened ability of Government Secretaries to be answerable to the Public Accounts Committee for information and financial management of the Appropriations under their respective jurisdiction
- Appropriate segregation of duties between those authorizing expenditure and those recording the transactions in the books of accounts
- Prompt preparation of monthly and annual accounts
- Improved monitoring of expenditure with reference to budget allocations under MTBF
- Accounting and financial information becomes good source and tools for financial management decision making and control
- Improved monitoring of the collection of government receipts
- Simplification of accounting processes relating to payments and receipts , making one source of reporting
- Avoidance of conflicts of interest between accounting and auditing, thereby providing for an independent audit function.
- Basis established for introducing international accounting and auditing standards that demand independence of the auditor from the executive arm of Government
- Streamlined business processes for full automation of government wide accounting and financial reporting
- Internal audit introduced as a management tool for strengthening Ministry performance
- More effective implementation of and improved outcomes from the MTBF¹⁰.

THE WAY FORWARD

The Finance Division of the Ministry of Finance has recently initiated a three year plan, aimed at implementation of the separation of cadres in three phases. The first phase involves developing a framework for operationalizing the existing institutional requirements for separation including a strengthened role for the Chief Accounts Officers in line ministries. The second phase involves certain financial management functions that would be restructured to provide a strengthened functional role for the CGA. The third and final phase would involve piloting the implementation of the new approach in two line ministries to be followed over time by a roll out of the system in all Ministries.

¹⁰ The Medium Term Budget Framework requires changes in the way in which the budgetary process is approached by Ministries with much higher level oversight and emphasis on individual Ministries becoming more accountable for performance and results.

This note provides an input to the aforementioned initiative. It brings to light a range of related factors that would need further attention. For example, the need to introduce international accounting standards is an additional call for greater degree of professionalism and training in modern accounting policies, standards and data processing methodologies across Government. Further, certain issues may have to be brought to resolution in addressing the core issues of financial management such as the role of central agencies like the Finance Division and the Controller General of Accounts respectively as distinct from the financial management responsibilities of the PAO in line Ministries¹¹.

The CGA for instance would henceforth be responsible mainly for functional guidance to all accounting personnel as well as executive control of CAOs and for the compilation of Government-wide Financial Statements from information provided by CAOs and others as distinct from overseeing the daily operating responsibilities of line Ministries associated with pre-audit and preparation of Ministry level management accounts and their periodic Financial Statements. These latter responsibilities would henceforth rest mainly with the Drawing and Disbursement Officers under the purview of the respective Financial Advisor of the line Ministry.

Similarly, the leadership required from the Controller General of Accounts for formulating government wide accounting policies and providing ongoing training to accounts and internal financial audit personnel across GoB would also require a review of the professional qualifications for the enhanced role of the CGA. The role of the CGA is expected to encompass the wider set of responsibilities in line with best practice and possibly a higher status for this position within the overall government hierarchy.

Furthermore there is the equally important need to gradually strengthen the broader financial management function such that there is better team effort among the Principal Accounting officer, the Budget Management Committee, The Chief Internal Auditor (CIA) and the Financial Advisor (FA) for upgrading the financial management services being provided to the respective Principal Accounting Officers, Planning Cells and the Budget Management Committees.

It would be timely at this juncture to move forward with some reengineering given MTBF is to be propelled across GoB. This step would allow GoB to get the full benefits of the earlier technically oriented reforms implemented in the fields of accounting and auditing without the separation of cadres and restructuring of the accounting framework. The issue of dual reporting arrangements needs to be dealt with in the proposed reorganization of accounting and financial management responsibilities along side the restructured and enhanced role of the CAO for the accounting function and the FA for the broader financial management function. Such measures assume even greater significance especially in Ministries identified for MTBF where a substantial portion of GoB resources are to be more effectively managed.

¹¹ The role and responsibilities of the PAO are clearly spelled out by the Committee of Public Accounts of the House of Commons in the UK. In India these responsibilities are clarified in the Government Financial Rules.

4. MAIN RECOMMENDATIONS

This Note outlines a number of priorities and recommendations with related considerations for:

- Implementing the measures outlined for restructuring and streamlining the overall public financial management and accountability system and
- Moving forward with separation of the two functions into two separate and distinct cadres – one for Financial Management including accounting function and the other for the external audit function.

RESTRUCTURING AND STREAMLINING

This Note suggests an approach that starts with functional reorganization of accounting framework and business process and deployment of the accounts service led by the CAO under the executive control of the CGA but linked to Ministries along with due consideration to creating new position by way of a Financial Advisor in line Ministries with functional relationship to Finance Division to better manage Ministry resources alongside redefining the role and responsibilities of budget holders (DDOs) for financial management. Such restructuring of financial management and accounting functions is proposed as first step towards separation of cadres.

▪ *Controller General of Accounts*

CGA position should be upgraded to G-1. It is proposed that an upgraded CGA be the Chief Accountant of Bangladesh responsible for functional leadership for the accounting function and responsible for executive control and cadre management of all CAOs and accounts staff regardless of where they are working – at the centre or linked to line Ministries. The CGA would continue to be responsible for the preparation of the public accounts of the Republic that are submitted to the C & AG for audit and subsequent tabling in Parliament.

▪ *Chief Accounts Officers*

The role and responsibilities of the CAO would need to be redefined¹². Chief Accounts Officers assigned to service line Ministries would be employees of the CGA and tasked for providing periodic accounting information to the Secretary of the Ministry. They would have opportunity to progress among the various Ministries and agencies of GoB and pursue their career accordingly based on the merit principle and demand for their services. They would have an administrative relationship with the CGA who will retain responsibility for their deployments. Over the course of time, and when the principle of separation has become successful, capacity building is evident and departmentalization of accounts adopted across GOB, the transfer of this responsibility (executive control of the CAO)

¹² One thing that has also to be considered whether such integration is desirable from the point of segregation of duties between sanctioning of expenditure by the line ministries and treasury functions, e.g. approving or passing of bills and claims for payment performed by CAOs. The CAO needs a kind of independence in settling payment of claims in accordance with the treasury and other financial rules and should not be subject to any dictation by the expenditure sanctioning authority. Such independence of the CAO could be compromised if he becomes a part of the line ministry.

too could be handed over to the Secretary of the respective Ministries after consultation with the CGA. After all it is the PAO that is ultimately accountable for the performance of his /her Ministry/Department and therefore should eventually have a direct stake in the selection of the CAO. A start in this direction could be made in due course with this important reform implemented first at the larger Ministries where MTBF has been initiated, followed by the rest of GOB. However, this step could be taken later given the polity and existing realities within which the ministries operate on the ground is a call for continuing strong central agency role in the financial management across GOB for the foreseeable future.

- ***Financial Advisors***

At present the line ministries do not have any designated officer or group to provide specialized advice to the Secretary on significant financial implications of expenditure proposals or related complex financial and compliance matters that challenge the best of public sector managers. Immediately after the emergence of Bangladesh a Financial Advisor position was introduced by the MoF in an attempt to delegate financial authority within more generous but defined limits to decentralize management of financial transactions, and to provide advice to PAOs on finance matters. Financial Advisor, with the rank and status of Joint Secretary, drawn mostly from erstwhile central and provincial administrative services with some or no finance background was appointed by the MoF to exercise delegated financial power at the line ministry. The FAs were administratively responsible to the MoF and functionally to the line ministry. Because of the complexity of dual reporting between MoF and line ministry, and MoF's desire to hold FAs responsible for micro management of financial matters, the position was discontinued.

Under the restructuring of accounting framework, it is proposed that FA position should be reintroduced in line ministry especially in large ministries using 80% of all public resources. The difference from the past would be that the FA would in the next round be an officer of the line Ministry reporting administratively to the Secretary of the Ministry while maintaining a functional relationship with the Finance division of MoF and not the other way around. Furthermore the MoF would need to restrain itself from being perceived as micro managers of the line ministries. The FAs would bring financial expertise to the Ministries and assist the PAOs of the administrative Ministry's efforts towards planning, budget monitoring and performance evaluation of the Annual development program (ADP). The FA would be part of the new Financial Management cadre being proposed post separation of audit from accounts.

It is proposed that FAs should constitute an integral part of FM function in ministries and act as member of the top management team engaged in the realization of ministries' goals and objectives. FAs will work closely with planning cell and financial accounting staff, working closely and reporting directly to the Secretary of the line ministry.

The FA's position is recommended in light of reorganization of accounting function in Ministries. There is need for more in-depth analysis of the proposed position particularly with regard to dual roles and responsibility and making FA's role change from that of a central regulator and controller to that of an essential support service to the Secretary of the Ministry.

- ***Internal Audit***

The internal audit function too needs to be effective in order for the financial management function to be more effective. Despite a Government stated policy and statement of procedures on internal

audit, the function has remained weak and ineffective in most line ministries. This may be because the demand for this function has not grown in relation to its perceived need. The more de-centralized accounting system being proposed and the reemphasis on MTBF would require a stronger internal audit function at the line Ministries. Its scope would cover both financial propriety and the effectiveness of various programmes/activities undertaken by the Ministries. An office of the Chief Internal Auditor needs to be created in the Ministries with a reporting relationship to the Secretary and in line with MoF policy and procedures on internal audit and setting up of Audit Committees.¹³

▪ ***Manuals and Instructions***

Another important feature of the implementation process would be the rewriting of a range of manuals and instructions along with ongoing training and professional development of officials and staff involved with financial management, internal controls, preparation of financial information for decision making and disclosures in the public accounts.

These above noted sets of measures would need to be carefully managed in a phased manner and in consultation with the stakeholders involved including staff union representatives. These measures should also be appropriately sequenced and actions taken within agreed time lines with some degree of flexibility built into the process to accommodate events as they unfold.

SEPARATION OF THE ACCOUNTS FROM AUDIT CADRE

As mentioned previously the need for broader role of accounts and audit function should start with redefining the roles and responsibility of accounting and audit institutions, strengthening the CGA function, aligning Ministries' FM and accounting function with the changed structure, and placing CAOs and as appropriate the FAs under their respective new cadre as appropriate.

In restructuring of accounting functions, it is proposed that: CAOs are located in the Ministry and the office of the CAO is placed directly under the CAG but linked to the line ministry on dedicated basis; FAs and CIAs and all sub-ordinate officers should be posted by the Finance Division in consultation with concerned Secretaries for the foreseeable future. It is most important that the FA has the full confidence of the PAO.

The above however would not preclude transfers between audit and accounts staff to perform accounting and audit functions. It would however lay the basis for separation of BCS (Audit & Accounts) Cadre into two distinct professional cadres. This is because of the revised and enhanced role of the services which existing personnel are unable to perform under the combined cadre. The measures relating to the establishment of the necessary accounting infrastructure and removing the anomalies in the existing accounting and audit services is a prerequisite separation of the existing cadre is initiated.

BCS: Financial Management & Accounts Cadre

The CGA, all the CAOs, FAs and other cadre officers under them will be the member of this cadre. The services of the members of this cadre will be inter-transferable between accounts offices (offices

¹³ The MOF has been in favor of the setting up of Audit Committees in line Ministries to help oversee the internal and external audit issues, keep track of PAC recommendations and liaison with the CAG for follow up /remedies/settlements.

of the CGA, the CAOs and other accounts offices) and financial management positions of the line ministries. If this recommendation is accepted, it will meet a long felt demand for posting of trained officers with appropriate back ground for financial management positions of the line ministries and at the same time ensuring segregation of duties as mentioned above.

This cadre would be under the executive control of the MOF and administered by the Controller General of Accounts. The post of Controller General of Accounts should be upgraded as appropriate with the rank and facilities of additional Secretary (or about) to the Government within the Ministry of Finance. The proposed FA and CIA could belong to the proposed new cadre but linked to the Finance Division. The post of some supervisory officers under new financial management system in the line ministries may also be filled in from BCS: Financial management and Accounts Cadre. The re-organized CGA's office may also accommodate officers from the new BCS: Financial management and Accounts Cadre.

BCS: Audit Cadre

This cadre would be under the exclusive administrative and line control of the Comptroller and Auditor General. The Audit cadre would be managed following existing service rules.

Administration of the two Cadres:

▪ *Financial Management and Accounts Cadre:*

The Finance Division, Ministry of Finance would be the controlling authority of BCS (Financial Management and Accounts) Cadre. The CGA, under the guidance of Secretary, Finance Division, would administer the BCS: Accounts Cadre. The CGA would, in consultation with Secretary of the line ministry, arrange to deputize officers of the BCS: Financial management and Accounts to the posts of CAO/DCAO/ACAO in the office of CAO, FA/DFA/ACFA in the office of the FA, and /CIA/DCIA/ACIA in the office of the CIA as appropriate till such time in the future as the PAOs are eventually able to take greater responsibility for their selection and appointment in consultation with the MOF..

All posts belonging to BCS: Audit & Accounts Cadre in finance wing of Railway and Defence finance wing would be transferred to BCS: Financial Management and Accounts Cadre. On consultation with the PAO of these entities, the CGA could help place officers for their postings by their respective departmental heads. All examinations for career advancement of the officers belonging to BCS: Financial Management and Accounts and SAS cadres would be conducted by the MOF with the CGA taking strong interest in the pure accounting stream and the Finance Division in the broader FM streams.

▪ *Audit Cadre:*

In case of audit cadre, there would be minimal disruption of existing administration and HR management as the existing service rules for staff appointment, posting, promotion and transfer are already under the jurisdiction of the C & AG. It is expected that with the passage and subsequent implementation of proposed Audit Act, the C & AG would have even more independence in the administration of the cadre, including recruitment of subordinate staff.

Human Resource Development

The proposed changes call for a massive HR development program to reorient the civil servants to the domain of broader public financial management issues. A policy decision or technical solution without concurrent HR program will not help achieve the desired outcome of the proposed restructuring. It is therefore important to draw up a comprehensive training strategy and program both at local and international level. Additionally, strengthening the local institutions such as Public Finance Foundation (PFF) and Financial Management Academy (FIMA) through partnership or twining arrangement with international bodies and making these bodies to further the overall objective to enhance professionalism and specialization of government accountants and auditor has considerable merit and require a well thought out plan. The long term objective of HR policy is to transform the present accountant and auditor into public finance manager.

5. Closing Comments

The urgent need is to revisit and strengthen the overall Institutional Framework for Financial Management and Control of the public purse:

A consensus should be sought among stakeholders such as the PAC, Cabinet, MoF, Establishment, Law, C & AG, Staff Unions, and the PSC for institutionalizing the recommendations in this Note by way of:

- An Audit Act that assures the independence of the C & AG and defines his duties, powers and reporting responsibilities.
- A Financial Administration Act and revised Rules of Business to support the streamlined financial management regime being envisaged with the separated Financial Management and Accounts cadre.
- A Government Order adopting the move towards international accounting and auditing standards.
- Amendments to relevant Acts, Rules and Regulations, etc., governing GOB's Human Resource Management and related matters and including cadre management, selection processes and terms of employment.

For the implementation of the above main recommendations a strong resolution and a high level of commitment from the Government would be essential.

Box 1: “CGA and the Civil Accounts Organization”- India

The Office of the Controller General of Accounts (CGA), was set up pursuant to the Government’s decision to relieve the Comptroller and Auditor General (CAG) of India of the accounts keeping function which he was entrusted with prior to the decision.

The CGA in the Department of Expenditure, Ministry of Finance is an adviser to the Government of India on Government Accounts. A primary responsibility is the preparation of consolidated monthly and annual accounts of the Union Government. Policy matters relating to the Civil Accounts Organization are decided in the Office of the CGA. The CGA lays down policies and procedures in matters of government payments and accounting. *It also administers personnel policies for the Civil Accounts staff in the Civil Ministries.*

Separation of the Union Accounts from the Audit Department was done in phases under the “Scheme of Departmentalization of Accounts” commencing April 1, 1976 to June 1st, 1980 through Presidential Notifications under Section 10(1) of the Comptroller and Auditor General Duties Powers and Conditions of Service Act. Arrangements for internalizing the preparation of accounts by Ministries (Civil) were created under the aegis of the Civil Accounts Organization set up with its headquarters in the Ministry of Finance, Department of Expenditure under the Controller General of Accounts.

Taking over of the responsibility of accounts keeping by the Union Government was a major administrative reform implemented with a view mostly to improve service delivery performance through the introduction of management accounting. The leitmotif of the reform was the separation of accounts from audit and its internalization with the executive will provide accounts data as a useful input for better budget management. Timely and accurate flow of financial information for programming, budgeting, and evaluation of various activities and for the optimum utilization and efficient monitoring of resources would be possible, apart from effective exchequer control, the need for which was being increasingly felt.

The basic technical manual for the Civil Accounts Organization is the Civil Accounts Manual (CAM) issued and administered by the CGA. It describes the broad features of the departmentalized accounting system and contains detailed procedures and instructions governing Civil Accounts Units rendering accounts to the CGA. Government payments, accounting and internal audit functions are done by the Civil Accounts Units in the respective Ministries/Departments. Barring the Railways, Defense, Post and Telecommunications, the Department of Space, the Department of Atomic Energy and Delhi Administration which have their own accounts organizations, all other Ministries have civil Accounts units which handle their payments and accounting functions. The above named accounting authorities submit compiled accounts to the CGA.

Box 2: Canada's Chief Financial Officer (CFO) Model - Key Elements

Overall Principal

The CFO Model is premised on the principle that a strong financial management organization model headed by a qualified professional is critical to ensuring that the Principal Accounting Officers (PAOs) have the necessary support to undertake their role as the main custodians of the public resources under their respective jurisdiction.

The CFO plays a number of key roles within the Department.

Strategist and leader: The CFO provides objective advice to the PAO since he/she is has no vested interests in competing programs or operations; the CFO is a key player on the executive table as the department's financial planner, partner and integrator; and the CFO is the financial and program performance advisor to the PAO, programs and business lines.

Stewardship: The CFO is responsible for the risk and financial control framework; and, the CFO is the scorekeeper, providing performance and financial accounting and reporting that integrates financial and non-financial information.

The CFO is the lead executive with Central Agencies and other stakeholders for all financial management reporting, and disclosure.

The degree to which they focus on the three roles would vary depending on size and complexity of the Department.

The CFO is accountable to both the PAO and the Comptroller General.

- The CFO reports to the PAO for overall performance and is accountable for supporting him/her in the achievement of departmental objectives by effectively managing the financial management function to meet departmental needs.
- The CFO reports functionally to the Comptroller General and is accountable to him /her for professional standards of performance including ensuring the development of: necessary systems to support a strong financial management function; and staff with necessary skills and experience.

The Comptroller General, as the government –wide functional authority for financial management, is responsible for providing ongoing support and direction to CFOs.

CFO Required Attributes

CFOs are expected to demonstrate the Key Leadership Competencies for Leaders in the Public Service.

- Values and ethics with emphasis on ethical and Professional behavior.
- Strategic Thinking and emphasis on Problem Solving Skills.
- Engagement (People, Organization, Partners) with emphasis on leadership, Communication strong Organizational Compass, and Organizational Effectiveness.

- Management Excellence: Action management, People management, Financial management, with emphasis on management skills.

CFO Professional and Personal Attributes

- Education: CFOs are expected to have both a university degree and a professional qualification accounting designation.
- Experience: CFOs are expected to have extensive experience, preferably, but not exclusively, in financial management of public sector organizations in a diversity of financial management functions(e.g. planning, systems), and a breadth of experience including program delivery, organizational diversity and complexity, central agency, and managerial.