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FROM ANNUAL TO MEDIUM-TERM BUDGETARY FRAMEWORK: EVOLUTION OF PUBLIC FINANCIAL MANAGEMENT IN BANGLADESH

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ABSTRACT

The financial management of the Bangladesh government was in a precarious position in the late 1980s. The budget size increased manifold compared to that of the 1970s, ominously relying on development assistance that concurrently meted out feeble fiscal management. To ameliorate this creeping fiscal position, the Government undertook an array of financial management reforms, most of which came through the implementation of the Medium-Term Budgetary Framework (MTBF). Reforms in budget forecasting, budget presentation, linkage between the budget and medium-term macroeconomic goals, and modernization of accounting and auditing were major components targeted and transformed in the reform process. In this paper, I provide a historical overview of the budgeting, accounting, and auditing processes before the 1990s to explicate the necessity for the reforms brought about under the aegis of the MTBF. I then elaborate on the major reforms in budgetary, accounting, and auditing practices introduced under the MTBF.

Introduction

Bangladesh has made remarkable progress in many dimensions of economic and social development since its birth in 1971. Similar progress has been made in public finance management. The first budget, which was a mere BDT786 crore (USD 78 million) in 1972, has now grown to BDT797,000 crore (USD 79,145 million) in 2024–an astonishing 1015 times growth in 53 years. Similarly, revenue collection was a meager BDT171 crore (USD 17.1 million) in 1972 and reached BDT541,000 crore (USD 53,724 million) in 2024. Figure 1 captures the trend in the growth of public finance in Bangladesh. The left panel in the figure demonstrates the size of the budget, annual development program, and revenue income of the government, and the right panel shows the budget implementation capacity in terms of budget implementation and deficits. In the left panel, we observe that the capacity of public finance in all three measures significantly increased after 2006 and virtually skyrocketed after 2011, keeping pace with GDP growth. On the other hand, the capacity of budget implementation significantly improved after 2006, but then somewhat leveled off after 2011. These remarkable changes were not accidental. A decade-long financial reform plan, known as the 'Medium-Term Budgetary Framework (MTBF), ' was implemented in 2006 in large ministries that control half of the budget. These reforms have been implemented across all ministries since 2011.

The extant literature on Bangladesh's public finance does not provide attention to these remarkable reform efforts; hence, we know little about what reforms were enacted within what context. In the absence of such knowledge, it is difficult to measure the impact of these reforms on the public financial management performance of the Government (GoB). In this article, I reviewed available government documents, data, and literature to provide a chronological account of financial reform efforts and the subsequent outcomes of such reforms, and in the process, discuss the future research agenda to sustain and improve upon these achievements. (ADB 2018) (Chowdhury, Innes and Kouhy 2005) (Hakeem 2012; Moretti 2016; PEFA 2005)

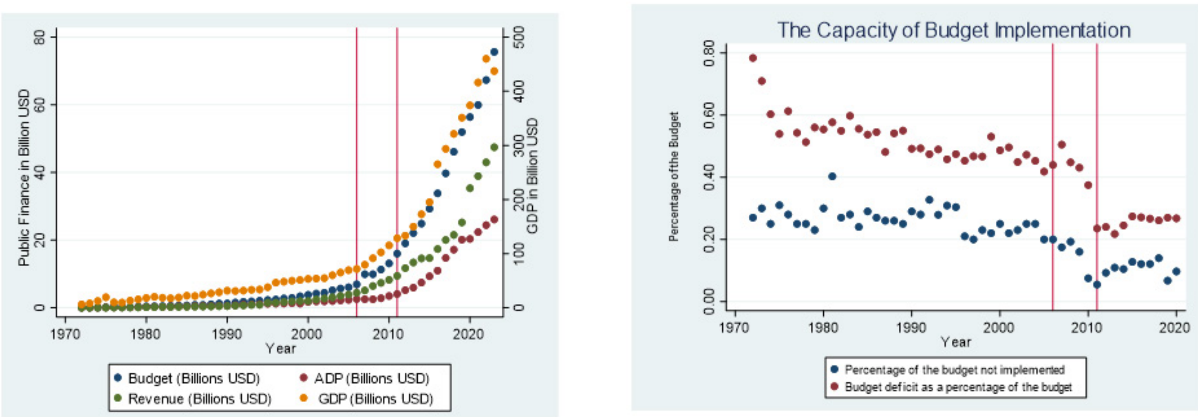

Figure 1: Trends in the Public Financial Management of Bangladesh
Source: Data from the Finance Division

Before 2006: Public Finance in the Pre-Reform Era

Bangladesh inherited the public financial management system of the Pakistan period, which was mostly an annual exercise dominated by rote rules, manual handling of budget and accounting data, and intermittent linkages between the policy and the budget (Chowdhury, Innes and Kouhy 2005). The goals of public financial management were also limited to the formulation of annual budgets, implementation, and reporting through accounting and auditing to establish budgetary control (Hakeem 2012). While some sporadic reforms were made on an ad hoc basis, such as the enactment of the Comptroller and Auditor General (Additional Functions) Act and an encumbered effort to departmentalize and decentralize the accounting process, no systematic long-term reforms were planned in the early 1990s (Khan, Thornton and Frazer 2000). I briefly present the problems associated with the pre-reform era under three subheads: pre-reform budgeting, accounting, and auditing.

I. Pre-reform Budgeting

Bangladesh followed incremental bottom-up budgeting to formulate the revenue budget in the pre-reform era. The Budget Wing of the Finance Division plays the role of the coordinator, compiler, and presenter of the Revenue (non-development) Budget. The spending agencies prepared estimates of expenditures for the coming year based on their current expenditures, normal growth of expenditure, and expansion of services or programs in the coming year. The Finance Division consolidated the budget estimates received from various ministries by overseeing correctness, ensuring uniformity of the basis of estimates, and limiting total expenditures within the available resources (CORBEC 1993). On the other hand, the Planning Commission was responsible for preparing the Annual Development Program (ADP), which was a relatively top-down process to link the budget with the five-year plan. The Development Wing of the Finance Division translated the ADP into the Development Budget (RIBEC 2000).

In its true sense, budgeting in the pre-reform era was worse than incremental budgeting. The revenue budgeting process for the next fiscal year used to start on 31st August of the current fiscal year, and the development budgeting started even earlier- within just two months after the start of the new fiscal year (a detailed pre-reform budget calendar is provided in the Appendix). Owing to the manual accounting and reporting process in vogue, reasonably reliable and up-to-date data on expenditures were not available to make projections of expenditures and revenues for the budget of the next fiscal year based on the current expenditure and earnings (Haque 2014). The spending agencies prepared estimates based on the approved budget of the current fiscal year and forecast the estimates of the next fiscal year, relying on experience and judgment. The estimation process was further impaired by a lack of prediction on the availability of resources for the next fiscal year (Khan, Haque and Islam 2009). These perennial weaknesses created a vicious cycle of budgetary inefficiency, whereby the same unjustified budgetary items continued to exist for years, and budgets continued to be enormously revised with supplementary budget requests to the parliament. For example, in the absence of up-to-date payroll accounting data, the budget estimation included payments for posts that were already defunct due to retirement and retrenchment. The large volumes of supplementary budget approvals every year and the proliferation of suspense accounts (accounts created to spend money in excess of the allocation or for items not earmarked in the approved budget) were two glaring offshoots of budgetary inefficiency (CORBEC 1993).

A host of other problems plagued financial management owing to this delink between budget estimates and accounting. For example, spending entities were generally expected to limit expenditures to the amount of approved allocation. However, when additional amounts were necessary, they were obligated to obtain parliamentary authorization for additional allocations before incurring any expenditure or obligations. Quite the contrary to this *de jure* process, agencies often created obligations for expenditures without prior authorization, and the government had to allocate substantial budgetary resources for liquidation of arrears (CORBEC 1993). This not only jeopardizes financial discipline but also renders the budget an ineffective instrument for expenditure planning and management to achieve the government's desirable and pragmatic goals.

The achievement of the government's policy goals through the budget was further exacerbated by the absence of a linkage between the budget and macroeconomic policy targets. In fact, the ministers and the secretaries hardly had a role in preparing the budgets of their respective ministries other than approving large development projects (RIBEC 2000). Subordinate agencies of a ministry directly send budget estimates to the Finance Division. This lack of policymakers' involvement in the revenue budget preparation process was not conducive to using the budget as an important policy and development tool. To make matters worse, the Finance Division and the Internal Resource Division did not use any formal macroeconomic or sectoral modeling and relied merely on their experiential judgments (CORBEC 1993). The mismatch in the accounting classification system was another hindrance to linking budgets to policies. The development budget followed a system of classification of major heads, sub-heads, and primary units of appropriation, which were different from that used for the revenue budget. Consequently, it was difficult to analyze the inflow of public resources considering both revenue and development expenditure into a single economic sector, for example, education or health (Chowdhury, Innes and Kouhy 2005). Budgetary practices were used to show budget allocations in terms of the cost of inputs. They did not identify either the volume of inputs or the output or outcome expected from public expenditure. While this practice was conducive to formal compliance with financial rules, it was practically impossible to examine whether a particular expenditure helped achieve the policy goals of the government with efficiency and economy.

II. Pre-Reform Accounting

The office of the Comptroller and Auditor General (OCAG) used to manage accounts of the government and prepare the financial statements in addition to its responsibility as the supreme auditor of the government until 1985 when the office of the Controller General of Accounts (CGA) was created (Haque 2014). The overall responsibility for maintaining and compiling all government accounts was transferred to the CGA. Almost simultaneously, the offices of Chief Accounts Officers were created to maintain and compile accounts at the ministry/department level. The posts of District Accounts Officers (DAO) and Upazila Accounts Officers (UAO) were created to do the same at the sub-national level. This was a modest attempt to separate auditing from accounting and departmentalize the accounting process (Haque 2014).

The Chief Accounts Officers assigned to each ministry or group of ministries exercise accounting control in respect of the receipts and expenditures of the ministry, traditionally described as 'presidency accounts' (CORBEC, 1993). In each district, there are District Accounts Officers who perform functions similar to those of the CAO in respect of receipts and expenditures at the district level. Similarly, Upazila Accounts Officers perform similar tasks at the upazila level as the DAO. Regional Accounts Offices, located in district administration, consolidate the accounts received from DAOs and UAOs and transmit them to CAOs. The CAOs transmit the same information to the CGA. This decentralized system could have worked well if it was not plagued by manual bookkeeping and the inheritance of a bewilderingly large number of manuals, codes, and treasury rules that were haphazardly organized. Most were prepared during the Pakistan era and have undergone piecemeal modifications to meet pressing needs. None of them were available in print or conveniently compiled. The major revision in the accounting codes was first undertaken in 1996 (World Bank 2007).

While the inception of CAOs was a welcome change, their dual administrative reporting to OCAG and CGA, as well as to the secretaries of the respective ministries as Principal Accounting Officers (PAOs), prevented their full utilization as a full-fledged internal control system. CAOs were merely seen as a replacement of the title of the erstwhile Accountant General (i.e., the highest accounts and pre-audit functionary under the earlier centralized accounts system) without an understanding of the needs and imperatives of the administrative ministries and agencies under their control (CORBEC 1993). They were considered outsiders by the ministry staff, and their work was perceived as secondary to regular ministerial functions. Many scholars argued that CAO's introduction was premature and should have taken place after proper sensitization on the financial reforms across the government administration (Khan, Haque and Islam 2009).

The lack of accounting data, unavailability of up-to-date financial rules in one place, and weak internal control resulted in multiple weaknesses in the financial system.

a. Excess expenditures occur in two forms: spending amounts that surpass the approved budget and expenditures incurred for purposes of items for which no budget provision was made. Since cheques issued by the government are always honored, spending agencies can do so regardless of budget provision (Hakeem, 2012).

b. As the rules require that money be surrendered if an agency cannot use the provision in the budget in a particular year or does not need it for the same purpose for which the provision was made, many agencies transferred money to development project accounts or other accounts outside the government accounting and audit system, imposing sizable fiduciary risks. Although not all agencies practiced this, many routinely failed to surrender such provisions in time, resulting in a liquidity crisis for high-spending agencies and the underutilization of resources in low-spending agencies (CORBEC 1993).

c. Several departments (such as the PWD, PHE, R&HD, Railways, and public enterprises) can issue their own cheques on the government account. The rules allow them to undertake work on an emergency basis without prior sanction of the government, but the expenditure is to be regularized within a reasonable period and the financial year. Such expenditures are temporari1y booked under a suspense account until charged to the appropriate scheme and booked under the appropriate head of account. They often abuse this power and incur expenditure without any budget provision or appropriation by refusing to take perpetual suspense accounts (CORBEC, 1993).

d. The nontransparent use of government transfers to autonomous bodies has become rampant. After the transfers were made, the government had little effective control over the parastatals' actual expenditure. Four forms of deviations were regularly observed: (1) expenditures on purposes and items that differed from the stipulations, (2) funds were diverted and spent on other projects, including those which were not yet been approved or included in ADP, (3) money was spent on a component that was not included in the project, and (4) not the entire amount was spent, the balance was added to bank accounts often interest-bearing (RIBEC 2000).

A major failing of the pre-reform accounting system was to provide a timely report of the consolidated financial statements (both on the financial accounts to show the government receipts and expenditure and the appropriation accounts to show expenditure against the budgetary provision) to the Finance Division for budgeting and to the Comptroller and Auditor General (CAG) for auditing ((Haque 2014). The CGA depends on the DAOs, UAOs, RAO, and CAO for the consolidation of accounts to be sent to the Finance Division monthly and the CAG annually. The CAO, on the other hand, depends on the DAO and UAO to compile the presidency account to be sent to the CGA. This multifarious dependency in the absence of timely and reliable record-keeping resulted in ominous delays, as long as 8 years of lag reported by the RIBEC (2000) report. An immediate corollary of untimely reporting was a weak internal control system, as the risk in financial transactions and management could only be detected 5-6 years after the actual transaction. Untimely reporting also resulted in a large discrepancy in the reconciliation between the government and bank accounts (RIBEC 2000).

III. Pre-Reform Audit

The fundamental weakness of the pre-reform audit was the lack of separation between auditing and accounting functions. The principal logic for the separation between audit and accounts is that the organization and the people responsible for keeping the accounts should not audit them (Haque 2014). Until 1984, the Comptroller and the Auditor General (CAG) maintained and audited the accounts of the government. A new post, the Controller General of Accounts (CGA), was created in 1984 for the maintenance and compilation of government accounts. However, the CGA was administratively part of the Office of the Comptroller and Auditor General (OCAG).

Another important reason for the weakening of the financial management of the government has grown weaker is the inadequate enforcement of sanctions against breaches of financial rules and propriety, which are available in the existing rules and procedures. Weaknesses in internal control and pre-audits, which were a direct consequence of the lag between expenditure and audit, rendered the audit mostly ineffective (Shil and Chowdhury 2020). The capacity constraint of the OCAG and its constitutional responsibility to audit financial and appropriation accounts kept the audit purview limited to the financial audit. As I demonstrated earlier, the CGA could not generate timely consolidated financial statements, and there was a long lag between the running fiscal year and the latest financial audit available. The lag often went as long as 8-9 years (OCAG 2009).

The OCAG's capacity to act on unsettled audit objections was legally limited, as only the Public Accounts Committee (PAC) of the parliament could summon the responsible audited entity and demand settlements. However, the absence of timely audit reports quelled the interest of the PAC, as by the time audit reports were available, the audit objections became obsolete (Shil and Chowdhury 2020). The quality of the audit reports was another hindrance to pique the PAC's interest. The observations and comments made in the reports put forward only the bare facts without explaining the real context, remain either constantly critical of the auditees or insensitive to the problems and constraints of the auditees, and contain a mechanical interpretation of rules and regulations. No comprehensive attempt to project the status of discipline in the management of public resources and thereby arousing awareness of the public managers responsible for managing them is seen in the reports (Khan, Haque and Islam 2009). Moreover, there were instances of observations in the reports that could be resolved either by exchanging notes between the auditees and the auditor or by holding bilateral meetings during the audit. The audit reports are not substantiated by the identification of the important issues and the high-risk areas through conducting meaningful surveys and studies by the teams of qualified and trained personnel (Khan, Haque and Islam 2009). Often, auditors split a single case into more than one objection or report non-substantial or non-material para. Reporting is done by people who have mostly clerical bent of mind devoid of the high-level technical and communication skills, intuitive flair, and imagination. This resulted in less than 18% of the submitted reports being discussed in parliament between 1972 and 2001. This has created a pile of unsettled audit objections. The worst aspect of an increasing number of unsettled audit observations is that audit observations lose their utility due to promotion, transfer, retirement, or even death of the responsible persons on the one hand, and the same irregularities occur repeatedly on the other (Chowdhury, Innes and Kouhy 2005).

Public Financial Management in the Post-Reform Era

The first systematic effort to reform public finance management was initiated by forming the Committee on Reform in Budgeting and Expenditure Control (CORBEC) in 1989 (Shil and Chowdhury 2020). I term this phase the diagnosis phase, which lasted until 2003. CORBEC led to the formation of the Reform in Budgeting and Expenditure Control (RIBEC) project, which produced a diagnostic report in 2000 (Khan, Thornton and Frazer 2000). The second phase, which I term the action phase, started with the implementation of the Financial Management Reform Program (FMRP), which started in 2003 and ended in 2009. The FMRP initiated the most far-reaching reforms, such as the inception of the Medium-Term Budgetary Framework (MTBF), digitization of accounting and auditing functions, and digitization of public procurement. FMRP was replaced by a massive program, the Strengthening Public Expenditure Management Program (SPEMP). Breakthrough PFM legislation, such as the Public Money and Budget Management Act 2009 (PM & BM Act), Public Procurement Act 2006, Public Procurement Rules 2008, and the VAT and Supplementary Duty Act 2012, were enacted during this phase. I highlight major reforms and post-reform practices under three subheads: post-reform budgeting, post-reform accounting, and post-reform auditing (Shil and Chowdhury 2020).

I. Post-Reform Budgeting

Perhaps the most ambitious and influential reform was the introduction of the Medium-Term Budget Framework (MTBF). With the inception of the MTBF, the government finally established the long-coveted connection between policy goals and public resource allocation. MTBF has been implemented to achieve the following goals (World Bank 2010):

- A medium-term macroeconomic framework to enable credible forecasts of revenue and expenditure.
- Fiscally sustainable medium-term resource envelopes are formulated based on clear fiscal rules or directives, for example, for debt and deficit levels.
- A top-level policy process – typically at the cabinet-level - to identify new and changed policy priorities
- The translation of resource envelopes and policy priorities into a top-down sector or ministry-level budget ceiling within which sectors/ministries plan their expenditures.
- A mechanism for systematically monitoring and reviewing the efficiency and effectiveness of ongoing spending programs to feed into policy priorities and setting budget ceilings.

MTBF was successfully rolled out to all government ministries/divisions by 2011-2012. MTBF also successfully engaged top policymakers in making departmental and ministerial budgets for the first time by setting up committees at the ministry-level. It also significantly reduced the steps and time in the budgeting process, where ministries/divisions are involved as late as January, providing the opportunity to consult at least one-quarter of accounting data, if not for two quarters (a detailed budget calendar under MTBF is provided in the Appendix).

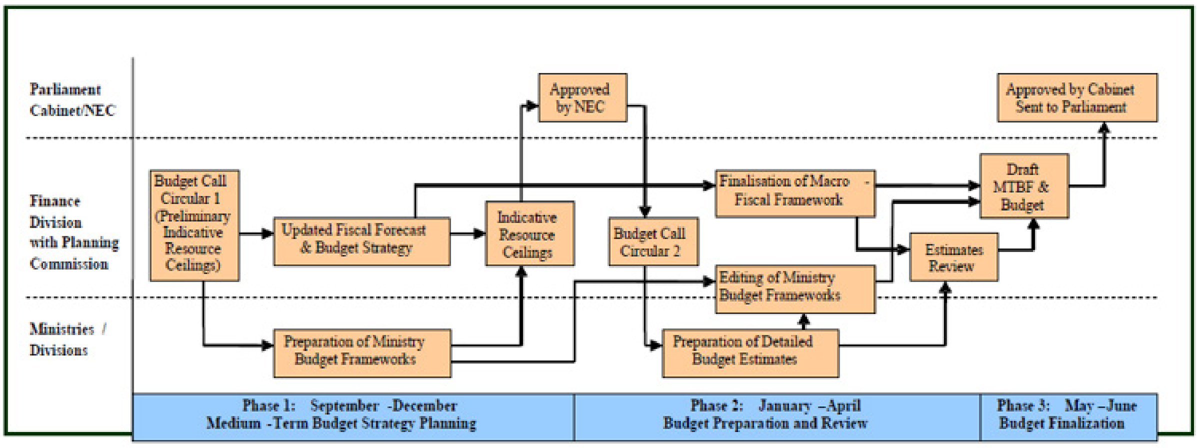

Figure 2: MTBF Process and Engagement of Agencies
Source: World Bank, 2010

The interaction and coordination between top-level policymakers within ministries and between ministries and central financial management agencies have been achieved through the formation of different budget committees, most notably the Budget Management Committees (BMC) in line ministries to oversee the MTBF and budget preparation and the subsequent monitoring of MTBF and budget implementation (World Bank 2010). BMCs are chaired by secretaries who had little involvement with the budget before the MTBF. At a more technical level, the Budget Working Group (BWG) involves key officers involved in MTBF and budget preparation from the ministry secretariat and departments and agencies (see figure 4 in the Appendix for MTBF organizational arrangement). The medium-term resource ceiling for ministries provided the much-needed leeway for them to make investment plans according to ministerial priority policies. Quarterly expenditure ceilings are monitored regularly by the Budget Monitoring and Resource Committee (BMRC), and the ceiling for the 4th quarter is adjusted based on the performance in the first three quarters (ADB 2018).

The implementation of iBAS++ (an integrated budget and accounting management information system for the Bangladesh government) makes details of financial resources allocated to line agencies readily available and consequently facilitates budgetary control and efficiency. At the line agency level, the BMC meets with agency heads to monitor budget and ADP implementation every month and sends monitoring reports to the Finance Division. After review and compilation, a quarterly report is prepared and placed before Parliament by the Finance Division according to the Public Money and Budget Management Act 2009. The Finance Minister must also justify the reasons for significant deviations. At the sample time, project implementation monitoring and reporting arrangements were in place to ensure fiduciary integrity. The major spending ministries maintain databases on the financial and physical progress of the approved projects. Financial performance is reported to the Implementing, Monitoring, and Evaluation Division (IMED) at least every month. iBAS++ also improved the cash flow management of the government. Cash flows are prepared annually, alongside the budget. They are then monitored, updated monthly based on actual receipts and payments, and reported monthly to the Cash and Debt Management Committee, which meets quarterly. The Committee is chaired by the Senior Secretary of the Finance Division and includes senior officers from the Bangladesh Bank, Economic Relations Division, CGA, and NBR (PEFA 2016).

Although the budget review procedure by the Parliament is laid down in the Rules of Procedure of Parliament (Rules 111-129), this is the weakest area in the current budget oversight. The legislature has at least three weeks for deliberations and debates in line with the Rules of Procedures. An Estimates Committee is mandated to scrutinize estimates as presented in the demand for grants. However, the Committee is not functional, and its success in bringing about significant adjustments is virtually non-existent.

II. Post-Reform Accounting

Like budgeting, accounting, and internal control processes have also experienced a remarkable shift. Perhaps the biggest challenge is the implementation of iBAS++ and the Budget and Accounting Classification System (BACS) by 2019 (Shil and Chowdhury 2020). The potential of iBAS++ to enhance financial management, accounting, and reporting to link the budget with policy goals, establish budget control, and track budget efficiency is propitious. BACS is organized within a hierarchical numerical segment: organization (11 digits), operation (9 digits), fund (8 digits), economic (7 digits), authorization (1 digit), function (4 digits), mode of payment (1 digit), location (8 digits), and budget sector (4 digits) that are derived within the iBAS++ based on posted data. Furthermore, each segment can be configured to provide varying levels of detail, as deemed appropriate, to expand on existing monitoring/control requirements or to introduce new informational segments and related reporting elements (PEFA, Framework for Assessing Public Financial Management 2016). Together, BACS and iBAS + + provide a strong managerial and policy decision-making tool. It is now within the policymakers' purview to learn if the ministry budget allocations are in alignment with the policy goals and if the ministry budget expenditure follows the allocation. Policymakers can also track sectoral and functional expenditures over time to reassess and reprioritize policy goals. iBAS++ also ensures that the CAO and CGA have instant access to account balances at the DAO and UAO levels, an opportunity that can be utilized to prepare financial and appropriation accounts faster (please see figure 5 in the Appendix for the accounting data flow).

Considerable progress has been made in establishing a functional internal control system. Bank reconciliation is one of the relatively successful areas. Publications of well-designed forms for various types of deposits and withdrawals from government accounts and IBAS++ facilitated the reconciliation process. Each cash deposit and withdrawal is reconciled immediately by the Bangladesh Bank through banking connectivity. The Government maintains a single treasury account with the Bangladesh Bank for all central government transactions. There are related sub-accounts for line agencies, and Sonali Bank acts as an agent for the Bangladesh Bank, with all balances at its branches cleared daily to the Bangladesh Bank (PEFA 2016). In preparing financial statements, the CGA reconciles all accounts daily and sub-accounts of line agencies monthly. Domestic loans from the Bangladesh Bank to the Government are reported to the CGA and consolidated in their monthly accounts. Although payroll reconciliation is still manual, there is considerable cross-checking, including an absentee list, service book, and monthly random checks (PEFA 2016). Staff hiring is strictly controlled for positions approved by the Ministry of Public Administration and the Ministry of Finance. There is a monthly code-wise reconciliation by each responsible officer whose reconciliation is checked by another officer to avoid collusion (PEFA 2016).

Table 1: Statistics on Procurement related Grievances

Year	Decision in favor of		Total
	Procurement Agency	Appellant	
2005	0	1	1
2006	6	4	10
2007	3	4	7
2008	7	4	11
2009	13	13	26
2010	13	12	25
2011	14	14	28
2012	20	21	41
2013	23	10	33
2014	27	18	45
2015	37	20	57
2016	28	37	65
2017	49	36	85
2018	53	24	77
2019	32	18	50

Source: CPTU, 2019

Public procurement is another area that has made significant progress. Central Procurement Technical Unit (CPTU) maintains an updated database of all public procurement contracts, including nature of the procurement, value of procurement, and awardee name. The rollout of electronic procurement (e-GP) has also received considerable attention in the literature. Currently, 70% of all procurements are conducted through e-GP. cover all procurement in e-GP by 2018 (CPTU 2019). The e-GP facilitates procurement efficiency analysis by collating and tracking data on the procurement plan and actual outputs for all completed procurements. It also analyzes financial information, such as the original contract price compared to the awarded cost of contracts. Regular procurement reports are published by large procurement agencies such as the Roads and Highways Department, Local Government Engineering Department, Bangladesh Water Development Board, and Bangladesh Rural Electrification Board, which spend approximately 35% of the development budget and 25% of the total procurement budget. PEFA (2016) demonstrates that e-GP increased the average number of submitted bids for each procurement from four to seven and reduced procurement turnaround from 51 days to 29 days. e-GP also facilitated the handling of procurement-related grievances. Table 1 demonstrates a quick jump in grievance volume after the start of e-GP from 2009 onwards.

III. Post-Reform Audit

Perhaps the least progress has been made on the audit side of financial management, although the first remarkable reform in public financial management started to separate accounts from audits in 1984. Later, in July 2002, the functional responsibility of the CGA was placed under the Finance Division to further separate audit from accounts.

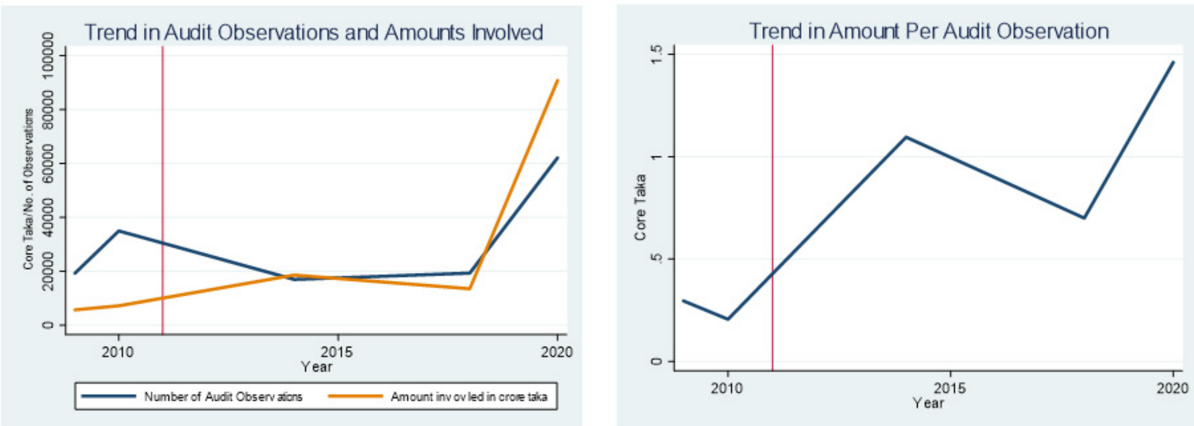

Figure 3: Trend in Audit Efficiency
Source: Data from the OCAG

The quality and efficiency of the audits have also improved over the years. The OCAG adopted INTOSAI audit standards in 2004. The OCAG generally audits 10-12 percent of the total expenditure of the central government. Audit activities cover public enterprises and autonomous government agencies, but coverage is limited to less than 40% of the entities (PEFA 2016). The OCAG had a workforce of approximately 8,000 in 2020 (which was approximately 5000 in 2014), and there were more than 22,000 auditable units under the OCAG purview (OCAG 2020). To manage this gigantic coverage within limited resources, the OCAG adopted computer-based audit management called Audit Monitoring and Management System (AMMS) and risk-based auditing that resulted in a significant gain in audit quality and efficiency. This is particularly evident in undertaking issue-based special and compliance audits. The average number of audit reports also went up from less than 20 in 2009 and 2010 to more than 40 in 2019 and 2020 (OCAG 2009; OCAG 2010; OCAG 2019; OCAG 2020). The number of compliance audits vital to fixing internal control issues has increased recently. The efficiency gain from the risk-based audit approach is evident from the trend in audit observations and the amount of money involved in those observations. Figure 3 demonstrates that the amount involved in the per-audit observation was significantly lower than one crore before the reform. While the per observation amount maintained an increasing trend after the reform, it crossed one-crore per observation in 2018.

The grimmest picture of auditing in the post-reform era is the non-realization of timeliness. While the audit lag of the finance and appropriation account has been reduced from five years in the 1990s to two years recently, the OCAG is still unable to certify finance and appropriation accounts within a year, as required by the law. The timeliness of compliance audits is even more ominous. Most compliance audits deal with financial years five years older than the running fiscal year, rendering the purpose of the audit mostly ineffective.

The OCAG's effectiveness largely relies on the functioning of the Public Accounts Committee (PAC) of the National Parliament. If the audit observations are not settled in tripartite administrative meetings, the PAC is the only institution that can force audited entities to follow through with audit observations. Usually, 10%-25% of audit observations are settled administratively, leaving the vast majority for the PAC to act on. As part of the reform effort to make the PAC more engaged and active, the OCAG simplified and shortened audit reports in 2007. However, these reforms were not able to activate the PAC at the desired level. In fact, the trend of PAC's efforts is declining, except for the 9th Parliament–122 meetings in the 5th, 102 in the 7th, 45 in the 8th, 270 in the 9th, and 46 in the 10th Parliament. The recovery of public money through the PAC also declined relative to audit observations. While 301 crores taka were recovered by the PAC in 2010 from 1703 observations, 132 crores in 2014, 72 crores in 2018, and 87 crores in 2020 were recovered (OCAG 2020).

Discussion and Conclusion

Although the pace of reform has been sluggish, the overarching progress towards modern and technology-based public financial management in the last 50 years is remarkable. The implementation of MTBF and iBAS++ ushered in the era of policy-based budgeting from traditionally predominant incremental budgeting. The linkage between developmental goals and long-term macroeconomic framework outcomes has been established through MTBF-driven fiscal and monetary policies. The inception of BACS and iBAS++ provides the accounting foundation for robust internal control in expenditure management and accountability for public money. Monitoring budget expenditure to track budget implementation progress, which has been a perennially paralyzing vice of the system, is now on the verge of extinction.

Did these reforms take us to the promised destination in the post-reform era? Three variables were investigated to arrive at an informed position: the percentage of ADP that was not implemented, the percentage of the budget implemented in the first two quarters, and the percentage of the budget implemented in the last two quarters. Traditionally, approximately 30% of the ADP was regularly chopped down due to the lack of implementation capacity in the pre-reform era. The percentage of non-implemented ADP started reducing from 2006 and 2001 when MTBF was piloted and then implemented on a full scale. It went below 15% in 2016 but then became volatile and deteriorated to 20% in 2020. Similarly, the percentage of spending in the first two quarters increased, and the last two quarters decreased after 2006 and 2011 when major reforms took place but then started deteriorating recently. I showed a similar trend in the right panel of figure 1 earlier for budget implementation and budget deficit, where the progress basically halted or even deteriorated recently.

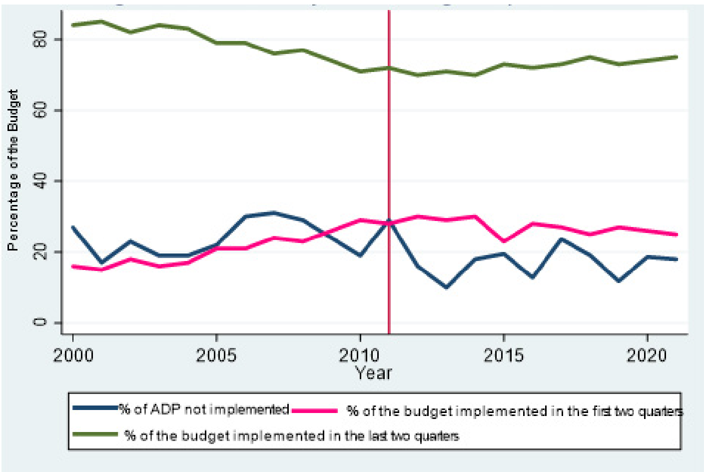

Figure 4: Inefficiency in the Budget Implementation
Data source: Finance Division

The World Bank's assessment of Bangladesh's public financial management in 2010 and 2016 reported a similar discontinuity trend in improvement. Out of 28 indicators that were assessed, the reforms improved in 8 indicators, did not make any change in 14 indicators, and deteriorated in 6 indicators[1] (PEFA, Framework for assessing public financial management 2016). Some of the major concerns raised in the PEFA (2010) report include the following:

- The credibility of the budget was reduced through frequent and sizable modifications in the aggregate expenditure as well as in moving expenditure between sectoral and economic categories.
- The delay in preparing account statements and audit reports was a critical concern.
- Asset and liability management was found to be weak, with no centralized asset registers. Fiscal risk management was weak, with no comprehensive monitoring of the contingent liabilities of the public corporation sector.
- The parliament receives less than four weeks to scrutinize the budget. Legislative scrutiny by different parliamentary committees before budget approval was not in place.
- While satisfactory segregation of duties and procedures was found in the internal control process, the OCAG continuously reported a large number of compliance issues. Internal audit activities were limited to ex-post reviews that focused on financial compliance. A strong internal control system was not yet in place.
- Bank reconciliation did not occur, despite iBAS supporting such a function.
- The timeliness of in-year budget progress monitoring was unsatisfactory.
- The timeliness of legislative scrutiny of audit reports was compromised because of the long delays in submitting reports. The external audit of government financial statements was never completed on time and currently lags by two years. Defense and railway agencies always compromise the auditing of total government accounts because of delays in consolidating their financial data.

The future reform agenda in the current context should focus on four priority areas: timely preparation of account statements for financial and appropriation audits, timely submission of audit reports to the parliament and their proper scrutiny, strengthening of the internal control system, and bolstering the linkage between policy goals and the budget. As MTBF and iBAS++ are in place, the implementation of these subsequent reforms should not be painstaking. The practice of an annual supplementary budget is a significant barrier to strengthening the linkage between the budget and strategic resource allocation. Supplementary budgets for each ministry can be approved by the parliament on a need basis so that greater legislative oversight is established on budgetary modifications. With iBAS++, the timely preparation of account statements should not be a significant challenge. Strong political and administrative will is necessary to create the habit of timely recording accounting transactions in iBAS++. Direct submission of audit reports to the parliament as they are ready can save time in the audit-reporting process. A separate cell within the OCAG can be established to help the Public Accounts Committee review audit reports and follow up with audit entities. A modification of the PM and BM Act 2009 to fix a mandatory time limit for audit entities to respond to the PAC can go a long way to increase the effectiveness of external audits and accountability for public money. The introduction of accrual-based accounting to replace the current cost-based accounting can help reduce the tendency of a flurry of expenditure in the last quarter of the fiscal year (Shil & Chowdhury 2020; Moretti 2016).

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