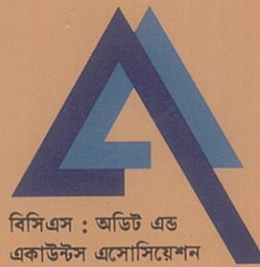


PUBLIC FINANCE AND DEVELOPMENT

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GOOD GOVERNANCE AND THE CONTROL OF CORRUPTION: WHAT CAN THE SUPREME AUDIT INSTITUTIONS DO?

M.Hafizuddin Khan*

Introduction:

There has not been any universally acceptable definition of good governance and one wonders whether there would be any. Good governance remains the goal of every society. Every country has its own perception about the definition of good governance. Attempts to coin any standardised definition of good governance to be applicable to all countries have sparked divergent responses.

Developing countries generally believe that there cannot be any standard prescription for good governance nor can it be transplanted from outside. Given the immense diversity of political system, culture and history, each society must be allowed its own way to reconcile groups with conflicting interests and principles, with diverse needs and aspirations and weave them into a cohesive organisation to ensure good governance.

The question of good governance has of late gained significant importance in North-South relations and development co-operation. Various development partners, while expressing widespread concern for good governance in developing countries, have formulated different views on the characteristics of good governance. The multilateral development partners seem to equate good governance with sound economic management generally based on accountability, participation and transparency. Some bilateral development partners believe that good governance includes also democratic pluralism, human rights and the rule of law etc. in addition to sound economic management. As concepts, all these elements of good governance appear quite desirable but the question is how far they are applicable in real life situation for the right purpose. There being a thin line between economics and politics, emphasis on sound economic management as the basic element of good governance tends to cross the economic boundary and spill over to political arena since many development policies and programmes have clear political implications. Developing countries have not, on occasions, favourably viewed over-emphasis on some of the prescribed characteristics of good governance having political implications.

* Comptroller and Auditor General of Bangladesh. This paper was presented by him in the XVI Conference of Commonwealth Auditors General at Lahore on 4-6 November, 1996.

The characteristics of good governance are not, therefore, common to all societies. They vary from country to country depending on their level of social, cultural and political development and on the perceptions and aspirations of the citizenry as regards their desirable state of affairs in the fields of government, administration, politics and law. However, some basic prerequisites of good governance should be common to all societies. The core characteristics can generally be said to be prevailing in a government if that "government is perceived and accepted as legitimate, committed to improving the public welfare and responsive to the needs of its citizens, competent to assure law and order and to deliver public services, and able to create an enabling policy environment for productive activities and equitable in its conduct".¹

Basic elements of Good Governance: Accountability and Transparency:

Here the intention is not to provoke a discussion on the much-debated issue of good governance with all its linkages to North-South relations and development co-operation. As the scope of the paper permits, let us concentrate on two basic elements of good governance i.e. accountability and transparency about which there is perhaps no difference of opinion.

The principle of public accountability has been recognised since the existence of institutions of governments in ancient times. Aristotle in "The Politics" said about public accountability and transparency---" To protect the treasury from being defrauded , let all public money be issued openly in front of the whole city, and let copies of the accounts be deposited in the various wards..." The Public Administration dictionary has defined accountability as a "condition in which individuals who exercise power are constrained by external means and by internal norms".² The layman definition describes accountability as strict adherence to written rules and procedures.

The Tokyo Declaration of Guidelines on Public Accountability (1985) defines accountability as "the obligations of persons / authorities entrusted with public resources to report on the management of such resources and be answerable for the fiscal, managerial and programme responsibilities that are conferred."

One of the norms of good governance is that the holders of public office should be accountable to the people for the exercise of their authority. This

¹ Landell-Mills and Serageldin, Governance and External Factor, Proceedings of the World Bank Annual Conference on Development Economics, (1991)

² Chandler and Pleno (1988).

is considered as an effective safeguard against misuse of power and abuse of authority. Accountability is fundamental to good governance in modern societies.

From citizens' viewpoint, public accountability means holding government officials responsible for their actions. From Government's point of view public accountability is the obligation to answer publicly for the discharge of responsibilities that affect the public in important ways. Public accountability consists of the "sum total of the constitutional, statutory, administrative and judicial rules and precedents and the established practices by means of which public officials may be held accountable for their official action".

Public accountability as a concept and practice has a very wide coverage. It involves three main elements:

- fiscal (financial) accountability, which includes fiscal integrity, full disclosure and compliance with applicable laws and regulations;
- administrative and managerial accountability, which covers efficiency and economy in the use of public funds, property, human and other resources; and
- programme accountability, which is concerned with whether programmes and activities of the government are achieving the objectives effectively and efficiently in terms of both costs and results.

The objectives of using the above well-known definitions and explanations about accountability are to highlight that no government can be termed as a good one unless it is accountable to the people and that accountability in its absolute term visualises an adherence to the laid down rules and procedures, amenability to performance evaluation, transparency in decision making, sticking to a laid down time schedule and displaying efficiency and effectiveness. There is a moral code running through the entire process which some may willy nilly forget or bypass, but nevertheless this remains the backbone of a good government.

Although all governments are not equally accountable to their people but, no government can avoid pretending to be accountable to survive. To establish accountability across the board in any state strong democratic, legal, financial and administrative institutions must be there. Absence of accountability culture and institutions to ensure accountability breeds corruption. Here is, in fact, the link of accountability and for that matter

good governance with control of corruption in any society. Before going into discussion about the institutions for controlling corruption in general and of the Supreme Audit Institutions (SAIs) in particular, it would be appropriate to highlight briefly the different forms of corruption, the degree of which varies from country to country.

Forms and impact of Corruption:

One of the major objectives of good governance is the elimination of corruption from all spheres of public life. Corruption has a direct bearing on good governance. Corruption not only eats up the fruits of economic development and initiatives, but also turns democratic institutions and other government structures weaker and inefficient. Corruption breeds corruption and the society as a whole becomes victim to it. So eradication or minimisation of corruption from administrative and political system is a prerequisite for ensuring good governance in a society.

Developing countries provide for conducive environment for flourishing corruption. It tends to "thrive when resources are scarce and governments rather than markets, allocate them, when civil servants are underpaid and rules are unreasonable or unclear and when disclosure and punishment are unlikely".³ Researchers have shown that corruption in developing countries is prevailing at all levels of government, starting from the public representatives to the messengers at the lowest level of administration. Corruption has become institutionalised in many societies. It is often said that nothing moves in government without 'speed money'.

Corruption has many colours and hues. In its broader sense the whole gamut of corruption stretches from taking any pecuniary benefit to doing any unethical thing. Generally speaking, corruption involves bribery, nepotism or bestowal of patronage by personal choice rather than by economic rationality and merit, and misappropriation of public funds and resources for enriching private ends. Corruption thus means abusing one's official authority to give favour to an individual or group of individuals in exchange of monetary or non-monetary gains.

Although the degree of corruption and levels and professions of corrupt officials vary from country to country, the ways and means of indulging in corruption have been found to be more or less common. The usual methods are:

³ The World Bank, Governance and Development, 1992.

- i) government funds are sometimes misappropriated through flouting or misinterpreting financial rules and regulations;
- ii) rules and regulations are observed but corruption are made through collusion internally with other relevant officials and/or externally with suppliers/contractors/others;
- iii) holding back decisions/files for speed money;
- iv) compelling the private sector to pay transaction cost to obtain various kinds of regulatory clearances /permits from the government;
- v) providing undue favour either within rules or outside them in exchange for pecuniary or other gains;
- vi) leaking out and manipulation of confidential information of substantive and material nature;
- vii) sharing the unearned income/profit through falsification, suppression and manipulation of records; and,
- viii) succumbing to undue pressure and intimidation by superiors, friends , relatives as well as politically influential groups.

The above list is indicative and not exhaustive. The most distressing fact about corruption is that the society at large seems to be now increasingly inclined to consider corruption as an accepted way of life. The honest civil servants in such societies are no more held in high esteem, rather they are often ridiculed as meek and ineffective persons. As such "there is a widespread sense of resignation, coupled with a belief that attempts to fight corruption are doomed to fail."⁴ People cannot be blamed for their passivity because their psyche is made up by the environment they live in. "If the environment is made up of patronage and nepotism, administrative corruption and bureaucratic intervention, official self-enrichment programmes and protection rackets, accounting riddles and kick-backs, when bribes for political favours at every level become institutionalised, then resulting climate of individual decision-making will be its mirror."⁵ The business enterprises have to incur a large chunk of money for the "transaction costs" to deal with the graft hungry public servants. It diverts resources from business and investment to the aggrandisement of dishonest public servants. Venality and corruption also causes inefficiency in public administration and leads to delays and cost-escalation in project implementation. Malpractice in administration creates opportunities for

⁴ The World Bank, *Government that Works: Reforming the Public Sector*, 1996.

⁵ Robin Davies, *Corruption Corrupts the Economics of Bangladesh*, the Daily Star., Dhaka, Nov. 27, 1995,

“rent seeking” by creating monopolies, allocating quotas or licenses to certain groups or individuals.

A Task Force in Bangladesh has identified a comprehensive list of ills of corruption. They are:

- i) siphoning away of large chunk of public resources which would have been productively employed somewhere in the economy,
- ii) productivity, effectiveness and efficiency of the government are undermined by corruption,
- iii) it reduces efficient mobilisation of resources and management of development activities,
- iv) gains through corruption are unlikely to be directed to investment to industrial sector and are more likely to be either used up in conspicuous consumption or transfer to foreign bank account,
- v) corruption generates allocative inefficiency by permitting the least efficient contractor or most costly supplier with the highest ability to bribe those who award government contracts,
- vi) bribes and pay-offs instead of expediting decisions and facilitating movement of files, do the opposite in an overwhelming number of cases because civil servants get into the habit of holding back all papers until some payment is made to them,
- vii) once the system of bribery is well established, income gained from bribes is no longer windfall but becomes a part of expected wages,
- viii) in addition to the award of contract for supply, design and construction by the public sector, much of the corruption takes place in the external trade sector leading to over-invoicing and under-invoicing of imports and exports , and smuggling which in turn contributes to distortions in investment decisions and to capital flight.

Institutions to Control Corruption:

Across countries there are no dearth of institutions to control corruption irrespective of their form and nature of Government and the degree of corruption. These institutions are :

- (i) Legislative: The Public Accounts Committee of the Parliament, the statutory audit of the Supreme Audit Institution and the Office of the Ombudsman.
- (ii) Judicial: The legal system dealing with corruption and the Administrative Tribunals,
- (iii) Specialised Agencies: Cabinet Committees / Government commissions/departments dealing with control of corruption only like Bureau or Department of Anti-Corruption.
- (iv) Internal Controls: The whole array of administrative and financial rules and regulations, internal checks, delegation of powers and review and monitoring.
- (v) Code of conduct, discipline and ethics of public servants.
- (vi) The Government Servants' Conduct Rules, the Discipline and Appeal Rules, Dismissal on Conviction Rules, Public Employees' Discipline Rules etc.

Despite the multiplicity of various internal and external institutions to control corruption across countries, the reasons for wide variations in the degree of corruption in different countries is beyond the scope of this paper. Here are some of the observations in this regard made in the ASEAN-SAARC Conference on Administrative and Financial Accountability held on 16-20 January, 1994 at Dhaka, Bangladesh organised by the Asian and Pacific Development Centre in collaboration with Bangladesh Public Administration Training Centre. They are:

- i) weak, undefined and fragile interface between the political and bureaucratic administration result in mutual exploitation of one by the other;
- ii) delay in submission of audit reports and financial statements to the legislature and insufficient role of the Comptroller and Auditor General;
- iii) non-observance of "Rules of Business" of the Government;
- iv) proliferation of various organisations and agencies dealing with financial indiscipline, economic crimes, breaches of trust and financial mismanagement. This is counter-productive and provides many escape routes on the one hand and can also be spiteful on the other,
- v) need for transparent laws and greater access to information so that the tendency to hide things can be remedied.
- vi) complexity of rules and regulations needs simplification so that they can be easily enforced. .

- vii) the moral and ethical systems have come under strong pressure and as a result temptation have won and the conscience has lost; extensive normative education is required for moral awareness;
- viii) many important transactions remain undocumented;
- ix) reward and punishment are not universally and consistently applied;
- x) an audit system which focuses on results and performance would enhance accountability and control corruption ;
- xi) democratic governance is essential for a system of accountability in government and for controlling corrupt practices in administrative and in financial matters; political will is necessary to fight corruption;
- xii) improper functioning of parliamentary committees and delay in implementing suggested actions; institutional support to various parliamentary committees needs to be provided;
- xiii) too much secrecy in Governmental decision making with the result that people outside perceive no apparent transparency;
- xiv) office of Ombudsman should be established where it does not exist and strengthened where it exists.

Role of SAIs in Controlling Corruption:

The principle of independent audit has been recognised ever since the evolution of the institutions of Government. In "The Politics", Aristotle said about independent audit "some officials handle large sums of public money; it is, therefore, necessary to have other officials to receive and examine accounts. These inspectors must administer no funds themselves. Different cities call them examiners, auditors, scrutineers and public advocates". The word "audit" is derived from the Latin word "audire" which means "to hear" . In older times facts about any suspected frauds were "heard" by auditors. Since then the definition and scope of audit and duties and responsibilities of an auditor have undergone significant changes.

The SAI everywhere derives authority from the constitution and has more or less identical responsibilities and powers to audit and report on the public accounts to the legislature. SAIs in some countries also have the responsibility to keep public accounts. All SAIs have access to all records, documents or governmental property in the possession of any person in the service of the Republic. The legislative responsibility to enforce accountability and combat corruption is carried out through the SAI

whose reports on the audit of Public Accounts are examined and acted upon by the Public Accounts Committee.

As mentioned earlier, various forms of corruption take place outside normal Government transaction. Corruption also occurs within transactions but after duly fulfilling the requirement of existing rules and regulations. Corruption happens through the use of escape routes and loopholes in the rules. The effectiveness of SAI to combat corruption, therefore, depends on many factors which include *inter alia*:

- i) powers of the SAI, its mandate in the constitution and the extent of its independence;
- ii) degree of accountability and transparency of administration;
- iii) effectiveness of the parliamentary financial control;
- iv) effectiveness of the Public Accounts Committee and the degree of importance given to its recommendations;
- v) extent of appropriate action taken on the recommendation of the Public Accounts Committee;
- vi) quality of audit reports, extent of audit coverage and timeliness of reporting; and
- vii) auditing approach and methods followed by the SAIs.

SAIs across the world follow different approaches and methods of auditing. Many developing countries rely heavily on transaction/compliance type of auditing. Most of the developed countries including some developing countries have shifted the audit emphasis to Value for Money and Performance auditing. Transaction audit does in certain cases succeed in detecting corruption, embezzlement and fraud either through tempering of documents or through bypassing the rules and regulations. Since SAIs cannot cover audit of all transactions and major corruption generally do not occur through this method, there are limitations to combat corruption through this audit approach. Moreover, many SAIs fail to audit and submit report in time, actions on audit reports are either delayed or ineffective and as such corruption, even detected are not appropriately addressed for punitive or remedial action. Therefore, transactions audit can combat corruption in a limited way.

Audit can be a more effective tool for combating corruption only when its coverage extends far beyond transaction audit and includes a combination of transaction/compliance audit with Value for Money/ Performance Audit. To be more effective and meaningful, audit should operate in an environment which encapsulates the following features:

- (i) Clarity in rules and regulations and transparency in financial transaction.
- (ii) System of rewards and punishment on the basis of audit reports.
- (iii) Media publicity of significant audit observations.

Even if audit takes the form of comprehensive auditing encompassing both transaction and Value for Money audit, its role in combating corruption will still be limited to the extent of propriety, regularity, efficiency and effectiveness of public expenditure. Corruption resorted through the following methods would remain outside the purview of SAI:

- i) use of lacunae and loopholes inherent in systems as well as in rules and regulations;
- ii) corruption outside normal transactions fulfilling rules and regulations; and
- iii) inadequacies in the system of administrative accountability.

As major corruption in almost all the societies take place through the methods mentioned above, SAIs oftener than not prove short of reaching big corporate politico-financial scams. Empirically it is found that statutory audit proves to be more effective in detecting occurrence of corruption where gathering of evidence is possible from recorded transactions. Corruption so detected are usually of smaller magnitude. Audit, however, continues to be a powerful preventive tool for deterrence of corruption. The role of audit lies more in ensuring propriety, efficiency and effectiveness in the use of public resources than in detecting corruption which basically falls within the purview of many specialised agencies with specific responsibilities to receive complaints, investigate and report on them to appropriate judicial and departmental authorities for necessary punitive actions.

A few SAIs around the world have some powers to deal with specific cases of corruption and can levy surcharges etc. Whether the SAIs should continue to remain a recommending body or it should have some judicial or executive authority and power is a matter open to debate. These powers vested in a SAI might make it a more effective instrument to combat corruption in administration. But such powers might dilute its role as a watch-dog or as an arm of the parliament which itself does not have any executive or judicial powers. There should, however, be strong institutional arrangement to act upon effectively and promptly on the recommendations of the SAI and the Public Accounts Committee.

The role of the SAIs to combat corruption might, therefore, be confined to the following:

- i) Report timely on corruption as and when it is detected during audit so that appropriate action can be taken by the relevant authorities.
- ii) Review the methods through which corruption is resorted to and suggest measures for improvement of systems and checks and balances to prevent corruption.
- iii) Study from time to time rules and regulations, find out the escape-routes and loopholes and make recommendations to plug them.
- iv) Subject the Governmental agencies engaged in preventing and punishing corruption and in acting upon SAI recommendations to close and adequate scrutiny, comment on their efficiency and find out corruption in those organisations.
- v) Review the applications of various codes and rules to regulate the conduct of public servants and report findings to the Public Accounts Committee.
- vi) Publicise, if permissible under existing laws, sensational corruption cases as examples.

Conclusion:

Audit should devote more attention to help develop systems, rules and codes to prevent corruption and to ensure economy, efficiency, and effectiveness in the use of public resources. The SAIs should remain vested with adequate powers of disclosure, examination and recommendation and should also have the authority to effectively oversee implementation of its findings. Result-oriented recommendations of SAIs might call for modification/addition of legislation or institutional arrangements which would vary from country to country.

**COMMENTS ON THE ABOVE PAPER GIVEN BY SIR JOHN
BOURN, COMPTROLLER AND AUDITOR GENERAL OF THE
UNITED KINGDOM**

Introduction

Good governance and the control of corruption is undoubtedly a challenging theme; and one on which all Supreme Audit Institutions (SAI's) should be well qualified to comment. The Core Paper from the Comptroller and Auditor General of Bangladesh gives a very interesting and well considered introduction to the topic. It recognises basic elements of good governance, forms and impacts of corruption, the control of corruption and, in particular, the role of the SAI.

This discussion paper provides a brief commentary on the findings and views presented in the Core Paper; and identifies a number of key issues which, from the United Kingdom perspective, should be considered in any discussion.

The Core Paper provides a clear exposition of the subject of corruption in the public sector with a detailed discussion of the role SAIs can play in the detection of corruption. There are also thought provoking sections on the multitude of ways in which corruption can exist, and a timely reminder that SAIs are not the only institution with responsibility in this area.

Good Governance

The basic principles of good governance based on accountability and transparency are well understood and as the Core Paper indicates have a long history. In the public sector this means that public officials should be accountable to the people for the exercise of the authority vested in them. Despite this good understanding and long history, failures of governance continue to arise resulting in incidences of fraud and corruption.

In the United Kingdom a series of well publicised failures in the private sector, as a result of fraudulent or corrupt activities have led to a renewed focus on the issue of corporate governance. This has resulted in the adoption of codes of best practice for the corporate governance of companies covering areas such as the management structure and the directors' responsibilities for oversight of the internal control system. Companies will be expected to publish an annual statement explaining how they have complied with the code of practice and their auditors will

attest to the accuracy of the explanation provided. The adoption of such codes heightens awareness of good practice and is given force by the requirement on the auditor to report publicly on the audited entity's compliance over and above the standard audit opinion they provide on the financial statements of the audited entity.

Similarly in the public sector there is genuine concern to ensure that public business is conducted properly. Here also the United Kingdom Government has moved to promote codes of best practice for all public bodies and it is likely that in future the SAI will be expected to provide an annual opinion on the extent of compliance. This will pose new challenges to the SAI in the way it manages and conducts its activity.

Role of the SAI

Responsibility for fighting fraud and corruption rests first and foremost with the Ministers and civil servants charged with running public bodies. It is their duty to ensure that their organisation is well run and operates effective internal controls which are the main defence against fraud and corrupt practice. As the Core Paper sets out they are supported by a range of legislative, judicial and other specialised agencies.

The Core Paper very properly identifies that the SAI is the main legislative instrument to ensure accountability and describes accurately its role as a powerful preventative instrument and deterrent to corruption. The Core Paper goes on to advocate a system of rewards and punishments on the basis of audit reports but recognises that any move to grant executive power to an SAI in this area may severely compromise its independence and its position as an agent of the legislature.

The key question is how an SAI can help to change the culture which allows corruption to survive and flourish. In very broad terms this can be answered in three parts; by setting an example; through the attitudes it adopts to its audited bodies; and through the audit approaches it employs.

It is self evident that the SAI must be above reproach. But it may need to go further by publicly adopting codes of best practice for the conduct of public business and being itself accountable and transparent. In this way it can lead by setting an example for the organisations it audits.

The Core Paper identifies that the effectiveness of the SAI will depend on its independence, the timeliness of reporting and the effectiveness of the

response to its recommendations and those of the Committee of Public Accounts.

But institutional mechanisms alone will not make audited bodies responsive to the SAIs recommendations. The SAI must be pro-active in building relationships with the auditees and in making available to them the knowledge and expertise held within the SAI. Thus the SAI can provide expertise through reviewing systems of internal control; disseminate best practice form elsewhere in the public sector; and make auditees aware of the methods employed to perpetrate particular acts of frauds or corrupt practice so that they may guard against them. Audited bodies respond best where they can see clear value in the work of the auditor and are convinced that the auditor is working with them in pursuit of their objectives.

The SAI, therefore, has a difficult balance to strike between maintaining its independence and objectivity as the basis for its reports to Parliament and adding value for the audited body in the work it undertakes. To achieve this SAIs must be flexible and innovative so that traditional methods of working do not become a barrier to progress by the audited bodies.

The Core Paper notes that many countries have shifted their emphasis away from financial (transaction) audit to value for money or performance audit. The paper notes that there are limitations on the usefulness of transaction audit in addressing corruption. However, annual and timely financial audits have an important role in deterring fraud.

In the UK the SAI devotes just over 50 per cent of its total effort to financial audit covering the annual accounts of every Central Government body (400 plus) each year. The fact that audited bodies know their accounts will be subject to a vigorous and independent audit is an important factor in ensuring that public funds are managed properly. In carrying out these audits, INTOSAI and other professional auditing standards, require the auditor to pay particular attention to whether transactions accord with the legal provisions and whether the transactions are proper.

As the Core Paper points out financial audits may not identify all instances of corruption but they remain at the centre of an SAI's work and are highly effective in identifying potential risk areas where corruption may flourish. Where particular risks are identified these might be followed up by special investigations or performance audits.

Where the SAI becomes aware of potentially corrupt activity its first duty is to report the circumstances to the proper authorities according to the relevant national law. Thereafter it may be appropriate to report on the matter. However the SAI should ensure that the nature and timing of such a report do not interfere with any judicial investigation or prosecution under the criminal law.

PRODUCTIVE EMPLOYMENT IN BANGLADESH : ISSUES AND PROBLEMS OF MEASUREMENT

Dr. A.K.M. Ghulam Rabbani*

Introduction:

Productive employment is the process by which the labour force of a country engages in productive economic activities. The status of productive employment (size and structure) of the population is closely related to the country's stage of development. In developed countries where entrance to employment market is legally related to certain minimum age (usually 15 years), wage employment is the dominant form of employment and the problem of measurement is relatively simple and straight forward. In a developing country like Bangladesh on the other hand, where self employment is the basic mode of employment, with age restriction applicable in smaller modern sector; the problems of measurement are rather complex, but fascinating and challenging. The basic objective of this paper is to identify the key issues and problems related to measurement of productive employment in Bangladesh.

For statistical measurement, employment can be viewed from a number of aspects of which the following are regarded as relevant for Bangladesh situation:

- The production aspect - employment is a productive input and yields an output.
- The income aspect - employment yields an income to the employed.
- The social integration or recognition aspect - employment gives a person the recognition of being engaged in something worthwhile and thereby acts as a means of integrating individuals into society.
- The human resource development aspect - from the individual's point of view, employment is a means of developing the individual's sense of creativity and responsibility and the process of investing in his/her own human capital in the form of know-how and skill.
- The time-use aspect: employment is a time-using activity and therefore, competes with other activities for the time available to the individual or household.

To the five aspects identified above, other aspects - such as contractual aspect, which reflect the contractual relations governing labour markets

* Former Secretary, Government of Bangladesh.

and jobs, can also be added. However, of these aspects, production aspect is the dominant one to which the other aspects such as income or time-use aspects are directly or indirectly related.

At the aggregate level, it is the country's labour force or employed labour that produce the country's Gross Domestic Product (GDP). Production approach is, therefore, analytically more meaningful as it enables us to adopt national accounts approach in systematically identifying and analyzing the major issues and the related problems. In fact, in national accounts approach, income aspect of employment becomes a perfect dual of the production aspect, whereby an integrated analysis of income with production aspect can be meaningfully undertaken. Production approach is also taken by ILO, the lead UN agency in the field of labour in defining labour force and measuring productive employment situation in member countries. The framework for identifying the issues and analyzing the problems will be derived from the SNA-1993 (System of National Accounts adopted by the UN Statistical Commission in February, 1993). However, two limitations of production approach need to be kept in mind.

For calculating availability of labour force (and determining unemployment and under-employment) the production approach in itself is not sufficient and one has to look to the income aspect and the recognition aspect. Income aspect is also significant in the determination of wage rate by influencing a person's choice with respect to seeking employment elsewhere.

The paper is divided into four parts - introduction, analytical framework, the Bangladesh situation and conclusion. The analytical framework attempts to highlight the basic stipulations of SNA--1993 in measuring productive employment from the standpoint of production process. This is supplemented by ILO measures and indicators of employment and labour force. The Bangladesh situation re-examines the Statistical Methodology used in measuring productive employment in the country from the production point of view and explores the data sources. This section also provides a selection of data and indicators of current employment and labour force derived from the latest labour force survey. The concluding part brings together the strengths and weaknesses in current measurements of the country's labour force and productive employment and concludes by indicating some areas of future research and analysis.

The Analytical Framework

Production Boundary

SNA classifies a country's population as (gainfully) occupied (or economically active) and unoccupied. Occupied persons include employed (wage employed) and self-employed, while unoccupied persons consist of unemployed and persons not in the labour force. Country's labour force comprises occupied and unemployed persons only.

In order to be classified as occupied, the person must be engaged in an activity that falls within the production boundary of SNA. The production boundary in the system is rather restricted and the activities that fall within the production boundary of the system consist of:

- production of goods or services for the market;
- own-account production of all goods that are retained by their producers for their own final consumption or gross capital formation;
- own-account production of housing services by owner-occupier and of domestic and personal services produced by employing paid domestic staff.

Excluded from the production boundary of the system are:

- activities that are not productive in an economic sense such as basic human activities like eating, drinking, sleeping, taking exercise etc. for which it is impossible for one person to obtain another persons to perform instead;
- domestic and personal services produced for own final consumption except the services produced by employing paid domestic staff; these include
 - : cleaning and maintenance of dwelling occupied by the household including small repairs;
 - : cleaning, servicing and repair of household durable and other goods (such as clothing etc.);
 - : preparations and serving of meals;
 - : care, training and instruction of children;
 - : care of sick, infirm or old people;
 - : transportation of members of the household or their goods.

Exclusion of domestic and personal services produced for own final consumption is also in line with ILO guidelines on labour force and employment. This results in exclusion of housewives from labour force. In fact, if production boundary is extended to include the production of own-account household services, virtually the whole of adult population would be economically active and unemployment eliminated.

- Activities that are not regarded as transactions in the system such as murder, theft, other acts of violence, etc. i.e. actions undertaken without mutual consent of the transactor and the transactee.

In spite of obvious practical difficulties regarding obtaining data, SNA includes illegal production and concealed production within the production boundary and persons involved in such activities are regarded as occupied and part of the country's labour force. Illegal productions in SNA consist of two types of activities:

- Production of goods or services whose sale, distribution or possession is forbidden by law, such as distribution of narcotics, illegal transportation of goods in the form of smuggling (often a form of own-account illegal transportation) etc.
- Illegal production, however, does not refer to generation of externalities such as discharge of pollutants to which no values are inputted in the system. Illegal production also does not refer to stolen output.

SNA regards concealed production activities as those activities that may be both productive in an economic sense and also quite legal (provided certain standards or regulations are complied with) but deliberately concealed from public authorities for the following reasons:

- to avoid payment of income, value added or other taxes;
- to avoid payment of social security contributions, where they exist;
- to avoid meeting certain legal standards such as minimum wages, or hours; safety or health standards etc.;
- to avoid complying with certain administrative procedures such as completing statistical questionnaires or other administrative forms.

SNA regards all such activities as clearly falling within the production boundary of the system and producers (along with employees) engaged in this type of production are regarded as occupied and part of labour force.

Underground economy often accounts for a substantial proportion of total output of certain industries, such as construction or certain service industries where small enterprises predominate. In view of considerable success achieved by many countries in compiling estimates of production covering the underground economy as well as the concealed economy, SNA encourages countries to make estimates of total production which include production of underground economy, even if separate identification of the latter is not possible.

Listing of Economic Activities: ISIC

SNA defines economic activity synonymously with the process of economic production. According to SNA, economic production is an activity carried out under the control and responsibility of an institutional unit that uses inputs of labour, capital and goods and services to produce outputs of goods and services. For measurement of labour force employed in production and to establish their distribution among industries or various activity groups operational distribution and systematic listing of economic activities are necessary. This is provided by ISIC - International Standard Industrial Classification of all economic activities. The latest version of ISIC i.e. ISIC Rev. 3 is fully harmonized with SNA-93 and provides a system of classification of economic activities that is internally consistent and internationally comparable and adaptable to individual country situation.

ISIC - Rev. 3 groups economic activities into sixteen tabulation categories with one more category, extra-territorial organizations and bodies. The tabulation categories are divided into sixty sub-categories or divisions. The tabulation categories or major activity groups are as follow:

Tabulation categories of ISIC Rev. 3	Description of categories
A	Agriculture, hunting and forestry
B	Fishing
C	Mining and Quarrying
D	Manufacturing
E	Electricity, gas and water supply
F	Construction
G	Wholesale and retail trade
H	Hotels and Restaurants
I	Transport, storage and communications
J	Financial Inter mediations
K	Real estate, renting and business activities
L	Public administration and defence; Compulsory social security
M	Education

N	Health and social work
O	Other community, social and personal service activities
P	Private Households with employed persons
Q	Extra-territorial organizations and Bodies.

The divisions are disaggregated by Groups at 3-digit level and Groups by 4-digit classes: Activities are thus identified by homogenous or near homogenous classes in the system.

Classification and Status of Labour Force in SNA

We may now bring together the salient features of SNA-93 with respect to classification and status of labour inputs in the system.

- SNA identifies labour force with reference to total population of a country. SNA defines population as the annual average of people present. It includes institutional population, not covered by most labour force survey including floating population of the country.
- The enumerated populations at point of Time (e.g. census night) is divided into three categories.
- Employed, unemployed and not in the labour force depending on each person's activity status during a reference period (either the usual status - covering whole year or current status - usually a week). Specification of age is required for identifying labour force (employed plus unemployed persons) and not in labour force status. This is also in line with ILO labour force recommendations.
- Employed persons are classified in the system first by rural and urban areas and then further classified as follows:

Rural areas:

Self employed (divided into own-account workers and unpaid family workers)

Agricultural

Small farmers

Medium farmers

Large farmers

Non agricultural

Informal own-account

Informal employees

Formal own-account

Informal employers

Employees

Agricultural
Non agricultural
Unskilled
Skilled
Highly skilled

Urban

Self employed

Employees

Agricultural
Non agricultural
Unskilled
Skilled
Highly skilled

- SNA also recommends classifying employees by the institutional sectors or sub-sectors in which they are employed such as households, non-profit institutions serving households (NPISH), public corporations and government and national private corporations and foreign corporations.
- For SNA, the relevant population or labour force are those that are resident in the economic territory of the country and not those based on nationality or legal considerations. Economic territory of country includes:
 - : the geographic territory administered by the country's government within which persons, goods and capital circulate freely;
 - : the air-space, territorial waters and continental shelf lying in international waters over which the country enjoys exclusive rights;
 - : territorial enclaves in the rest of the world (such as embassies, consulates, military bases, scientific stations, aid agencies etc.).
- Although the economic territory of a country does not include the territorial enclaves used by foreign governments or international organizations which are physically located within the geographic boundaries of the country, the locally recruited staff of foreign embassies, consulates, military bases are residents of the country and part of the country's labour force.

- Similarly, persons living and working for one year or more in another economic territory are treated as resident there and are not part of a country's labour force.
- Employment does not enter into the system but jobs do. A job is treated like a transaction, while an employed person is not.
- The definitions of employment and jobs need to match one another. Usually the average annual number of jobs exceeds the annual average number of persons employed by the average number of second, third etc. jobs.
- The legality of the work (as indicated in the Production Boundary of the System) and the age of the workers are irrelevant for SNA.
- Jobs in SNA are classified not only as employee or self-employment (own - account worker etc.), but also according to the standard activity classification (i.e. by ISIC Rev. 3). Household surveys can provide data on both employment and jobs, while establishment surveys only provide data about jobs.
- For measuring labour productivity, total hours worked and not output per job or employment, is the preferred measure of labour inputs in the system.

Hours actually worked should exclude:

- : Hours paid for but not worked, such as paid annual leave, paid public holidays, paid sick leave etc.
 - : Meal breaks.
 - : Time spent on travel from home to work and back.
- Total hours worked in the system is the aggregate number of hours actually worked during the year in employment and self-employment jobs. Full time equivalent employment (defined as total hours worked divided by average hours worked in full time jobs) is considered an inferior alternative to exposing labour inputs in terms of total hours worked.
 - Output in the system is measured in value terms, while total hours worked (full time equivalent employment) are physical measures of labour input. When output is measured both at current and constant prices, the system requires the same with labour inputs as well as with intermediate inputs.

However, mixed income which is the return to self-employment in the system, can not be unambiguously divided between the return to labour and the returns to capital and entrepreneurship. Only the value of

employee labour (and not self employed labour input) forms part of the system.

- Measurement of employee labour inputs at current and constant prices is symmetrical with the measurement of output.
- The value of employee labour input at constant compensation is estimated in the system by deflation of current values by a compensation index. Direct derivation is also possible by multiplying the current number of jobs in each job group by the base - period average annual compensation for jobs in that job group.
- One key emphasis in SNA-93 that has significant relevance for countries like Bangladesh is identification of production units of the informal sector and the volume of employment and production thereof. SNA-93 defines informal sector of an economy synonymously with the household sector.
- SNA-93 treats enterprises of informal sector as household enterprises owned and operated by a household member either alone or in partnership (mostly informal or quasi-legal) with members of the same or other households, which employ one or more employees on a continuous basis (as wage employee or unpaid family worker) producing goods and services either for market or for own-use or both. The system regards them as unincorporated enterprises owned by households.
- In a developing country like Bangladesh, household unincorporated enterprise are the dominant institutional units of production accounting for nearly 70% of country's GDP and 80-85% of the country's labour force. They can be engaged in virtually any kind of productive activity - agriculture, mine quarrying, manufacturing, construction, retail distribution or the production of other kinds of services.
- They can range from single person working as street traders or shoe cleaners with virtually no capital or premises of their own through to larger manufacturing, construction or service enterprises with many employees.
- As mentioned earlier, SNA-93 regards only two categories of services produced by households for own final consumption that are within the production boundary of the system namely services of owner - occupied dwellings and domestic services produced by employing paid staff.

- In case of owner-occupied dwellings, owner-occupiers are deemed to own household un-incorporated enterprises that produce housing services for their own consumption.
- For domestic services produced by employing paid staff, households are deemed to own household un-incorporated enterprises in which they employ paid staff-servants, cooks, etc. to produce services for their own consumption. Such services produced by unpaid family members are not deemed to be production.
- SNA-93 divides self-employed persons into two groups - those with and those without paid employees. Those with paid employees are described as employers and those without paid employees are described as own-account workers (that include unpaid family workers).
- Own account workers are further subdivided into outworkers who are under some kind of formal or informal contract to supply goods or services to a particular enterprise, ordinary own-account workers and unpaid family workers. Own-account workers can be engaged in either market production or production for own final consumption or own capital formation.
- Non-labour force persons include children (not working or under a specified year of age e.g. in Bangladesh LFS children below 10 years of age are regarded as not belonging to labour force), housewives doing exclusively household works (domestic and personal services), students, defence personnel, the aged (again above a certain specified age e.g. 65 years in Bangladesh), disabled and the infirm, pensioners and recipients of property and transfer incomes.
- Students in their capacity as consumer of educational or training services are not employees and are not in labour force. However, apprentices or similar kind of worker trainees, student nurses, research or teaching assistants, hospital interns etc. are treated as employees whether or not they receive any remuneration in cash or kind.
- Recipients of other transfer incomes include beggars, infirms or disabled persons who live on charity.

Bangladesh Situation : Issues and Problems

For analyzing issues and problems relating to productive employment in Bangladesh if we relate them to the main sources of employment we can make our analysis source specific. Among the sources of labour and

employment statistics in Bangladesh we can identify the following:

- LFS or Labour Force Survey and Population Census.
- Establishment Surveys of the Ministry of Labour and Manpower.
- Survey of Government Employees and Autonomous Corporations of the Ministry of Establishment.
- Employment Exchange registers in selected urban centres maintained by the Ministry of Labour and Manpower.

Of these sources LFS and Population Census are the most comprehensive and representative sources of information based on valid statistical methodologies. Population Census provides data on nation's population and labour force that are cross-classified with the basic population, demographic and economic characteristics enumerated in the Census. Population Census data are primarily bench mark type and usually outdated and not current. Besides providing national and sub-national aggregates, usefulness of Population Census lies in providing small area statistics. Population Census and LFS are household based supply side data collection endeavours and the census concepts, definitions and data collection methodology are harmonized with LFS.

The other sources provide fragmentary data either relating to a particular institutional sector such as Central Government or covering a small segment of the economy. However, long lead time in making the data available and lack of institutional arrangement for updating or follow-up vitiate their usefulness. The data from Employment Exchanges can be a useful source of constructing unemployment measures particularly in urban areas. However, the Employment Exchange Registers are often not live registers, the data are hardly updated nor systematically aggregated; consequently the Employment Exchange data remain an un-utilized source of employment analysis.

In view of recent improvements in methodology and coverage, LFS conducted by the Bangladesh Bureau of Statistics has emerged as the dominant source of labour force and employment data in the country. LFS is conducted intermittently on sample basis covering both rural and urban areas of the country and provides aggregate national as well as rural and urban estimates of labour force, its structural composition, employment and unemployment levels, participation of women and children (child labour) in the labour force and other employment information. LFS utilizes Integrated Multipurpose Sample Frame (IMPS) of the BBS that is derived from the 1991 Population Census Frame. In spite of the problem of progressive obsolescence, the IMPS frame is still statistically representative

of the distribution of rural and urban households in the country so that the LFS based on IMPS frame can capture the basic features of the labour market and employment situation in the country on a representative basis. The latest LFS was conducted during 1995-96 the report of which has just been published, LFS 1995-96 also covered a child labour survey, a comprehensive and separate report of which has also been published. In analyzing the current employment problems of the country we shall refer mostly to LFS 1995-96 and its child labour survey component.

The major issues and problems in measuring productive employment in the country can be listed as follows:

- Problem of measuring labour force participation of women and children.
- Problem of measuring self-employment and agricultural employment.
- Problem of measuring unemployment and underemployment.
- Problem of measuring labour productivity in agriculture and other activity sectors of the economy.
- Problem of coverage of LFS and other definitional issues.

Problem of Measuring Labour Force Participation of Women and Children

Participation of women in labour force are of two kinds - wage employed and self-employed. Defining wage employed and capturing them through LFS type survey is relatively easy. Wage employed women who also do household maintenance activities are covered as wage employed. Problem arises in defining self-employed women particularly in rural areas who mix labour force activities with household maintenance activities. Current LFS uses two definitions - usual definition based on income approach and extended definition based on production approach. Usual definition considers a woman (10 years and above) to be in labour force if she was putting a minimum of one hour work in family farms or un-incorporated enterprises for pay or profit during the reference period. This is obviously covered by wage employed and employed and poses no problem.

The extended definition on the other hand, considers a woman (again 10 years and above) to be in labour force if she is engaged for one hour or more during the reference period in informal or un-incorporated enterprise activities such as care of poultry and livestock, threshing, cleaning and boiling, drying, processing and preservation of food or fiber etc.. The consequence of the extended definition is to raise country wide economic participation of women from 18% (under usual definition) to

50.6% (under the extended definition) - it mostly reclassifies rural housewives from non-active to self-employed active category resulting in a rise from 17.4% to 57.3% in women's participation. The activities considered for reclassification are however, valid economic activities that are covered by the ISIC Rev. 3. The main problem is the time duration on the basis of which a person is categorized as labour force participant or not. The criterion is minimum of one hours work in the reference week, which appears to be rather too short. In India the criterion used is either at least one day or one hour per day during the reference week (i.e. at least seven hours during the reference week).

If we reclassify housewives (particularly rural housewives) by this criterion, the participation rate of women will be lower. LFS may consider re-examining the criterion used in reclassifying housewives to unpaid family workers (or own-account workers).

ILO considers children below 15 years of age to be not in labour force. LFS uses 10+ as the age criterion for labour force participation; however, reclassification using 15+ is also provided. LFS, however, does not provide labour force participation of children of 10-14 years of age separately which is done by the child labour force survey. In fact BBS has conducted a separate Household Child Labour Force Survey (i.e. supply side coverage) in 1995-96, the report of which has now been published. With the publication of child labour force survey, detailed data on child labour in Bangladesh desegregated by rural and urban areas are now available which complement the LFS. The concepts and definitions used in the Labour Force Survey are harmonized with those of LFS.

Problem of Measuring Self Employment

SNA measures self employment by production criterion and considers persons working for themselves as self-employed. Self-employed persons receive mixed income and not compensation of employees. As described earlier SNA divides self-employed persons into two groups - those with and without paid employees. Those with paid employees are described as employers and those without paid employees as own account workers. Unpaid family workers including working without paid remuneration in un-incorporated enterprises engaged wholly or partly in market production are also treated as self-employed and categorized as own-account workers.

SNA separates outworkers into two categories - when the outworker is remunerated by the enterprise on the basis of work done the outworker is

treated as employee and when the income earned by the outworker depends on the value of the goods or services supplied to the enterprise, the outworker is treated as own-account worker. Outworker categorized as employees receive compensation of employees and is therefore paid out of the value added of the enterprise. When the outworker is own-account worker payment from the enterprise to the outworker constitutes a purchase of intermediate goods or services. The status of outworker is thus important from the SNA view point.

LFS categorization of self employed persons does not fully follow the SNA stipulation. LFS categorizes self employed persons under three categories:

- Self-employed
- Employee
- Unpaid family helper.

Outworker is not enumerated as a separate category. To harmonize with SNA-93 concepts, LFS can adopt the following categorization with respect to self-employed persons:

- Employers
- Own account worker of which
 - : Unpaid family workers
 - : Out workers
 - : Others.

Problem of Measuring Agricultural Employments

Agriculture is still the predominant activity of productive employment in the country, employing 50% of total labour force under usual definition and 63% under extended definition. Certain special features of agricultural work makes agricultural employment different in several ways from non-agricultural or urban employment. LFS, however, uses standardized concepts based particularly on the modern urban sector in measuring employment in the agricultural sector and enumerates employment at a particular point of time (using either usual or current employment status) following a fixed survey schedule. The real status of employment can not often be captured by the current LFS strategy. Some of the reasons are elaborated below:

Seasonality— Because of presence of seasons (monsoon-non monsoon period, or wet or dry periods) arising from climatic and biological cycles the demand for labour in agricultural or crop activities is not stable throughout the year but rather changes to varying degrees depending on

crop structure and technology used. Production cycle gives rise to occupational cycles - consequently some workers (mostly owner cultivators and family members) are employed throughout the year, while others are employed only temporarily. The temporary workers (categorized by day labourers in LFS) also change their occupational category, branch and occupation. The ratio between permanent and temporary workers at a particular point of time depends on the changing agrarian structure (i.e. production relation), land use and technology. Modernization process of agricultural activities is however, dampening the seasonality pattern of production with consequent changes in labour demand. Changing rural-urban migration pattern is also having emerging impact on rural labour market.

Currently LFS does not distinguish between temporary labour in agriculture and non-agricultural activities in rural area but lumps them together under the category - day labours. LFS also does not identify the permanent workers in agriculture, so that the ratio between permanent and temporary labour cannot be worked out, not to speak of measuring changes in the ratio over time.

Units of Work time— The concept of work day is a relatively useful one in measuring productive employment in agriculture, because of seasonality factor and the technology used on the agricultural holdings. The work day however is not a homogenous unit, depending on slack or busy season. Consequently the concept of 'normal' working day usually also does not fully apply to agriculture sector and its use may also lead to significant biases. Similarly work hours currently used in LFS is also not a homogenous unit with variations in the intensity of work done. It is, therefore, not useful to try to estimate under-utilization of labour by means of a homogenous time unit, as is done currently.

Availability of Labour— Since labour supply in agriculture varies throughout the year with changes in availability, measurements made at one point in time are not valid for the purpose of extrapolating the volume of labour supply. This has implications for the reference periods used in LFS - (both usual status, longer or annual status and the current status, or status last week).

Labour Market in Agriculture— In absence of permanent labour markets that are organized and institutionalized some of the concepts used in LFS to measure employment are not really applicable to the reality of agricultural sector - mention can be made of the criterion (looking for work) to define unemployment in agriculture. Availability rather than

looking for work appears to be a better (in fact a milder) criterion. Clear distinction should also be made between agricultural and rural labour markets as agricultural market forms part of the total rural labour market. Although interrelated, they have, however, characteristics of their own, consequently the methodological choice and the problems of measurement of employment facing the two are somewhat different.

Currently LFS is the main source of current data on agricultural employment, although HES - if properly organized through inclusion of labour force module - can be another useful source which will enable income and, consumption and other household characteristics to be cross - classified by household based labour force characteristics.

As regards nation-wide bench-mark type of information Population Census and Agricultural Census are the two main sources; coverage of Population Census is wider than Agricultural Census - the latter covers primarily rural employment, emphasizing primarily agricultural employment.

In view of the predominance of labour utilization by agriculture in rural Bangladesh - the scope of LFS in monitoring agricultural employment should be expanded by inclusion of a special agricultural employment module and if resources permit canvassing the module at several points of time instead of the current one-time canvassing as is done. The module can be developed through the assistance of an expert body. Effective use need also to be made for utilization of labour force information available from different sources of information and progressive integration of different sources should be aimed at specially by harmonizing the concepts, definition and methodology.

Problem of Measuring Unemployment and Under-employment

Problem of measuring unemployment and under-employment in a developing country like Bangladesh where self-employment predominates and organized labour market does not exist, is highly problematic and controversial. By adopting the conventional criterion LFS or Population Census always come up with low level of (open) unemployment which people or policy makers are unwilling to accept.

Open unemployment is defined as those persons who are without work although they are actively seeking work. Consequently, the rate of open unemployment is obtained by dividing the open unemployment by the economically active population. Hidden (or disguised) unemployment

refers to that portion of population which is unemployed and not seeking employment (i.e. the discouraged workers).

LFS monitors both open and hidden unemployment but uses the rather strong criterion of actively seeking work. It also provides unemployment rate among the educated labour force. (LFS estimates educated labour force in 1995-96 at 24.7 million, around half of the total labour force, of which around 5.6% in urban and 4.0% in rural areas was unemployed). LFS appears to be still seeking to identify a more appropriate definition of unemployment (as indicated by the adoption of anticipated unemployment rate in LFS 1995-96).

Since measurement of unemployment is an important part of LFS, it is suggested that LFS should adopt the ILO extended definition of unemployment according to which person in unemployment comprise all persons above a specified age, who during the specified reference period were available (rather than actively seeking) for paid employment or available for self-employment.

Under-employment is a relatively more useful concept in the context of the country's economy. According to ILO definition, under-employment exists when a person's employment is inadequate in relation to specified norm or alternative employment, account being taken of the person's occupational skill (training, work experience etc.). ILO distinguishes two principal forms of under-employment - visible and invisible. Visible under-employment is primarily a statistical concept directly measurable by LFS or HES, reflecting an insufficiency in the volume of employment.

Invisible under-employment is an analytical concept reflecting a misapplication of labour resources or a fundamental unbalance between labour and other factors of production. Characteristic symptoms are low income, under-utilization of skill, low productivity etc.

For operational purposes ILO recommends measurement of under-employment be limited to visible under-employment only and this is the approach currently adopted in LFS. LFS 1995-96 comes up with the estimate of under-employment in the economy as a whole at around 34.6% (of the total labour) - 12.4% for the male and astounding 70.7% for the female labour force. It is in fact, a reflection of the rather weak criterion used by the current LFS in determining female participation extending the definition of labour force participation. It is suggested that for rationalizing the approach the criterion for labour force participation, the

listing of economic activities and other variables used in labour participation be thoroughly examined by expert consultations and an operationally useful guideline be developed for use in LFS.

Problem of Measuring Labour Productivity

Currently LFS does not measure labour productivity, SNA considers labour productivity as a measure of labour input. Since physical measures of labour input lack general economic significance SNA considers only the value measure of labour productivity. Again, as mixed income, which is the return to self-employment, cannot be unambiguously-ambiguously divided between the return to labour and the returns to capital and entrepreneurship, SNA-93 recommends estimation of productivity of employee labour (i.e. paid labour) only and suggest compiling the value of employee labour input both in current and constant compensations. For the latter, construction of a compensations index is necessary.

Following SNA-93 stipulation, the value of total labour input in the country's agriculture can not be meaningfully estimated - because of prevalence of self-employment in agriculture. Valuation of labour input in agriculture need therefore be limited to wage employment only i.e. to the paid labour including the day labour. Systematic collection of wages paid in different agricultural and non-agricultural activities need to be collected particularly through LFS for the purpose of estimating productivity of paid labour in agriculture and other sector of the rural economy.

Problem of Coverage of LFS and Other Definitional Issues

Coverage of LFS is not fully aligned to the SNA-93 stipulations. For example, LFS does not cover institutional population or the floating population - due to absence of suitable survey frames. LFS is also not aligned to the concept of economic territory of the country. The Angorpota - Dahagram enclave is also not covered in the LFS or Population Census Frame.

As regards conceptual and definitional issues, LFS should progressively adopt the SNA concepts and definitions. LFS is modeled largely on the ILO framework, which though useful for operational purposes, is not adequate for national accounts purposes. In fact a revised LFS framework based on both SNA and ILO frameworks needs to be developed so that LFS concepts, definitions and methodologies are fully aligned with SNA-93 stipulations.

Productive Employment in Bangladesh: Issues and Problems of Measurement

Selected data and Indicators of Employment in Bangladesh
(Population Ten Years and above)

	Active	Usual definition			Extended definition		
		Total	Male	Female	Total	Male	Female
1. Size of Economically Active Population (Million)							
Bangladesh		41.7	34.1	7.6	56.0	34.7	21.3
Urban		9.3	7.3	2.0	10.2	7.4	2.8
Rural		32.4	26.8	5.6	45.8	27.3	18.5
2. Not in Labour Force (Million)							
Bangladesh		61.6	18.6	43.0	65.8	27.5	38.3
Urban		35.4	17.9	17.5	35.4	17.9	17.5
Rural		26.2	0.7	25.5	30.5	9.6	20.8
3. Participation rate (%)							
Bangladesh		48.3	77.0	18.1	64.8	78.3	50.6
Urban		46.4	71.1	20.5	50.6	71.5	28.6
Rural		48.9	78.8	17.4	69.1	80.4	57.3
4. Unemployment rate (%)							
Bangladesh		3.4	2.7	6.3	2.5	2.7	2.3
Urban		4.9	4.4	6.5	4.5	4.4	4.6
Rural		3.0	2.3	6.3	2.1	2.2	1.9
5. Under-employment (%)							
Bangladesh		-	-	-	34.6	12.4	70.7
Urban		-	-	-	19.6	10.0	44.4
Rural		-	-	-	37.9	13.1	74.6
6. Employment status (million)							
Total		40.3	33.1	7.2	54.6	33.8	20.8
Self-employed own account		16.0	14.4	1.6	16.0	14.4	1.6
Un-paid Family Worker		7.6	5.2	2.4	21.9	5.8	16.1
Employer		0.1	0.1	0.0	0.1	0.1	0.0
Regular Employee		6.8	5.0	1.8	6.8	5.0	1.8
Day labourers		9.8	8.5	1.3	9.8	8.5	1.3

Source: Report on Labour Force Survey in Bangladesh 1995-96.

Conclusions

In our analysis of the issues and problems of measurement of productive employment in the country we have stressed the crucial importance of production aspect of employment to which the other aspects such as income, time use or social integration and human resource development aspects are directly or indirectly related. Measuring employment from production view point requires identification of production boundary and systematic listing of productive activities. We explored the usefulness of the framework that can be based on SNA-93 and its component, ISIC Rev. 3. Any statistical programme for measuring economy wide productive employment, such as LFS, needs also to be based on SNA-93 Framework. Since LFS fully complements national accounting, the concepts, definition and the methodology of LFS need to be harmonized with SNA-93. Presently LFS conducted periodically by the BBS is practically the only

methodological and conceptual framework. However, as discussed in the paper, there are a number of areas where significant improvements can be made by integrating LFS with SNA-93. This in turn will ensure satisfactory resolution of some of the issues and problems of measurement of productive employment in the country as discussed in the paper. The other important source of employment in the country namely Population Census need also to be kept in view since changes monitored by LFS can be monitored against Population Census bench marks. The other sources such as Agricultural Census or Employment Exchange Registers need to be activated before they can be put to proper use. The concepts, definition and methodologies of the major sources of information namely LFS, Population Census or Agriculture Census need to be harmonized in order to make their findings comparable and consistent. SNA-93 concepts and definitions provide a useful source in this purpose.

By way of conclusion, the following research package is suggested:

- Develop further the LFS frame in the light of SNA-93 and the latest ILO recommendations.
- Develop an operational framework for measuring productive employment of women, particularly rural women taking into account the types of productive activities, time use, income and other aspects.
- Develop a framework for agricultural employment complementing the standardized LFS measurement technique taking into account the progressive technological and socio-economic changes in the field of agriculture of the country.
- Develop a framework for measuring unemployment and under-employment, in particular identify appropriate concepts and operational definitions and survey instruments for systematic measurement of unemployment and under-employment in urban and rural areas of the country.
- Develop a frame for measuring economy wide major activity (or industry) specific labour productivity in the light of SNA-93.
- Re-examine the sample frame and the estimation procedure of LFS and suggest enlargement of the scope of LFS to cover institutional and floating population and the economic territory of the country that includes the enclaves and the territorial waters. Similarly classification of employment by the job frequency and other aspects of employment measurement emphasized by SNA-93 need to be brought within the scope of LFS.

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MANAGEMENT OF DEVELOPMENT FUNDS: AN ANALYSIS OF CURRENT PROBLEMS AND SOLUTIONS

Rezaul Karim*

Recently the Reforms in Budgeting and Expenditure Control (RIBEC) Project of the Government of Bangladesh has developed a flexible and at the same time an appropriate budget classification structure using 4 levels and 13 digit codes with ranges to cover all types of receipts and expenditure of the government. It will replace the List of Major and Minor Heads currently being used with the approval from the Comptroller and Auditor General of Bangladesh. This has been done after extensive consultation with various primary and secondary users of the classification codes, both inside and outside the government. The Auditor General has given his concurrence to the new classification structure. The new structure aims to facilitate more transparency in the budget presentation, enhance the quality of accounting output, provide a means for trend analysis and at the same time generate essential management information for the managers of public service for effective control and supervision. The classification has recognised the existing administrative and legal requirements adequately. But inspite of all these favourable ingredients in the newly drafted classification the implementation of the same in the government is considered to be a difficult and challenging task. It is mainly because of current inadequacy and non-availability of basic data within the existing government structure.

Though overall responsibility for preparation of the national budget lies exclusively with the Finance Division of the Ministry of Finance, in effect within the government the budgetary estimates are being generated annually in two streams by two different organs of the government. The estimates of the revenue receipts and expenditure are being made by the Finance Division itself while the data for the development outlay are procured and compiled by the Planning Division with the assistance from the Planning Commission. The collection, collation and processing procedures of budget input data in the two units of the government differ greatly. At the present moment, identical classification structure and formats are not used in the two presentations and the levels of aggregation vary considerably. In the revenue side greater object or economic information are being kept in the departments and line ministries and those are incorporated suitably in the Units of Appropriation in the

* Deputy Team Leader, Reforms in Budgeting and Expenditure Control (RIBEC) Project, Finance Division, Government of Bangladesh.

national budget, whereas in the development side only project-wise one line entries are being recorded on the basis of information provided by the Planning Division in consultation with the line ministries and accordingly reflected in the budget. This anomaly and difference in presentations create problem for integrated budget estimates for revenue and development expenditure and make the budget documents cumbersome and less transparent. The duality in preparation process and ultimate outcome make the estimates unsuitable for any kind of meaningful analysis and comparison. National projections of economic indicators have become hazy and not easy enough for public understanding.

Existing shortcomings in the development side originate mainly from two fundamental reasons, one is conceptual and the other is institutional. In both areas numbers of small issues are involved. Conceptually in the first place separate classification structure should not have been there for development expenditure. This has been developed over the years from a very narrow angle just to satisfy short-term necessities of the government. Ad hoc arrangements were preferred against permanent and durable solutions to suit immediate requirements at different times. From the planning perspective only financing and sector needs have been considered while introducing the classification heads for accounting and budgetary purposes. The classification has only targeted to fit in the aggregation levels of the Annual Development Programme (ADP) ignoring the economic detailed information required for sound accounting records and for creation of reasonable comparative data for analytical purposes. Even the already available item-wise data in the Project Proforma (PP) of Planning Division have not been captured in the existing List of Major and Minor Head publication. In that format only the highly aggregated figures have been taken care of and divided into two categories, namely the capital and the revenue expenditure. From this system it is possible for the government to locate the foreign and local investments in the project directly from the head of accounts. But with the expansion of governmental activities in the development sector it has generally failed to meet the dependable management information needs of the managers and policy makers. Even the Implementation Monitoring and Evaluation Division of the Planning Ministry could not use the data for monitoring purpose as it has been found to be inadequate for financial evaluation. They have in its place developed a new list of eight broad categories of expenditure to facilitate monitoring of the on-going projects. They have been collecting those information from the projects directly on a regular basis. Because of the in-built deficiencies in the main accounting system, they had to introduce a parallel accounting system.

Institutional and structural problems in the development side are more fundamental and complicated. The traditional approach of the planning process in the country has more emphasis on the central planning procedures. Both macro and micro aspects of planning exercises are being dealt by the Planning Division alone. Involvement of the line ministries in the entire policy formulation process has been kept at a minimum level. As a result, the structure of the planning organisation has grown very big and unmanageable. Co-ordinating activities between the sectoral wings within the institution has become a challenging task. Often the main task of programming of the future development strategy for the economy is suffering from want of proper focus on the real issues. The situation has turned more acute when the responsibility of furnishing budget data for the development budget has been integrated with the already overloaded planning process in that Division. At present the final allocations to the individual projects are being finalised in the second week of May every year after firming up of the donors' contribution. Those allocations are then passed over to the Development Wing of the Finance Division to code them into appropriate budgeting heads and putting the information into a summarised budget format. With 15 days' time in hand, it is hardly possible for the Finance Division to convert manually the raw data into a meaningful budgetary presentation. As a result, the document that comes out from the process is not easily understood by many and no good use can be made by the managers of the projects. The document serves no other purpose but superficially meets the statutory requirement of submitting the development estimates to the Parliament for approval.

Leaving aside the vital issues like decentralisation of planning process to the line ministries and shifting of the responsibility of preparation of development budget to the Finance Division as in the case of revenue budget, the existing information formats of the Project Proforma and Annual Development Programme need substantial changes to generate a high quality input data for the budgeting and monitoring purposes. For this the computer data base, which is in existence now in the Planning Division requires further strengthening to allow meaningful conversion of the sector and project information into dependable budget input. This change is needed not only to ensure supply of required budget data to the Finance Division but also at the same time to enhance the existing capacity of the database to generate more useful sector information for the Planning Commission for better economic and statistical analysis to fulfil the overall development objectives.

All these weaknesses in the system have made expenditure control in the development projects virtually ineffective. The financial control over the

revenue budget is comparably more efficient. The burden of control and management of expenditure in the projects in default has been completely left to the project authorities, which is to some extent shared by the donor agencies with the managers of the projects in case of foreign funded programmes. No suitable tools or systems have been developed for efficient central monitoring in the departments or in the line ministries. Once the money is released to the project managers, the line ministries have no dependable mechanism to check its proper utilisation. Different donor requirements and interventions for disbursement of funds to the projects through Special Account in Foreign Exchange (SAFE), Convertible Taka Special Account (CONTASA), Dollar Special Account (DOSA), Imprest Account (IA), Reimbursible Project Aid (RPA) and above all the direct purchases from abroad create substantial confusion in proper maintenance of the financial records and management of the projects. For this sort of external but varied type of innovations the foreign donors cannot be blamed fully. They had to fall back to such alternative arrangements in the absence of a reliable source for financial data within the structure of the government to assess the performance of the funded projects. Those have been also designed to some extent in the eagerness of the donors to accelerate the implementation of the ongoing projects. The control of the government on its own investment in the projects is also not effective as most of the projects are executed through statutory public bodies, where financial discipline is often subject to question. Huge amounts of money are kept in the commercial bank accounts outside the main stream of government cash resulting in frequent misuse of the transferred fund. In essence, over the decades the project have tended to become unaccountable to any formal authority. Getting reliable data from the system has become a nightmare.

The complex operating practices, over-centralisation of activities, diluted accountability and weak support systems are some of the efficiency constraints that exist currently in the planning system and in the development projects. Changing the old practices at a time and in one go is rather an impractical proposition. Restructuring and rationalisation exercises of the planning set-up and the projects are continuous affair and a time consuming effort. Those initiatives need elaborate planning, resource management and a pragmatic implementation programme. It would be better if initially attempts are made for gradual introduction of some of the elements of basic changes in the system without radically disturbing the existing institutional infrastructure of the government. The Reforms in Budgeting and Expenditure Control (RIBEC) Project of Finance Division is exactly trying to do that in a staged manner to create a sustain-

nable base for substantial improvements in the financial administration of the government in future.

The project has recently taken steps in that direction by planning introduction of a new classification structure within the government. In that structure the development and non-development transactions will have common coding system, which will ultimately facilitate integration of the two budgetary presentations into one. To bring the Project Proforma (PP) and other planning documents in line with the new coding system, these will, over a period of time, be systematically reorganised to meet the increased financial and managerial demands of the government. The new analytical device will then make resource allocation and income generation decisions more meaningful and timely. The new classification structure will contain the following main features in it :

- it will follow the existing administrative and legal framework and will accommodate subsequent refinement, if needed in future;
- it will integrate budget and accounting data in a better way so that the information need for monitoring and expenditure control will be readily available;
- it will have easily identifiable codes which will allow production of reports and documents in two languages, Bengali and English, from the same data without much difficulty;
- it will produce financial information at different levels of aggregation for both functional and economic analysis;
- it will conform with international statistical requirements, particularly International Monetary Fund's (IMF) Government Financial Statistics (GFS) specifications;
- it will bring more transparency in the accounts of public expenditure, and finally, it will be suitable for use both in manual and computerised systems without great difficulty.

The coding structure in 4 levels, among other things, indicate the legal nature of the transaction, ascertain the functionally accountable Ministry, Division and Department or Group Function, identify field level spending and collecting operative unit and provide economic information on transactions of the government. The geographical and sector analysis will also be available in the framework of coding structure for future use. The chart will have enough in-built capacity and flexibility to cover all expected eventualities within the government in the coming years.

Within the RIBEC project a draft classification structure on the above lines has already been finalised in consultation with the involved parties. The users of the new codes in the development projects are more or less satisfied with the outcome and so far they have not indicated any insurmountable bottleneck. Rather the feedback from them are very encouraging. An analysis of the current records kept in the projects has revealed that all required information actually exist in the books of accounts of the individual project and until now nobody has attempted to use them properly. All preliminary preparations within the RIBEC programme are ready for testing and implementing the new coding structure at an early date. In consultation with the Finance Division tentative implementation targets have been fixed. Initially a parallel model budget presentation for the year 1997/98 in the new classification will be created from the recently installed computer data base in the Finance Division so that users get a fair chance to become acquainted with the changes and suggest improvements. This will be followed by actual introduction of the new budget classification and formats in the next year, that is in 1998/99. Accounts of the government will also be compiled in the new classification in 1998/99 using the accounting database in the offices of the Controller General of Accounts and Chief Accounts Officers.

After implementing the new classification together with some accompanying changes in the systems as planned by the RIBEC Project in the current phase, it is expected that a solid base will be created for further changes in the development side of the government under a more favourable and sustainable environment. Many of the difficulties and anomalies currently encountered by the planners and implementors of the development projects are expected to be minimised by appropriate post-implementation follow up actions in the planning infrastructure and in other line ministries and divisions. The government will then be in a position to meet the persistent requirements of donors for a sustainable public resource management system for effective investment of the resources within the country.

FOOD ASSISTED DEVELOPMENT PROGRAMMES IN BANGLADESH: A CRITICAL REVIEW

Dr. Muhammad Masum*

1.0 Introduction :

Sustained increase in per capita real income over a considerable period of time along with structural transformation of the economy has traditionally been defined as economic development. Experience of many developing countries however showed that, even with significant achievement of the above 'development', the levels of living of the masses of people remained for the most part, virtually unchanged, signalling certain gross inadequacies of the above definition. Economic development, subsequently was redefined by many in terms of the reduction or elimination of poverty, inequality and unemployment within the context of a growing economy.

Use of food resources in financing development, particularly for alleviation of poverty through promotion of wage employment opportunities in the form of Food for Works has been practised in Bangladesh for a considerable period of time. More recently, with the re-orientation of the Vulnerable Group Development programme, from relief to development, food resources are being used not only for alleviation of poverty but also for promoting self employment opportunities at a subsequent stage. Food for Education which is expected to contribute to reduction in inequality through human resource development has been the latest addition to the list of food assisted developing programmes in Bangladesh.

The objective of this paper is to critically review the various on-going food assisted development programmes in Bangladesh. In section 2 we have examined the various wage employment creation schemes currently being implemented in different sectors. In sections 3 and 4 we have reviewed the Vulnerable Group Development Programme and Food for Education Programme respectively. Section 5 presents a summary of findings and our concluding observations.

* Professor, Department of Economics, Jahangirnagar University, Dhaka.

2.0 Food Assisted Wage Employment Creation Schemes (WECS)

2.1 Rural Development (RD) Projects

Wage Employment Creation Schemes (WECS) in Bangladesh are currently being implemented under the Rural Development (RD) Project which evolved out of Food for Works (FFW) Programme introduced in Bangladesh more than two decades ago, in the aftermath of flood and famine of 1974, primarily to provide relief to the seasonally unemployed landless poor during agricultural slack period through infrastructural development in rural areas. On the recommendation of SIFAD, with change in focus from relief to development, FFW Programme has now been transformed into a multi-sectoral development project called RD Project, currently being implemented by 5 ministries and more than 60 NGOs. RD activities generate productive seasonal/year round job opportunities for the rural poor and create assets which can also be used by them to generate their own income. Wage is paid in the form of food. Employment opportunities created are mainly short term, primarily in earth work operations, usually taken up by the extreme poor. Indeed, WECS under RD Project have become an integral part of the survival and development strategies for the rural poor.

Objectives of the RD Project:

The long term objective of the project is to contribute to sustainable improvements in the socio-economic level and quality of living of people in rural Bangladesh.

The immediate objectives are :

- (a) to improve flood protection, drainage and irrigation of agricultural land;
- (b) to improve rural transport infrastructure and market integration;
- (c) to increase the supply of fresh water fish;
- (d) to increase tree coverage on public land;
- (e) to support the development of sericulture industry;
- (f) to increase the volume and reliability of urban and rural household water supplies in selected areas;
- (g) to establish a rapid response capacity to large scale natural disasters; and
- (h) to introduce further improvement in the quality with which the project and the national Food for Work project as a whole is planned and implemented.

In order to achieve the above objectives, a number of WECS are undertaken in water, roads, forestry and fisheries sectors. The activities include construction and rehabilitation of embankments, excavation and re-excavation of drainage and irrigation canals; rehabilitation of growth centre connecting roads; excavation and rehabilitation of fresh water bodies for fish cultivation; and planting and maintaining trees.

During 1994-95, 50 million work days, 28% of which were for women of temporary rural employment involving 751,000 of the poorest men and women, were created through WECS under RD Project.

- In the water sector (which received an allocation of almost half of the total RD resources) WECS generated around 22 million work days, 9% of which were performed by women, created more than 1800 km of embankments and more than 1000 km of canals.
- In the road sector (which received 20% of the RD resources mainly for its Growth Centre Connecting Roads Project) WECS generated about 10 million work-days, 19% of which were performed by women; created more than 1300 km of road and almost 2100 metres of structures.
- In the forestry sector (which received 19% of RD resources) almost 12 million workdays of wage employment were generated, 80% by women, in plantation and maintenance of 22 million trees.
- In the fisheries sector (which received an allocation of 10% of RD resources) WECS generated about 6 million workdays, 11% of which were performed by women; and developed 900 hectares of water bodies for fish cultivation.

Details of activities undertaken including the number of schemes implemented, assets created and the number of workdays generated with women's share by WECS under different sectors over 1989-90 to 1994-95 are presented in tables 1-8.

2.1.1 WECS under Water Sector

As mentioned earlier, WECS under the water sector account for the largest share of all such activities. During 1994-95, 126,225 tons of wheat i.e. 48% of total resources under RD Project were allocated to WECS in the water sector.

The sector components were :

- i) Flood control, drainage and irrigation (FCDI) projects implemented by Bangladesh Water Development Board (BWDB).

- ii) Potable water tank schemes of the Department of Public Health Engineering.
- iii) Small scale Flood Control, Drainage and Irrigation Schemes of the Local Government Engineering Department.
- iv) Small scale projects (Water reservoir) of district administration.
- v) Fisheries scheme of the Department of Fisheries (implemented by BWDB).
- vi) IFAD Guidebandhs Scheme of LGED.
- vii) Agro-irrigation project of BADC.

Immediate objects of WECS under water sector were:

- (i) to improve flood protection, drainage and irrigation of agricultural land, and
- (ii) to generate productive employment opportunities on a seasonal basis for poor rural men and women.

BWDB's projects constituted the core of the water sector accounting for 95% of the food resources invested.

BWDB Programme

BWDB is responsible for providing irrigation and drainage facilities, protecting lives and properties against flood and tidal surges through maintenance and construction of embankments and by maintaining a sound water management system. The construction, rehabilitation and maintenance of such projects involve significant amount of earth work which is done by using the rural labour force through Food for Works Programme.

Women involvement, routine maintenance, community participation, environmental implications, resource concentration in distressed areas, participation of NGOs are some of the key issues featuring planning and implementation of RD/BWDB programme. Although increased women's participation and developing their capacity feature prominently as an objective of WECS under BWDB, achievement so far has not been satisfactory. As mentioned earlier, women's share in total employment created in water sector WECS has been less than 10%. There are several reasons for the low level of participation of women in RD/BWDB programme. Firstly, working along side men outdoors is still a social taboo in Bangladesh. Secondly, earthwork involves hard physical labour and not many women are capable of that. Even if they participate in such activities

their income turns out to be much lower compared to men for the same duration of work. Finally, the present system of getting earth work done through Project Implementation Committees (PIC) who employ labourers through Sardars does not always encourage women to participate in such activities. Despite all these impediments, the women who take up FFW employment, therefore, are clearly the poorest of the poor.

Recently, a number of steps have been taken to increase female participation in RD/BWDB activities. Provision has been made in the methodology that at least 500 m long reach of embankment or canal of each system should be done exclusively by the women. In this way 100 Km of canal/embankment was earmarked for the women for the year 1995--96. The wage rate for women has been raised by 20%. Measures for physical protection and appropriate work environment at project sites e.g. provision of toilet facilities have been suggested. Finally, provision is being made that routine maintenance will be done exclusively by women which will provide them employment through out the year, and also scope for group formation and increased self employment opportunities through NGO involvement.

In fact FFW activities in the water sectors continue for 10 months, from December to May for earthwork, and June to September for turfing work in case of embankment. Women prefer to work in embankments than in canals. It is recommended therefore to employ women in the construction/rehabilitation of embankments. The above measures will definitely contribute to increased women's participation in WECS to 50% or more.

2.1.2 WECS under Roads Sector

Immediate objectives of WECS under the road sector are :

- (i) to improve rural transport infrastructure and market integration, and
- (ii) to generate productive seasonal employment to the poor.

Sector components include Growth Centre Connecting Roads (GCCR) implemented by LGED, Adarsha Gram Project implemented by the Ministry of Land, and earth raising of primary school grounds, earth raising project in low lying areas to protect homestead from wave action and erosion etc.

GCCR forms the largest component connecting growth centres (numbering 2,100 as identified by the Planning Commission) with thana headquarters and/or nearest arterial road.

Although the usual mode of implementation is through contractor under a PIC, an innovative mode of construction through labour contracting societies was introduced in 1983-84. A labour contracting society (LCS) is defined as a group of landless men and women organized by a government agency/NGO who would be contracted to implement small earth work or other types of schemes. Informal groups can also serve as LCS. Total membership of a LCS is around 30 and a single contract does not normally exceed Taka 1 lakh. The activities of LCS have been increasing over time indicating larger impact of WECS under the road sector in alleviation of poverty .

2.1.3. WECS under Forestry Sector

Immediate objective of WECS under Forestry Sector are:

- (i) to increase the forest resources through planting of trees;
- (ii) to provide the rural poor with a source of income from trees and tree products; and
- (iii) to expand the social afforestation drive and to make the people more aware of its socio economic and environmental benefits .

The sector components include :

- (i) Road side plantation of trees for firewood and fruit which provides for payment of 4.67 Kgs of wheat per day for maintaining 500 trees for 3 years. After harvest, caretakers receive 60% of income from trees while NGOs and landowners receive 20% each.
- (ii) Roadside plantation of mulberry trees which provides for payment of 3 Kgs of wheat per day for two years for maintaining 1000 trees.
- (iii) Block and spot plantation on land leased from government and private owners which provides for 15 year lease to women groups, and payment of 4.67 Kgs of wheat per day for taking care of 1000 trees for two years. After harvest land owners and caretakers share 40% each while the concerned NGO receives 20%.
- (iv) Nursery development which provides for payment of 4.67 Kgs of wheat per day for 8 months for taking care of 20 seed beds; and
- (v) Bamboo plantation with same arrangements excepting that 250 bamboos are to be maintained by each caretaker.

2.1.4 WECS under Fisheries Sector

Immediate objective of WECS under fisheries sector are :

- (i) to increase production of fish and fish products by rehabilitating and excavating water bodies including private ponds;
- (ii) to generate productive employment for the rural poor during the lean employment period; and
- (iii) to promote sustainable source of income from fish production.

The sector components include WECS implemented by (i) Department of Fisheries (concentrating on canal/beels/ox-bow tanks) and (ii) NGOs/GOB (concentrating on tanks/ponds).

For earth work, accomplished rate of payment would be as follows:

	Type of scheme	Average wage for FFW schemes	Average rates for exclusively women's schemes
1.	Tanks/Ponds	60 seers/1000 cft 1.98 Kg per cum	80 seers/1000 cft. 2.64 Kg per cum
2.	Canal/beel/ox-bow lake	55 seers/1000 cft. 1.81 Kg per cum	75 seers/1000 cft. 2.47 Kg per cum
3.	Embankment	50 seers/1000 cft. 1.65 Kg per cum	70 seers/1000 cft. 2.3 Kg per cum
4	Levelling, dressing and Turfing(LDT) on top of embankment around the pond	30 seers/1000 sft 0.34 Kg. per Sqm.	

3.0 Vulnerable Group Development Programme

Vulnerable Group Development Programme (VGDP) is the largest intervention in alleviating poverty of the extremely poor women in Bangladesh. Introduced in 1975, as a relief programme providing wheat and other commodities for the supplementary feeding of nutritionally vulnerable mothers and their children, Vulnerable Group Development programme originally called Vulnerable Group feeding Programme has received considerable development orientation since the 1980s. The change in name in 1988 reflects the above change in focus from relief to development. In its present form VGDP not only provides food assistance to the poor assetless women, but also through provision of training and credit, assists them in improving their socio-economic condition.

VGDP has four components:

- (a) Pourashava/Union VGD (UVGD) Centres
- (b) Women's Training Centres (WTC)

- (c) Institutional Feeding and Development Centres (IFDC); and
- (d) Group Leader Extension Workers (GLEW)

3.1 Pourashava/Union VGD Centres

VGDP's largest component accounting for more than three quarters of all wheat contributed to VGDP, is implemented by the Ministry of Disaster Management and Relief, the Directorate of Relief and Rehabilitation (DRR) and the local government institutions at the thana and union levels.

Implementation of VGDP at union parishad level is carried out by a Project Implementation Committee (PIC) chaired by the UP chairman.

A similar PIC is formed for implementation of the Poursashava VGD centre in urban areas.

In selecting the women's beneficiaries, PIC is guided by the following criteria:

1. Widowed/separated/deserted/divorced women or women with disabled husbands;
2. Distressed for other reasons i.e.:(a) landless, (b) no income earning family members, (c) extremely low/no income, (d) daily/casual labourers, (e) lathyrism patients;
3. Families with young children;
4. Pregnant and lactating mothers.

The Directorate of Relief and Rehabilitation in consultation with WFP decides on the areas to be covered under this programme primarily on the basis of distress situation. In big cities, only slum areas are eligible for inclusion in the programme.

Pourashava/Union VGD programme provides for a family take-home ration of 31.25 kg of wheat per month over a two year period. In the 1994/96 VGD cycle spanning over July 1994-June 1996, a total of 399,091 women were enrolled in VGD programme. In addition to food assistance, a sizeable number of the above women were to be provided with access to a development package comprising savings, training on marketable skills, literacy and numeracy, health and nutrition education, and delivery of credit.

For ensuring improved access for the VGDP beneficiaries to the above development package the following strategy was pursued:

- (i) concentrating the selection of VGD women in those areas where the package was provided or would be available in the near future;
- (ii) financially supporting NGOs, through the monetization of wheat resources, to provide development package services; and
- (iii) establishing effective linkages with a range of government and NGO programmes active in the same field.

Traditionally, UGDP programme covered all 460 thanas of the country. Resources were allocated depending on the relative level of distress in each thana determined on the basis of poverty mapping studies considering factors such as status of food grain production (surplus/deficit), agricultural wage rate, population density, percentage of landless households and susceptibility to natural disasters. Thanas with similar level of distress were grouped together, and within each category a proportional coverage of the population was determined for allocation of total available resources. The above criterion, however, was modified during the sixth phase (1992-96) of the programme ending in June 1996, the new criterion being the presence or expected availability of a package of development services for the programme beneficiaries.

Some of the remaining components also reflected the new development focus of the VGD programme.

3.2 Women's Training Centres (WTC)

The objectives are :

- (i) to increase enrolment and attendance of women at training centres for acquisition of marketable skills;
- (ii) to assist women in utilizing their training
 - a) by promoting the accumulations and use of savings;
 - b) by providing access to credit.

Under this component of VGDP wheat is provided to WTCs administered by the Directorate of Women's Affairs (DWA) and selected NGOs for distribution among trainees as an incentive to enable poor women to attend training classes. Each women receives 31.25 Kgs of wheat per month for a period of one year. In 1995-96, 18,375 metric tons of wheat was allocated to this component of VGDP which benefited 50,000 poor women selected using the same criterion as applied in case of UVGD.

3.3 Institutional Feeding and Development Centres

Under this component of VGDP, cooked meals prepared with wheat, pulses and vegetable oil are provided to children and orphans in various institutions including orphanages managed by the Department of Social Welfare (DSW) and selected NGOs. During 1995-96, 3500 metric tons of wheat allocated to this component benefited 3600 children. Besides contributing to increased food intake of the enrolled children, this component of VGDP is expected to increase enrolment and attendance of children, especially girls, at day care centres, non-formal schools, training centres and orphanages with general education programme.

3.4 Group Leader Extension Workers (GLEW)

In order to promote formation of groups of vulnerable women to render extension services and enhance participation of VGD women in project design and implementation, GLEW, administered by the Department of Women's Affairs, provides training to VGD women as group leaders and extension workers. Each of these leaders are expected to form a group of 25 VGD women under the UVGDP. In 1995-96, 300 metric tons of wheat was allocated to this component of VGDP which benefited 300 poor women in 10 selected thanas.

For all beneficiaries of pourashava/union VGDP it is obligatory to save Tk. 25 per month in an individual account from which no withdrawal can be made for 18 months. The savings thus made serve as the seed capital for self employment projects initiated by members at subsequent stages, so that even after 2 year-VGD cycle, when ration ceases, the ex-VGD beneficiaries do not slip back to extreme poverty.

Besides, arrangements have been made to link sizeable number of VGD members with selected NGOs and government agencies in order to ensure their access to credit and skill training. IGVGD (Income Generation for Vulnerable Group Development) is one such programme involving DRR, Department of Livestock Services (DLS) and BRAC. Until 1980-81 WFP was the sole contributors to VGDP. The bilateral donors joined in 1980-81, followed by the Government of Bangladesh in 1984-85.

Under the 7th phase spanning over 1996-98, half a million poor women are expected to benefit annually from VGDP funded by WFP, Bangladesh Government and bilateral donors contributing 137,000, 120,000 and 135,000 metric tons of wheat respectively (The Daily Star, Sept. 3, 1996).

3.5 Evaluation of VGDP

According to report on the 1994 survey on women participating in the 1994-96 VGD Cycle, VGDP seems to be well targeted. Study found that more than 40% of the women live without husbands, 90% are illiterate, more than three quarters have monthly income (excluding the wheat income transfer) of less than Tk. 300 or no income at all, more than 90% are from households with less than 0.5 acre of agricultural land, and almost all have very few household assets. In the 1994-96 cycle, around 165,100 VGD women (41%) did not have access to the development package of training, credit and other development units.

The DRR/DLS/BRAC collaborative effort better known as IGVGD poultry programme covered 48% of VGD women in the 1994-96 cycle. Through its thana Poultry Programme Unit office, BRAC was responsible for group formation, training and delivery of inputs and services including credit to the VGD women and the Directorate of Livestock Services (DLS) provided technical inputs and necessary supplies such as poultry vaccines, hybrid cocks and chicks from the government hatcheries and technical support services through its thana Livestock Team. This intervention focused primarily on developing poultry rearing as an income generating activity for the beneficiary women to enable them earn a cash income at least equivalent to the value of the monthly wheat ration. Women in groups were trained in vaccination and treating poultry/rearing day old chicks/running hatcheries to produce hybrid chicks and other income generating activities through monthly meetings which also discussed various relevant economic and social issues including family planning, mother and child care, women's rights etc.

Loans ranging from Tk.1000 to Tk.7000 depending on the nature of activities were provided to VGD women out of a revolving fund generated through monetization of wheat provided by donors. During 1994-96 cycle, 222,000 VGD women in 75 thanas were targeted for programme implementation. Out of them 192,569 were selected for training, the rest considered untrainable. Another collaborative effort between DRR and BRAC-RDP, known as IGVGD sericulture was implemented in the 1994-96 VGD cycle covering 13,838 i.e. 4% of all VGD women in 83 thanas. The objective of this intervention was to create self employment opportunities through sericulture activities. Training was provided in the areas of mulberry tree plantation and maintenance, and silk worm rearing.

During 1994-96 VGD cycle, another 15,063 women in 18 thanas were covered by DLS IGVGD poultry programme conducted by DLS teams

continuing to provide inputs and training after BRAC ceased its operations in the above thanas operating for four to six years.

The survey on beneficiaries of 1994--95 VGD cycle reveals that although the programme intervention has significantly contributed to enhancement of income of the beneficiaries, even with current VGD food support, 39% of DLS, 45% of poultry, 51% of UVGDP and 54% of sericulture households live in extreme poverty consuming 1800 calories per person per day. How far participation in the VGD Programme over the two year cycle would increase the calories intake of household members in the different interventions? Earlier surveys indicate that after the completion of the VGD cycle, only the BRAC-IGVGD (poultry) women continued to earn incomes that are in excess of what they earned while reclining on the income transfer in the form of food grain.

The survey on 1994--96 VGD cycle also revealed that on average VGD women received an income transfer from VGD wheat between Tk. 160 (poultry) to Tk.190 (DLS), which indicated that an average women received a major part though not all of their entitlement. The survey also indicated that between 4% and 36% of the women received some kind of training in the year preceding the survey under VGD or other programmes. Only 4% of UVGD women and 36% of IGVGD (Poultry) women received training. Among all types, income generating training dominated.

A sizeable number of beneficiaries ranging from 28% (sericulture) to 62% (DLS) perceived that VGD contributed to enhancement of their income; improvement in asset position; and improvement in health condition but very few suggested improvement in decision making power within the household. "The development package currently being provided to VGD women has a strong income earning and asset building component but seems weak in supporting women's empowerment"¹

4.0 Food for Education Programme

Bangladesh is firmly committed to achieving the universally accepted goal of ensuring, "Education for all by the year 2000". In pursuit of that goal, primary education has been made compulsory and enrolment of children aged 6-12 in the primary school has already reached 92%. Unfortunately,

¹[Hashemi, S.M. Vulnerable Groups Development, Input Evaluation system report on the 1994 Survey on women participating in the 1994--96 VGD cycle. Development Research Centre, March, 1996.

due to various constraints, a large number of students drop out before completing the 5 year cycle of primary education. Various studies indicate that poverty of parents is the main cause of high drop out rate of children. Many poor households either do not send their children to schools or withdraw them prematurely from schools for the simple reason that they either cannot afford to send their children to school or badly need additional income by way of engaging such children in gainful economic activities.

With a view to reducing the incidence of child labour, promoting primary school enrolment rate and higher attendance at schools and reducing the drop out rate a programme called Food for Education was designed and implemented in 460 thanas of Bangladesh in July 1993.

4.1 Programme Design :

The programme provides for food ration to poor families so as to enable them release their children from livelihood obligations and send them to primary schools. A poor family is provided with wheat ration for sending children to primary schools at the rate of 15 Kgs per child per month subject to a maximum of 20 Kgs per family per month free of cost. Bottom forty percent students by level of income of parents are selected in each school covered by this programme for award of the above food ration, and continuity of receipt is conditional upon attendance at school for at least 85% of school days in the concerned month.

The School Management Committee in collaboration with compulsory Primary Education Ward committee selects the student and administers the programme.

4.2 Programme Coverage :

In 1993-94, 4,914 primary schools in 460 under developed unions (one from each thana) were covered by this programme. At a cost of Tk. 6831.88 lakh, 79,337 metric tons of wheat and 216 metric tons of rice were distributed to 5,49,881 families benefiting 7,06,519 students. By June 1995, the coverage of the programme was expanded to 12,182 schools in 1000 unions, benefiting 16,28,659 students belonging to 14,16,932 poor households, at a cost of 26,177.77 lakh Taka. By March, 1996, the programme was expanded to 1237 unions. By June, 1996, the programme was expected to benefit 22.3 lakh students (belonging to 19.6 lakh poor families) studying in 16,159 schools.

4.3 Evaluation of the Programme

Evaluation report prepared by Implementation, Monitoring, and Evaluation Division (IMED) of the Ministry of Planning, Government of Bangladesh, indicated that, the programme objectives were reasonably achieved.

Findings of a survey on schools covered by FFE:

	1993	1994	1995	Comments
(a) No. of students enrolled	12668	14221	15426	+ 22%
(b) Attendance	68%	80%	85%	+ 25%
(c) Dropout rate	10.5%	8%	6.5%	- 4%

Over 1993-95, in schools covered by FFE both enrolment and attendance rates significantly increased and drop out rate decreased. On improvement in quality of education, however, the findings were mixed. While, in some schools, the results of beneficiary students improved, their average performance was observed to be poorer than the average of non-beneficiary students.

A few problems, however, were encountered in implementation of the programme :

- (i) there were unusual delays in disbursement of wheat;
- (ii) in preparation of the list of beneficiary students quite often pressures were exerted for inclusion of students from the well off families;
- (iii) there were pressures also for disbursement of wheat even when attendance requirement was not fulfilled;
- (iv) actual disbursement of wheat per student fell short of the stipulated 15 Kgs due to leakage at different levels; and
- (v) classes were hampered as teachers were involved in disbursement of wheat.

Despite the above shortfalls, Food for Education has been widely acclaimed both for improving access to education for children from poorer families and for reducing incidence of child labour in Bangladesh.

Food for Education is an ongoing programme in Bangladesh, and is expected to expand its coverage in future.

5.0 Summary of Findings and Concluding Observations

On the basis of the above review of food assisted development programmes currently being undertaken in Bangladesh, the following observations can be made:

- (i) Although the total volume of operation did not change substantially, constrained by the availability, food aid on which they primarily depend, there has been significant change in the composition and nature of food assisted development programmes in Bangladesh. The focus of WECS has changed from relief to development and WECS have moved beyond their traditional areas of operation to the roads, water, forestry and fisheries sectors. As both these sectors provide opportunities for year round activities, WECS at present, are not only addressing the problem of transient poverty for which they were initially designed and implemented, but also chronic poverty.
- (ii) Previously women involvement in WECS was rather limited due to nature of the work environment and system of work. Scope for women employment significantly improved with the introduction of WECS in forestry and fisheries sectors, use of LCS for many activities in the road sector, also due to specific promotional measures undertaken by BWDB. Moreover, linking of NGOs with BWDB organized women groups engaged in maintenance of embankments have also opened up opportunities for self employment for WECS participants.
- (iii) Introduction of a savings scheme, and training programme through Women's Training Centres (WTC), and Group Leader Extension Workers (GLEW); and the involvement of NGOs through IGVGD have also paved the way for the beneficiaries of the Vulnerable Group Development Programme to pursue productive self employment subsequently.
- (iv) Despite certain inadequacies, Food for Education (FFE) programme made significant contribution towards improving access of children from poorer families to education and reduction of the incidence of child labour in Bangladesh.
- (v) In 1994, under RD Programme Food Assisted WECs provided 50 million workdays of direct employment to 751,000 poor people. VGD and FFE Programmes benefited nearly 400,000 destitute women, and 19.6 lakh poor families respectively.
- (vi) The above coverage of food assisted development programme, however, seem grossly inadequate to meet the needs of a target population estimated at 13.28 million in 1994, even if only the landless households (owning upto 0.5 acre of land) are considered to be the target population.
- (vii) The above findings clearly indicate the need for increased coverage and effectiveness of food assisted development programme in Bangladesh. Besides, there is a need for pursuing effective micro

interventions of other types e.g. self employment creation schemes backed by appropriate macro-economic policies.

Table 1 : Achievements in the Water Sector from 1989/90 to 1994/95

Year	Number of Schemes implemented	Wheat utilized (in Tons)	Infrastructure created			Workdays generated	
			Embakment (km.)	Canals (km.)	Taka (no.)	Million	% Women
1989/90	210	89,121	781	1,244	0	19	0
1990/91	197	137,901	1,436	1,409	0	30	0
1991/92	278	166,919	2142	1242	0	28	0
1992/93	198	90,094	1,062	1,031	0	20	2
1993/94	203	108,863	1,592	1,109	70	23	3
1994/95	353	115,003	1,820	1,051	125	22	9

Source: Closure Reports submitted by the implementing agencies.

Table 2 : Achievements in the Roads Sector from 1989-90 to 1994-95

Year	Number of Schemes implemented	Wheat utilized and monetized (in tons)	Infrastructure Created			Workdays generated			
			Length of road km	Span of structure metre	School grounds developed	Adarsha Gram developed (no.)	Homestead developed (no.)	Million	% Women
1989/90	615	35,879	889	1313		68		73	15
1990/91	583	53,106	1082	1147		57		91	15
1991/92	926	64,538	1264	1844		11		120	15
1992/93	1025	101,794	1366	2208		36	4	172	15
1993/94	1097	59,440	1429	2290	155	53	2	144	15
1994/95	1172	44,988	1357	2093	235	72	3	96	19
Total	5,418	359,745	7387	10,895	390	297	9	696	15

Source : RWPF RD Reporting Unit

Table 3: Achievements in the Forestry Sector from 1989-90 to 1994-95

Year	Number of Schemes implemented	Wheat utilized (in tons)	Trees maintained including current year plantation (Million)	Workdays generated		Wheat utilized (in tons)
				Million	% Women	
1989/90	5	1581	0.32	0.34	45	1581
1990/91	77	7368	2.18	1.58	51	7,368
1991/92	155	12741	4.50	3.82	53	12,741
1992/93	272	22,860	6.90	5.35	60	22,860
1993/94	705	31,530	14.44	8.05	62	31530
1994/95	1,039	41,362	21.71	11.9	80	41,362

* Maintenance of trees planted in two preceding years plus current year plantation

Source : WFP RD Reporting Unit

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Table 4: Achievements in the Fisheries Sector 1989-90 to 1994-95

Year	Number of Schemes implemented	Wheat utilized (in tons)	Water area developed	Workdays generated	
				Million	% Women
1989/90	252	7,925	177	1.7	N/A
1990/91	293	8,377	275	1.8	N/A
1991/92	318	12604	1,061	2.7	N/A
1992/93	447	15946	1,271	2.8	N/A
1993/94	594	15,959	640	3.5	N/A
1994/95	747	22,619	898	6.1	N/A

N/A : Not Available

Source : WFP Reporting Unit

Table 5: Number of VGD women in UPVGD sub-project from 1989-90 to 1994-95

Year	Women who received wheat ration	Women % who participated in savings scheme	IGVGD			
			Women % targeted to be involved in generation	Women (%) who received skill training	Women (%) who received credit	
				Poultry	Others	
1989/90	441,513	415,022 (94%)	42,000 (10%)	40,586 (9%)	N/A	6136 (1%)
1990/91	441,203	436,791 (99%)	75,000 (17%)	60,439 (14%)	N/A	37039 (8%)
1991/92	417,384	371,472 (89%)	62,000 (15%)	57,929 (14%)	N/A	37151 (9%)
1992/93	370,907	318,980 (86%)	116000 (31%)	104850 (28%)	N/A	56540 (15%)
1993/94	378,505	363,365 (96%)	116000 (31%)	107,594 (28%)	N/A	74,623 (20%)
1994/95	399,091	395,101 (99%)	310563 (78%)	207,632 (52%)	N/A	105,196 (26%)

- Percentage are calculated on the numbers of women who received a wheat ration.
- Including 33000 women under IFADEP Sub- project 1 which was not implemented.
- Women under BRAC Poultry (192569) and DLS poultry (15,063).
- Women under BRAC Sericulture (13,838) and GLEW (12500).

Source : VGD Annual Reports

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Table 6 : UPVGD Development interventions targets and achievement in the 1994-96 cycle

Intervention	Target			Achievements upto June, 1995			
	Thanas	VGD Women	% of all VGD Women	Thanas	VGD Women	% VGD Women targeted	% of all VGD Women
1. Savings	461	399091	100%	461	395,100	99%	99%
2. Skill Training		310,563	78%		233,970	75%	59%
Poultry (Regular) DRR/DLS/B RAC IGVD	75	222,000	56%	75	192,569	87%	48%
Poultry (Phase out DRR/DLS IGVD)	18	15,063	4%	18	15,063	100%	4%
Sericulture DRR/BRAC-RDP	93	28,000	7%	83	13,838	49%	3%
Integrated Food Assisted Dev. Project	74	33,000	8%	0	0	0%	0%
Group Leader and Extension Women's (GLEW)	10	12,500	3%	10	12,500	100%	3%
3. Group Formation					189,531		47%

Table 7: No of Women and Centres in the WTC Sub Project from 1989-90 to 1994-95

Year	Number of Centres Enrolled	No. of Women who received wheat ration	Percent of Centres				
			Provided skill Training	Head Saving Activities	Head Credit Programme	Provided Health & Nutrition Education	Provided Literacy & Numeracy Training
1989/90	320	31,248	100	73	28	N/A	N/A
1990/91	258	29,718	100	69	31	N/A	N/A
1991/92	354	41,476	100	72	31	73	86
1992/93	350	41,177	100	81	43	54	75
1993/94	468	37,128	100	96	50	35	58
1994/95	546	40,908	100	99	46	47	76

* Estimated from the findings of WFP's monitoring visits

* Included 135 WTC under NGO project

* N/A information not available

Source : WFP VGD Reporting Unit: Wheat allocation summaries and WFP Monitoring Data.

Table 8 : GLEW related development activities (July, 1994 to June, 1995)

Number of groups formed	Number of group meetings held	Average attendance in the meeting	Number of Women in GLEW group	Number of Women who received	Number of Women who received	Number of Women who received Credit
				Income Generating Training	Other Training	
500	16,224	19	12500	1600 (13%)	1350 (11%)	1250 (10%)

Source: Report from DWA.

References:

Hashemi (1996) : Hashemi S.M Vulnerable Groups Development Import Evaluation system Report on the 1994 Survey on women Participating in the 1994-96 VGD Cycle, Development Research Centre March, 1996.

ANALYZING SHARE PRICE PROSPECTS: A SIMPLE FRAMEWORK

Dr. Muhammad M. Islam*

I. Introduction

In recent times, Bangladesh has seen an incredible surge of interest for investing in the share market. The interest has been so strong that the Dhaka Stock Exchange composite index increased by more than 300% within short span of ten months (March, 1996 - December, 1996). The events of 1996 have clearly shown the willingness of investors in Bangladesh to take risk. However, risk taking need to be backed by expectations of returns based on sound financial principles, if it is to be sustainable. Unfortunately, the desire to buy equity securities was motivated not by any sensible analysis of a company's future earnings prospects which along with the inherent risk determine share price, but by mindless speculation so often fuelled by rumours, hot-tips, and the like.

When an investor decides to buy a company's common stock, his or her interest is not merely to become the owner of the company, but to enjoy future returns such as dividends and capital gains (share price increases). A corporation uses its earnings in two ways. One part is distributed as dividends; the other part is reinvested by the company for expansion or other worthwhile projects in order to enhance future earnings. The prospects of more future earnings raise the anticipation of more future dividends and further expansion. Consequently, an investor looks at a company relatively favourably if it has a superior potential for earnings growth, and would thus be willing to pay a relatively high price for its common stock. Therefore, higher expected corporate growth is synonymous with superior capital gains. Accordingly, success in investing in the share market critically depends on the investors' ability in identifying companies with superior earnings growth potential.

In Bangladesh, the ability to analyse securities is sorely lacking --both among investors and most investment professionals. In view of this, the purpose of this paper is to provide a simple framework for forecasting corporate earnings and share price. The framework provided is not novel

* Associate Professor, Concord College, Athens, West Virginia, USA.

but follows from a branch of security analysis popularly known as fundamental analysis.

II. Analysis of Corporate Growth

The ensuing discussion presumes some basic knowledge of a company's financial statements such as the balance sheet and income statement, and a workable understanding of some pertinent financial ratios. To help the reader, basic terminologies used in this article will be redefined. Basically, a balance sheet shows a firm's financial position (assets, liabilities, and equity) at a point of time. In other words, the balance sheet shows ownership of assets such as land and buildings, machines and equipment, vehicles and the like by the corporation as well as ownership of short-term assets such as cash, marketable securities, account receivable, and inventories. It also shows how these assets were financed. Since all assets are financed with either liabilities (debt) or equity (funds supplied by the owners of a corporation), it follows that monetary value of all assets must be equal to all liabilities plus owners' equity. The income statement shows the results of a firm's operations for a specified period of time. The statement begins with a firm's sales (revenue), and deducts all operating expenses, interest and taxes to arrive at a firm's net income. If the firm has no preferred stock, this income belongs to common shareholders. A part of this income is distributed as cash dividends; the other part called retained earnings is reinvested.

Now, define $ROA = EAT/A$, where EAT is a firm's net income or earnings after taxes, and A is its total assets. Therefore, ROA, return on assets, shows how much the firm earns per taka of its assets. Rearranging, we can express net earning as:

$$(1) \quad EAT = ROA * A$$

Also, define $ROE = EAT/EQ$, where EQ is stock holders' equity. Therefore, ROE, return on equity, shows how much a firm earns per taka of equity. Note that ROE can be redefined as:

$$(2) \quad ROE = (EAT/A) * (A/EQ), \text{ or}$$

$$(2') \quad ROE = (ROA) / (EQ/A)$$

where, EQ/A is a firm's equity per taka of assets, and indicates the finance mix in its capital structure. If the ratio is 0.25, then for each taka of assets

acquired by the company, 25% of the financing came from equity and the other 75% came from debt.

Assume now that the firm distributes $d\%$ of its earnings as dividend. Therefore, it retains $(1-d)\%$ of its earnings. Then, for any given accounting period, its retained earnings, RE, is equal to:

$$(3) \quad RE = (1-d)*EAT$$

where $(1-d)$ is called the retention rate.

A firm's growth rate of earnings can now be derived. Retained earnings are a fresh source of equity capital to the firm. Assuming that the return per taka of existing equity capital, ROE, can be applied to any new investment, a firm's change of net earnings due to reinvestment of undistributed profits is given as:

$$\text{Change in Income} = RE*ROE$$

Dividing both sides of the above by current income, we obtain a firm's growth rate of earnings, g :

$$g = (RE/EAT)*ROE, \text{ or}$$

$$(4) \quad g = (1 - d)*ROE$$

Implicit in the above analysis is the assumption that along with investing retained earnings, a firm assumes more debt in order to maintain its capital structure or debt-equity ratio. To unmask how capital structure affects growth, substitute equation (2') into equation (4) to obtain:

$$(5) \quad g = (1 - d)*ROA/(EQ/A)$$

The above equation can be expanded further by recognizing that

$$(6) \quad ROA = (EAT/S)*(S/A)$$

where S represents a firm's sales. The ratio EAT/S is the net profit margin; it indicates what proportion of a taka worth of sales is converted to net profit. S/A is the total asset turnover ratio or simply sales per taka of assets; the ratio indicates how efficiently a firm is utilizing its assets in generating sales. We can now interpret equation (6). A firm's profit comes from sales. But, assets are required to generate sales. Therefore, efficiency

in utilizing assets as well as ability to convert sales into profit determine return per taka of assets.

Substituting equation (6) into equation (5), the final form of a firm's growth equation can be written as:

$$(7) \quad g = (1 - d) * (EAT/S) * (S/A) / (EQ/A)$$

A firm's growth prospects can now be analyzed in terms of the financial ratios that comprise equation (7). It must be noted that using current accounting ratios to explain future growth potential may lead to wrong projections. For example, a firm's current ROA may be a poor proxy for the return on capital on a new project, especially if the nature of the new project is different from the firm's current line of business. Current accounting ratios provide guidelines only; judgements need to be applied as to how well the current ratios can approximate the future ratios. If they do not, the ratios need to be revised or projected based on an evaluation regarding the circumstances that a firm may confront.

Given the above reservations, equation (7) underscores some broad areas that an investor should carefully examine before investing in a company.

1. How profitable is the firm currently? What are its plans for the future, and how the plan may affect future profitability? Since profitability is affected by a firm's operating efficiency, it is necessary to examine operating expenses such as costs of labour, material, selling and administrative expenses. Also, a firm's competitive position within the industry in which it operates and its ability to control prices are important determinants of a firm's profitability. At the same time, attention needs to be given to the turnover of assets into sales. How productive will a firm be in generating sales from a new investment? Are there any impediments for which management may fail to achieve some target level of sales; one may consider the availability of raw materials, skilled labor, and a host of other factors.

2. What is a firm's policy regarding dividends and retained earnings? To grow a firm must invest. The equity capital for expansion may be internally generated (retained earnings) or externally procured (selling additional shares of common stocks). Of the two, most firms prefer the first and is generally the more important source of new equity capital. The amount generated for internal financing will be larger, the less is the amount of earnings distributed as dividends. Equation (7) captures this idea by relating growth inversely to the dividend payout ratio (d). In fact

firms having a high dividend payout ratio may be signalling a lack of investment opportunity. At the same time, one needs to be aware that management may feel pressured to raise the dividend payout ratio to accommodate shareholders' desire to receive more current income from the company. Although sacrificing current dividends may pave for more dividends and capital gains in future, some shareholders may have preference for current income which is certain against future income which is uncertain. In a situation like this, a firm's dividend policy does not necessarily indicate a lack of investment opportunity. If the opportunity is there, money to finance new projects must be raised from other sources. It is useful to remember that most companies that grow at a rapid rate give little or no dividends.

3. The leverage (debt) term, EQ/A , appears in the denominator of equation (7), and shows an inverse (direct) relationship between equity (debt) financing. In other words, more debt financing per taka of assets favours growth. The reason behind this is simple; given equity, the higher is a firm's debt, the larger is its investible capital, and consequently the firm experiences a higher growth rate. In view of this firms should carry some debt, but its level in relation to equity is difficult to determine. One needs to recognize, however, that debt can become burdensome beyond certain levels as the obligation to pay interest and principal raises a firm's risk and may impact share price negatively.

III. Earning Per share and Valuation of Common Stock

If a firm has not issued any preferred stock, its earnings per share (EPS) is simply its net earnings converted to a per share basis. As a share holder, an investor's concern is how much the share earns more so than how much the firm earns. For example, suppose a firm decides to change its capital structure by selling more common stock and using the proceeds to retire debt. As a result, there will be more shares outstanding and earnings per share will decline with possible negative consequences on share price. Therefore, in forecasting earnings growth, the investors' concern should be earnings growth on a per share basis. Since $EPS = EAT/N$ (N is the number of common stocks outstanding), the growth rate of EPS is simply $g-n$, where n is the growth rate of common stocks outstanding. Notice that if the number of common shares is kept constant, i.e. $n = 0$, the growth rate of earnings is the same as that of EPS. It should be observed that investors should exercise caution regarding firms that have a specific policy toward giving bonus shares as a means of raising dividends. For example, if the policy is to declare one bonus share for each share held, in effect the cash dividend is being raised at the rate of 100%. Unless earnings are growing

at the rate of 100% also, the firm cannot keep on giving bonus shares in the ratio of 1:1 and a reversal of policy will be required in future. At the same time increases in the number of shares hurt both EPS and the longer run price prospects for a firm's common stocks.

To project the growth rate of the number of shares outstanding, one can look at the historical data on the company, any current or future policy regarding issuance of new shares, or any other relevant information. Once the growth rate of EPS is estimated, it can then be applied to current EPS to derive its future values.

The price-earning ratio or multiple shows a firm's current share price divided by past twelve months of EPS. It indicates how much the investors are currently willing to pay for each dollar of a firm's current EPS. If an estimate can be made of the future price-earning ratio, then this can be applied to the estimated value of EPS to forecast the future price of a firm's common stock, since: $P = (P/EP) * EP$. Forecasting P/EP is not easy. Investors can apply ad hoc judgements, look at the historical multiple for a company, or the multiple for a company relative to that of the share market as a whole. But, judgements based on historical numbers will most likely be inappropriate for the case of securities in Bangladesh where speculative fervour drove the price-earning ratios to a level which is way more than what can be justified by earnings growth and risk. One should be cognizant of the fact that the US stock markets generally trade at a multiple lower than twenty, and most other emerging markets' price-earning ratios are modest relative to those in Bangladesh.

It is true that the price-earning ratio shows the confidence of investors on a firm's prospects. After all, one may be willing to pay a high price for current earnings because of the expectation of future growth of the firm. It is for this reason that shares of high growth companies sell at a multiple much higher than that of the share market as a whole. However, how does one quantify the appropriate P/EP given estimated growth rate. There is no clear cut answer. But, some studies find that firms whose current price-earning ratios are less than their historical growth rate tend to outperform the market. Based on this, one can use a firm's growth rate of EPS as a proxy for its future price-earning ratio. Such ad hoc determination will most likely not be a correct forecast of the price-earning ratio, but chances are that it will not be an overestimation. Also, one cannot say whether the premise behind the rule is appropriate for firms in Bangladesh since not much academic research has been done with regard to the security markets there. However, such an estimate, in my judgement will be a conservative estimate given the price-earning ratios that the markets in

Bangladesh command and the shortage of supply of securities. Since there is no guarantee, one would do well to estimate price-earning ratios based on both optimistic and pessimistic scenarios, and then forecast a range of future prices. The estimated future prices then can be compared to current prices to find the range of returns that can be expected from the investments.

IV. Problems in applying the framework in Bangladesh

Some problems of applying the framework in analyzing security price prospects in Bangladesh have already been mentioned. But, the main impediment in its applicability seems to be the poor accounting standards that are practiced by Bangladeshi firms. It has been alleged that the accounting statements do not reflect the financial health of the company; rather they reflect the wishes of the management and the accountants simply follow the dictates of management. Financial statements are made with a view to secure loans, sell shares, or avoiding taxes. It is imperative that strict regulations are enacted and enforced if security analysis is to have any chance in Bangladesh. Until then, the investors have to use financial information which can be anywhere from mildly inaccurate to seriously faulty.

V. Conclusions

In this paper we have presented a simple framework to forecast earnings and share prices. It is derived from a branch of security analysis known as fundamental analysis. Security analysis is an art and as in any branch of finance it requires the application of prudent judgement. That makes the task of a security analyst difficult and humbling. Successful investing requires patience, perseverance and long hours spent in analyzing companies. In Bangladesh, the task is made more difficult due to the paucity and unreliability of information. It is believed nonetheless that the simple framework presented above can serve as a useful guide in analyzing securities in Bangladesh.

IMPLEMENTING ACCRUALS ACCOUNTING IN GOVERNMENT

Patrick McClure*

Introduction

In an effort to make government more effective and efficient, the Conservative Government in the UK introduced a number of reform initiatives, such as Compulsory Competitive Tendering (CCT) in Local Authorities and the creation of Next Step Agencies and Resource Accounting and Budgeting in Central Government Departments. The new Labour Government is also committed to these reform initiatives.

At the core of these initiatives is the introduction of accruals accounting (and budgeting) in the government. This paper outlines some of the major requirements, implications and considerations in moving from a government cash accounting system to the commercially applied accruals accounting, specifically with reference to the UK Central Government initiatives.

Principles of Accruals Accounting

The principle of accruals accounting is that income and expenditure are recognised in the period in which the goods or services have been provided and the expenses incurred, thereby giving a more appropriate matching of income created in the period to cost of achieving that income.

Within this principle there are four main areas to consider :

- bringing all income and expenditure to account in the time period to which it relates, rather than when the cash is received or paid,
- the effect of changes in stocks and other current assets and liabilities on the financial picture for each period,
- taking account of the acquisition, consumption and disposal of capital assets within each period, and,
- including notional items attributable to the government body in order to give a true presentation of performance.

* Senior Consultant, RIBEC Project, Finance Division.

Introduction of Accruals Accounting Systems

The introduction of accruals accounting is viewed as a tool for the management of government bodies to improve accountability and manage available resources more efficiently. The implication being that if a government body has to produce accruals accounts at the year end, then its accounting systems should be accruals based.

The creation of Executive Agencies under the Next Steps programme delegated (though not transferred) responsibility from the Minister to the Agency's Chief Executive through a Framework Document for the operations of that government body. Delegation and responsibility were seen as the key to improving performance. The Next Steps programme has been in place for over seven years and many Executive Agencies have been created. In accounting terms the guidance issued in relation to Next Steps was a precursor to Resource Accounting. The Next Steps guidance states.

"It is likely that Agencies, with very few exceptions, will need to move to accruals to ensure that full costs (including the consumption of capital) are charged to customers in a systematic fashion, that there is a clear picture of the underlying financial position of the business, and that the information is available to management to enable them to manage the business in the most cost effective manner."

However it also makes the following provision,

"There is no intention to impose unnecessary sophisticated systems which cannot be justified in terms of value for money. This means that there may be cases where it would not be appropriate, at least initially and possibly even in the long term, for such Agencies to be required to introduce full accruals accounting."

Therefore, Next Step Agencies are not obliged to introduce full accruals accounting systems providing that they can prove that it is not a cost effective option.

The Next Steps guidance goes on to state the circumstances under which accruals accounting systems may not be appropriate,

"It is in principle possible to envisage business areas where accruals accounting would make no material difference: because cash income and expenditure flows were closely linked in time to their accruing, because

stocks were either small or did not fluctuate significantly over time, and because there were no significant capital assets (i.e. accommodation is rented rather than owned or leased)."

The requirement to introduce complete accruals accounting systems to specific government bodies depends on their size, volume, and complexity of their accounting transactions and reporting requirements.

It would appear that the Resource Accounting and Budgeting initiative is more prescriptive stating by definition,

"Resource accounting is a set of accruals accounting techniques for reporting on the expenditure of central government and a framework for analysing expenditure by departmental objective, relating this to outputs where possible."

"The Resource Accounts should include the following for departments and their related bodies :

- a Summary of Resource Outturn. The Parliamentary Control Schedule comparing outturn with Estimate by Vote, both resources and overall cash requirement,
- an Operating Cost Statement, showing the administrative and programme costs of the departments operations,
- a Balance Sheet, showing the assets and liabilities at the year end represented by reserves and a General Fund,
- a Cash Flow Statement, analysing net cash outflows by operating and investing activities,
- a Statement of Resources, analysed by aims and objectives, and,
- Notes to the Accounts, which might include additional memorandum items as appropriate."

Although not specifically mentioned it is presumed that a Foreword and Statement of Responsibilities will also be required as an integral part of the Resource Accounts. Another point worth noting, is that, from the example in the appendices to the White Paper, it would appear that the Statement of Recognised Gains and Losses has been incorporated within the Notes to the Accounts. The positioning of this 'Statement' requires Audit clarification.

Effectively then the introduction of Resource Accounting to Departments and their related bodies means the introduction of accruals accounting systems to central government.

Falling within the Boundary

An important position to clarify for government bodies is whether they fall within the boundary of Resource Accounting. For some it is quite obvious whether it will apply, for others it is not. If the organisation is within the Departmental boundary then it has to undertake Resource Accounting and be consolidated within the department's Resource Accounts. If not within the Departmental boundary, it is not required to undertake Resource Accounting and will not be consolidated within the departments Resource Accounts.

The question as to whether a government organisation falls within the Government Departmental boundary depends on the type of government organisation and the extent of control exerted on the organisation by the parent Department. According to the guidance many Non Departmental Public Bodies (NDPBs), although being constitutionally independent, are in financial terms effectively treated as part of their sponsor department, while others particularly Executive NDPBs operate very much at arms length. The distinction for NDPBs between inclusion or exclusion from the departmental Resource Accounts depends on whether the NDPB is an Executive NDPB or not, and, the extent of control the parent department has on the Executive NDPB. Executive NDPBs should be outside the boundary unless there are good control reasons for the contrary.

If a government body is within the departmental boundary, to permit consolidation, the government body may have to apply certain departmental accounting policies. If it is beyond the departmental boundary then it is up to the department to decide on how it is going to account for its investment in that body in the departmental Resource Accounts and this will be dependent on the amount of control capable of being exercised on that organisation. The government body will in this case be free of the department's accounting policies and be able to establish its own.

In order to account properly for other interests in various organisations government bodies will need to consider their relationship with these organisations and consider how they will be presented within their Financial Statements (Resource Accounts).

Clarification of reporting relationships and obligations needs to be established and agreed between departments, related government bodies and associated organisations. These need to be clearly understood as a basis for the development of any accounting systems.

Reporting Requirements

As part of the clear determination of responsibilities the complete financial reporting requirements need to be agreed. This does not only include final year end accounts presentation but also the other monthly, annual and ad-hoc reports that may be required by the department or other associated bodies. The transitional arrangements concerning the extent of cash reporting, in the interim, during implementation and post implementation of accruals accounting, needs to be clearly spelt out. It is demanding on organisations if they are expected to produce both accruals and cash accounts, and, it means that they effectively have to manage two different types of accounting system. This may impose additional demands on resources at a time when they are already under strain.

The government body is required to draft its Financial Statements and its accounting policies in line with the following :

- Legislative requirements,
- Generally Accepted Accounting Practice (GAAP),
- Treasury Guidance, and,
- Overall departmental accounting policies and requirements.

Approval of the format of the final accounts and accounting policies will be sought from their governing body, if applicable, Treasury and Audit. In support of Resource Accounting in the UK, Treasury has produced guidance in the form of a Resource Accounting Reference Manual which consists of :

- a Summary of Accounting Policies, and,
- a Code of Practice.

In addition to the financial accounting requirements the information required by internal management of the government body needs to be examined both in terms of the management of ongoing operations and as a result of accounting against outputs. The type, style and quantity of information and reports required should be reviewed and established in line with the introduction of accruals accounting.

Resource Accounting introduces accountability by requiring government organisations to state and analyse their performance in terms of specified outputs. Each government body will have to examine their current outputs in the light of the changes that are taking place with the introduction of Resource Accounting and agree the outputs that are going

to be presented within Resource Accounts. The outputs will have to be measurable and the impact on the accounting and management system will have to be considered in order to supply the information that will be required.

Output measures will have to be approved and may have to be brought into line with overall departmental output objectives.

Costing Principles and Methodology

With the advent of the requirement to report in terms of outputs in Resource Accounting there is an emphasis placed on costing those outputs on a full cost accruals basis. Costing generally was a management exercise specifically related only to those government bodies which were involved in price setting and profitability monitoring. However, now with Resource Accounting the outputs of all government bodies falling within the boundary are required to be measured and costed. This will help the government bodies also in determining its pricing levels and monitoring cost recoupment if applicable. The costs of the organisation will have to be investigated to determine the means by which they are attributable to the outputs, and to establish the cost allocation, apportionment logic and mechanisms, to allow appropriate costing.

The main cost of most government bodies is its staff costs. Thus in determining or attributing costs to outputs the organisation needs to identify and track where these costs are being incurred and resources consumed. As personnel tends to be the main cost, government bodies may need to investigate a means of time recording for its staff to enable them to cost the outputs appropriately.

Fixed Assets

One of the main implications of introducing accruals accounting is the introduction of fixed asset accounting. The government body and its associated organisations need to determine how it will recognise, collect, record, sort, classify and value its fixed assets.

Recognition, Classification and Threshold

Policy decisions need to be taken regarding the recognition of expenditure as fixed assets, whether a threshold is to be set and the amount of the threshold selected, above which items of a capital nature will be capitalised and treated as fixed assets on the Balance Sheet. Clear

instructions outlining the recognition of fixed assets needs to be established and the information required to be held in relation to each fixed asset. The relevant categorisation and groupings of assets need to be determined.

The accepted definition of an asset is :

“Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events”.

The ownership of assets is not the determining factor, it is whoever the entity has control over them. Thus the government body should be aware of this principle when it comes to the recognition and identification of all potential fixed assets. Legal ownership is not the sole determining factor.

The threshold will depend on an assessment of materiality. A further consideration with respect to the threshold limit is the effect of inflation both in the future for future capitalisation and in the past when identifying fixed assets to be included within the register. Generally the threshold is applied carte blanche with no adjustment for inflation.

Fixed asset information has to be further sorted and enhanced to provide relevant data on which to base capital charges. This is a time consuming and laborious task, which will require the co-operation of each section within the organisation.

Procedures should be established to control and ensure the security and integrity of the asset records both as it is being set up and afterwards in line with capitalisation policy. Disposals, transfers and amendments should be properly authorised and checked. This will include identifying staff with the specific responsibilities and the design of appropriate authorisation documentation. It will also require procedures to meet the monthly management reporting requirements of the organisation and allow appropriate monthly capital charges to be calculated and reported.

The fixed asset records will need to be capable of withstanding physical checking. Internal Audit should be consulted with respect to the extent of their involvement.

Valuation

Application of the UK Government Accounting for fixed assets requires them to be revalued each year at net current replacement cost. Thus it

requires a current valuation to be applied or alternatively the asset may be indexed from cost using an appropriate index. The current valuation is the better of the two alternatives when determining net current replacement cost however it is more time consuming and may have additional costs attached to it.

Unfortunately, obtaining a valuation is not as simple as it sounds. For example how do you put a value on a historical monument? Such assets have been termed "heritage" assets. Under the proposed new Resource Accounting initiative which is also in line with Local Authority accounting for fixed assets they have been examined as follows :

"(They) are those assets which are intended to be preserved for future generations because of their cultural, environmental or historical associations. This definition potentially covers a range of assets from historic buildings to works of art. The principles on which heritage assets are to be valued pose some difficult questions. Modified historic cost is not an appropriate approach to the valuation. An alternative basis could be fair value. In some cases, where the asset is unique, this might be impossible to establish. However, to the extent that the asset has an ancillary functional purpose (e.g. where a historic building is used for offices) valuation may be more straightforward. But there is also the question of whether a purely nominal value (close to zero) would be more reasonable, for example where there was no prospect of replacement with a similar asset should the original asset be destroyed. Where the possibility of disposal arises, however, estimated market value would be appropriate. Specific accounting policies for heritage assets will be formulated to deal with each of these circumstances."

This has proved an extremely difficult area for accountants in the UK and no doubt will continue to provide reason for concern in the future.

Capital Charging

A capital charge is required to be applied on fixed assets. The capital charge consists of the depreciation element plus a notional cost of capital based on the average net book value of the assets. Currently for the cost of capital a notional 6% interest charge is deemed to be appropriate, unless the government body may be considered as operating as a purely commercial entity, in which a more commercial rate of return or interest may be applied.

To allow capital charging to operate effectively clear lines of responsibility for the use of assets needs to be established. The cost centre to which the capital charge relates must be identified. The asset may have several users over which the capital charge should be allocated for which an apportionment table may be created. The appropriate bases for apportionment of the capital charge should be formulated and agreed with the user incurring the charges.

Depreciation Methodologies and Asset Life

There are various acceptable methods of depreciation. An acceptable method or methods of depreciation will have to be established either organisation wide or dependent on the different classifications of assets. Similarly standard estimated useful asset lives to be used in the calculation of depreciation may be determined depending on the asset type.

There are no specific guidelines with respect to the depreciation methods to be adopted. It is up to the government body to chose the method which is most appropriate to their operations, asset types and pattern of consumption of those assets. There are rule of thumb guidelines with respect to asset lives for certain categories of asset which can be used to simplify the assignment of estimated useful life and provide guidance with respect to the average life expected from these assets. However if assets used within the organisation have an expected replacement date then this will determine the life of that particular asset.

Notional Income and Expenditure

The full range of goods and services provided by and to a government body on behalf of and by other government bodies or organisations should be reflected within the accounts in order to give a true presentation of the full costs of operations. To do this a "notional" amount is included within the accounts where there is no actual cash charge. For example, a notional cost should be included in the accounts relating to external audit. This can be a difficult area of expenditure to substantiate and bring into the accounts as the government body is relying on another organisation to provide cost figures which are not based on an actual or potential cash payment. In order to alleviate this problem government bodies are expected to enter into Service Level Agreements (SLAs) with other government bodies who provide goods and services to them prescribing the goods and services and the charges which are to be incurred.

Setting Up the Accruals Accounting System

Coding Structure/Chart of Accounts

As part of the development of an accruals accounting system a Nominal/General Ledger coding structure or chart of accounts has to be established to meet all the new financial and management reporting requirements.

The purposes of the chart of accounts is to allow the appropriate collection and analyses of financial and management information,

- to allow the production of the Annual Accounts,
- to produce a historical analysis of expenditure which can be used as a basis for the preparation of realistic budgets,
- to allow the Agency to monitor and control its expenditure against budget, and,
- to supply the management information (costing) system with relevant data.

The coding structure will have to reflect the organisational structure, operations and outputs of the organisation to be capable of producing meaningful financial and management information to responsible officers internally within the organisation, and externally meeting its financial reporting requirements in terms of its Annual Accounts.

The coding structure set up will impinge on the information available for management reporting, therefore both management and financial requirements can not be totally segregated in the construction of a coding structure.

In order to develop an appropriate cost centre coding structure to allow the collection and reporting of financial and management information, a clear organisational structure outlining the hierarchical responsibility levels in terms of budget holders and authorised purchasing personnel needs to be established and agreed within the organisation.

Consideration should be given to identifying the lowest level within the organisation to which costs may be directly recorded and which are required in relation to costing/charging mechanisms. The purpose of identifying the lowest posting level is to ensure that financial information is collected appropriately to feed the costing which will be carried out in

combination with management information on operational activity and for the purposes of creating meaningful budgets. Budgetholders at all levels should be involved in this review to ensure that the financial system will contain the financial information expected to be presented in all reports produced.

Existing coding structures will either have to be reviewed, amended and enhanced or totally revised. The coding structure will have to allow for the distinction between capital and revenue and to bring in relevant Balance Sheet accounts. Additional accounts will also have to be included to take account of full costs through the inclusion of relevant notional expenditure.

The structure of the chart of accounts will depend on the capabilities of the report writing facility of applicable accounting software and on the availability and the flexibility of coding digits. As a result the structure of the account codes may be flat or hierarchical. If the report writing facilities of the accounting software are restrictive or limited then account code hierarchies have to be developed to summarise information to allow the report writer to present the information in the manner required.

Month end adjustments

The volume and pattern of accruals and prepayments including other regular month end adjustments needs to be investigated and assessed to determine whether it is worthwhile each month to spend time collecting and calculating these if they are not going to make a material difference to the presentation of the monthly information and may serve only to delay the reporting process.

Procedures, flow of information and redesign of forms and documents

With the introduction or change to any accounting system the procedures surrounding the system should be reviewed to ensure that they are still applicable, efficient and effective. The mechanisms allowing the flow of data to and from the accounting system within the government body to other systems internally and externally must be examined, updated and tested. Similarly the forms used in the transfer, collection and reporting of information should be reviewed.

Opening balances

The opening balances for the first accruals accounting period need to be prepared on an accruals basis. It should be cleared with Treasury and

Audit if in the presentation of the first set of accruals accounts the Balance Sheet (and associated notes) is expected to have appropriate comparative figures, for the previous period, represented by the opening balances and whether the Operating Cost Statement and Cash Flow Statement (and associated notes) is expected to have comparative figures also.

Budget allocation

Once the purchasing/budget responsibility levels have been established then the overall organisation budget needs to be disaggregated over the new coding structure and input to the accounting system to enable the appropriate monitoring of costs against budget.

Training and Acceptance

Training is a vital component in any change in accounting systems. Training should not only be specific in relation to the actual changes taking place in the accounting system but also on the introduction of an accruals accounting system, training should be provided on basic accruals accounting concepts and theory to enable the users of the new accounting system to gain a better understanding of the system, the reasons for the change and the benefits to be achieved.

Ideally the personnel involved in the new accounting system should be involved from the beginning and consulted during the determination of the requirements, development and implementation of the system, so that they can take ownership and accept the system once it has been implemented.

To Conclude

The time and resources required to move from a cash based accounting system to an accruals based accounting system should not be underestimated. It is a fundamental change in the nature of accounting and involves many new concepts, rules and regulations but also greater flexibility in interpretation of accounting treatment. It requires a build up of knowledge and expertise, the support of the people working with the system and those receiving information from it in order to make the change a success.

FISCAL POLICY REFORMS: A BRIEF ANALYSIS

Mushtaq Ahmed, FCA*

1. The Future Lies in Asia

All the economic performance indicators point to the high probability that prominence is going to shift from Americas and Europe to Asia in the next decade. We are already seeing the Asian Miracle actually happening. Among the newly -industrialising Asian countries, Taiwan and China topped the list by achieving an average GDP growth rate over the years 1975-93 of about 20%, Malaysia in the Southeast Asia of about 13% while Pakistan of about 8% in South Asia. Other nations in the South Asian belt have lagged behind but will not do so if they keep opening up their economies in line with what is happening in other developed and developing economies of the world. An analysis of the elixir of success administered to the economies of these successful countries in Asia was and continues to be a compound of Government's near - non-interference strategy, attractively low rate of taxes, sheer hard work and high rates of savings. The Government and its all - pervading bureaucratic machinery was there to help rather than hinder economic pursuits of the people. Coupled with this were a set of low tax rates to attract people to increase their income and wealth - whereby there was no charm in tax evasion and a strong check prevailed on the creation of black markets and black wealth. The combination of these two prompted the people to work hard with all the zeal at their disposal for their personal well being which, in the final analysis, led to the prosperity of their countries. These then led to genuine increases in nation's income and wealth and from there to a high rate of savings ready to be used in further investments by putting the savings into the wheels of economic production. It was as simple as that.

2. Bangladesh Lagging Behind

Perhaps it is too much to ask why Bangladesh missed the opportunity to join the club of "Asian Miracle" performers or the Asian Tigers, namely, Singapore, Taiwan, Korea, Malaysia and Hong Kong. A simple answer to this question will be that in Bangladesh none of the four elements of the elixir was present and no worthwhile attempt was made to create them. We are gradually trying to catch up the missed opportunities by adopting reform measures which largely remain in the clutches of the bureaucratic tangles. In this paper reforms only in revenue generation will be in focus.

* Tax Consultant and Partner of S.F.Ahmed & Co.

Our resource envelope has four basic and recognised tracts of inflow : foreign aid, direct inputs from international investors; domestic savings; and tax collection. We will review bottlenecks that stand in the way of augmentation of each. It is certainly not a matter of pride for us to note that even in the current fiscal year foreign fund inflow is budgeted at a significant percentage of the national expenditure - national because the Government collects 97% of the total revenues and is responsible for incurring 93% of the country's total public expenditure. Foreign-aided projects get stuck up in the rigmarole of inordinate delays in project implementation machinery (even a TAPP processing and approval takes, on an average, in excess of 9 months) - realising very little that the question of foreign aid grants which we have been pampered with over the last quarter of a century is not going to last very long. Inputs from international investors and nonresident nationals meet, more or less, the same fate. Inputs in the shape of domestic savings is dismal, there being no or very little incentive for saving. Instead of being supportive, regulatory agencies like Board of Investment and Ministry of Industries (charged with the responsibility of issuing licences for setting up industries, trade and services and issuing work permits, etc), Bangladesh Bank (authorising and clearing foreign exchange transactions), Securities and Exchange Commission (permitting listing and issuance of shares, etc), National Board of Revenue (imposing and collecting taxes), Registrar of Joint Stock Companies and Firms (issuing registration for companies and branches), etc. and a variety of other similar agencies and bodies often tend to become counter-productive and inhibitive.

Before we go into the area of tax collection a mention must be made of our ignoring the existence of inputs of NGOs and of the parallel black wealth from all calculations of our GDP and of our being oblivious of their impacts on our national economy. One often wonders as to why inputs of these cannot be brought into or recognised in our national resource envelope. Along with this comes the question as to why the process of budgeting, accounting, monitoring and auditing of the use of this resource envelope cannot be made simple, straight-forward, logical and methodical to meet the needs of various levels of the Government machinery.. Why cannot we design a simple format for this monitoring which can be produced on a timely basis and effectively used by all levels so that necessary corrective measures may be adopted to remedy the situation - just like any other service industry. After all, a Government is basically a service industry engaged in welfare of the people.

3. Tax Collection Machinery

It is not the intention of this paper to go into the fissures in the revenue collection machinery of the Government which needs a separate in-depth

review to go into all its aspects. The focus will now be on the efficiency and transparency of our tax machinery and its administration and the steps taken by the new Government which came to power after a very long gap. During this long gap, one would imagine, its members would have prepared and kept ready for implementation a long list of steps for reforms. In order to take a close look at some of the fiscal steps taken recently we will try to assess the impact and implications of some of the prominent parts of the budget for the fiscal year 1996-97.

3.1. Future Directional Sense

A close look at the parameters of the budget in the Finance Act 1996, the first one from the present administration, reveals the new administration's cautious approach towards (i) disposal/down-sizing of state-owned enterprises (SOEs), (ii) privatization, (iii) infrastructure development, (iv) attracting foreign and private investment in energy, telecom, etc (v) harnessing national savings,(vi) handling the continuing operational losses and erosion of capital bases of nationalised commercial banks (NCBs) presently borne by the country's tax payers and cornering the loan defaulters, (vii) putting the parallel economy of undeclared black income and wealth into country's use and well-being, (viii) starting taxing large agricultural income realistically, etc.

We have often heard these sayings. It's all very easy to say "do more". When one does more, the warning is "haste makes waste". On the other hand, when one is cautious, the comment is "any old plumber can do this job". Or, still another: A Finance Minister has to act with full political consensus otherwise he gets drowned and takes his government with him. But the hard facts of reality demand actions and, that too, on time - otherwise they are of little value.

People would have generally supported the reforms and endured the hardships now. In another year's time the initial euphoria of the change in administration will be over and then it will be too late to introduce hard reforms and the nation will miss the bus - it's late already.

3.2. Transparency in the Taxation System

All laws are made for the welfare of the people but any law can be abused if its implementation is faulty. I strongly feel that our tax laws suffer to some extent from this malady. Even if we leave aside the manner of collection of indirect taxes like customs duty and supplementary duty and, to some extent, VAT where things can be

interpreted to the detriment of revenue collection, the simple area of collection of direct tax like income tax too has been made extremely complicated. A small list is presented on some of the questions that may never be answered satisfactorily but do nevertheless emerge in the minds of the tax payers:

- What is so biblical about the magical number of last year's and/or trade-or industry-average GP % that it can never vary for the traders, manufacturers and the like (banks and others should thank their stars for not being caught so far into this GP % net) ? Why should the turnover be increased year after year to arrive at that magical GP % ?
- Why should determined, assessed and finalised refund cases not be touched on the basis of unwritten orders of higher authorities ?
- Why should assessment orders, otherwise finalised, be kept pending for years on the plea of verifying certified tax deductions with depositors' challans and letting the assesses hang in suspense ? Assesses include multinationals and assessment orders are sometimes held up for a number of years despite submission of Auditors' Certificates under section 82 of Income Tax Ordinance 1984 which exhorts the assessing officers to accept and expeditiously complete the tax returns as filed by the assesses without raising any questions whatsoever.
- Why would there be a veil of secrecy behind NBR circulars ? While NBR circulars should be freely available to the press and made saleable publication for the general tax payers and public there is no established practice of reaching these to the taxpayers. This can easily be coordinated by the recently commissioned Tax Counselling Centre.
- Why should fully authorized, documented and properly accounted for expenses be subjected to indiscriminate formula disallowances? This has no validity in modern state of computerised accounting and very high levels of internal controls and record keeping .

The moment returns are filed, an indiscreet game of mutual distrust and suspicion starts between the assesses and the assessing officers culminating into creation of unnecessary paperwork. Why can't we be open and transparent to each other where the collector knows what to collect and the payer knows what and when to pay.

3.3. Impact of Budget Announced in August, 1996

The impact of this budget on various items related to certain economic sectors and allied areas may be summarized as follows :

Snapshot :

- Highest customs duties brought down by 5% from 50% to 45%
- 33% to 94% cuts in customs duty touching 13 different sectors
- Tax holiday for expansion units-Sale of bonus shares made tax free
- Quota reserved for nonresident Bangladeshis for investing in local shares
- Foreign investors' lock-in period removed-2.5% corporate tax rate reduction for banks, nonresident companies, etc
- Application of VAT expanded - Personal tax-exempt limit raised by Taka 5,000 to Taka 60,000/annum.

(i) Perpetuation of the nationalized sector

It was envisaged to give the infamous state - owned enterprises (SOEs) another chance by strengthening the planning system and by toning up the management in the nationalized sector.

It is not clear why and with what favourable signals the SOEs were given another chance of wasting scarce national resources considering their past record of having an unsatiable appetite for gobbling public money and creating insurmountable mountains of colossal loss and wastage.

(ii) Allocation of agricultural subsidy fund of Taka 100 crore for poverty alleviation and another Taka 100 crore for micro-credit

Manifold uses of the agricultural subsidy fund of Taka 100 crore were planned to be subsidization/rehabilitation of (a) 80% cost of farm irrigation and other agricultural machinery through the channels of participating banks, (b) farmers affected by natural calamities, (c) agricultural output and input prices, (d) cost of fuel and infrastructure for use of irrigation equipment through command area development, (e) cost of urea fertilizer, and (f) development of fishery and livestock subsectors.

It was also proposed to allocate another fund of Taka 100 crore from revenue and development budgets as the capital for the proposed organization to supervise the government loans provided for micro-credit.

The intended uses of these two funds are pious but the utilisation of the funds will require full transparency and monitoring with provision for awards and punishments so that the Taka 100 crore credit debacle of early 1980's through the nationalised commercial banks is not repeated. Where is the machinery to implement, oversee and monitor these funds? It would be suicidal to press Taka 200 crore in gear without putting the control machinery in place.

(iii) Corporate tax rates

Keeping intact the previous tax rates of 35% and 40% respectively for publicly-traded companies and non-publicly-traded companies, the rate of 47.5% for banks, insurance companies, financial institutions and non-resident companies was slashed down by 2.5% to 45%.

The tax rates are still high and their multiplicity is confusing. It was expected that these rates would be uniformly brought down in the vicinity of, say, 30% or so generally at par with other fast developing countries in the region.

3.4 **Anomalous situation in taxation of banking and other financial institutions**

(i) Bias in tax rates against non-resident companies

The rate of 47.5% for banks, insurance companies, financial institutions and non-resident companies was slashed down by 2.5% to 45%. In comparison, publicly-traded and non-publicly -traded resident/local companies continue to pay taxes at 35% and 40% respectively. The discrimination of 5% against banks, insurance companies, financial institutions and, specially the non-resident companies is not justified and works as disincentive for foreign investors.

(ii) Stopping the taxing of banks' doubtful interest income falling due on overdue and stuck up loans, but making it conditional to non-allowance of the bad debts

There was a time (prior to passage of June, 1990 budget) when, albeit followed since long, all provisions made in the books of account of banks were summarily disallowed for tax assessment purposes. One can see how big a damper it was for the banks in accounting as an expense their known debt losses thereby inflating both their profits and the loan portfolios with all their inherent ramifications. In the June, 1990 budget

this disincentive was removed from our tax laws and a tax deduction for bad debt provisions, based upon the classification and approval of Bangladesh Bank, was allowed to the banks up to a maximum of 4½% (increased to 5% in 1994) under clause (xviiiiaa) of section 29 of the Income Tax Ordinance 1984 on the condition that such a provision is actually made in the books of account. Almost concurrently, Bangladesh Bank mandated that all doubtful interest income be no more accounted for as income in the banks' profit and loss accounts but be kept hanging in balance in Interest Suspense Account until actually realised in cash from borrowers making it then qualified to be treated as income and thus accounted for in the banks' books of account as well as profit and loss accounts. But the tax department started, and to date continues, the practice of adding such doubtful, notional and unreal income to the actual and realised income of the banks and equally taxing the sum of the two types of income - one unreal, the other real.

Considering this tax treatment as highly unfair it was decided in the 1996-97 budget by an amendment to section 28(3) not to tax such Interest Suspense any more. Up to this, the decision was fully justified and very fair - although long overdue. But, surprisingly, the justice done with one hand was, at the same time, taken away by the other. The decision not to tax Interest Suspense was made conditional to not allowing the legitimate deduction of 5% provision for bad debts by adding a fresh proviso to the said clause (xviiiiaa) of section 29.

What therefore happened is that insertion of the said proviso negated the whole thing by equating Interest Suspense with provision for bad debts made in the books of account of the banks thereby taking the matter back to the proverbial square one. It must be realised that a bank's claim for provision incorporated in its profit and loss account has absolutely nothing to do with its Interest Suspense not incorporated in its profit and loss account as the amount of provision incorporated in its profit and loss account does not include Interest Suspense. The two elements are two different things and attempting to counter or balance one with the other is not only illogical and unfair but wrong.

(iii) Expansion of the VAT collection net

Value - Added Tax (VAT) was collected only at the import and production stages. It is now being, step by step, expanded up to wholesale and retail levels.

Previously, VAT was levied on 29 types of economic services. It was

extended to include services rendered by shipping agents, audit and accounting firms of Chartered Accountants, consultancy and supervisory firms, leasing companies as well as traders in motor cars, airconditioners, dish antennas, etc.

Among the professionals only consultants were brought under VAT. It is highly unfair that other professionals like doctors, engineers, lawyers, etc were left out. They should be likewise inducted.

4. Some Conceptual Suggestions for Reforms in Taxation

(i) Revenue generation

- Broaden the direct tax base by lowering tax rates and over-dependence on international trade and transactions.
- Reduce threshold of VAT from Taka 15 lakhs to Taka 10 lakhs.
- Increase VAT coverage and impose it on all domestic goods and services up to the retail stage - but exempting primary agricultural products, basic food items and educational items.

Impose/ increase supplementary duties on luxury, semi-luxury and non-essential goods and services.

(ii) Legalising black money

Legalise black money by allowing Bangladesh Bank or the nationalised/private commercial banks to accept fixed deposits for a minimum period of five years at an interest rate 2% lower than the current Bank Rate and to tax such deposits at a flat rate of 15%. No questions are to be asked concerning the source of such taxed funds (when invested in industries, infrastructure development activities, trade, commerce, rural/urban employment generation activities, etc).

(iii) Taxing agricultural income

Agriculture, more specifically, non-farm activity, still remains an untapped source of revenue to the Government. Though productivity of land has increased manifold in the last few years through the application of artificial manures and access to irrigation facilities, virtually no tax comes from agriculture. Initially, to tap this source effectively, consider setting up of an income tax office, however small it may be, in each Thana. In places where income tax offices already exist, a sub-circle

could be created for dealing with assesses who have income from agriculture. Besides, in place of the existing 60%, cost of production should be allowed at 50% of the market value of the produce of the land.

(iv) Agricultural sector

Promote farm-related industries and those engaging in infrastructure development activities by supporting the firms with tax holiday/accelerated depreciation allowances. Along with this, liberal bank credit and marketing support will be needed for the sector.

(v) Promotion of (foreign and local) investment

- Corporate tax rates are high and their multiplicity is confusing. Instead, use a low uniform rate, say 30%, for all companies.
- Make all dividends tax-free.
- Promote accelerated depreciation allowances (in place of tax holiday schemes).
- Allow a tax credit for reinvestment, for all business entities including non-corporate ones.
- Reduce maximum corporate capital gains tax rate from 25 % to, say, 15%.

(vi) International trade

- Reduce the burden of taxes on international trade and transactions, specially customs duties and other non-trade-neutral taxes.
- Ensure tax-exempt status of inputs by zero-rating import taxes and VAT.
- Introduce trade-neutrality of VAT.
- Fix 30% as the standard customs duty rate (top rate 35%, lowest rate 0% - 25%) (existing range : 7.5% - 50%). Limit the zero-rate exemption or zero-rating only for inputs of exportable products. Balance tariff reduction with a justified level of devaluation.
- Abandon letter of credit authorization (LCA)/import permit (IP) fee charged @ 2½% of import value (this is not matched by any tax on domestic products and is therefore protective).
- Exempt exporters from all capital goods imports from advance withholding of income tax @ 2½% on import value.

- Drop the mandatory requirement of certification of a minimum economic life for imports of second - hand/reconditioned machinery.
- Allow duty-free import, temporary admission or duty drawback facilities for production inputs, including raw materials, intermediate goods used in production processes and various types of supplies and spare parts at tax-free world market prices.

(vii) Education enhancement

Make fully tax-exempt all imports and businesses dealing in computers and related technology.

(viii) Industrialisation

- Give incentives to firms/companies willing to invest in resource-based industries, infrastructure development, export-oriented manufacturing, and technology - intensive manufacturing and those willing to locate in remote areas of the country.
- Allow duty-free importation of inputs to business enterprises located outside export-processing zones or special economic zones, including various types of bonded warehouse arrangements and duty-waiver or duty drawback systems.

(ix) Privatization

Allow tax holiday/ other tax incentives to buyers of SOEs for initial 5 to 10 years. Along with this, working capital support and full management authority, including dealing with surplus/redundant employees, will be required by the buyers.

(x) Assessing practices

Tighten tax administration. Introduce independent sample audit of assessment /appeal orders - taking into account factors like time taken, number of hearings assessee called for, use of fair play and justice.

(xi) Refunds

It is provided that refunds, after they are established, are to be made within a period of 30 days. But in practice this provision is never or very seldom implemented. All executive impediments in implementing this provision should be removed and refund vouchers issued along with demand notices.

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COMPUTERS AND MANAGEMENT

Saiful Islam*

Introduction

This article is in two parts. The first part looks at various aspects of and issues relating to Management Information Systems. The second part looks at the use of computers by the management of various organizations particularly businesses and suggests the best general ways to go about the business of using computers.

The term system expresses a way of achieving a stated goal. It can also be stated to be a collection of inter-related components. Business (and this term includes much of government procedures) systems include: 1) Payroll system, 2) Personnel system, 3) Accounts Receivable, 4) Accounts Payable and 5) Stock and Inventory. These are the major areas of business application of information systems. Management Information Systems are systems that use the above and other formal information processing systems to get information quickly to the relevant quarter so that enterprise needs can be met. Computers are often, but not always, used to implement Management Information Systems. It is important for Managers, whether from the Private Sector or from Government, to understand how to use them for the sake of the proper running of the enterprise.

Management Information Systems

What is Management?

A typical definition of management is "the direction of an enterprise through the planning, organizing, controlling and coordinating the human and material resources through proper decision making towards the achievement of pre-determined objective(s)." While there is no single theory that has all the answers to the question of what management is, however, the major management functions or tasks can be enumerated as follows: Planning, Organizing, Coordinating, Staffing and Motivating, Controlling and (in the process of all of these) making decisions. There are several sizes of businesses/organizations ranging from the one-man business to huge multi-national corporations and entire governments. In the larger enterprises and organizations there can be identified three levels of management: top management, middle management and lastly the operational management level which looks after the day to day affairs of the organisation. Much of information theory deals with the development

* Senior IT Consultant, RIBEC Project, Finance Division.

of formal information systems that will channel the flow of information between the various levels of management.

Decision making can be said to be the essence of management. Three factors greatly influence decision making in an organization: 1) External or environmental influences, 2) Risk, 3) Un-quantifiable factors. Decision making in an organization can be said to be a process that follows certain rules: a) Understanding the background, b) Recognition of the problem, c) Analysis of the alternatives, d) Selection of solution, e) Acceptance and implementation. There are several ways in which decisions can be classified, we will use two major classifications, they are a) programmed decisions and b) non-programmed decisions. The first are such decisions which are relatively routine and for which decision rules and procedures can be devised. The second are generally non-repetitive decisions, often with high levels of risk and where many influences both within and outside the organisation have to be considered.

Management and Information

All levels of management need reliable information on which to base decisions, to plan, to organise, to control. As organisations grow there is a shift from informal to more formal modes of disseminating information. Not only is it impossible in a large organization to gather information directly by observing and experiencing pertinent events in the informal approach, the more formal approach has the advantage of consistency and reasonable accuracy. However, the formal approach may have the disadvantage of not meeting the exact requirements of the problem in hand, lack of flexibility, time lag from event/operation to report and lastly, cost.

What is an MIS or Management Information System? One definition could be "it is an information system using formalised procedures to provide managers at all levels in all functions with appropriate information from all relevant sources (both internal and external to the firm) to enable them to make timely and effective decisions for planning, directing, and controlling the activities for which they are responsible." The definition clearly emphasizes that it is the end use and not the manner of gathering information that is important. Various factors influence the use and form of MIS in an organisation, such as type of organisation, structure and levels of the organisation, degree of decentralisation and centralisation, the degree the organisation interacts with or is dependent on the environment, what kind of decisions need to be taken, what is the scale of operation of the organization etc. It should also be remembered that MIS has no

intrinsic value of its own. The true measure of its success lies in its contribution to increased profits, reduced costs and to the more efficient utilisation of resources in an organisation. It should also be noted that a computerised or otherwise mechanised MIS must demonstrate that the cost savings or increased profits from the information delivered by it is actually greater than the cost of installing the MIS in the first place, i.e. the cost-benefit ratio is in favour of the benefit.

The higher the level of management the more they are likely to require planning information from an organisation, the lower the level of management the more likely they are to require control information. These two types of information differ as to coverage, time scale, amount of detail and orientation. Additionally, reports from an MIS can be classified into three broad categories: reports producing passive background information (asset records, annual production statistics etc.), reports producing control information to influence and guide (cost variance reports, current sales trends etc.), reports which provide statistical data for forecasting, corporate planning etc. In designing reports in an MIS, one must take into consideration the following features of a report: 1) Destination (who is it for?), 2) Uses of report (what will the report be used for?), 3) Urgency of report (what effect will it have if it is delayed), 4) Detail (not to be confused with accuracy - what is the minimum amount of detail necessary for this report?), 5) Frequency (how frequently is it actually required).

General System Concepts

To design and operate optimal MIS an understanding of the system concept is required. The word *system* has already been defined in the introduction to this article. Several definitions exist and the common element in all of these definitions is that they all contain the elements of *parts* and *relationships*. Systems exist in all aspects of life and in all disciplines like biological systems etc. Why use the systems approach in MIS (or for that matter in anything else)? The use of the systems approach avoids taking a piecemeal approach to problems because of the awareness that there are interactions between parts of the system, that the over-all system characteristics are usually greater than the sum of the characteristics of the individual constituents, and that alterations cannot be made to some parts of a system without considering the effects on the system as a whole. There are many ways to classify systems but the ones most relevant to MIS are: a) Deterministic or mechanistic systems where the systems are the simplest and output most predictable as for example, a machine or a computer programme. b) Probabilistic or stochastic systems: where the systems can be predicted somewhat from the previous state but

can only be described in terms of probable behaviour and there is always a certain degree of error attached to the prediction of what the system will do. It is to these types of systems to which most control effort is directed.

c) Self-organising/ adaptive or cybernetic systems: these can be described as probabilistic systems which continually adapt to the environment. Living things and dynamic organisations fall within this category. In terms of relationship with the environment, systems may be classified as: 1) Closed systems or systems which do not exchange material, information or energy with their environments and 2) Open systems which interact and exchange information, material or energy with their environment. There are few true closed systems in MIS. Closed systems may help in defining system condition in some cases like the manufacturing division of a company.

All systems are composed of inputs, processes and outputs. When analysing systems, we need only to consider the inputs and outputs relevant to system objectives and those outputs which are considered significant are important. All systems have boundaries and those features, areas and constraints which define or delineate a system can be considered its boundaries. All things outside a system's boundaries can be considered its environment. Systems exist at an infinite number of levels of scale. Thus it may be possible to first define a system and then define a sub-system within that system as many sub-systems probably exist within the system. Often sub-systems are sequential, output of one sub-system can be the input to another sub-system. There is also a possibility that a sub-system may belong to more than one system, this overlap needs to be recognised in designing processes around one of the systems concerned. Changes in one will obviously bring changes in the other. Such overlaps may increase efficiency but often at the expense of flexibility. Since each sub-system has many inputs and outputs, many interconnections may exist within the same system. Thus a very large number of interconnections can exist in large organisations causing difficulty in managing the magnitude and complexity of such interconnections. It may be required to de-couple some sub-systems from others.

The systems approach is objective oriented like management itself. All systems require to be objective oriented. Over-all objectives of the organization need to be defined first. Conflicting objectives at this and subsequent stages of objective making need to be resolved. Quantification of objectives with the assistance of economic criteria helps in reducing conflicting objectives. Sub-system objectives also need to be defined but not at the cost of over-all system objectives. Sub-optimisation occurs when

the objectives of the sub-system are pursued to the detriment of over-all system goals. This can be avoided by ensuring that the over-all system goals are dominant.

Control of Systems

Decision making is information processing and, therefore, decisions may be considered as information inputs processed according to rules, judgment and knowledge to produce decisions and ultimately, outputs. Information equivalents exist for all physical inputs and outputs. Information processing in this sense, and not the narrower sense of computer processing, is a significant part of an organisation's activities and uses a great deal of its resources. Control is based on information and information processing is carried out by all levels from top executive to the shop floor operatives.

To be successful any system must produce outputs that meet its objectives. To do this planning must take place and when the plans have been implemented, control must be exercised to ensure conformity to the plans. The basic elements of this control are: i) a standard specifying expected performance, b) a measurement of actual performance, c) comparison of the above two, d) report of deviations to a control unit (for example, a manager), e) a set of actions the control unit can take to change performance if it is at present unfavourable, f) in the event of failure of the control unit actions designed to produce the correct performance, there must be a procedure for higher level action (e.g. by changing control unit, or revising performance standards, or introduction of more or improved resources). The action whereby relevant information is fed back to the concerned control unit is called the information feed-back loop. Such feed-back systems require sensors to measure and report performance, *comparators* to compare actual performance against budgeted and targeted performance, *effectors* effect corrective action after the actual performance is weighed against the planned performance (effectors are usually managers).

Feedback which tends to dampen and reduce fluctuations around a norm is termed negative feedback. The corrective action would be in opposite direction to the error. Because the action of negative feedback tends to smooth out fluctuations, such systems are inherently more stable and more likely to conform to norms and standards. It tends to become a homeostat or a device for holding a system between desired limits so that it becomes self regulating. Positive feedback is that feedback which works in the same direction as the deviation and acts as a reinforcement of that

deviation. Positive feedback in theory tends to turn a system unstable and eventually go out of control but at the growth stage of an organisation where standards are not yet tested and reliable such feedback is beneficial in that it encourages the formation of new standards. The success against expectations of one particular product out of a brand mix is an example where positive feedback early on in a company's life cycle forces changes that make the successful product the dominant product in the particular company's repertoire thus allowing for the over-all growth of the company as compared to the situation where the company was forced to rely on its originally planned mix of not so successful products. It is also important that the time lag between output and corrective action be as short as possible. Companies with too many organization levels or layers of management are not likely to respond fast enough when corrective action is demanded.

There are several types of control systems. The most common among them being the closed loop system where output measurement is fed back to make appropriate alterations in the input. An example would be the control of inventory levels in a store at a predetermined fixed level. The reverse of this is the open loop system where no feed back loop exists and control is external to the system and not an integral part. Open loop systems are not consciously designed into business systems but may occur where the scope of corrective action is beyond the scope of the control unit e.g. where staff reductions may be required to control costs in a factory but where such decisions would have to be enforced from outside the factory because the factory may not have the authority to do this itself. Exceedingly complex, self-regulating systems are called cybernetic systems though, strictly speaking, cybernetics is the science of communications and control in general. Complex systems are generally believed to require control systems at least as complex as the systems themselves for controls to be effective.

The human aspects of control systems are vitally important for their success. Meaningful standards, full participation by those concerned, frequent feedback etc. will help to ensure an efficient control system. Control systems often work imperfectly in practice and are frequently ignored by management. The major reasons are often that the information received by management cover items outside their control or is received too late to take effective action.

Information and Communication

Information is required for planning, control and decision making. Unfortunately, most information comes as data first and must be

processed to make it usable information. The difference between data and information is that information is usable and meaningful data while data is just characters used non-randomly to represent quantities, action, things etc. Information has several attributes in that it reduces uncertainty, has surprise value, may be correct or incorrect, may be incremental, confirms or corrects past information etc. The quality of information varies due to bias, error and timing. Additionally, the presentation of information must be tailored to suit the recipient. In the design of any communication or information system it is vital to fully consider the recipient and the use he is expected to make in the information. It must be remembered that information has no value in its own right. It is what it is used for that counts. The value of information can only derive from improved decisions as a result of the information provided.

Humans are information processors and can be easily overloaded. After a certain loading of information inputs, humans put up effective screens and subsequent information, however important, might not be accepted. To avoid all this, the amount of information must be kept low, excessive detail must be avoided, necessary calculations to relate the data to actual situations must be done before-hand, trends should be shown etc. Distortion, which is termed as noise in communication theory, exists in virtually every channel of communication used. To counter this, some redundancy but not too much is desirable in all communications. Entropy in communication theory is a quantitative measure of uncertainty. If only one outcome of an event is possible, the entropy of a message regarding the outcome of that event is zero. The greater the possible outcomes, the greater the entropy. MIS designers have to understand that perception of information may vary from what the MIS intended. Perception is the understanding one has of a situation or of information.

Models and Simulation

The use of models to simulate possible situations is an important aspect of MIS. It is important to understand that models and simulation do not allow us to see into the future but they do help in answering the question "what would happen if.....". In dealing with models one must remember that a model is a representation of reality and that business models deals with symbolic models representing reality with numbers, charts, equations etc. Models are summaries of reality and do not include all the variables of the real life situation, only the critical ones. Model building is more dependent on business knowledge than on mathematical ability. The use of modeling and simulation in the corporate world of developed countries is increasing because of the advantages of modeling and simulation.

Models are cheap ways of examining various plans and options and systems designs. Models are generally of two types: descriptive and optimizing. The first simply outputs various results based on the inputs given, the second or optimizing type generates a solution which is optimal with regard to the specified objectives. Simulation makes the model 'come alive' by inserting input values and monitoring results or outputs. The final objective of model making and simulation is to produce an optimum design or plan which produces the largest value of a particular economic criterion such as profits, lower costs etc. in the corporate model. In developing a model and simulation, the sensitivity of the optimum to changes in input values and design changes should be established. The best design is one which is not sensitive to changes. It must be remembered that the best model is the simplest one that does the job. Computers play a considerable part in simulation by enabling many more options and values to be tried.

Behavioural Aspects of MIS

The introduction of MIS in an organisation is the implementation of change. Human beings see change as uncertainty and threatening to themselves and it is common to resist or resent any change. This resistance to change often results in disruptive behaviour. This behaviour can take the form of aggression (e.g. physical sabotage), avoidance (e.g. top management ignoring the new MIS both in the design stage and implementation stage) and projection (e.g. blaming the new MIS for all the problems even when these problems existed before). Dysfunctional behaviour is usually preceded by several events or extant conditions after the introduction of an MIS. These include organisational changes or disruption due to changes of status and responsibilities or change of departmental boundaries, personal characteristics such as high average of employees or high average length of service with no previous organisational changes, lack of top management commitment, involvement and support and an unthinking, heavy-handed approach to the introduction of the new system to the staff and employees of the organisation. Dysfunctional behaviour can be reduced or eliminated by the creation of a cooperative spirit, genuine participation and dialogue with all concerned, full training to all those affected by the new systems, clear managerial support from the top levels particularly, avoidance of undue pressure to implement the system within unrealistic deadlines and the system must fulfill the needs of the user and individuals must be allowed to retain a sense of dignity and the feeling of making a worthwhile contribution to the organisation.

Corporate Planning and MIS

Corporate Planning is the systematic planning of the direction and total resources of an organisation so as to achieve specified objectives over the medium to long term. Corporate Planning has strong affinities to system theory and relies on a well developed MIS. Corporate Planning consists of four well defined stages: 1) the assessment of organisation and the environment stage (the position audit), 2) the organisational objective setting stage, 3) the generation and evaluation of alternative plans and 4) finalization of the Corporate Plan. The long term Corporate Plan is implemented by short term operational plans complete with objectives, budgets, targets and monitoring and control systems. Corporate Planning forces fundamental rethinking of the organization's objectives and the means that may be undertaken to meet these objectives. For example, one may ask the question at one enterprise if the target return on capital employed can be achieved merely by making the present business more efficient or will it be necessary to acquire higher growth or should loss making divisions be divested or should a combination of all three be tried etc. Corporate Planning does not remove the need for managerial skills and judgment. It encourages creative thinking and may involve substantial risk taking. Corporate Planning should not be seen as an end in itself divorced from the organisation. This could happen if all of management is not actively involved in the creation of the Corporate Plan and the actual process is left to corporate planning specialists acting in the technical role.

A Managers Guide to Using Computers

Computers and Computing in Perspective

It is important for managers to appreciate that *all* information can now be stored, processed and transmitted in digital form. Microelectronics based on the silicon chip has dramatically upgraded computer hardware performance, allowing computing power to be much cheaper and packed into a smaller space than with previous technologies. The effectiveness of hardware in solving managerial problems is, however, dependent on the efficiency, reliability and flexibility of *software*. While software has also advanced technologically, it has possibly done less so than hardware. The limitations of software needs to be understood by the managers who use computers. Users nowadays must also plan for the integration of telecommunication networks to their *information management* strategy. *****

The falling hardware costs and impetus to spread computing power into new applications have increased the sales and competitiveness of the computer industry. Experience from the first thirty or forty years of computing unambiguously argues that managers must be strong willed in resisting sales pressure to simply buy 'the cheapest'. Total system costs include hardware and software maintenance and the costs of extending the capabilities of the system and linking the system to communication networks must be considered. For historical and commercial reasons, a variety of software and hardware standards often incompatible with each other, have come into existence. These 'standards' - or, more precisely, this lack of standards - is a major limitation on the computer user's freedom of choice.

Ten lessons can be enumerated from the experience of computer users over the last three decades and should be heeded by managers when deciding on new computerisation:

- 1) Evolution not revolution. Progress towards computerisation should be at the relatively slow methodical pace that can be absorbed by organisations and should not be dictated by the rapid rate of technological innovation or the driving sales pressure from the system suppliers. This first lesson is much easier said than done. With the market dominance of a few players in software and some hardware (Microsoft and Intel for instance) and the rapid development of newer hardware and new versions of software, this lesson may be impossible to implement in present day circumstances.
- 2) Computer must be managed as a corporate resource playing a positive role in the central activities of an organisation and should not be regarded as the preserve of one area of operation or as purely an administrative overhead.
- 3) Computer systems should, wherever possible, be adapted to meet human needs, not vice versa.
- 4) Organisational behaviour and the 'human factor' must be given high priority in systems design and analysis.
- 5) Transient technological constraints should not become a strait-jacket to long-term systems developments.
- 6) Technologists must explain technical problems, opportunities and requirements in plain language to management and staff.
- 7) Management must take specialist technical advice into account in formulating its plans and should become involved in a dialogue with the specialist and not feel intimidated by the use of unnecessary jargon.

- 8) Hardware, software and systems standardisation is a vital factor in increasing the flexibility available to management in developing corporate strategies and selecting appropriate equipment to fulfil that strategy.
- 9) Management must take into account total costs of all aspects of developing, implementing, running and maintaining computer systems when selecting systems and when setting and monitoring criteria for judging whether the computer provides an acceptable return on investment.
- 10) Computing should form one aspect of a coordinated corporate strategy towards the collection, storage, processing and dissemination of information; the key words in this strategy are information management and information technology rather than just computer management and computer technology.

Setting Management Objectives

Senior management have an important role in creating the environment to manage computers and information technology:

- top management must not abdicate responsibility for managing technological developments;
- strong management leadership over technological innovation in the organisation is essential, it must also be accompanied by a vision of the over-all corporate need and with sensitivity to the human impact of new technology;
- the computer system and other information management techniques should conform to the same corporate objectives as does the rest of the organisation;
- information management should be seen as a key responsibility at the strategic planning level;
- the implications of technological change should be clearly analysed as early as possible and integrated into the overall corporate plan;
- the right level of responsibility should be given to managers concerned with introducing technological change to create new product (or service) opportunities or to improve the efficiency of an organisation's operation.

The main features of the factors that are related to the information management function and their relationship to the information management plan are enumerated below:

- information management is a central factor in determining the operational success or failure of an organisation;
- responsibility for information management must be taken at the senior- most level;
- top management backing is vital because information management will affect other management areas;
- strong but flexible guidelines on technical and human interface standards must be developed;
- information management must maintain a balance between corporate objectives, technological potential and the rate at which technical and organisational innovations can be assimilated;
- inter-departmental conflicts should be managed;
- corporate management has a duty to minimise the effect of any power struggle involving information management control. Task forces can be a positive method of resolving internal conflicts;
- information and technical managers should explain their policies in plain language; and
- other managers should gain sufficient insight into information technology to be able to challenge any unnecessary jargon.

There are six main phases in the life of a computer system:

- Deciding on the objectives: this will comprise of various answers to the question of why have a computer? Cost-benefit analyses, cost substitution analyses, value added analyses etc. may be used to answer the question. Social and external factors may also determine the answer to this question.
- Feasibility studies: generally as many of the staff and management of an organisation as possible should be involved in the feasibility studies. Perhaps one of the most significant aspects of it is to evaluate total system costs including: hardware, software, telecommunications, data collection and storage, outside technical consultants, total cost of staff involved in the system, special training for non-computer staff, conversion costs from current system, support and maintenance for current system, organizational changes that result from introduction of new system, site installation, accessories (stationery, printer ribbons etc.), crime prevention, data protection and general security measures, back-up contingency, insurance of system.
- Systems specification: managers should ensure that the technical aspects of systems specifications cover all important corporate requirements.

- Evaluation of suppliers: the commercial viability of suppliers and their existing customer base must be examined along with visits and other contacts with the existing customers of the intending vendors.
- Implementation: sufficient resources must be provided for system implementation. Managers should effectively monitor and evaluate implementation progress against the planned schedule.
- Post-implementation: the process of monitoring system performance, identifying benefits and problems, and evaluating opportunities for creating new services based on the computer's potential must be a part of routine company procedure.

Preparing for the Computer Service

One of the important things required to be done in preparing for the computer service is the preparation of the *feasibility study* on the introduction of new information technology. A 'typical' feasibility study should include:

- a 'management' summary to highlight the conclusion and recommendations;
- scope of the study and the applications and activities investigated;
- how the study fulfilled the original terms of reference, and the reasons why some objectives were changed or not fulfilled;
- nature of existing system-work procedures; equipment, staff, key performance costs, etc.
- features of existing system that should be retained;
- reason why certain aspects of existing system are inadequate;
- outline proposal for recommended system, explaining how it retains best features of current system and overcomes inadequacies;
- costs, procedures and schedules for changing to new system;
- summary of impact of new system on social, organisational, individual, staff and work organisation;
- benefits of new system in addition to those which cover inadequacies in existing system;
- cost/benefit justification of new system;
- summary of alternatives considered and reasons for rejection;
- equipment recommendations;
- personnel and training recommendations;

- schedules for designing and implementing the recommendations, and estimated cost and resources required;
- guidelines on any external events that might affect the recommendations and how the recommended system has been designed to be able to respond quickly and effectively to such changes.

The size and nature of the report will depend on the scope of the project and the target audience. The main report should be easy to read, succinct and avoid jargon, with study details presented in Appendices. Provided the feasibility study incorporates these checks, the decision on whether to accept, modify or reject it should be relatively simple: the final report should highlight most benefits, problems and doubts about the system. The emphasis on social and human aspects of the system, as well as economic and technical aspects, coupled with a strong involvement in the study from managers and staff who will be affected by the proposed system, should help to increase confidence in the recommendations. The feasibility study should not be seen as a once-and-for-all operation. The system must therefore be designed for changes as well as for efficiency, ease-of-use, reliability, and high performance.

A computer user has many options. In the early days of computing, there were few manufacturers and a small range of technical alternatives. Now, there are many alternatives, and choice can be difficult. In making economic judgement, there are key considerations:

- explicitly identify all component costs and try to compare *like with like* when evaluating alternative approaches. It should be remembered that total system costs are falling less rapidly than some hardware costs;
- give great weight to systems and suppliers with a proven track record and beware of promises of technological potential;
- develop a coherent long-term strategy and adhere to strict standards preferably those that have been generally agreed in the information technology industry. This will help to protect investment in systems;
- non-computer techniques can provide significant benefits;
- although the computer is a corporate resource, managers of activities using the computer must be encouraged to see how the system can help their own applications;
- senior managers must maintain tight control over the economic evaluation of using computers, even though some considerations relate to technical matters. This is best achieved by specifying, in the

terms of reference of the feasibility study, the elements that need to be reported on and by insisting that the report be easily assimilated by non-technical managers.

Manager must not be frightened by computer professionals and computer jargon. Much of the so-called 'technical' content of a feasibility study is concerned with business and organisational methods rather than computing capabilities and the computing technicalities themselves can also be presented to management in plain language.

Management should remain in control of the technical evaluation and specification by:

- sticking firmly to the objectives as specified in the feasibility study's terms of reference;
- being prepared to learn the basic principles and methods of systems analysis;
- setting strict standards on the way study results are presented;
- helping to establish the right environment which encourages cooperation between the feasibility study team and the managers and staff responsible for the activity being investigated;
- ensuring that results are evaluated by those using the systems, by the team responsible for the project as well as senior corporate management;
- insisting that the recommendations are based on objective analysis, not on opinions and prejudices;
- expecting all management questions to be answered without recourse to unnecessary jargon.

The human factor needs to be considered very carefully in preparing for the computer service. All levels of management and staff can be affected by a new computer service and their personal and group needs should be considered. Fears about the nature of computer systems, their impact on employment prospects, potential for reducing or eliminating some skill requirements and disrupting established working procedures could impose barriers to the introduction and efficient operation of the computer system. Such fears should not be dismissed or ignored. Where the fears are justified (for example, if it is necessary to reduce job opportunities in particular activities), the consequences should be clearly analysed and, if possible, steps taken to overcome adverse effects on staff; say, through retraining and redeployment or through humane redundancy provisions.

If practical human factors are taken into account in work organisation along with job design and the physical environment in which the computer service operates, the results should be a more efficient service and a more satisfied staff. Failure to give priority to these human factors has been a frequent cause of many irritating situations, inefficiencies and poor overall service in computer systems.

Human factor engineering is not just an additional factor to nicely round off a computer service but an intrinsic part of its conceptualisation and implementation. It is equally important as the economic and technical considerations.

The final steps in choosing a new computer system are vital. They include:

- drawing up the specifications for the tender;
- invitations to tender should be sent to potentially suitable suppliers;
- responses to tenders should be evaluated and a short-list drawn-up;
- final detailed investigations of the short-list should be carried out;
- the contract should be agreed and signed.

The specification for tender sent to potential suppliers should provide a detailed summary of the specification produced by the feasibility study and should include:

- a description of the organisation's operations and structure;
- objectives and scope of proposal;
- economic, technical and social criteria;
- implementation schedules expected;
- support services required.

Together with the tender invitation, the supplier should be provided with a specimen contract with a contents list that indicates the items expected to be covered in the suppliers proposal. This will assist in comparing tenders.

Providing the Computer Service

One of the most critical areas of providing a computing service is the provision for the requirements of specialist computing staff. In many cases where smaller computing systems are involved, there will be no need to employ special computing experts, although some retraining of existing staff is inevitable. Where computing experts are required, a special personnel plan should be developed to encourage a smooth integration of

commuting professionals with the rest of organisation. A careful analysis should be made of the special tasks to be performed, and staff found or trained to perform these tasks, rather than prejudging the nature of job functions such as 'programming'. The mix of skills for each particular task could be satisfied from a variety of sources whereas a rigid search for a person with one particular skill, such as 'COBOL programming on an IBM system' may be unnecessarily limiting. Particular attention should be paid to the 'computer service management' function and operations staff must not be viewed as 'second class' computing citizens.

In general, specialist staff requirements can best be met where there is a clear corporate information management strategy and in which a flexible career development policy can be implemented not restricted by artificial barriers between the 'IT professionals' and the rest of the organisation.

The final stages of preparing for implementing a new computing service have frequently been regarded as the least 'glamorous' aspect of a project. This has often led to a rush to implement the system using as few resources as possible and without maintaining the systematic, steady pace that should have characterised the process of identifying objectives, carrying out feasibility studies and selecting a suitable service.

Managers should keep their nerve in the last lap of what may appear to be long and exhausting race. Through an Implementation Task Force (which may consist of one person, part-time in a small organisation), a plan for introducing the service should be created and managed with systematic care and a constant eye on the long-term objectives of the organisation. Management commitment to controlling and developing the benefits of computing power should not end when the system goes live but should become as much a part of the natural management process as the preparation of annual accounts and the monitoring of corporate performance.

Managing the development and provision of a computer service involves breaking down the overall 'jigsaw puzzle' into discrete, interlocking segments. Senior management control is then maintained by devolving managerial responsibility for the development of individual sections of the total 'picture.' It is important to maintain a rigid, structured approach for interlocking all stages of the computing process, starting at the highest level of corporate information management policy and continuing through to the smallest program module.

In a computing project, there is likely to be a continual state of flux in the system objectives, the nature of the service being developed, and the user demands. There is a continuing progress, towards a computing service that meets the most important criteria. The fact that the computer system is aiming at a moving and sometimes hazy target is a major reason why a disciplined management control strategy is so vital.

An important aspect of this approach is to create organisational structures and allocate resources on the basis of the real value of particular functions and to avoid preconceived notions about the need for and status of particular departments. The computer is an agent of change and as such is continually changing the nature of the skills and work tasks that need to support the technology. Managers must not build an organisational structure to handle IT and computer operations activities which have evolved from a historical situation that may no longer be applicable.

Conclusion

Information technology touches on all aspects of social, economic and political life, and even the smallest computing service is likely to have to take into account some external factors. In addition, the general environment created by government policies and mass-media publicity can have a great influence on the scope for information systems development. For example, it is generally agreed that in a period of rapid innovation, the implementation of policies relating to housing, pension transferability, training, early retirement provisions, and other factors affecting the organisation particularly its staff lie beyond the control of any single organisation.

The potential of information technology to change the locations at which work takes place is great. It is now technologically possible to perform a considerable part of office work at home or in a local office. However, many social consequences will need to be tackled before such an option becomes an attractive one for individuals and corporations.

RECENT DEVELOPMENTS IN CORPORATE GOVERNANCE AND THEIR IMPACT ON MANAGEMENT PRACTICES

M. T. H. S. Iqbal*

Introduction :

The three decades of 70s, 80s and 90s are important for Corporate Governance in the USA and in the UK in particular. This period saw a series of willful malpractices by companies and corporate failures which clearly showed the poor state of corporate governance in general and internal control in particular and resultant enactment of regulatory acts to bring in discipline, control, accountability, and transparency in the management practices of corporate world.

Developments in the USA :

In early 1973, the Watergate Scandal revealed the malpractice of bribery by US companies to foreign government officials and politicians to secure contracts and stay in business. Many UK companies, registered in the USA, were also involved in similar malpractice. To prevent companies from such practices, the US Foreign Corruption Practices Act-1977 (FCPA) was enacted. It had two major provisions: (a) prohibiting bribery of foreign government or political officials; and (b) requiring management to devise and maintain a system of internal control that would be sufficient to enable them to avoid any charge of willful violation of bribery provision. In addition, the New York Stock Exchange (NYSE) reacted to prompting by the US Securities and Exchange Commission (SEC) and required all quoted companies to form Audit Committees by mid-1978. Most boards of directors of US registered companies reacted by (i) forming an audit committee; (ii) publishing a corporate code of business conduct; and requiring all senior managers to sign an annual letter of compliance and (iii) requiring the internal audit department (or sometimes another unit or the external auditor) to review the methods and measures by which managers establish and maintain control.

But the confusion over the meaning and implication of effective internal control remained. The idea of directors' report on internal control was scrapped after a protest in particular from directors who felt the report could be used against them in court and who considered it impractical to commit themselves to a verdict about the quality of their company's

* Additional Project Director, Reforms in Budgeting and Expenditure Control (RIBEC) Project, Finance Division, Government of Bangladesh.

system of internal control. However, there were many US companies (e.g. Kodak) which have for years voluntarily included such a report in their Annual Report and Accounts. According to a survey finding of Committee of Sponsoring Organisation of Treadway Commission (COSO) published in its famous publication 'Internal Control: Integrated Framework' in 1992, one out of four US companies and 60% of Fortune 500 companies have done so.

There were more corporate failures in the 1980s. As a result there has been a general awareness about the need for effective internal control and a general desire to understand the concept of internal control as a management tool. Some of the major US companies came forward to sponsor comprehensive research on internal control. Thus the COSO was formed to investigate thoroughly the matters of internal control and develop a comprehensive and integrated model of control for the companies, corporations and other body corporates to emulate.

COSO with the help of other professional bodies like American Institute of Certified Public Accountants (AICPA) published the two volume 'Internal Control: Integrated Framework-1992', which has put forward the most clear picture of a control model so far. It set the stage with a broad definition of control as a process to be followed by directors, management, and others to provide reasonable assurance of the achievement of objectives in the areas of (1) operations, effectiveness and efficiency; (2) reliability of financial reporting and (3) compliance with the laws and regulations.

This definition represented a major step away from a traditional focus of control on financial management to one that addresses a broad range of management and board objectives. The distinction between good management process and good control process has further narrowed.

The model has five key elements - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Although it is still a guide to companies not a law; the responses were overwhelmingly positive. More and more US companies are now following COSO's model of internal control and disclosure in their Annual Reports and Accounts.

Developments in the UK :

In the late 1970s a series of UK company failures alerted board of directors to pay more attention to internal control rather than depend on the

accountants and external auditors. In 1986 the Financial Services Act (FSA) was enacted following a number of scandals in the financial services sector. As a result the Securities and Investment Board (SIB) was set up to regulate the financial services activities in the country. In 1984 the problems of Johnson Matthey Bankers finally caused enactment of the Banking Act, 1987 which required the Bank of England to supervise banking activities in the UK more effectively.

In the late 1980s and early 1990s more corporate failures occurred some of which revealed unlawful practices. Many of the failures were brought about by the weak economic conditions following extensive over-borrowing in the boom of the early 1980s. What became evident was lack of control within corporations on an unprecedented scale including (a) transactions entered into without board authority (Guinness); (b) company managed in a dishonest and fraudulent manner; (c) inadequate systems and controls (BCCI); (d) artificial Balance Sheet (Poly Peck); and (e) misuse of pension funds (Maxwell).

This generated a sense of urgency in the concerned circles to do something with the matters of corporate governance in general and internal control in particular. As a result, in May 1991, a Committee on the Financial Aspects of Corporate Governance (Cadbury Committee) was formed by the Financial Reporting Council of the London Stock Exchange and the Accountancy Profession (ICAEW etc.), under the chairmanship of Sir Adrian Cadbury, to develop a code of practice for companies. The report of the committee and the 'Code of Best Practice' was published in December 1992.

The Cadbury Committee :

The committee's central recommendation was that the board of all listed companies registered in the UK should comply with the Code of Best Practice (the Code). The committee encouraged as many other companies as possible to aim at meeting its requirements. The committee also recommended:

- (a) that all listed companies reporting in respect of years ending after 30 June 1993 should make a statement in their report and accounts about their compliance with the Code and identify and give reasons for any areas of non-compliance;
- (b) that companies' statements of compliance should be reviewed by the auditors before publication. The review by the auditors should cover

only those parts of the compliance statement which relate to the provision of the Code where compliance can be objectively verified.

Main features of the 'Code of Best Practice' :

The Code of Best Practice has recommended certain practices for different segments of the management of companies and corporations which are considered as guide to best management practice. These are enumerated as follows:

On Board of Directors :

1. The board should meet regularly, retain full and effective control over the company and monitor executive management.
2. There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.
3. The board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the board's decision.
4. The board should have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly in its hands.
5. There should be an agreed procedure for the directors in the furtherance of their duties to take independent professional advice if necessary, at the company's expense.
6. All directors should have access to the advice and services of the company secretary, whose removal should be a matter of the board as a whole.

On the Executive Directors :

1. Directors' service contracts should not exceed three years without the shareholders' approval.
2. There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest paid-UK director, including pension contributions and stock options. Separate figures should be given for salary and performance related elements and the basis on which performance is measured should be explained.

3. Executive directors' pay should be subject to the recommendations of remuneration committee made up wholly or mainly of non-executive directors.

On Reporting and Controls :

1. It is the board's duty to present a balanced and understandable assessment of the company's position.
2. The board should ensure that an objective and professional relationship is maintained with the auditors.
3. The board should establish an audit committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties.
4. The directors should explain their responsibility for preparing the accounts next to a statement by the auditors about their reporting responsibilities.
5. The directors should report on the effectiveness of the company's system of internal control.
6. The directors should report that the company is a going concern, with supporting assumptions or qualifications as necessary.

The requirement to disclose non-compliance with the Cadbury's Code became effective for all companies reporting on financial years ending on or after September 30, 1993. The implementation of the items of the Code relating to (1) internal control and (2) going concern were effected after receiving clarification of what is required. The so-called Rutteman exposure draft on Internal control and Financial Reporting was part of this process of clarification on internal control. This dealt with, from the perspective of directors, what is meant by "internal control" and how it should be reported upon. It mirrored in 7 pages the US equivalent of 'Internal Control : Integrated Framework'. But Rutteman draft recommended that the UK companies' directors report should be on internal financial controls which contribute significantly to the reliability of the financial statements and internal financial and accounting management reports.

Let us now examine the impacts of these developments on Management practices as a whole i.e. upon the Board of Directors, Audit Committees, Line management and staff, and on Internal Audit .

Impact on Board :

As a result of all these developments, board's responsibility to ensure observance of business ethics and effective internal control deepens. It also heightens sensitivity for internal control. The board is genuinely concerned to see what benefit internal control will bring for the company and what would be the cost for it. The result of such analysis will have direct consequence for internal audit and audit committee and their relative status in the company.

It is optimistically expected that as a result of past corporate failures and consequent regulatory steps which places more responsibilities on them, the Board of Directors will be more interested in the whole mechanism of internal control and internal audit.

Impact on Audit Committees

Audit committees were there before the Cadbury report. But as a result of special emphasis in the Code, Audit committees are getting special importance in the company management. The provision for at least three non-executive directors has strengthened the Audit Committee and reduced the chance of influence by the executive directors. This new position of audit committees has in turn increased responsibilities to ensure proper overseeing of both external and internal audit activities, appropriate annual reports and accounts, sound advice to the board etc.

One of the important concerns of the audit committees was to oversee internal control effectiveness through the review of audit reports of the internal audit department. This has resulted in the shift of focus of auditing as a whole. Now, the external audit is to concentrate on review of the financial reporting and the internal audit would continuously review and report on the effectiveness of internal controls even if public disclosure is not mandatory. Thus the relation between internal audit departments and audit committees is stronger and more functional than before. This also means that the internal audit department will have a direct and effective reporting line to audit committees. This will ensure audit independence and objectivity.

Besides overseeing external and internal audit, audit committee will increasingly try to receive assurances from line management that internal controls are operating effectively for the desired purposes. These may be in the form of Control Self Assessments (CSA) report from all line management and staff and management letters from the external auditors.

Impact on Line Management and Staff

As a result of demand for more discipline and effective control environment in all operations of companies, line managers will now be more alert about their own and subordinates' performance. Besides the regular self assessment exercises (CSA), the line managers will now be more eager to keep themselves and their staff updated by regular training sessions and workshops on relevant and recent topics and techniques.

These improvement activities of the line managers may be reported by the internal audit department and may ultimately go to audit committee; thus completing the feed back cycle. This will definitely help management information system to aid decision making.

Another benefit of Internal Audit - Audit Committee - Line Management co-operation in training, CSA, and monitoring will be towards reaching agreements in action plans. This will ensure success of implementation and a smooth transition to change.

Impact on Internal Audit

The impacts of recent developments in corporate governance and management practices on the Internal Auditing are mixed. There are now elements of both positive scopes and new challenges and risks for internal auditing.

Internal Audit is now considered as an essential part of a company or corporation which is required for independent evaluation, assurance and advice to the board about the company operations. The value of regular internal audit reports and summary reports on internal control are more valuable to the boards now. In spite of CSA by line management, the necessity to have independent reviewer and evaluator of internal control will sustain. This may increase the demand for internal audit department now and in future. But mere negative assurance will not suffice. Management will need to be assured positively on the basis of formal evidence from all branches of line management. So a system of letters of representation or "representation questionnaire" from the line management may be introduced. This will also help doing risk analysis, and follow-up visits by the internal auditors. This will also facilitate undertaking parallel audit reviews with the external auditors so that deficiencies can be detected in time and reported for timely rectification and improvement.

The challenges and risks are many. There has been and still are tendencies among the executive directors to place internal audit under finance managers or finance directors. There are many dangers in such an arrangement. Besides the danger of losing independence from line operations, the subordination to finance director will have the risk of utilising all resources of internal audit for review of financial operations only. Then the question of safeguarding of assets will come. Therefore the chief internal auditor will have to convince the board to establish its reporting line directly either to the CEO or to the audit committee. This will fulfill one of the pre-requisites of independence of the auditors.

The continuous quality audit, continuous review of the effectiveness of internal control, comprehensive audit plan for the whole year based on risk analysis, recruitment and continuous training of the auditors to maintain appropriate professional proficiency are some of the challenges posed to internal audit department.

Situation in Bangladesh :

The size and ambit of activities of companies and corporations in Bangladesh are relatively small. The corporate sector is a mixture of local-private, foreign-multinational and state-owned companies. Among the local companies very few have any international operation. Unlike in other countries, the number of state-owned companies in Bangladesh is relatively large. In most of these companies the condition of management practices and internal control is very poor. There is no effective structure of internal audit to review and report on internal control and other operations. Even in the companies where there is some kind of internal audit unit, the auditors are not independent, reporting line is faulty, there is no audit committee and there is no audit charter for internal audit.

The share market scandal of 1996 has revealed willful malpractice of some of the directors of the listed companies and share brokers of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) on the one hand and poor control of the regulatory bodies like Ministry of Finance, Securities and Exchange Commission (SEC), the DSE and the CSE against the violation of rules and manipulation of share market on the other. This also has revealed the inability of the companies to prevent their directors from engaging in fraudulent activities.

The state owned banks and industrial financing companies are the worst affected companies because of the existing poor state of management practice and internal control in them. The over borrowing of money

without adequate and proper guarantee, continuous non payment of loans and interest by the borrowers due to patronage, improper accounting practice and manipulation of financial statements, and incomplete disclosure practice in the annual reports and accounts are some of the problems which require immediate correction.

In this scenario of weak management and poor internal control, something like Cadbury's Best Practice Code or the Control model of the USA (COSO) may be adopted for Bangladeshi Body Corporates. The fact that a new Company Act has been enacted in 1994 and there is a Securities and Exchange Commission in operation to regulate and safeguard the investors interests is not enough. Because of a very large share of the Government in the manufacturing, trading and banking companies of the country, the role of the government regulators are very important to control and improve the situation effectively.

The continuous bad performance of the companies and falling of share prices in the market has frightened the investors. Usually an investor applies two criteria to assess the condition of the company he intends to invest in: its effectiveness and its accountability. Effectiveness means the effectiveness of the management to run the company profitably and accountability refers to the willingness of the management to discuss the financial and operational matters with its shareholders. Both of these can be substantially improved and the confidence of investors and shareholders can be restored by applying best practices of good governance of companies.

Conclusion :

Today corporate governance is very high on the corporate agenda worldwide. With the growth of institutional investments from financial institutions such as insurance companies, and industrial lending companies, investors have become increasingly demanding about more transparent and reliable accounts, fair treatment and updates on the company's progress. This has put moral pressure on the board to be completely transparent and accountable to their investors.

The world is shrinking into one global market place. International investment gradually brings about a degree of convergence of the corporate governance process and systems worldwide. But there is no rigid divinity in it. Accepted governance principles should be adapted to local situations.

To attract investment from home and abroad, to raise funds internationally, to increase the chances of survivability in the competitive world market and to continuously maintain and increase investors confidence in the companies both the government regulators and boards of the companies need to adapt themselves with the changing governance scenario. Finally it would be wise for policy makers and corporate boards in Bangladesh to work towards institutionalising and standardising governance principles for the body corporates in Bangladesh.

REFORM PROCESS IN PUBLIC FINANCIAL MANAGEMENT IN SOME SAARC COUNTRIES

Ekram Ahmed*

Introduction

Bangladesh inherited an age old budgeting, accounting and expenditure control system from the British colonial rulers through Pakistani days. The rules and regulations and the systems introduced by the British have not been changed to the extent necessary to meet the requirements of today. The neighbouring countries like India, Pakistan and Nepal are trying to bring in changes in their Financial Administration and in the Accounting Systems. India is advanced in this race and it has already brought major changes in the Financial Administration at the Union Government and also computerised the accounting system to a great extent. Pakistan has also computerised its Budgeting and Accounting systems but kept its Financial Administration as before. Nepal was out of British colonial domain and so it has an Administrative and Financial System quite different from India and Pakistan. Nepal is also in the process of introducing computer technology in its Budgeting and Accounting practices. Bangladesh has also started moving forward to reform its age old rules and regulations and computerise its budgeting and accounting system.

In this article attempts have been made to familiarise the readers with the current state of the public financial management reform process in India, Pakistan, Nepal and Bangladesh.

Nepal

Nepal is different from the other countries in this sub-continent. It was not under the British rule like India and Pakistan and so the systems introduced by the British rulers in administration, budgeting and accounting process in British-India and followed for quite a long time by India and Pakistan even after independence, are totally different from the systems prevailing in Nepal.

Nepal has 75 administrative districts including capital Kathmandu. Nepal has no Civil Service Cadres like India or Pakistan. In case of need Ministries/Departments recruit personnel including officers through Public Service Commission. Executive and Judiciary are totally separated.

*Counterpart Officer, RIBEC Project, Finance Division, Government of Bangladesh.

Civil administration is looked after by Police Department under the Ministry of Home and judicial matters are looked after by the Judicial Department under the Ministry of Law. There is no service like the Indian Administrative Service or Civil Service of Pakistan to look after the Civil Administration. Audit and Accounts are fully separated and accounts is departmentalised. Expenditure is done by the departments but fund is released by the District Treasury Controller under the Financial Comptroller General. Initial accounts are kept by the departments and Government accounts is prepared, kept and maintained by Financial Comptroller General under the Ministry of Finance. Audit of accounts is done by the office of the Auditor General, which is a constitutional entity.

Financial Administration and Accounting System of Nepal

The highest echelon of Nepalese Financial Administration is the Protinidhi Shabha (House of Representatives) or the Upper House of the Parliament. The Parliament is the final authority to discuss, increase or decrease and approve the budget. The Ministry of Finance collates budgets prepared by every spending unit/department/ or the ministry itself and sends the budget proposal to the Parliament after scrutiny and discussion with the organisations. The Ministry of Finance, after getting the approved budget from the Parliament, allocates it ministry wise, in turn, ministries allocate it department /project wise. Departments again allocate departmental budget upto the district level offices.

In Nepal, Audit is fully separated from Accounts. Financial Comptroller General under the Ministry of Finance is the highest authority responsible for preparing, maintaining and keeping of government accounts. As the accounts are departmentalised fund is spent by Ministries, Organisations and Departments by issuing cheques and there is no pre-audit of bills by the accounts offices. The initial accounts are kept by the spending units. Nepal has 75 District Treasury Controller's Office(DTCO), one in each district, under the Financial Comptroller General.

The structure of the Financial Administration of Nepal is shown in Annex-A.

Main functions of the DTCO is:

- (a) Revenue Collection,
- (b) Internal Audit and
- (c) Budget Release

All revenue income of the Government comes through the District Treasury Controller's Office and deposited into the bank. Internal Audit of the departmental offices is done by the Office of the District Treasury Controller. The DTC sends his team once a month to each departmental office and conducts the internal audit. Ministries, Organisations and Departments spend money by issuing cheques but it is possible only after the release of fund by the District Treasury Controller's Office. Every Government office comes under the jurisdiction of any of the 75 DTCOs.

The spending units submit monthly expenditure statements to the DTCO. Before the Budget is approved these units can spend money upto 1/6th of the actual expenditure incurred by individual units during the previous year. After getting budget the units have to replenish the expended money by submitting the vouchers of the fund utilised. All spending units including the projects have individual bank account. The DTCO releases fund once a month after getting expenditure statements from the units and copy of the fund release order is sent to the bank. Banks honour cheques issued by the units only after getting fund release order from the DTCO. The DTCO reconciles the expenditure statement with the fund release order issued by him and bank reconciliation is done by the Financial Comptroller General's Office (FCGO) centrally with bank statement issued by the Nepal Rashtrio Bank. Each spending unit has one Accountant deputed from the FCGO. He is responsible for keeping initial accounts of the unit.

Another function of the DTCO is to collate monthly expenditure statements received from the spending units and pass them to the FCGO. All the spending units of the government have to prepare monthly expenditure statements and have to send one copy of the statement to the DTCO and one copy to the parent Ministry through the department. FCGO, after getting statements from all the 75 DTCOs, prepare Annual Financial Statement of the Government, which includes annual receipts, expenditure and analysis of variation and a separate report on revenue accounts. Separate statement for foreign grants and loans is prepared and submitted to the Ministry of Finance by the FCGO.

Budget preparation and classification

All budget proposals are prepared by individual spending units and after processing by parent Ministries these proposals are sent to the Ministry of Finance. All project proposals are submitted by the concerned departments with action plan to the Planning Commission. The Planning Commission after scrutinising and evaluating the proposals send those to

the Ministry of Finance. Ministry of Finance, after necessary review, sends all the budget proposals to the Protinidhi sabha (Upper House) of the Parliament for discussion and approval. After the approval of the budget by the Parliament, Ministry of Finance allocates it to each Ministry and authorises the Financial Comptroller General (FCG) to release fund for the respective Ministries. In turn, FCG delegates his authority to all the District Treasury Controllers to release fund.

Nepalese budget has two components: (1) Regular and (2) Development. Development budget again has two components: (1) Development budget-Central and (2) Development budget-District. All revenue income and expenditure are incorporated in the Regular budget. Development Expenditure is done in two ways: About 30% of the Development Expenditure is incurred by Ministries and Organisations centrally and the remaining 70% is incurred through District Development Committees, elected local bodies in the districts.

Nepal used to have two separate budget presentations for these two types of budget and there were two separate budget documents. But from 1995-96 financial year presentation of integrated Regular Budget and Development Budget before the Parliament was introduced. Nepal has now one Budget but figures of Regular and Development Budgets are shown side by side. Regular and Development codes have been integrated and the various levels of Development Expenditure have been retained. Regular codes identify the structure of an organisation.

Nepalese financial year follows the Nepalese calendar year which begins on 15 July and ends on 14 July of the next year. New computerised budget classification has been introduced in Nepal from the 1996-97 financial year. The classification consists of a 9(nine) digit code which covers all the expenditure heads. These codes were made permanent to facilitate year to year comparisons of expenditure but were structured to accommodate the creation of new Organisations, Divisions and Projects. The 1996-97 budget introduced the main expenditure codes consisting of the Head and Sub-Head. Detail expenditure codes were retained unchanged, but the principle of classification into the categories of personnel, capital and other charges was adopted.

Funds are spent by Ministries and Organisations and the new accounting codes follow the structure of the government to facilitate management by the spending units. The 9(nine) digit accounting code may be analysed in the following ways:

The first two digits are for Ministries and Organisations. Every spending Ministry and Organisation has individual code of two digits starting with "His Majesty & Royal Family" which has code No. 11 and ending with "Miscellaneous-Ministry of Finance" which has code No. 95. The third digit identifies the level of expenditure, i.e. whether the expenditure is of Regular or of Development Budget, again if the expenditure is of Development Budget, whether it is of Central Budget or of District Budget. Code for Regular Budget is 3, code for Development Budget- Central is 4 and code for Development Budget-District is 5. The subsequent three digits (4-6) identify Sub-Head of expenditure. In case of Regular expenditure digits 4 and 5 identify the Departments of an Organisation and digit 6 identifies Divisions within a Department.

Development expenditure uniquely identifies projects within Ministries and Organisations. Blocks of numbers have been allocated within each Ministry to identify the projects run by Departments within the Ministry. Each project number is unique and as new projects are formulated, the next consecutive number within the block would be allocated to the new Project. Used number would not be allocated to new Projects even if the original Project has been completed. The explanation about the codification of Development project is that digits 4, 5 & 6, i.e. three digits are kept for each project under each Ministry or each Organisation, that is, any Ministry or Organisation may have upto 999 projects and the experts in the Ministry of Finance think that the number is quite sufficient to accommodate code numbers for new projects for another 15 years . Digit 7-9 identify expenditure Details Codes.

Revenue receipt codes are presently defined by Economic sector. Newly introduced Budget classification did not incorporate new codification for revenue receipt but the proposal for codification was exactly the same as the expenditure Budget. The 9(nine) digit code allocates first two digits for Ministry or Organisation, third digit for level of receipt, subsequent three digits (4-6) for Department and Division and the last three digits (7-9) for detail level receipt.

Financial Management Project

Budget presentation before the Parliament was introduced in Nepal only 30 years ago. Nepal has got no Budget Manual yet. There was no Financial Management Information System or no proper accounting or Financial rules. There was no systematic plan for budget preparation and resource allocation. About 50-60% of the total budget was allocated for development expenditure. Utilisation of budget was not adequate and its proper

monitoring was absent in the whole process. The total budgetary process was purely on *ad hoc* basis and there was no systematic budget classification or accounting codes. The Ministry of Finance of Nepal with the technical help of British ODA made a feasibility study on the whole budgeting and accounting process of the Government and took up a project named "Financial Management Project" to bring about needed reforms.

The project is being financed jointly by the Royal Nepalese Government and the British ODA. The terms of reference of the Financial Management Project was to: prepare a new coding system, introduce new Budget Classification, prepare a Budget Manual, bring in changes in the existing Rules and Regulations process, create a Financial Management Information System, etc. To work on the terms of reference four project teams were established, namely, (1) Rules, Regulations and Format Team, (2) Budget Manual Team, (3) Financial Management Information System Team and (4) Project Accounting Team. The overall activities of the project are looked after by a Steering Committee headed by the Finance Secretary. The Financial Management Project has a small computer installation.

Under the Financial Management Project new formats for accounting and separate accounting for Construction, Inventory and Revenue were proposed. These need the approval of the Auditor General. The proposals are now under the active consideration of the Auditor General.

Computer in Financial Administration

The Budget Wing of the Ministry of Finance has been computerised to produce only computer printed budget. The FCGO has a small computer set-up to do accounting work and also to train staff of FCG's department. Out of 75 DTCOs only 5 DTCO have computer facilities.

Pakistan

Pakistan is a federally administered country consisting of four provinces and one protectorate area. It inherited all its administrative, budgeting, accounting and other systems for running a government from the British rulers. Since independence Pakistan has been following the same systems with some minor changes. Auditor General of Pakistan is the Head of the Audit and Accounts Department. Audit and Accounts are unified as a single service under the Auditor General. Audit function is carried out by different functional Directorates while Accounts function is done by Accountant General, Pakistan Revenue (AGPR) at the centre and

Accountants General, Punjab, Sind, Baluchistan and North West Frontier Province in the respective provinces. Being a constitutional entity Auditor General's Office is functionally independent but administratively it is a Department under the Ministry of Finance.

Financial Administration and Accounting System of Pakistan

Pakistan has got a Federal Government system. It has 4 provinces with 4 Provincial Governments and at the apex there is the Central Government. Parliament is the highest body in the financial administration of Pakistan. Ministry of Finance is responsible for the preparation of budget proposals of the Government and to place them before the Parliament for discussion and approval. Ministry of Finance distributes the approved budget Ministry wise. Ministries again distribute the budget division/ department/ office wise.

As mentioned above accounting system of Pakistan is organised in line with the administrative structure. Under respective Accountant General at the field level there are many District Accounts Offices to do accounting functions and under the Ministry of Finance there are many District Treasuries and Sub-Treasuries to handle government cash, valuables, stamps, etc.

At the Central Government Pakistan has retained Financial Adviser Scheme. All the bigger Ministries have one Financial Adviser of Joint Secretary level and the smaller Ministries have one Deputy Financial Adviser of Deputy Secretary level. They are posted to different Ministries by the Ministry of Finance and so long they work as Financial Advisers they belong to the Ministry of Finance. All the budget and expenditure proposals go through the FA/DFA of the respective Ministry.

The structure of the Financial Administration of Pakistan is shown in Annex B.

AGPR makes payment of all claims against the Central Government at the capital, Islamabad. AGPR has retained pre-audit system and contingency bills are to be submitted to the AGPR for pre-audit and payment. All the computer printed payroll statements and paid vouchers of contingency bills go to the computer section of AGPR to be incorporated in the monthly accounts. AGPR sends one copy of monthly accounts to the Auditor General and one copy to the Ministry of Finance.

Provincial Accountants Generals make payment of all the claims against government at the provincial Head Quarters and at the districts District Accounts Officers and Treasury Officers make payment of claims against government. All accounts of receipt and expenditure are sent monthly by the DAOs and the TOs to the AG of the province. The AG incorporates accounts received from the DAOs and TOs with his own accounts and prepare the monthly accounts of the province. The provincial AG sends copies of monthly accounts to the Auditor General and to the Ministry of Finance. After closure of the Financial Year the Auditor General of Pakistan prepares the Appropriation Accounts and Finance Accounts of the government.

Budget preparation and classification

In Pakistan all budget proposals are prepared by the departments. The Revenue Budget is sent to the Ministry of Finance through the parent Ministry. The development programmes are chalked out by the respective Ministries and sent to the Ministry of Finance through the Planning Commission. To scrutinise project proposals and monitor the progress of on going projects the Ministry of Finance has two committees - The Priority's Committee to select project proposals on priority basis and the Annual Plan Co-ordination Committee to co-ordinate and monitor the progress of on going projects. After receiving the approved project proposals from the Planning Commission the Priority's Committee arranges the proposals on priority basis for implementation. Budget proposals of all the Ministries are then sent to the Parliament for discussion and approval. After the budget is approved by the Parliament it is the responsibility of the Ministry of Finance to allocate the budget Ministry wise.

In Pakistan Demands for Grants for both Revenue and Capital are incorporated in a single document. The estimates of current and development expenditure are shown according to the newly introduced classification, i.e. functional cum-object classification.

The Demands for Grants and Appropriations have been divided into three parts as follows:

- Part I. Demands for Current Expenditure.
- Part II. Demands for Development Expenditure.
- Part III. Appropriations Charged upon the Federal Consolidated Fund.

The Demands for all Ministries are shown in Part I and Part II and they are again bifurcated into two sections:

- (i) Expenditure on Revenue Account and
- (ii) Expenditure on Capital Account.

A functional prefix has been assigned to each Demand in accordance with the nature of expenditure in the Demand. The functional prefix is as under:-

- 6 - Current Expenditure on Revenue Account,
- 7 - Current Expenditure on Capital Account,
- 8 - Development Expenditure on Revenue Account and
- 9 - Development Expenditure on Capital Account.

Part III comprises whole of the "Charged" expenditure. The expenditure shown in Part I and Part II comprises both "Charged" as well as "Other than Charged" expenditure.

Pakistan has introduced a computerised new budget classification system in the federal government. The classification was done Function as well as Object wise. For this purpose, whole expenditure scheme of the government was divided into 9(nine) sectors or 9 Major Functions and 5(five) digits were allocated for the codification of these functions. Each Major Function is again classified Major Object wise and each Major Object was allocated 5(five) digits for codification.

This classification may be explained by the following examples:

- Major Function - 00000 General Administration
- 10000 Defence
- 20000 Law and Order
-
- upto 80000 Un-allocable

The Major Function code has 5 digits, the first digit is unique for each Major Function and the last four digits are always zero. The Major Function is again divided into Minor Functions in which the last three digits must be zero and the fourth digit from the last must be greater than zero.

- Minor Function - 01000 Organs of State
- 02000 Fiscal Administration

The Minor Function is again divided into Detail Function and the Detail Function is divided into Sub-Detail Function. The Detail Function has the last two digits equal to zero and Sub-Detail Function has the last two digits greater than zero.

One example is given for simplification:

12000 Defence Services - effective

The first digit 1 indicates that the Major Function is Defence and the second digit 2 indicates the Minor Function is Defence Services - Effective under the Major Function Defence.

For object wise classification all the objects were arranged in 10(ten) Major Groups and 5 digits were allocated for their codification.

Major Object - 00000 Establishment Charges
 10000 Purchase of Durable Goods
 20000 Pre-investment Project Analysis

 upto 90000 Miscellaneous Expenditure

The first digit of each Major Object code has unique number and for the 5(five) digit Major Object the last four digits must be zero. The Major Object is again divided into Minor Object. The Minor Object has the last three digits equal to zero.

Minor Object - 01000 Pay
 13000 Furniture and Fixture
 22000 Research and Surveys

In the first case, 01000 Pay is a Minor Object under the Major Object 00000 Establishment Charges, in the second case 13000 Furniture and Fixture is a Minor Object under the Major Object 10000 Purchase of Durable Goods and in the third case 22000 Research and Surveys is a Minor Object under the Major Object 20000 Pre-investment Project Analysis.

The Minor Object is again divided into Detail and Sub-Detail Object. The Detail Object has the last two digits equal to zero and the Sub-Detail Object has the last two digits greater than zero.

Sub-Detail Object - 01100 Pay of Officers
 01200 Pay of other Staff

Here, 01100 Pay of Officers is a Detailed Object under the Minor Object 01000 Pay.

The Receipt Budget is classified as Major and Minor. Primarily the receipt heads are arranged in three Major Groups:- (1) Tax Revenue, (2) Non-tax Revenue and (3) Capital Receipts, each group has more than one Major Classification. Under each Major Classification there are two or more Minor Classifications. The three Major Groups have unique identification number of seven digits, Tax Revenue has classification code 0000000, Non-tax Revenue has classification code 1000000 and Capital Receipts has classification code 2000000.

The Major Group Tax Revenue has two Major Classifications:- (1) Direct Taxes (on Income and Wealth) having Major Classification code 0100000 and (2) Indirect Taxes (on Commodities and Transactions) having Major Classification code 0200000.

The Major group Non-tax Revenue has four Major Classifications:- (1) Income from Property and Enterprise having Major Classification code 1100000, (2) Receipts from Civil Administration and Other Functions having Major Classification code 1200000, (3) Miscellaneous Receipts having Major Classification code 1300000 and (4) Miscellaneous Adjustment between Federal and Provincial Governments having Major Classification code 1400000.

The Major Group Capital Receipts has three Major Classifications: (1) 2100000 Recoveries, (2) 2200000 Recoveries of Loans and Advances and (3) 2300000 Public Debt .

The Minor Classifications have also seven digit classification code.

Computer in Financial Administration

Pakistan has computerised the Budget Wing of the Ministry of Finance about a decade back. Ministry of Finance has been using mini computer since then. They are now using IBM system 34 and IBM system 36 for the budget preparation, monitoring and analysis of budget trend.

The accounting system of AGPR is computerised and all the provincial Accountants General have computerised accounting system. AGPR has computerised the payroll system fully and no government servant of the central government has to submit pay bills. Each government servant has

got a National Identity Number and individual ledger card is maintained by the AGPR. On the first day of each month computer printed pay cheques are sent to the bank account of all the central government officers and employees. As mentioned earlier, consolidation of accounts has already been computerised in the offices of all Accountants General.

The Accountant General, Punjab is leading the process of computerisation of accounts. It was initiated in the Office of the Accountant General, Punjab in 1983. In phases the activity was expanded. At the beginning AG, Punjab used to take bureau services and this process continued till November, 1989 when AG, Punjab got installed its own Mini Computer NEC-ASTRA-470/VS. AG, Punjab introduced live payroll in February, 1990 which was developed in-house. In 1995 new UNIX based Mini computer of ICL DRS-6000 was installed and since then all the work are done through the new machines. At present computerised payroll contains Master Data of 130135 employees of Punjab government working at Lahore. The payroll is updated and processed month to month by collecting Employees statements from the government departments. The payroll of only 'Active' employees is produced every month and payments are arranged accordingly. The Accounts of pre-audit payments at AG, Punjab headquarters at Lahore are produced completely on computer. The Consolidated Monthly Civil Accounts of the Government of Punjab is also produced every month on computer.

AG, Punjab has a separate computer wing which is looked after by a Deputy Accountant General, under whom four Accounts Officers, two Data Processing Officers, seven Accountants and 60 members of other staff are working. Computerisation has been extended to some of the DAOs namely Gujranwala, Kasur, Faisalabad, Sahiwal, Multan, Bahawalpur and Rawalpindi under AG, Punjab and this programme of expansion is still continuing.

Recruitment of computer personnel in Audit Department

Pakistan Audit and Accounts Department requires a large number of technically trained personnel to run its computer installations situated in different places. These computer set-ups have fixed posts for technically trained personnel at the staff level. Normally these posts at the staff level are filled by recruitment and cadre officers and departmental officers are deputed to the management level posts. Persons working in the computer wing get extra remuneration for technical job. The employees working in the computer wing may sit for the departmental promotion examination

and if become successful may be promoted to officer cadre of the Audit and Accounts Department. The vacancy created by promotion is filled up by recruitment. Director General (computer) of the Auditor General's office is responsible for the recruitment of all the computer personnel of Audit and Accounts Department.

Training facilities for the employees of Audit and Accounts Department

The Audit and Accounts Training Institute (AATI) is the only institution in Pakistan providing training in the fields of government accounting and auditing. The institution was founded in 1962 as a modest training centre to impart training to employees of the Department of the Auditor General of Pakistan. Its present set-up comprises the main Institute at Lahore and four regional training centres. The Institute is headed by a Director General and has a professional faculty of about 40 members. All the faculty members are from the Department of the Auditor General of Pakistan.

The Institute holds several long-term and short-term courses. Its long-term programmes are meant exclusively for in-service training of two main streams of work force of the Auditor General's Department. One programme is for the probationary officers who join the department under the national scheme of recruitment for superior services. The programme has an average duration of eight months for each batch of probationary officers. Another programme is to train departmental employees in clerical cadres to help them prepare for an in-service promotion examination. The Institute carries out this programme in two parts for a total duration of about ten months.

The Institute also carries out short courses in the areas of accounting, auditing, management and computer. Short courses mostly cater to training needs of junior and middle level management of the department of the Auditor General and its sister organisations. The AATI has a full-fledged computer laboratory to impart training in computer. The Institute offers some of its programmes to international participants from other Supreme Audit Institutions. The following programmes are generally offered:

- Analysis of Financial Statements
- Certification Audit
- Monetary Unit Sampling
- Audit Reporting
- Public Financial Management

- Computerised Budget Preparation
- EDP Auditing

Project for the Improvement in Financial Reporting and Auditing (PIFRA)

The Government of Pakistan has taken an ambitious 36 million US dollar project in the Office of the Auditor General with the funding from the World Bank to improve the efficiency and quality of work of the Audit and Accounts Department. The Project for Improvement of Financial Reporting and Auditing (PIFRA) started functioning in 1994. The terms of reference of the project was to: improve Public Sector Accounting, enhance Public Sector Accountability, support Improved Government Financial Management System, strengthen Information and Institutional Base for Macro Economic Management and Policy making, develop a Core Accounting System with automation, develop a new structure of MIS, introduce comprehensive and professional approach in the field of Audit, shift from the existing traditional Audit approach towards Performance Audit, enforce International Organisation of Supreme Audit Institutions' (INTOSAI) standards, work on the separation of Audit from Accounts, make way for the Departmentalisation of Accounts, develop Accounting Database, introduce new Budget Classification, create a team of trained officers by providing higher overseas training, etc. The project has achieved some remarkable progress and New Budget classification has been introduced. Some progress has also been achieved on the process of higher training for the officers of Audit and Accounts Department and Accounting Database preparation. As the first step to separate Audit from Accounts, one Deputy Auditor General has been designated as Comptroller General and vested with the responsibility of compiling, preparing and keeping of Government Accounts.

Though the project has been initiated for the improvement of both the Accounting and Auditing functions under the Auditor General, main emphasis is being given on the improvement of the Auditing system.

India

India is a federally administered country like Pakistan. It has 25 States and 9 Union Territories. At the centre there is the Union Government directly administering the union territories and at the states there are 25 State Governments administering the states. It also inherited like Pakistan all its administrative, budgeting, accounting and other systems for running a government from the British rulers. At the Union Government level Audit

and Accounts are fully separated but at the state level Audit and Accounts are still unified as a single Service. The process of separation of Audit from Accounts at the central government started in 1976 and fully separated in 1980. Since then a mixed structure of unified Indian Audit and Accounts Service at the state level and separated Indian Civil Accounts Service at the Union Government has been functioning in parallel. Comptroller and Auditor General (C&AG) of India is the controlling authority of the unified Audit and Accounts service. Controller General of Accounts (CGA) is the controlling authority of the Civil Accounts Department at the central level. There are state level Accounts Offices headed by Accountant General (A&E) and Audit Offices headed by Accountant General (Audit) having different establishments. All the Accounts and Audit Offices at the States are under the CAG. CAG recruits all the Indian Audit and Accounts Service (IA&AS) officers and CGA recruits all the Indian Civil Accounts Service (ICAS) officers through the Public Service Commission.

Financial Administration and Accounting System of India

Like Nepal and Pakistan, Parliament is the highest body for the Indian Financial Administration. The Ministry of Finance is responsible for the preparation of the national budget and to submit it before the Parliament. After debate Parliament approves the budget according to the Demands for Grants of each ministry sent to the Ministry of Finance for incorporation into the national budget.

India started reforming its Financial Administration long before Nepal and Pakistan. In late seventies a major reform process was initiated with the gradual separation of Audit from Accounts and departmentalisation of Union Government Accounts fully. The Office of the Controller General of Accounts was created in the Department of Expenditure, Ministry of Finance with the introduction of Departmentalised Accounting System in 1976 and the CAG of India was relieved of accounts keeping function of the Union Government. The CGA has been made responsible for establishing and maintaining a technically sound accounting system in the departmentalised Accounts Offices of the Union Government including modernisation and computerisation. The CGA is the Adviser to the Government on Government Accounts. One of his primary responsibilities is the consolidation of monthly and annual accounts of the Union Government. The main functions of the CGA are to lay down policies and procedures in relation to government payments and accounting, consolidation of monthly accounts received from the Pay and Accounts Offices and its timely submission to the Ministry of Finance, reconciliation

of cash balances of the government with the Reserve Bank of India, preparation of Appropriation Accounts (civil) and Finance Accounts of the Union Government, etc. The consolidation of monthly and annual accounts of the State Governments are done by the Accountants General (Accounts) at the states, who are the officers of the CAG, India.

The office of the CGA was created in pursuance of the Government's decision to relieve the CAG of India of the accounts keeping function of the Union Government. To relieve the CAG from accounts keeping and taking the responsibility of the same by the Union Ministries was a major administrative reform to improve performance through the introduction of Management Accounting. The main purpose of the reform was to provide accounts data as a useful input for better management with the separation of accounts from audit and its internalisation with the executive.

Separation of the Union Accounts from the Audit Department was done in phases commencing from 01st April 1976 and ending on 01st June 1980 through Presidential Notifications. The office of the CGA and under CGA Accounts Offices in all Union Ministries were created for internalising the preparation of accounts by the Ministries with the head quarter of the Civil Accounts Organisation in the Department of Expenditure, Ministry of Finance. The Accounts Offices at the Ministries has a Chief Controller of Accounts/Controller of Accounts as the Head of the Departmentalised Accounting Unit. The Secretary and Chief Executive Officer of a Ministry/Department acts as the Chief Accounting Authority and his responsibilities as the Chief Accounting Authority are discharged with the assistance from the Chief Controller of Accounts/Controller of Accounts through the Financial Adviser of the Ministry/Department. Under the Financial Adviser Scheme every Ministry/Department has one Financial Adviser/ Deputy Financial Adviser in its set up. The Financial Adviser works for and on behalf of the Secretary/Chief Accounting Authority and is responsible for the compilation and consolidation of accounts of the Ministry /Department in prescribed form and its timely submission to the CGA. On behalf of the Financial Adviser this work is done by the Chief Controller/Controller of Accounts who is the Principal Accounts Officer (PAO) of the Ministry /Department. Financial Adviser has a major role on financial and budget related matters. The PAO is responsible for the compilation and consolidation of monthly as well as annual accounts of the Ministry/Department and timely submission of these accounts to the CGA. The monthly and annual accounts received from various field Pay and Accounts offices and also from the Cheque Drawing and Disbursing Officers are consolidated by PAO. The monthly accounts comprise the

receipts and payments connected with the Consolidated Fund of India and Public Account of India. Government payments, accounting and internal audit functions are done by the Civil Accounts Unit in the Ministry/ Department. A Pay and Accounts Office is the basic operational unit in the Civil Accounts Organisation under the Principal Accounts Officer (CCA /CA). The main functions of the Pay and Accounts Offices are to compile accounts, generate monthly and annual accounts and submit to the CGA, generate accounting reports for monitoring of revenue and expenditure for the use of the Financial Adviser, Secretary, CGA and other authorities, prepare Receipt and Public Account Budget Estimate, etc. The Civil Accounts set up of each Ministry/Department is administratively an integral part of that Ministry/Department.

At the states, receipt of government revenue and payment of claims against government are made by the Treasuries and Sub-treasuries. List of Payments and Cash Accounts of each treasury and sub-treasury are sent to the State Accountant General's (Accounts) Office for compilation, consolidation and preparation of monthly accounts of the state. Appropriation Accounts and Finance Accounts of the state are also prepared by the state Accountant General (Accounts) concerned.

The Financial Administration and Accounting Systems of India are shown at Annex C and D respectively.

Budget preparation and its classification

Under article 112 of the Constitution, a statement of estimated receipts and expenditure of the Government of India has to be laid before Parliament in respect of every financial year which runs from 1st April to 31st March. This statement is known as the "Annual Financial Statement" and this is the main Budget document. The Annual Financial Statement shows the receipts and payments of Government under three parts in which Government accounts are kept. The three parts of the Annual Financial Statement are: (i) Consolidated Fund, (ii) Public Account and (iii) Contingency Fund.

All revenues received by Government, loans raised by it, and also its receipts from recoveries of loans granted by it, form the Consolidated Fund. All expenditure of Government is incurred from the Consolidated Fund and no amount can be withdrawn from the Fund without authorisation from Parliament.

In respect of certain transactions which enter into Government accounts but the Government of India acts as the custodian of the money or more as a banker such as moneys received from transactions relating to provident funds, small savings collections, other deposits, etc. are kept in the Public Account and the connected disbursements are also made therefrom.

To meet unforeseen urgent expenditure pending authorisation from Parliament the President of India has an imprest of Rs. 50 crore. This money is kept in the Contingency Fund. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency Fund is recouped to the Fund.

These Funds and Accounts exist separately for the Government of India and for each state of Indian Union.

Under the Constitution, Budget has to distinguish expenditure on revenue account from other expenditure and so, Government Budget is divided into two parts, (i) Revenue Budget and (ii) Capital Budget. Revenue Budget consists of the revenue receipts of Government which includes tax revenues and other revenues and the expenditure met from these revenues. Capital Budget consists of capital receipts and payments.

The estimates of receipts and disbursements in the Annual Financial Statement and of expenditure in the Demands for Grants are shown according to the accounting classification prescribed under article 150 of the Constitution. Under the Constitution, certain items of expenditure are charged on the Consolidated Fund and are not required to be voted by the Parliament. These expenditure are known as 'Charged' expenditure and includes emoluments of the President, salaries and allowances of the Chairman and Deputy Chairman of the Rajya Sabha and the Speaker and Deputy Speaker of the Lok Sabha: salaries, allowances and pensions of CAG, India, etc. The other expenditure which are required to be voted by the Lok Sabha are known as the 'Voted' expenditure. The estimates of expenditure from the Consolidated Fund included in the Annual Financial Statement and required to be voted by the Lok Sabha are submitted in the form of 'Demands for Grants' in pursuance of article 113 of the Constitution. Generally, one Demand for Grant is presented in respect of each Ministry or Department. Larger Ministries or Departments present more than one Demand for Grant. Each Demand normally includes the total provisions on account of revenue expenditure, capital expenditure, grants to State and Union Territory Governments and also loans and

advances relating to the service. In regard to Union territories without a legislature, a separate Demand is presented for each of the Union territories. Where the provision for a service is entirely for expenditure charged on the Consolidated Fund, a separate Appropriation, as distinct from a Demand, is presented for that expenditure and it is not required to be voted by Parliament.

All the departments and spending units prepare their own budget and send it to the Financial Adviser of the department for scrutiny. Financial Adviser after scrutiny sends the budget proposal of the department to the Ministry of Finance through the Secretary of the department. All ministries send development programmes to the Planning Commission for scrutiny. Development budget is endorsed by the Planning Commission to the Ministry of Finance after reviewing development programmes received from all ministries. Ministry of Finance after scrutiny lists all the priority programmes, makes provision for money and sends the proposals to the Parliament for discussion and approval.

The above procedure of budget preparation is fully computerised. For better management and computerisation, a 15 digit classification code has been introduced. Oracle in UNIX environment was used for the functional classification.

The 15 digit code describes 6 levels.

The first 4 digits form the first level which identifies Major Head. Major Head represents Major Function.

Subsequent 2 digits form the second level which identifies Sub Major Head. Bigger Functions have more than one divisions or sub-functions represented by Sub Major Head under the Major Head.

Subsequent 3 digits form the third level which identifies Minor Head. Minor Head conforms to various programmes.

Subsequent 2 digits form the fourth level which identifies Sub Head. Sub Head conforms to schemes.

Subsequent 2 digits form the fifth level which identifies Detail Head. Detail Head conforms to sub-schemes.

The last 2 digits form the sixth level which identifies Object Head. Object Head conforms to the Objective of the expenditure or the primary unit of appropriation.

9 (nine) numbers are allocated against the first digit to identify the budget as Revenue Receipt, Revenue Expenditure, Development, etc.

Numbers 0 and 1 as the first digit represents Consolidated Fund Revenue Receipt Head on Revenue Account.

Numbers 2 and 3 as the first digit represents Consolidated Fund Expenditure Head on Revenue Account.

Numbers 4 and 5 as the first digit represents Consolidated Fund Expenditure Head on Capital Account.

Numbers 6 and 7 as the first digit represents Consolidated Fund Expenditure Head on Grants-in-Aid and

Numbers 8 and 9 as the first digit represents Contingency Fund and Public Account.

One example is given below to explain the classification:

220201103020131 Grants-in-Aid

This 15 digit code shows upto the Object Head or the Primary Unit of Appropriation. Number 2 as the first digit indicates the code as Expenditure Head on Revenue Account of the Consolidated Fund.

2202 is the Major Head "General Education".

01 after 2202 represents Sub Major Head "Elementary Education" under Major Head General Education.

103 after 220201 represents Minor Head "Assistance to Bodies for Primary Education" under Sub Major Head Elementary Education.

02 after 220201103 represents Sub Head "New Delhi Municipal Committee" under Minor Head Assistance to Bodies for Primary Education.

01 after 22020110302 represents Detail Head "Grants-in-Aid (SCP)" under Sub Head New Delhi Municipal Committee.

31 after 2202011030201 represents Object Head "Grants-in-Aid" under Detail Head Grants-in-Aid (SCP).

Receipt Heads have 13 digit code upto Detail Head with no Object Heads.

The classification has been simplified further. If there remains any vacancy in any level of the six level code that level is represented by zeros, i.e. if under any Head (any level) there is no subordinate Heads that

subordinate level is shown as zero. If there is no Sub Major Head under any Major Head, it indicates the second level to be vacant and the 5th and 6th digits are shown as 00, if there is no Minor Head under Sub Major Head, it indicates the third level to be vacant and the 7th, 8th and 9th digits are shown as 000 and so on.

Computer in Financial Administration

The entire budgeting system of the Ministry of Finance was computerised many years ago. National Informatics Centre in the Ministry of Finance is the highest authority to make policy decision on all computer related matters. This centre examines the need for computer, software requirement, its development either in-house or through any outside body and their installation in any organisation under the Ministry of Finance. This centre also helps the CGA to prepare the monthly accounts and to conduct Information Technology (IT) training courses. This centre has a good number of IT experts to carry out huge tasks of the Ministry and the CGA. The centre uses Main Frame computer for all its budgetary activities.

The entire accounting system of the CGA, all PAO and all Pay and Accounts Offices have been computerised. For this purpose various software packages were developed in-house. The software package now being used in CGA's office is known as GAINS-- Government Accounting Information System, this package is for consolidation of accounts in the CGA's office. At the Principal Accounts Office software package CONTACT-- Controllers Accounting- is used. At the Pay and Accounts Offices software package IMPROVE-- Integrated Multi-module Processor for Voucher Entry-- is used.

A significant step in the Computerisation Project is the Voucher Level Computerisation which enables capture of data at source, i.e. from voucher. The software IMPROVE is used for capturing data at source. All the Pay and Accounts Offices rendering monthly accounts have been covered under the Voucher Level Computerisation Project. The objective is that after direct data entry from the source document each Pay and Accounts office would generate IMPROVE output which in turn would generate CONTACT, i.e. the monthly accounts for the Ministry /Department. The programme CONTACT enables generation of the monthly accounts of the Ministry /Department on computer and its transmission to the CGA on floppies. The final processing of the accounts consolidation is done at the CGA's office using software GAINS. This

facilitates processing of the monthly accounts of the Government of India within a day on the Main Frame at the National Informatics Centre in the Ministry of Finance.

Under the guidance of the National Informatics Centre training facilities for computer have been established in the office of the CGA where training is conducted for both the operational and supervisory levels.

Training Facilities for officials dealing with Financial Administration

Institute of Government Accounts and Finance (INGAF) was set up by the CGA in February 1992 with a view to imparting training on Accounting, Budgeting, Financial Management, Expenditure Control, Internal Audit, Administrative and Establishment matters to officials working in various Ministries /Departments of the Union Government. The Institute works under the direct control of the CGA and the Ministry of Finance. Under the Ministry of Finance there is another Training Institute, National Institute for Financial Management (NIFM), having almost similar training facilities. The Institute is located at New Delhi and it has three Regional Training Centres. It is a full-fledged residential training Institute with good accommodation facilities for outstation participants.

The Institute has its own internal faculty and sometimes invites eminent specialists as guest faculty for imparting training in their field of specialisation. The guest faculty are drawn from Institutes like Indian Institute of Public Administration, University of Delhi, high officials of the Government of India and also retired and serving officers of the Civil Accounts Organisation. In the internal faculty officers of proven merit are selected who are responsible for teaching, preparing study materials, organisation and conducting training programmes. Training is conducted by lectures, instructions, group discussions, case studies and audio-visual methods.

The Institute conducts Induction Level training for the Indian Civil Accounts Service probationers. Duration of this training course is one year. Training on all aspects of Government Accounting, Budgeting, Financial Management and Control in Government, Computerisation of Accounts, etc. are provided to the probationers. On completion of training the probationers are awarded Masters Diploma in Financial Management. The Institute also provides in-service and orientation training for employees and promoted departmental junior officers.

The Institute conducts courses on Management in Government, Financial Management, Management Accounting and Personnel Management and Public Administration for middle management level officers. Faculty members for these courses include Chief Controller /Controller of Accounts, Joint Secretaries from ministries and Directors from CAG's office. For specific courses guest speakers are drawn from the Ministry of Law and University of Delhi.

The Institute also offers some courses for international participants. The Institute has conducted a few courses for the Government officers of Sri Lanka, Malawi, Republics of Lithuania and Turkomenistan. The Institute is fully equipped to impart courses for international participants..

Bangladesh

Bangladesh has launched the Public Financial Management reform initiative only recently. The Government of Bangladesh formed a Committee on Reforms in Budgeting and Expenditure Control (CORBEC) in 1989 to study the budgeting and accounting systems, identify problems and recommend probable ways of solution. The Committee examined in detail the whole budgeting and accounting systems and produced its report in 1991. The report identified the following major weaknesses:

- failure to use budget as a major resource allocation tool by Ministries /Divisions;
- difficulty in identifying expenditure between revenue and development in a meaningful manner;
- cumbersome and complex presentation of budget information;
- difficulty in identifying and analysing data by either programme or responsibility;
- financial rules and regulations not updated for long;
- shortage of trained personnel;
- failure to produce up to date government accounts;
- failure to provide effective financial information.

In 1993, Reforms in Budgeting and Expenditure Control(RIBEC) Project Phase 1 was taken up by the Government of Bangladesh with the assistance of British Overseas Development Administration(ODA) to work on the problems identified by CORBEC, make diagnostic study and design and implement a reform programme. Phase 1 was a short term project and after its completion and on the basis of its recommendations RIBEC Project Phase 2 or the implementation phase came into being in January 1995.

During the last two and a half years RIBEC project worked in all areas of financial management system and made remarkable achievements in some fields. The project has already updated all the financial rules, introduced computerised consolidation of core accounts, developed a full-fledged computer laboratory, imparted computer training to the officers and employees of the Ministry of Finance and Audit Department, computerised the budgeting system in the Ministry of Finance, produced 1996-97 budget in computer based spreadsheet, developed five year historical database and produced a new budget and accounts classification structure for implementation during the next two years.

New Budget Classification:

The new classification structure was designed after studying all the financial data and extensive consultation with the main users of these data including the International Monetary Fund(IMF), to reflect the organisational structure of the government and their requirements for financial reporting and economic analysis.

The classification code consists of 13 digits which represent four levels. The first level of 1 digit represents the **Legal Code** which indicates the legal authority for collecting revenues or for making payments. Legal code identifies different types of transactions in accordance with constitutional and statutory requirements. It differentiates:

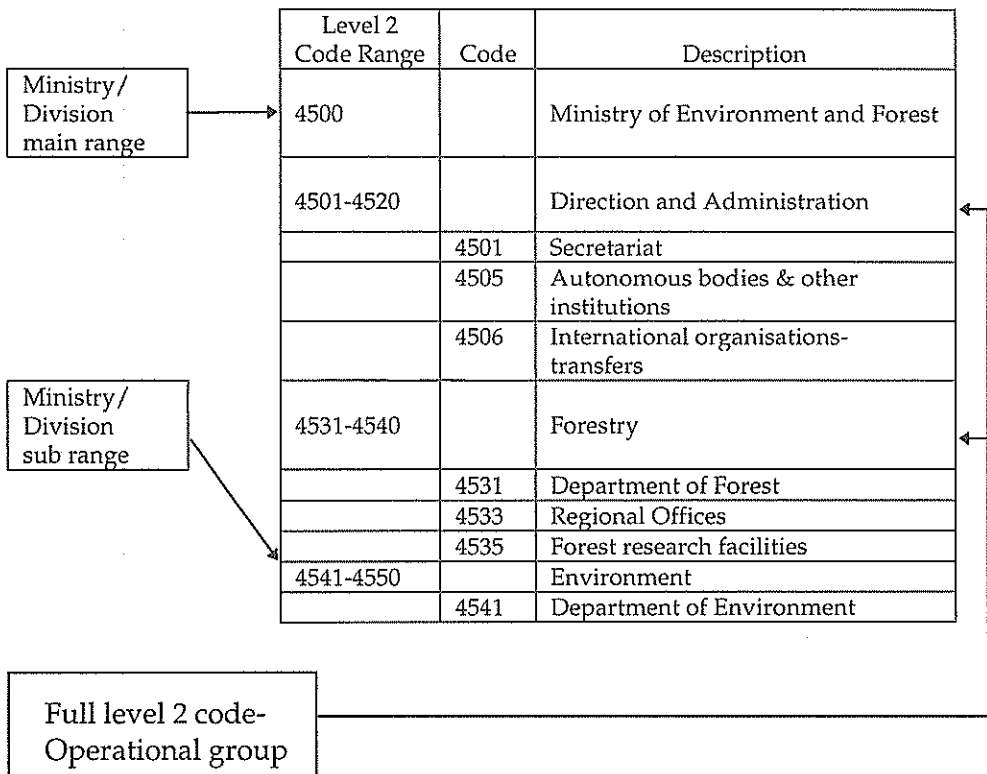
- Charged expenditures from Non-Charged expenditures;
- Development transactions from Non-Development transactions; and
- Public Account transactions from Consolidated Fund transactions.

Seven legal code numbers are allocated for seven transaction types. They are:

1. Number 1 for Consolidated Fund Non-Development Receipt
2. Number 2 for Consolidated Fund Charged Payment
3. Number 3 for Consolidated Fund Non-Development, Non-Charged Payment
4. Number 4 for Consolidated Fund Development Receipt
5. Number 5 for Consolidated Fund Development Payment
6. Number 6 for Public Account Receipt
7. Number 7 for Public Account Payment

Reform Process in Public Financial Management

The second and third levels have 4 digits each and represent the **Functional Codes**. They represent the spending or collecting unit within the government structure and identify the purpose for which expenditures have been incurred. They are arranged according to the organisational hierarchy of government. The main range number of level 2 identifies the highest level in the government organisational hierarchy, i.e. Ministry /Department /Division who are directly accountable to Parliament for funds voted for it. Main ranges are represented by the first two digits of the code followed by "00". All sub-divisions, departments and operational groups of the Ministry /Division will commence with those same first two digits. Subsequent two digits of level 2 indicate the sub range which represent the next tier in the administrative hierarchy showing major subdivision of Ministry /Department /Division or group of activities. These depict a grouping of one or more level 2 functional codes. All level 2 functional codes must fall within the framework of a level 2 main range and sub range. The level 2 operational group can be broken down into one or more level 3 operational units. An example of level 2 classification is given below:



Reform Process in Public Financial Management

Level 3 of four digits indicates Operational Unit /Development Project. It is to be used in conjunction with the level 2 code. It is the lowest functional level at which budgets are approved. The level 3 classification can identify: an operational subdivision of the level 2 function; an external organisation; a regional office; or a development project. Standard level 3 codes have been prepared for all the operational units falling under this classification.

Level 4 of four digits represents the **Economic Codes**. These describe the nature of expenditure or receipt. The first two digits identify broad category and the remaining two digits identify a specific detailed item within that broad category. Standard economic codes will be used throughout government and are identical for both development and non-development expenditures. All transactions must contain a full four digit economic code.

Two examples of full 13 digit code are given below:

Level-1: Legal Code	Level-2: Function Code Range Code		Level-3: Operational Unit	Level-4: Economic Code	
	Main Range	Sub Range		Group	Detail
1 Non-Dev. Revenue Receipt	25 Ministry of Education, Education Division, Technical Education	55 Other Technical Institutes	0005 Graphic Art Institute	18 Revenue Receipts Administrative Fees and Charges	51 Educational Fees
3 Non-Dev. Other Expenditure	45 Ministry of Environment & Forest, Direction & Administration	01 Secretariat	0001 Secretariat	49 Revenue Expenditure, Repairs & Maintenance	01 Motor Vehicles

The full code for the collection of educational fees from the Graphic Art Institute shown in the first example is 1/2555/0005/1851. It is a transaction involving the Consolidated Fund, it is a Non-Development Revenue Receipt under the Ministry Of Education.

The full code for the Repair and Maintenance of Motor Vehicle of Ministry of Environment and Forest shown in the second example is 3/4501/0001/4901. It is also a transaction involving the Consolidated Fund, it is a Non-Development Revenue Expenditure under the Ministry of Environment and Forest.

Some Lessons:

Separation of Audit from Accounts: In Bangladesh Audit and Accounts are unified in a single service under the Comptroller and Auditor General of Bangladesh. Pakistan has got the same system. India follows a mixed system of separated Audit and Accounts Service in the Union Government, CAG of India being the Head of the Audit organisation and CGA being the Head of the Civil Accounts Organisation, and unified Audit and Accounts Service at the state government level headed by the CAG of India. Nepal is totally different from the other three countries. Office of the Auditor General of Nepal is a constitutional body to do the statutory audit. Accounts is fully departmentalised and, so, initial accounts are kept by the departments. But accounts of the government is prepared, kept and maintained by the Financial Comptroller General under the Ministry of Finance, which he gets from the departments through the DTCOs as monthly expenditure statements. Financial Comptroller General has no administrative or functional relation with the Auditor General. Separation of Audit from Accounts is a much talked about issue in Bangladesh. In this regard, Nepal may be a good example to follow.

Departmentalisation of Accounts- Accounts keeping functions of the Government are not departmentalised in Bangladesh, India and Pakistan. In Bangladesh, some government departments spend money by issuing cheques and keep initial accounts of those expenditure, but most departments have to incur expenditure by producing bills to respective CAO /DAO /TAO and by receiving cheques /order of payment from these accounts offices. All the accounts of these expenditure are prepared, kept and maintained by the Controller General of Accounts through the CAOs /DAOs /TAOs and his own office. India and Pakistan follow more or less similar system, only difference is in the payment system. In India payment is made at the states through the Treasuries and at the Union Government through departmentalised Pay and Accounts Offices of the ministries. In Pakistan, payment is made either through the Treasuries under the Ministry of Finance or through the DAOs under the provincial AGs at the provinces and through AGPR at the capital and through provincial AGs at provincial capitals. Exception is seen in Nepal. For incurring any expenditure, no department have to come to the accounts offices. All the departments including the ministries spend money by issuing cheques against bank accounts allotted to them and they keep initial accounts of all the expenditure. These offices have to prepare monthly expenditure statements to be submitted to the DTCOs under the FCGO and to their parent ministry. DTCOs scrutinise these expenditure

statements and release fund for the amount expended. DTCOs perform internal audit of these offices also. In Bangladesh, the government accounting system is half way towards departmentalisation. If departmentalisation of accounts is considered in real sense, Nepalese Accounting System is the perfect system to follow.

Imprest System for fund release- In Bangladesh, India and Pakistan, Parliament approves the budget, Ministry of Finance distributes it to all other ministries, all ministries again distribute their portion to the lower tiers and all the spending units, excepting a few, have to spend money by placing bills to the Accounts Office/ Treasury concerned. Accounts Offices/ Treasuries pass bills and issue cheque/ make cash payment if they are placed properly and there remain enough budget provision. Within the delegated financial power the spending units can spend as much money as and when they require from the budget allocated for them. The accounts offices have no control over budget. In Nepal, the process of budget approval and distribution of it to the spending units is similar to the system practised in the other three regional countries mentioned earlier. But process of spending money by the departments is totally different in Nepal. Before the budget is approved, departments can spend money upto 1/6th of the actual expenditure of the previous year, this money is known as the imprest money of each department. This money is to be replenished by submitting monthly expenditure statement to the District Treasury Controller's Office. DTCO after scrutinising the expenditure statement releases fund for the month within the budget limit of the department. This imprest system relieves the departments of the hindrances of pre-audit system, on the other hand, authority to release fund after getting and scrutinising the expenditure statement gives the DTCO tight control over the departmental budget. This system is functioning very effectively. We may examine the system for introduction in our country also.

Computerisation of Payroll System- Payroll comprises about 50%-70% of the revenue budget of Bangladesh, India, Pakistan and Nepal. Computerisation of payroll means computerisation of about 50%-70% of revenue budget of these countries. Pakistan has computerised the payroll of the Federal Government Employees. These employees get computer printed salary advice to their bank account every month without producing salary bills. Moreover, salary related contributions, i.e. Provident Fund, Group Insurance, Benevolent Fund, all loans, etc. are also maintained by computer under the payroll computerisation programme, which means a large portion of the Public Account came under

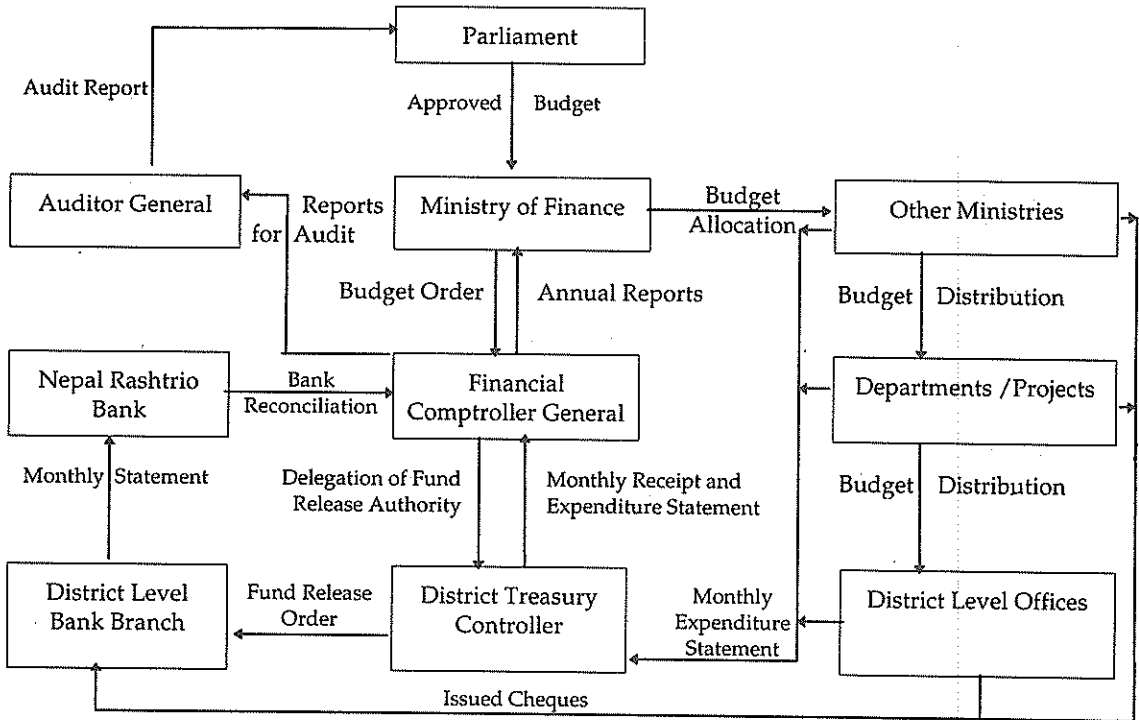
computerisation automatically. Computerisation of payroll of employees of Bangladesh Government may be considered.

Conclusion:

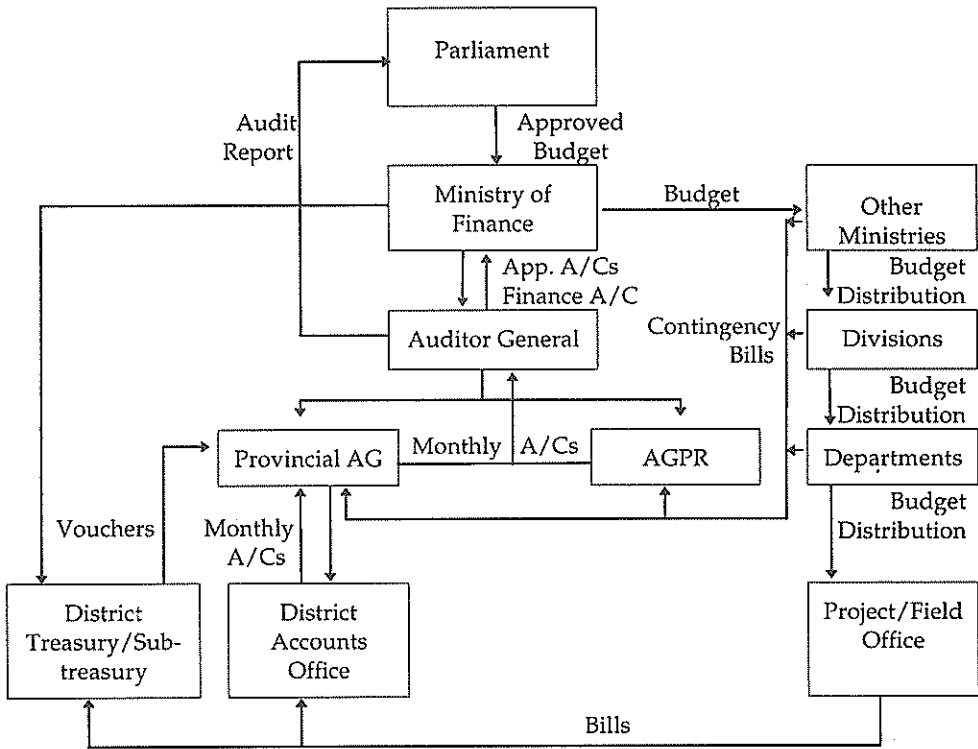
Although under the RIBEC Project of the Ministry of Finance reforms in areas like computerisation of Budgeting and Accounting as well as training have been initiated, the scope of this project is still very limited. Bangladesh is lagging behind India and Pakistan in modernising its financial management system. The present reform programme in Bangladesh has been designed more or less in line with other countries in this region.; but it is likely to take years for Bangladesh to catch up with the trend in some of our neighbouring countries. The scope of the computerisation programme is to be extended, payroll computerisation should be initiated, the budgeting and accounting systems and procedures are to be streamlined to facilitate proper macro as well as micro level financial management, training should be institutionalised and above all half way organisational reform should be pushed to its desired goal.

There is great scope for mutual sharing of experience of SAARC countries in this particular area. Most of these countries have inherited the same systems and traditions and problems of carrying out reforms are also more or less common to these countries. Therefore there is a great deal to learn from one another's experience.

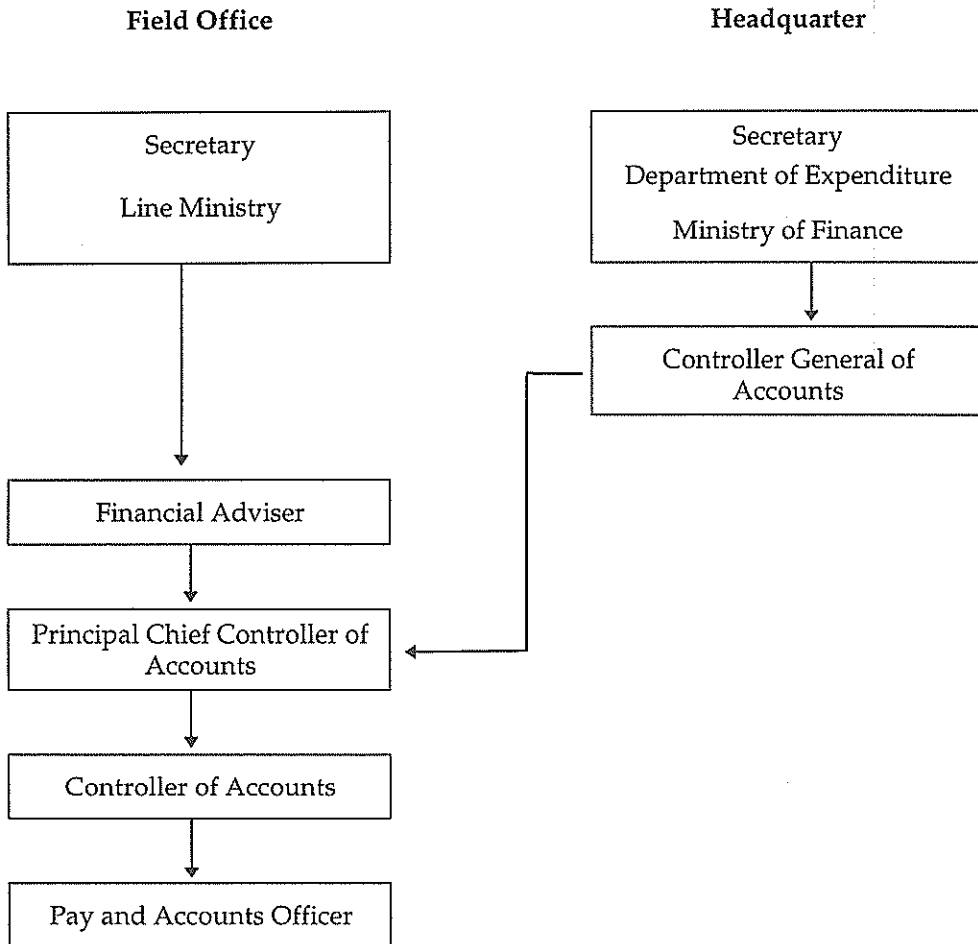
PUBLIC FINANCIAL ADMINISTRATION IN NEPAL



FINANCIAL ADMINISTRATION AND ACCOUNTS FLOW DIAGRAM OF PAKISTAN



CIVIL ACCOUNTS ORGANISATION OF THE UNION
GOVERNMENT OF INDIA



Budgeting and Expenditure Control Reforms in Singapore: Lessons for Bangladesh

- With the expansion of existing programmes and the introduction of new ones, there was no mechanism to ensure that the overall expenditure would not outgrow revenue collection.

Block Vote Budgeting :

- Cabinet approval of Budget priorities and aggregate allocations.
- Ministries given flexibility in managing allocations.
- Control through Published Workload and Performance Indicators and Zero base reviews.
- Ensure a balanced budget.
- Contain Government expenditure as a proportion of GDP.
- Help Ministries respond speedily to changing priorities.
- Improve the effectiveness and efficiency of Government operations.
- Make senior civil servants responsible and accountable for expenditure budget.

Budgeting For Results (BFR)

- Pre-specification of outputs and performance targets.
- Output-based funding allocations.
- Provision of incentives for meeting targets.
- Granting financial and personnel management flexibility.

Under the present BFR (Budgeting for Result) System funds are allocated and greater managerial autonomy granted to a Government Organisation in exchange for clearly defined pre-specified outputs. The existing Financial Management System of Singapore is aimed at making public servants more focused on the outputs to be delivered and more customer-oriented through BFR and enhancing the performance of the public sector. Fundamental to the BFR process is the identification of output and performance targets. Government of Singapore expect that clearly defined outputs and performance targets shall in turn lead to greater accountability and value for money for the government organisation. Government of Singapore is also exploring the feasibility of allowing departments to fund their operations from receipts and to charge other departments for their services.

Role and Functions of Budget Division

Role and Functions of Budget Division of Ministry of Finance, Singapore are to:

- ensure that Public Funds and Manpower are allocated and managed properly so that public sector programmes and projects are in line with national priorities and undertaken prudently and efficiently without waste or extravagance;
- keep the public sector lean and trim so as to free more manpower and financial resources for the private sector;
- contain total Operating and Development Expenditure at a level that can be financed by Operating Revenue;
- focus Government's expenditure on basic public services and in areas which yield lasting returns (principally education, basic health care, housing, infrastructure development and security);
- preserve the real value of Government's reserves over time; and
- institutionalise Financial Regulations and Procurement Policy to check on extravagance in expenditure

Financial Year

A financial year is defined by the Financial Procedure Act as a period of 12 months ending on 31st March in any year. The financial year in respect of which the Financial Statements are prepared covers the period 1st April to 31st March.

Budget and Accounting Classification System

Budget and Accounts classification structure of Singapore is a combination of alphabet and number. Each Organ of State and Ministry has been allotted an alphabet as classification-code i.e. A-Civil List, B-Attorney General's Chambers, I-Ministry of Communications, J-Ministry of Community Development, K- Ministry of Defence etc. Expenditure Estimates are divided progressively into five levels. The following table illustrates the Singapore classification-structure:

Level	Description	Example	Code
1	Heads of Expenditure	Min. of Home Affairs	Q
2	Programmes	Police	QC
3	Activity	Crime Control	QC06
4	Cost Centres	Land Division	QC06200000
5	Accounts	Stationery and Office Supplies	2131.001

Budgeting and Expenditure Control Reforms in Singapore: Lessons for Bangladesh

To facilitate budget analysis and control, the individual accounts are grouped into objects, then group, class and category.

Level	Example	Code
Object Category	Other Operating Expenditure	2000.000
Object Class	Supplies and Services	2100.000
Object Group	Supplies and Materials	2130.000
Object	Office Supplies	2131.000
Accounts	Stationery and Office Supplies	2131.001

7-digit account number is used to:

- a) classify expenditure, revenue, asset or liability;
- b) specify requirements in reports.

Code-range	Nature of allocation
1000 000-1999 999	= Expenditure on Manpower
2000 000-2999 000	= Other Operating Expenditure
3000 000-3999 999	= Grants-in-aid
4000 000-4999 999	= Public Debt & Fin. Transfers
5000 000-5999 999	= Development Expenditure
6000 000-6999 999	= Operating Receipts
7000 000-7999 999	= Other Receipts
8000 000-8999 999	= Assets
9000 000-9999 999	= Liabilities

Accountant-General's Departments and Government Accounting Policies

The mission of the Accountant-General's Department is to supervise and administer the Government accounting systems which include keeping financial records and setting financial procedures for handling of public moneys and public property.

Principle activities and responsibilities of the Accountant-General's Department are as follows:

Activities	Responsibilities
<ul style="list-style-type: none"> • Administer FACT\$ (FINANCIAL ADMINISTRATION CONTROL SYSTEM) budgetary control & general ledger modules; • Prepare financial & statistical reports • Submit Annual Financial Statements 	<ul style="list-style-type: none"> • Ensure Government's books are updated accurately and expeditiously • Prepare monthly reports and annual financial statements • Ensure payments to suppliers are effected accurately, efficiently and on time

<ul style="list-style-type: none"> • Administer FACT\$ payment modules • Process payments • Cash management • Ensure that FAST (FIXED ASSETS SYSTEM) is properly maintained • Train users of FAST • Attend to FAST and FACT\$ user requests and queries • Maintain computerised payroll system CPIS (Central Personnel Information System) • Effect monthly payroll through IBG (Inter Bank Giro) • Effect deductions from payroll • Effect payment of gratuities, pensions and medical bills • Administer the Pension Fund • Ensure that SIGMA (SINGAPORE GOVERNMENT MANAGEMENT ACCOUNTING SYSTEM) is properly maintained • Train users of SIGMA • Attend to SIGMA user requests and queries • Enhance and upgrade existing systems to meet business requirements • Study user requirements, develop and implement new financial systems 	<ul style="list-style-type: none"> • Administer FAST • Ensure that civil servants are paid accurately, promptly and efficiently • Ensure that pensioners are paid accurately and efficiently • Administer SIGMA and provide support and training to users • Ensure that new financial systems are developed speedily and efficiently and existing systems are continuously enhanced to meet new requirements
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Government Accounting Policies

The accounting policies of the Government of Singapore are based on the laws governing the financial affairs of Singapore and generally accepted accounting practices and traditions.

Accounting Entity : The Government of Singapore as an accounting entity comprises all organs of state and ministries. Statutory boards and government-owned companies are not included.

Cash Basis : The accounts are prepared on a cash basis, i.e. a transaction is recorded only when cash is received or paid. As a consequence, accruals of amounts due to or owing by the Government are not shown in the Financial Statements, but are kept track of by way of departmental records.

Assets such as buildings, motor vehicles, aircraft, furniture and fixtures, plant and equipment, etc. acquired by any organ of state or ministry are treated as outright expenditure, and not capitalised as assets, in the year in which payments are made. Likewise, stocks in hand at the end of the financial year are also not taken into account as assets.

Fund Accounting: The accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby transactions pertaining to resources for specified objectives are classified, for purpose of accounting and reporting, into funds that are established in accordance with the laws governing them. The principal funds are :

- (i) Consolidated Fund,
- (ii) Development Fund,
- (iii) Sinking Funds,
- (iv) Revolving Fund,
- (v) Contingencies Fund,
- (vi) Development Contingencies Fund,
- (vii) Government Securities Fund,
- (viii) Pension Fund,
- (ix) Medical Endowment Fund,
- (x) Singapore Municipal Provident Fund, and
- (xi) Skills Development Fund.

Consolidated Fund: The Consolidated Fund is constituted by Article 145 of the Singapore Constitution. All revenues of Singapore not allocated by law to specific purposes must be paid into this fund. The Minister for Finance, subject to the provisions of the Constitution and the Financial Procedure Act, is empowered to manage the Consolidated Fund and to supervise, control and direct all matters relating to the financial affairs of Singapore which are not assigned to any other Minister by any other law.

The Consolidated Fund consists of two accounts. They are :

- (i) The Consolidated Loan Account in which all moneys received by way of loan upon the public credit of Singapore are kept, and

- (ii) the Consolidated Revenue Account in which all moneys other than loan moneys are kept.

Development Fund : This fund is established by the Development Fund Act. The sources of receipts to this fund are :

- (i) moneys appropriated from time to time from the Consolidated Fund;
- (ii) proceeds of any loan raised for the purposes of the fund and appropriated to such purposes by the law raising the loan;
- (iii) interest and other income from investments of the fund and profits arising from the realisation of any such investments; and
- (iv) repayments of any loans made from the fund, or payments of interest on such loans.

The fund may be used for :

- (i) construction, improvement, acquisition or replacement of capital assets (e.g. buildings, vehicles, aircraft, machinery, rolling-stock, roads) required in respect of or in connection with the economic development or general welfare of Singapore;
- (ii) acquisition of land and of any right or interest in or over land and in respect of the use of any invention; and
- (iii) grants and loans to, or investments in any public authority or corporation for any of the purposes mentioned in (i) and (ii) above.

Comparative Review of Financial Management system and Classification Structure of Singapore and Bangladesh : Lessons for Bangladesh.

Bangladesh inherited the existing Financial Management and Accounting system from British India. It was amended from time to time after 1947 and 1971 by the Government of Pakistan and Government of Bangladesh respectively. But no major reform was undertaken. For the first time Bangladesh is implementing a major reform programme of government budgeting and accounting system under Reforms in Budgeting and Expenditure Control (RIBEC) Project of the Finance Division which started in January, 1995. Singapore also inherited its Financial Management and Accounting system from British colonial regime. From 1st April, 1978 Singapore embarked on a process of Financial Management reform. During the last two decades Singapore implemented three reform programmes and they are going to undertake another reform programme of Financial Management System by the year 2000. The experiences of several reform programmes have given Singapore a unique Financial Management and classification structure.

In comparison with Singapore classification structure our proposed classification structure seems to be more logical. Combination of alphabet and number in the classification-structure will not be suitable for Bangladesh. There are 48 ministries/divisions in Bangladesh and this is why it is not possible to allot an alphabet as classification-code for each of the ministries/divisions. In the Singapore classification structure 7-digit account number (economic codes) is used to classify expenditure, revenue, asset or liability etc. In our proposed classification structure economic codes are of 4 digits only. Our 13 digit classification structure is simpler than 17 digit Singapore classification structure. Our new classification system will facilitate derivation of IMF government financial statistics which is not possible in the existing classification. Due to this limitation Bangladesh financial statistics could never be included in the IMF Government Finance Statistics Yearbook which includes information of most countries of the World.

The existing Financial Management System of Singapore (Budgeting for Results) is aimed at making public servants more focused on the outputs to be delivered and more customer-oriented. Fundamental to the BFR process is the identification of output and performance targets. Clearly defined outputs and performance targets ensure greater accountability and value for money for the government organisation. On the contrary, the present budgetary system in Bangladesh shows budget allocation in terms of cost of inputs. They do not identify either the volume of inputs or the outputs expected from public expenditure. In this situation it is not possible to examine whether a particular expenditure was in public interest and whether the policy goals were achieved. To overcome these weaknesses and limitations budgetary approach in Bangladesh must be changed. Under the existing socio-economic condition of Bangladesh it may not be possible to introduce a financial management system like 'Budgeting for Result'. But financial management system like 'Programme Budgeting' (which emphasises on things to be done and systematically identifies the programmes and activities necessary to achieve the goals) may be considered appropriate for Bangladesh. Initially 'Programme Budgeting' may be introduced on experimental basis in selected areas and our target should be switching over to a financial management system like 'Budgeting for Results' within next few years. Therefore, the ongoing reform process within the framework of RIBEC Project should continue uninterrupted to modernize the budgeting and accounting system of Bangladesh in line with developments in other countries.

The Ministry of Finance, everywhere in the world, has a leading role to play to ensure efficient use of resources and to establish value for money culture. In many countries the Finance Ministry / Treasury has successfully performed this function, not through policing or regulatory mechanism, but through establishment of an efficient and transparent budgeting and accounting regime. Through the RIBEC Project the Ministry of Finance of Bangladesh is setting up a springboard for gradual progression to a modern budgeting and accounting structure and is hoping to establish itself the way its counterparts in other countries are organized. The process of this transition is time consuming and it involves organizational, structural, functional and attitudinal changes; it calls for suitable actions to manage this change process and above all political commitment. Fortunately the overall environment in Bangladesh is now favourable to carry forward the reform process to its logical end and hopefully within a few years time Bangladesh will not lag behind other developing countries in the field of public financial management.

FRAMEWORK OF AUDIT AND STANDARD AUDIT PROCEDURES IN THE PUBLIC SECTOR

Mohammad Muslim Chowdhury*

Introduction

Audit practice has seen many changes from the days when the basic ingredient was an arithmetical check of vouchers and accounts, but the underlying philosophy remains intact. The object of this paper is to provide a framework for audit in the public sector and to discuss standard procedures followed by modern auditors in auditing the accounts of the Public Sector. The writer also has the intention of introducing to readers the different *terms* frequently used in the profession - these are indicated throughout the paper in **bold face** type. It has been observed that, in practice, auditors in the public sector traditionally follow many procedures which are identified by specific definitions by the experts in this field. However, many auditors remain unaware of these. It is to be expected that the public auditor will become more efficient and confident if they have a clear understanding of the terms used and can thus put their work in proper perspective.

Characteristics of external audit in the public sector

It is convenient to regard the external audit role as having two arms.

- Certification Audit
- Value for Money Audit

The two are not necessarily treated as separate tasks in practice.

Certification Audit

The two essential elements of Certification Audit are purpose and process. The purpose of Certification Audit is to form an **opinion** on an account. The process of achieving this is by an examination designed to secure **sufficient appropriate evidence**. In performing the audit the external auditor provides a service to the users of accounts i.e. the audited entity, the legislature, the taxpayer and the public at large. This service is provided in the form of assurances that the accounts can be relied upon to the extent indicated in the audit certificate through which auditor's opinion is expressed.

* Counterpart Officer, Reforms in Budgeting and Expenditure Control (RIBEC) Project, Finance Division, Government of Bangladesh.

Certification Audit has another dimension. While in the private sector the auditor will check that accounts conform with statutory requirements (e.g. as to form and disclosures), in the public sector the concept of conformity, or regularity, also embraces examinations covering the statutory purposes for which funding has been authorized (ambit of vote).

If at the conclusion of an audit, satisfactory assurances can be given as to the reliability and regularity of the accounts then the auditor records a clear (unqualified) certificate; otherwise, the certificate must be qualified and it will normally be supported by a separate report recording circumstances and reasons for the qualification.

Value for Money Audit

In the public sector the external audit role has expanded over the years with the assumption of responsibility for appraising, and reporting on, the extent to which value is secured from the expenditure of public funds; this is the second of the two arms referred to above. The objective of these value for money investigations can be summarized as the assessment of **economy, efficiency and effectiveness** in the use of public resources.

Relationship with the Audited Body

To perform the audit role the auditor must establish a working relationship with audited bodies whether government departments or public enterprises. What is the nature of that relationship? While the term 'external' audit signifies the independence of the audit function from executive functions it should not be taken to imply isolation from the public accountability process. Management is responsible for the safe-keeping of public funds (e.g. by establishing sound accounting practices and control systems including internal audit) and for their proper use. The external auditor, on the other hand, drawing on the results of examinations and investigations, can assist management by bringing attention to weaknesses and by offering constructive advice designed to secure improvements. Management is not bound to accept advice but is answerable if weaknesses persist.

Independence of Public Auditor

The independence of the external audit function is the critical component required for the establishment of a positive statutory environment for the work of the Auditor General. The impact of audit findings may be limited by various factors (e.g. as a result of ineffective arrangements by the

legislature to consider audit reports) but curbs on independence have a stifling effect on audit effort and credibility from the outset. While complete independence is probably an unrealistic concept the following criteria should be seen, where possible, as appropriate to the establishment and maintenance of adequate independence:

- appointment and dismissal of the Auditor General not to be within the prerogative of the executive;
- the Auditor General's salary to be a direct charge on public funds and not subject to annual appropriation;
- the Auditor General's right to report directly to the legislature (rather than to or through the Executive) and to decide the nature and timing of the report;
- the Auditor General to have power to appoint and pay staff, but subject only to budgetary approval by the legislature or a body empowered to do so by the legislature;
- the Auditor General to have discretion to decide the nature and conduct of the audit including value for money investigations, and to decide whether or not to accede to requests emanating from outside the Auditor general's office proposing matters for audit;
- the Auditor general to have the right of access to papers and information and to obtain explanations and information;
- the audit mandate to cover all public enterprises.

The crucial importance attaching to independence is a feature of the Auditing Standards issued by the International Organisations of Supreme Audit Institutions (INTOSAI). At the same time attention is drawn to the need for accountability by each audit institution for its resources and for the effective exercise of its mandate. **With this in mind, audit institutions should expect to be subjected to an external audit which has the power to conduct value for money investigations.**

It is worth noting, however, that auditors are often adept in interpreting statutory clauses in a manner best suited to their own audit strategy. **For example, in the absence of legislation specifically providing value for money investigations the work has gone ahead on the basis of a requirement to see that expenditure "has been incurred with due regard to the avoidance of waste and extravagance".**

Audit Objective

Auditing Practices Board of the UK defines audit as follows:

“An independent examination of, and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any statutory obligation.”

While the above definition may be regarded as an adequate description of the primary objective of financial audit undertaken for the purpose of certifying accounts prepared outside the public sector it omits two features essential to the proper performance of audits undertaken by Supreme Audit Institutions. In addition to the financial audit the public sector auditor must consider whether:

- 1) expenditure is regular, that is that it has been applied for authorised purposes (**propriety**) and that it conforms to the authority which governs it (**conformity**); and
- 2) due regard is paid to securing **economy, efficiency and effectiveness**.

In this paper financial and regularity requirements are together regarded as covered by the term **certification audit**. The other area of responsibility, item 2) above, is termed **value for money audit**.

Some of the methods and techniques discussed in this paper in the following paragraphs regarding the objectives of certification audit can also equally be applied in the case of VFM investigations, with suitable modifications wherever necessary.

Auditing Standards

In auditing literature, audit is defined as an independent examination of and expression of opinion on an account. But nowhere it is discussed how audit should be conducted. Over the years, auditing has to develop to keep pace with changes in the world of finance which have increased the complexities of accounting. The process has resulted in statements covering almost every aspect of auditing being brought together to become formal auditing standards and guidelines for use by the profession.

The individual Supreme Audit Institution may set its own auditing standards. The SAIs who cannot afford to have their own standards have adopted the standards laid down by the International Organization of

Supreme Audit Institutions (INTOSAI). The International Auditing Practices Committee (IAPC) of International Federation of Accountants (IFAC) in its aim of improving degree of harmonization of auditing practices throughout the world issued International Standards of Auditing (ISA). Each standard issued by the IFAC contains a para with the heading "Public Sector Perspective". INTOSAI standards are formulated incorporating the principles on which are based the ISAs issued by IFAC.

Auditing Standards can be considered under three headings:

Professional and Ethical Standards

Standards issued under this heading are concerned with the relationship of the auditor to the audited body and with the personal conduct of the auditor in carrying out the audit. Attaining satisfactory standards for the conduct of the audit is dependent upon the personal conduct and approach of audit staff. Therefore, there is an obvious need for an auditor to observe standards concerning such matters as **propriety and integrity, objectivity, constructiveness, proficiency, reasonable care, and confidentiality.**

Operational Standards

Standards issued under this heading regulate the audit examination. Operational standards lay down a framework for the conduct of the audit. It covers such matters as **Planning, controlling and recording of audit, audit evidence, accounting systems, internal controls, and examination of financial statements.**

Reporting Standards

Standards issued under this heading determine what the auditor is obliged to cover in the certificate given to the accounts. The certificate is the means by which the auditor's conclusions are conveyed to users of accounts and the wording of the auditor's report is therefore extremely important. Standards require the certificate to state expressly:

- the financial statements to which it relates;
- that the audit has been carried out in accordance with the relevant statutory authority and auditing standards;
- an opinion about the accounts which the auditors have formed as a result of audit.

Consequences of Failure to Observe Standards

An auditor's failure to observe the audit standards set or adopted by its Audit Office is, of course, a matter between the two parties. But if the auditor's work were ever called into question - perhaps even in a court of law- compliance or otherwise, with the auditing standards governing the audit would be an important factor in deciding whether an auditor acted with reasonable care and skill. Therefore any decision to depart from the standards should be taken at an appropriately high level and it should be clearly documented.

Objectives of Certification Audit

The objective of certification audit is to obtain **sufficient appropriate audit evidence** to support the opinion given on an account. In meeting this objective, assurances have to be provided annually that:

- the form and content of accounts comply with appropriate government and professional accounting requirements and principles;
- the figures in the accounts are properly stated;
- the funds have been applied to the services and for the purposes intended by the legislature (**ambit of Vote**);
- the payments and receipts are in accordance with relevant primary and secondary legislation or rules issued under such legislation.

Audit Evidence

It is stated in an earlier para that the auditor should obtain **sufficient appropriate audit evidence** to support his opinion on an account. Hence, the audit opinion is based on evidence. A natural question follows then, what is an audit evidence? Audit evidence can be anything obtained by the auditor which assists him in reaching his opinion on the account. More particularly, the auditor seeks evidence to confirm that items have not been omitted from the accounts; and that no items in the account have been included wrongly, or have been misstated; and that all items have been properly disclosed. In relation to the balance sheet the auditor has to obtain evidence as to the existence of assets and liabilities and that they have been recorded at a reasonable valuation.

There is a basic difference between **compliance evidence** (which determines the reliability of internal controls) and **substantive evidence** (which determines the reliability of the financial statements). Compliance

evidence is not enough to support the auditor's opinion on the accounts. If the auditor considers through compliance evidence that the audited body's internal controls can be relied upon, the amount of substantive evidence required will be reduced, but substantive evidence must always be obtained because it provides direct and positive assurance to support the opinion on the account. Therefore, the auditor must always obtain substantive evidence in support of his opinion. And audit standards require that the evidence should be sufficient and appropriate.

General Audit Objectives

General audit objectives have been designed to ensure that the right sort of evidence is obtained to support all aspects of the opinion the auditor is required to give on an account. Any audit programme targeted to obtain evidence, irrespective of compliance or substantive, must relate to the general objective below.

Completeness:	all transactions relevant to the year of account have been recorded.
Occurrence:	all recorded transactions properly occurred and were relevant to the year of account.
Measurement:	the recorded transactions have been correctly valued, properly calculated, or measured in accordance with established accounting policies, on an acceptable and consistent basis.
Disclosure	the recorded transactions have been properly classified and disclosed where appropriate.
Regularity	the recorded transactions are in accordance with primary and secondary legislation.

It is to be mentioned that for assets and liabilities items two more general audit objectives should be considered viz., **Existence and Ownership**.

To prevent confusion between **objective of certification audit** and **general audit objective** one has to remember that the primary objective of a certification audit is to form an opinion on the accounts. On the other hand, general audit objectives exist to ensure that the right sort of evidence is obtained to enable the auditor to form an opinion on the accounts.

Audit Approach Options

There are two basic approaches to certification audit:

Direct Substantive Testing (DST)

The auditor reaches his opinion on the accounts by obtaining evidence directly from substantive test.

System Based Audit (SBA)

The auditor seeks to obtain the required level of assurance by first establishing that an effective system of internal control is operating, by evaluating and compliance testing of relevant internal controls (i.e. compliance evidence), and then carrying out an appropriately reduced amount of substantive testing.

Confusion can arise unless a distinction is made between SBA and simply the systems audit. SBA is an audit approach which may be used by an external auditor whose objective is to express an opinion on the financial statement prepared by the audited body whereas the objective of systems audit is to form a view of the adequacy of the systems examined and, if necessary, to seek ways of improving them.

Choice between SBA and DST

The choice between Direct Substantive Testing (which places no reliance at all on controls) and a Systems Based Approach may not be a choice at all if, as a result of Preliminary Systems Examinations (step-3 of audit process below), the auditor decides that the internal controls are too weak for any reliance to be placed upon them. He would then have to adopt a DST approach. If however Preliminary System Examinations indicate that SBA is an option (i.e. at least low assurance can be obtained from controls), the choice between DST and SBA would take into account the comparative costs and any policy which might be laid down by the audit office.

There are two main areas of costs when carrying out a SBA approach: those relating to the evaluation and compliance testing of the controls in operation (step-6 and step-7 of audit process below) and those relating to substantive testing. For a DST approach the costs are only those of carrying out the substantive testing. However, less substantive testing needs to be carried out under SBA than under DST.

To make a comparison of costs between the two approaches, therefore, the auditor has to weigh up the reduced costs of substantive testing under SBA against the costs of performing the DST, which might be seen as an investment for future years.

Steps in Audit

For ease of discussion the audit approach is broken down into a number of steps. It does not indicate that every audit can be broken down or ordered in the same manner. Often the auditor may find it more efficient to carry out several steps at once or ignore one or more steps that are not relevant.

The steps are:

- Step-1--- Familiarization with the Entity**
- Step-2--- Outline Systems Descriptions**
- Step-3--- Preliminary Systems Examinations**
- Step-4-- -Determining the Audit Approach**
- Step-5--- Preparation and Approval of Audit Plan**
- Step-6-- -Systems Control Evaluation**
- Step-7-- SBA: Compliance Testing**
- Step-7A- SBA: Substantive Testing**
- Step-8--- DST: Substantive Testing**
- Step-9-- Audit Completion and Reporting**

A brief discussion about each step is made in the following paragraphs.

Step-1-- Familiarization with the Audited Body

This is an essential step required to gain an awareness of the activities of the audited body. It involves, for example,--

- examining and gaining a broad understanding of the legislation which affects the audited body including the likely effect of any new legislation;
- confirming scope of audit and the authority for it;
- acquainting with the form of the account and disclosure requirements;
- reviewing the latest published accounts, estimates or budget.

Step-2-- Outline Systems Descriptions

The Auditor's operational standard states that:

"the auditor should ascertain the audited body's system for recording

and processing transactions and assess its adequacy as a basis for the preparation of financial statements”.

The auditor is required, therefore, to do two things;

- he must find out what the financial systems are and make a record of them. He does this through preparing Outline Systems descriptions.
- he must evaluate the overall control environment. He does this by carrying out Preliminary Systems Examination (Step-3 below).

An Outline Systems Descriptions (OSD) is an outline of the main features of the audited body’s financial systems, with a description of how the systems fit in with each other.

The description should cover such matters as:

- the main processing procedures;
- major control procedures;
- any serious control weaknesses thought likely to affect the audit approach;
- the type, value and volume of transactions processed;
- interfaces between computer and manual functions.

The auditor needs to know how the system operates in practice and should guard against recording the system simply as the organisation describes it. The auditor should make sure that he has an accurate record, therefore, by tracing a few transactions through the system. For example, in the case of purchases this would involve following through order and subsequent receipt of goods through the various accounting records. In the audit arena these tests are popularly known as **Walk-through tests**. Outline Systems Description may be kept in Block Diagrams or narrative notes or a mixture of both.

Step-3-- Preliminary Systems Examination

The purpose of a Preliminary Systems Examination(PSE) is to carry out, before planning an audit in detail, a brief evaluation of the audited body’s control environment in order to :

- assess adequacy of the system of recording and processing transactions as a basis for the financial statements;

- evaluate the overall control environment of the audited body;
- evaluate the individual system of processing transactions (for example, the non-payroll expenditure control area);
- identify any specific weakness or risk so that the auditor can make sure that his substantive tests cover them;
- decide whether the accounting systems are satisfactory and could support a System Based Audit.

Preliminary Systems Examination takes the form of a Questionnaire and may be kept in **permanent file**. It is important that the information on the file should be kept up to date and the auditor should review it each year to make sure that it is accurate.

Step-4--Determining the Audit Approach

If the Preliminary Systems Examinations would indicate that at least low assurance could be obtained from the operation of internal controls, System Based Approach would be an option. On the other hand if no assurance could be obtained, 100% Direct Substantive Testing would be the only approach possible.

*** Where a decision is taken to adopt a DST approach, the auditor will move directly from step 5 to step 8.*

Step-5-- Preparation and Approval of Audit Plan

An annual audit plan should be prepared and approved in respect of each set of financial statements for which an audit certificate is provided. The certification audit plan should contain:

- a summary of the scope of the audit and of the planned audit approach;
- details of the administrative and timetable arrangements; and
- supporting working papers on standard forms.

The importance of planning is recognised in operational auditing standards which lay down that "the auditor should adequately plan, control, and record his work".

Step-6-- Systems Control Evaluation

Where a decision has been taken to follow SBA approach, Systems control Evaluation is required to:

- identify key controls within accounting systems upon which reliance can be placed;
- to reduce the extent of substantive testing required to form an opinion.

Procedure to achieve the objective (a systems control evaluation) involve:

- design key control questions relevant to each general audit objective; identification of the controls which satisfy the control objective and upon which reliance can be placed;
- an initial evaluation of the strength of the controls identified.

It is to be noted here that tools used for Evaluation of Systems Control are:

- Internal Control Questionnaire(ICQ); and
- Internal Control Evaluation Questionnaire(ICEQ).

Step-7-- SBA: Compliance Testing

If the Systems Control Evaluation indicates that reliance may be placed upon the key controls identified, the auditor must obtain compliance evidence that the controls have operated effectively over the period of the account under audit.

Procedures to achieve the objective of compliance testing involves:

- Compliance Test Programmes (not to be confused with Walk Through Tests used under Outline Systems Descriptions stated in step-2);
- Selection of sample size;
- Evaluation of the results of Compliance Testing.

If higher degree of assurance is achieved from the evaluation of the results of Compliance Testing, lower assurance will be needed from substantive testing to form auditor's opinion on the account. Hence, less audit resources will be needed due to restricted amount of substantive testing.

Step-7A-- SBA: Substantive Testing

The auditor must always obtain substantive evidence to support his

opinion on the account. Less substantive evidence is required if he performs a System Based Audit, but whatever the audit approach, substantive evidence must always be obtained. The main objective of substantive testing is to enable the auditor to express an opinion as to whether material error exists in the accounts. Substantive test must be designed, therefore, to uncover all types of error which might exist in the financial statements i.e. those governed by the general audit objectives of completeness, occurrence, measurement, disclosure and regularity.

Step-8-- DST: Substantive Testing

The auditor will use direct substantive testing(DST) if he cannot rely on the systems of control or this approach is more cost-effective. Under DST approach the auditor's opinion is solely based on substantive tests. Substantive evidence is obtained by examining and testing the transactions that make up the account. It is seen in an earlier para that substantive evidence provides direct and positive assurance to support the opinion on the account.

The main ways in which audit evidence is gathered under DST can be summarised as under:

- Reperformance of accounting routines (e.g. checking computations).
- Vouching.
- Scrutiny (e.g. reviewing data to identify unusual items).
- Observation.
- Physical inspection.
- Confirmation and inquiry (of third parties).
- Analytical review.
- Computer assisted audit techniques (CAATs).

Step-9-- Audit Completion and Reporting

At this final stage of audit, the auditor has reached his conclusions, based on the evidence he has obtained and documented, as to:

- the existence of material errors in the accounts;
- the adequacy of the financial and accounting systems underlying the accounts.

The auditor's responsibilities for reporting these conclusions are to:

- those who have appointed him and to all readers of accounts who placed reliance on the auditor's opinion (**External Reporting**);

effective accounting and internal control system puts the public sector on the right track for achieving its principal objectives. If there are sufficiently effective accounting and internal control systems, the Audit office may minimise the extent of detailed audit work and concentrate its attention on other sophisticated areas of System Based Auditing such as those described in this paper. In the process, the economic and efficient use of audit resources will be achieved, the speed and reliability of audit will increase and its quality will be enhanced for the overall improvement of the activities of the office of the Auditor General.

A STUDY OF DEMAND FOR BANGLADESH RAILWAY PASSENGER SERVICE : ESTIMATION OF ELASTICITY OF PASSENGER FARE

Ahsan Abdullah*

Bangladesh Railway (BR) is a Government owned and managed national railway. BR operates both Passenger service and Freight service. Having a territory of 2,706 Km of railway track the BR system is divided into major subsystems, four operating divisions and forty three engineering sections. The two major subsystems are known as Metergauge (MG) and Broad gauge (BG). MG consists of 1000 mm wide track and covers the whole of Eastern part of Bangladesh and a portion of Northern part. BG consists of 1,676 mm wide track and covers part of Southern region and major part of the Northern region. BR passenger service (BRPS) is operated through 1,430 number of coaching vehicles. The track, stations and locomotives provide joint support to both Passenger service and Freight service. Both passengers and parcels are transported through BRPS.

After introduction of Inter City (IC) trains in 1985 majority of passengers now travel in IC trains and IC trains contribute major share to passenger revenues. In 1996, 4,719 number of IC trains ran in MG and BG and nearly 9 million passengers traveled in them.

Class system exists in BRPS and in both IC and Mail - Express trains. The highest class of travelling is Air-conditioned class available only in some selected trains and routes. The next class is Ist class, followed by Shovon, Shulov and 2nd class. Shovon and Shulov are available only in IC trains. Among IC travelers nearly 88% are Shulov or Economy class travelers.

There has been a recent trend in traffic diversion from Railway towards Road service. Traffic growth in Road and Railway passenger sectors over the last few years has been diametrically opposite. Whereas Road passenger sector has experienced a steady growth ,the Railway passenger sector has actually experienced negative growth as shown in the graph on the next page.

* Additional Director (Finance), Jamuna Multipurpose Bridge Authority, Bangladesh.

- the management of the audited body(**Internal reporting**).

External Reporting

The auditor's certificate is the primary means by which the results of the audit are conveyed to users of accounts. There are two parts to the audit certificate; description of the scope of the audit and the audit opinion.

The scope paragraph of the certificate must state the financial statements to which audit relates and that audit has been carried out in accordance with the relevant statutory authority and with auditing standards.

An opinion must be expressed as to whether the accounts are '**properly presented**' (for cash accounts) or show a '**true and fair view**' (for accrual accounts) and the opinion may be qualified or unqualified. For appropriation accounts the opinion must cover regularity by saying that the sums spent in accordance with the intention of the Parliament.

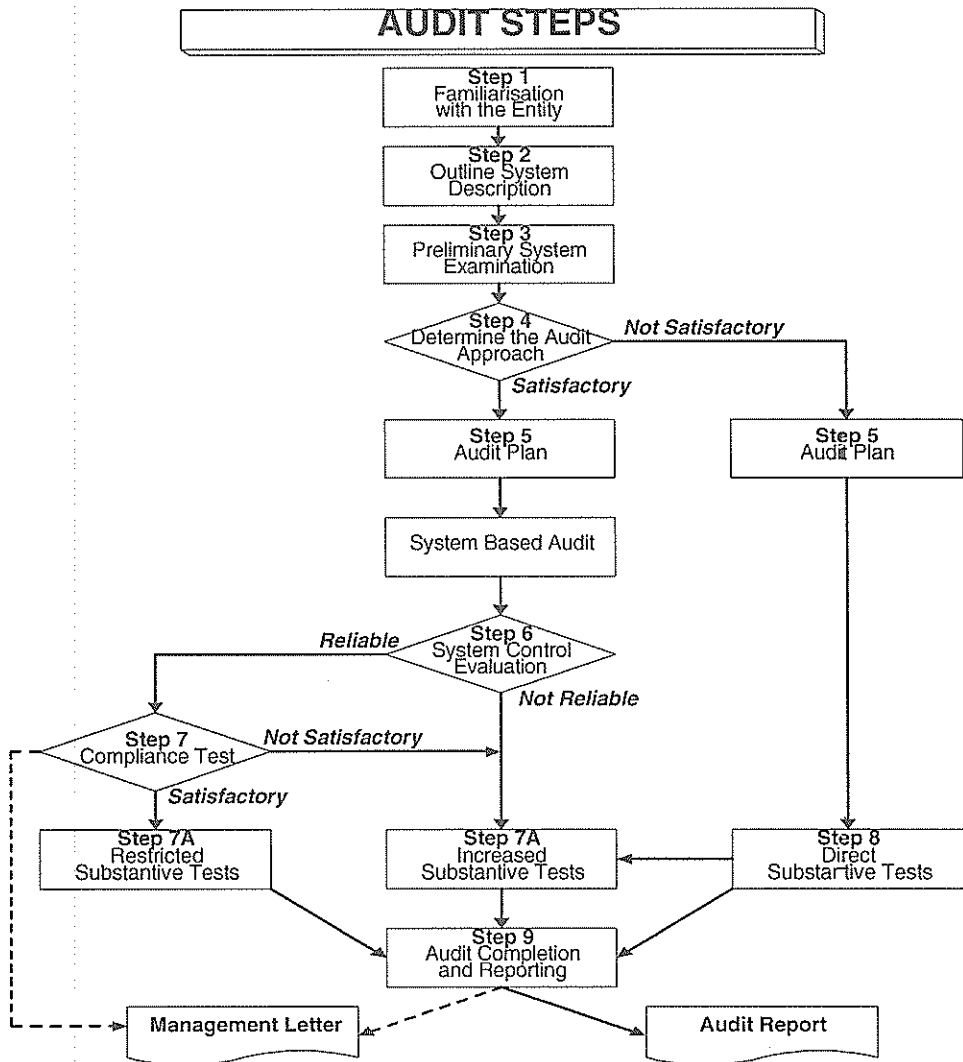
Internal Reporting

Auditor's prime obligation is to express an opinion on the accounts. But he is also required to form a view about the audited body's accounting records and internal control (**an operational standard**). If the auditor decides that his findings are not sufficiently serious to warrant qualification of the certificate, he should bring the weaknesses to the attention of the management of the audited body through **management letter** with the aim of securing improvements. However, the management letter needs to be framed with care and the proposed contents should be discussed with the audited body before the letter is sent.

Specific points to be taken into account when compiling such a letter are:

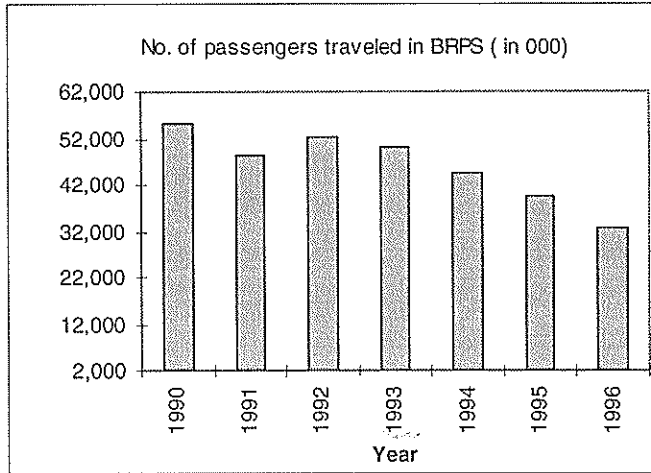
- concrete examples of weaknesses or errors should be given wherever possible;
- no weaknesses should be reported without a corresponding recommendation for improvement to the system;
- the important aspects of the letter should not be obscured by the inclusion of trivial items.

Below is a diagrammatic outline of the Audit Steps discussed above, for reference purposes.



Conclusion

In conclusion, it can be said that audit resources are limited as are any other resources of a country. It is therefore critical that these resources are not wasted by conducting audit in a haphazard way. To bring proper discipline in the audit approach the Auditor General's office should strive to encourage the government departments and public enterprises to have effective accounting and adequate internal control systems. A sound and



No study has yet been done to identify the reasons for the negative growth pattern of BR passenger traffic. Sometimes fare has been described as the decisive factor, sometimes running time and punctuality. Useful results can be found only after a statistical study of demand for BRPS is made.

The present paper is an attempt to study the trend and magnitude of passenger demand and their relations with explanatory factors like fare, running time and punctuality. More specifically, our objective is to study the price responsiveness of demand for BRPS. We will try to know how demand for BR passenger service changes with changes in fare. The rate of change will vary among different classes of travelling. For the present, our interest is centered on economy class travelling.

Ordinary Least Squares (OLS) method is applied to estimate price responsiveness of demand for a commodity. Let us take an example to illustrate the methodology.

$$\text{Define } D_t = \alpha + \beta P_t + U_t, \dots, i)$$

as a linear regression equation where D_t = Current demand. P_t is current price (slope of the equation). α is intercept and U_t is the stochastic variable. t stands for current period. The estimated regression equation will look as such:

$$\hat{D}_t = \hat{\alpha} + \hat{\beta} P_t, \dots, ii)$$

where \hat{D}_t , $\hat{\alpha}$ and $\hat{\beta}$ are the estimated values of the variables. The estimated values are found from time series or cross-section data on consumption (demand) and price (Market prices). $\hat{\beta}$ is the regression coefficient which in this case shows the price responsiveness of demand.

The estimated regression (equation in ii) is a simple OLS equation which has an independent variable and one dependent variable. Inclusion of

more explanatory variables leads to multiple OLS equation. Multiple OLS equation is usually preferred as values of R² generally increase due to inclusion of more explanatory variables. A multiple linear regression equation may be defined as

$$D_t = \alpha + \beta_1 P_t + \beta_2 Y_t + U_t \dots\dots iii)$$

where one additional explanatory variable Y_t (Current disposable income) has been included in the model. The estimated equation will be

$$\hat{D}_t = \hat{\alpha} + \hat{\beta}_1 P_t + \hat{\beta}_2 Y_t \dots\dots\dots iv)$$

Demand for BR passenger service can be measured in terms of occupancy of passenger trains. Occupancy is the proportion of seats occupied by travelling and ticket paying passengers to total number of seats owned in a particular train (of a particular class). Higher this proportion higher is the demand for the service (of a particular class).

In this analysis the following specifications are made :

- i) BR Intercity (IC) passenger service is taken as a model for type of train.
- ii) BR IC economy class (Shulov/Shovon) is taken as a model for class of travelling.
- iii) Certain selected trains plying in selected routes of BR East Zone are taken as samples.
- iv) Only factors directly related to the selected trains are considered. Examples, Fare, Running Time, Punctuality etc.

BR occupancy depends, *prima facie*, on BR fare, punctuality, running time etc. and we will try to find relationships of occupancy with those determining factors. We will see how those factors control passenger travelling separately and collectively.

Relationship 1.

Occupancy of a particular class of travelling depends on fare of that class.

Mathematically,

$$\text{Occupancy}_t = \alpha + \beta \text{Fare}_t + U_t \dots\dots\dots, v)$$

Using OLS method we find the following estimated equation from cross section data shown at Annex A:

$$\text{Occupancy} = 86.77 - 0.1890 \text{Fare} \dots\dots\dots vi)$$

$$(0.0567)$$

$$R^2 = 0.245$$

$$t^* = 3.33$$

$$t_{0.25} = 2.042 \text{ (at 34 Degrees of freedom)}$$

As t* > t_{0.25} we conclude that the relation between occupancy and fare is significant. Occupancy of a class of travelling is inversely related to fare of

that class. In other words, a fall in railway fare will lead to a concomitant rise in travelling. However, low value of R^2 suggests that fare explains only 24.5% of total variation in travelling and the remaining 75.5% is explained by factors other than fare.

Relationship 2.

Occupancy of a train depends on running time of that train.

Mathematically,

$$\text{Occupancy}_t = \alpha + \beta \text{Runningtime}_t + U_t \dots\dots\dots \text{vii)}$$

OLS estimated regression equation from cross section data is

$$\text{Occupancy} = 73.06 - 0.8088 \text{Runningtime} \dots\dots\dots \text{viii)}$$

$$(1.8165)$$

$$R^2 = 0.0057$$

$$t^* = 0.44$$

There is *prima facie* no significant relation between occupancy of train and running time of that train (from value of t). Very low value of R^2 confirms that running time does not explain variation in travelling.

Relationship 3.

Occupancy of a particular train depends on punctuality of that train.

$$\text{Occupancy}_t = \alpha + \beta \text{Punctuality}_t + U_t \dots\dots\dots \text{ix)}$$

Estimated OLS equation is found to be

$$\text{Occupancy} = 58.23 + 0.1734 \text{Punctuality} \dots\dots\dots \text{x)}$$

$$(0.1577)$$

$$R^2 = 0.0343$$

$$t^* = 1.10$$

There is again no significant relation between occupancy of a train and punctuality of that train (from value of t) and value of R^2 is very low.

Combining the three relationships in one equation we get the following Multiple OLS regression equation:

$$\text{Occupancy}_t = \alpha + \beta_1 \text{Fare}_t + \beta_2 \text{Runningtime}_t + \beta_3 \text{Punctuality}_t \dots\dots \text{xi)}$$

The estimated multiple regression equation from cross section data is

$$\text{Occupancy} = 24.34 - 0.30 \text{Fare} + 0.11 \text{Running time},$$

$$(0.07) \quad (0.14)$$

$$+ 11.44 \text{Punctuality} \dots\dots \text{xii)}$$

$$(2.56)$$

$$R^2 = 0.68$$

$$t^* = 4.28$$

The relation between occupancy and fare (relationship 1) has passed significant test i.e. relation between passenger occupancy (demand for

passenger service) and fare of travelling is significant. The other relations are not significant (between occupancy and running time and between occupancy and punctuality).

However, when the variables are combined in a single equation (multiple regression) results have improved remarkably. R² has increased to 0.68 and occupancy and punctuality are both significantly related to fare. Occupancy is inversely related to fare and directly related to punctuality.

As the estimated relations are linear the regression coefficients (β_1 & β_3) are not the estimates of elasticity.

The price elasticity of demand for passenger service (% change in demand due to % change in fare) is found as follows :

$$\begin{aligned} \eta_{\text{fare}} &= (-)\beta_1 \frac{\text{mean values of occupancy}_t \text{ values} \dots\dots \text{ xiii)}}{\text{mean value of fare}_t \text{ values}} \\ &= (-) - 0.30 \times \frac{69.05}{93.78} \dots\dots\dots\text{xiv)} \\ &= 0.22 \dots\dots\dots\text{xv)} \end{aligned}$$

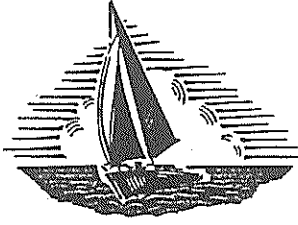
The demand for BR passenger service is found to be inelastic (elasticity less than unity). A fall in fare will not proportionately increase demand for it and may ultimately result in lower revenues for the Railways. Reduction of fare alone is not going to be an effective solution for raising earnings through increasing passenger occupancy. We may draw following conclusions from the above analysis:

- i) Prices should not be set independently. They should be supplemented by other measures like increasing punctuality. We have already seen correlation between occupancy and punctuality.
- ii) Prices should be set only after demand studies are made of passenger occupancy. Presently prices/fares are determined without such studies. Demand studies should be made separately for IC, M-E and local trains as well as for AC, FC and Economy class travelling.
- iii) Transportation these days is no longer the monopoly of any single mode of transport. In Bangladesh too, along with development of infrastructure, multimodal transport facilities are growing fast. For rational decision making it is imperative that appropriate studies are carried out from time to time to find out the reasons for variations in passenger traffic as well as revenue not only by Railways but also by other competing mode of transport. Analysis like these would lead to rational and profitable allocation of resources among the various modes of transport.

Annex: A

Passenger service basic data for selected routes.

Train No.	Train Name	From To	Occupancy %	Running time hours	Punctuality %	Fare Taka
701	M.N.Provati	CTG-DA	26	5.5	32.15	175
702	M.N.Provati	DA-CYG	61	5.35	37.27	175
703	M.N.Purabi	CTG-DA	33	5.3	32.71	175
704	M.N.Purabi	DA-CTG	27	5.35	57.23	175
705	Padma Express	DA-MYN	54	2.35	82.08	44
706	Padma Express	MYN-DA	60	3	77	44
705	Padma Express	DA-JLX	54	3.55	82.08	58
706	Padma Express	JLX-DA	60	3.55	77	58
707	Tista Express	DA-MYN	87	2.35	86.09	44
708	Tista Express	MYN-DA	83	2.45	54.27	44
707	Tista Express	DA-JLX	87	4	86.09	58
708	Tista Express	JLX-DA	83	4	54.27	58
719	Paharika Express	CTG-SYT	86	8.55	51.55	110
720	Paharika Express	SYT-CTG	94	8.35	64.34	110
745	Jamuna Express	DA-MYN	73	3	77.35	44
746	Jamuna Express	MYN-DA	83	3	83.71	44
745	Jamuna Express	DA-JLX	73	4.2	77.35	58
746	Jamuna Express	JLX-DA	83	4.1	83.71	58
709	Parabat Express	DA-SYT	70	7.5	71.82	160
710	Parabat Express	SYT-DA	66	6.5	61.97	160
711	Upakul Express	DA-NKA	53	5.45	85.69	82
712	Upakul Express	NKY-DA	60	5.35	81.51	82
717	Jayantika Exp.	DA-SYT	78	7.2	31.73	95
718	Jayantika Exp.	SYT-DA	78	7	39.88	95
721	Urmee Express	CTG-DA	69	6.3	51.44	100
724	Urmee Express	DA-CTG	45	6.35	31.06	100
737	Egarosindhur Ex.	DA-KFJ	66	4	70.25	48
738	Egarosindhur Exp.	KFJ-DA	67	4.1	81.56	48
739	Upaban Express	DA-SYT	82	7.3	56.48	160
740	Upaban Express	SYT-DA	95	8	84.76	160
741	Turna-Nishitha	CTG-DA	43	6.3	58.74	175
742	Turna-Nishitha	DA-CTG	41	6.25	47.33	175
743	Ekota Express	DA-MYN	92	2.55	77.09	44
744	Ekota Express	MYN-DA	91	2.55	19.71	44
743	Ekota Express	DA-JLX	92	4.15	77.09	58
744	Ekota Express	JLX-DA	91	4	19.21	58



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রাজধানী উন্নয়ন কর্তৃপক্ষ

রাজউক ভবন, ঢাকা।

বিজ্ঞপ্তি

- ১। রাজধানী উন্নয়ন কর্তৃপক্ষের আওতাধীন এলাকায় রাজধানী উন্নয়ন কর্তৃপক্ষের নিকট হইতে নম্বা অনুমোদন না করা হইয়া বেগনরূপ নির্মাণ কাজ শুরু করিবেন না।
- ২। কেহ কোন গৃহ বা দোকান ভাড়া নেওয়ার পূর্বে ঐ গৃহ বা দোকান ঘরটি রাজধানী উন্নয়ন কর্তৃপক্ষের অনুমোদিত নম্বা অনুযায়ী নির্মিত হইয়াছে কিনা তাহা অবশ্যই যাচাই করিয়া নিবেন।
- ৩। নিজস্ব জমি ছাড়া সরকারী বা অন্য কাহারো জমির উপরে গৃহ বা দোকান নির্মাণ করিবেন না।
- ৪। ভি আই পি রাস্তার পার্শ্বে কোন ইমারত নির্মাণ করিতে হইলে সেই নির্মাণাধীন / নির্মিতব্য ইমারতের জন্য রাজধানী উন্নয়ন কর্তৃপক্ষের অনুমোদিত সম্পুখ-দৃশ্য (ফ্যাসাড) এর নম্বা অবশ্যই রাজউক হইতে সংগ্রহ করিবেন।
- ৫। ঢাকা মহানগরীতে যে কোন নির্মাণ কাজ শুরু করিবার পূর্বে রাজধানী উন্নয়ন কর্তৃপক্ষ হইতে নম্বা অনুমোদন করিয়া নেওয়া বাধ্যতামূলক।
- ৬। সরকারী, আধা সরকারী, স্বায়ত্তশাসিত সংস্থা ও বেসরকারী সহ সকল নির্মাণ কার্যের জন্য উল্লেখকৃত শর্তসমূহ প্রযোজ্য।

রাজধানী উন্নয়ন কর্তৃপক্ষ

ডি. এফ. পি-২৮৯ (৮-৬-৯৭)

সম্মানিত গ্রাহকবৃন্দের প্রতি ডেসার আবেদন

বিদ্যুৎ ঘাটতি মোকাবেলায় ডেসার আওতাধীন এলাকায় লোড শেডিং এর মাধ্যমে বিদ্যুৎ সরবরাহ সচল রাখা হচ্ছে। লোড শেডিং এর ফলে জাতীয় পর্যায়ে গুরুত্বপূর্ণ কর্মকাণ্ড সচল রাখার লক্ষ্যে নিম্নবর্ণিত পদক্ষেপ গ্রহণের জন্য দোকানপাটে, মার্কেট, কাঁচা বাজার ও সুপার মার্কেটের গ্রাহকবৃন্দের প্রতি সবিনয় অনুরোধ করা হচ্ছে।

- ◆ ঔষধ, কাঁচামালের পাইকারী বাজার, খাবার দোকান ব্যতীত সব ধরনের দোকান পাট, শপিং সেন্টারসমূহ রাত ৮.০০টা থেকে বন্ধ রাখুন।
- ◆ সেচ পাম্প পিক আওয়ারে অর্থাৎ সন্ধ্যা ৫.৩০টা থেকে রাত ১০.৩০টা পর্যন্ত বন্ধ রাখুন।
- ◆ সন্ধ্যা ৬টা থেকে রাত ১০টা পর্যন্ত কিছু কিছু বৈদ্যুতিক সরঞ্জামাদি যথা ওয়াটার পাম্প, ইস্ত্রি, হিটার, কুকার, ওয়াটার হিটার ইত্যাদি ব্যবহার বন্ধ রাখুন।
- ◆ এক ও দুই শিফটে চালু শিল্প ও ক্ষুদ্র শিল্প কারখানাগুলি সন্ধ্যা ৬টা থেকে বন্ধ রাখুন।
- ◆ অহেতুক বৈদ্যুতিক বাতি জ্বালাবেন না। আপনি ঘর থেকে বেরোনোর আগে ঘরের বাতি, ফ্যান ও এয়ারকুলার বন্ধ করুন।

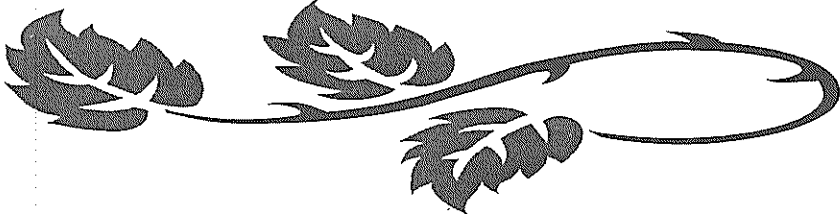
ঢাকা বিদ্যুৎ বিতরণ কর্তৃপক্ষ (ডেসা)

ডি.এফ.পি-২৮৮ (৮-৬-৯৭)

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বি সি এস অডিট এ্যান্ড একাউন্টস এ্যাসোসিয়েশনের
“পাবলিক ফাইনাল এ্যান্ড ডেভলেপমেন্ট” জার্নাল এর সাফল্য কামনায়



অপরিকল্পিত দালান, সড়ক অবরোধকারী বাণিজ্য বিতান ও যত্রতত্র গড়ে ওঠা দোকান পাটই
অস্বাস্থ্যকর পরিবেশ, অসহনীয় যানজট এবং অন্তহীন দুর্ঘটনার অন্যতম কারণ।

আসুন, মহানগরী খুলনা—এর সৌন্দর্য অক্ষুন্ন রাখার পবিত্র দায়িত্বে বে—আইনী নির্মাণ কাজ থেকে
বিরত থাকি এবং সম্মিলিত প্রচেষ্টায় সকল অসুবিধা দূর করে অপরাধী খুলনাকে পরিণত করি
অনন্য বাসভূমে।

খুলনা উন্নয়ন কর্তৃপক্ষ

খুলনা

কর্ণফুলী পেপার মিলস্ লিমিটেড
বি সি আই সি’র একটি শিল্প প্রতিষ্ঠান

“কর্ণফুলীর পেপার ব্যবহার করুন”
“মূল্যবান বৈদেশিক মুদ্রা বাঁচান”

উন্নতমানের আর্ট পেপার, এসসি প্রিন্টিং, অফসেট, বন্ড পেপার, পেপার বোর্ড,
ওয়াল কোটেড, পলি কোটেড, স্যাক পেপার এখন বাংলাদেশে তৈরী হচ্ছে।

এবং

লেখার, ছাপার ও মোড়কের সব ধরনের কাগজ তৈরী করে দেশের চাহিদা মিটিয়ে
বিদেশে রপ্তানি করা হচ্ছে।

ও

অর্থনৈতিক সমৃদ্ধি বৈদেশিক মুদ্রার সাশ্রয় কাগজ শিল্পের উন্নয়নের লক্ষ্যে নিয়োজিত।

কর্ণফুলী পেপার মিলস্ লিমিটেড, চন্দ্রঘোনা

পোঃ চন্দ্রঘোনা, থানাঃ কাপ্তাই, জেলাঃ রাংগামাটি
ক্যাবলঃ পেপার মিলস্ (চন্দ্রঘোনা)
টেলিফোনঃ ২২৩৩৯৭ (সি, এন, এ)



সেবার সমৃদ্ধি

অগ্রণী ব্যাংক তার প্রত্যেক গ্রাহককে একান্ত আপন মনে করে। গ্রাহক এবং অগ্রণী ব্যাংক পরস্পরের সম্পর্ক সেবা সেবার এবং নেবার। আমরা সেবার মাধ্যমে সমৃদ্ধি আনতে চাই। আর সে কারণেই অগ্রণী ব্যাংক খুলেছে -

গ্রাহক সেবা ও পরামর্শ কেন্দ্র

অগ্রণী ব্যাংক তার প্রত্যেক গ্রাহককেই অমূল্য সম্পদ মনে করে। গ্রাহক সেবার মান উন্নয়ন এবং পারস্পরিক সম্পর্ক নিবিড় করার জন্যই এই গ্রাহক সেবা ও পরামর্শ কেন্দ্র। এ কেন্দ্রের মাধ্যমে সেবার সত্তরায়গুলো দূর করতে চাই। আমাদের কাছে আপনার চাওয়া আর আপনার কাছে আমাদের প্রত্যাশাটুকু পূরনের লক্ষ্যে আমরা আপনাকে আরো কাছ থেকে জানতে চাই। আপনার কোন পরামর্শ, অভিযোগ কিংবা আমাদের কোন অপারগতা থাকলে সেটা বিনিয়োগ, কৃষি, শিল্প কিংবা বানিজ্য যে কোন বিষয়েই হোক নির্দিষ্টায় লিখুন এই ঠিকানায় -

গ্রাহক সেবা ও পরামর্শ কেন্দ্র

অগ্রণী ব্যাংক

নিয়ন্ত্রন, বিপনন ও সমন্বয় বিভাগ

প্রধান কার্যালয়, মতিঝিল, ঢাকা।

অথবা

টেলিফোনে বসুন

এ, এফ, মশিহুর রহমান

উপ-মহাব্যবস্থাপক

ফোনঃ ৯৫৫৪১৮৮

৯৫৬৩৬৭৩

সাল্লাউদ্দিন মাহমুদ খসরু

উপ-মহাব্যবস্থাপক

ফোনঃ ৯৫৫২৯৮৪

৯৫৬৬১৬০



অগ্রণী ব্যাংক

দেশ ও জাতীয় সেবায় প্রতিশ্রুতিবদ্ধ একটি ব্যাংক

প্রকৃতির অপরূপ লীলাবৈচিত্রে ভরপুর কীতলক্ষ্যা
নদীর পশ্চিম তীরে প্রায় ৩০০ একর জমির উপর
পৃথিবীর সর্ববৃহৎ আদমজী জুট মিলস লিমিটেড,
আদমজী নগর, নারায়ণগঞ্জ অবস্থিত। এই মিল
পাটজাত দ্রব্য (হেজিয়ান, অ্যাকিং, জিবিজি,
লেমিনেটেড ক্লথ, অপিং ব্যাগস্‌ ডিস্ট্র জুট সামগ্রী
ইত্যাদি) উৎপন্ন হয়। ইহা ছাড়াও অত্র মিল এবং
রিজেট্রম জি'র অধীন অন্যান্য মিলের প্রয়োজনীয়
খুচরা যন্ত্রাংশ তৈরীর জন্য একটি কেন্দ্রীয় যান্ত্রিক
কারখানা রয়েছে। এই মিলের উৎপাদিত পণ্য
স্থানীয় বিক্রয় ছাড়াও পৃথিবীর ৫টি মহাদেশের
বিভিন্ন দেশে রপ্তানী করে মূল্যবান বৈদেশিক মুদ্রা
অর্জন করে থাকে।

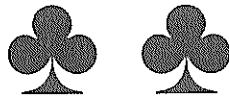
আমরা বি সি এস, অডিট এন্ড
একাউন্টস এসোসিয়েশন এর উত্তোষিত
সাফল্য কামনা করি।

আদমজী জুট মিলস্‌ লিঃ

আদমজী নগর, নারায়ণগঞ্জ

দেশবাসীর সু-স্বাগতের জন্য জে, সি, আই, বাংলাদেশ লিঃ
একটি নির্ভরযোগ্য উষ্ণ শৈরীকারী প্রতিষ্ঠান।

জে, সি, আই, বাংলাদেশ লিঃ
আপনাদের সবার সু-স্বাস্থ্য কামনা করে।

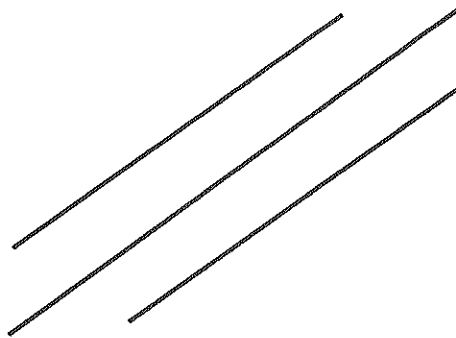


জে, সি, আই, বাংলাদেশ লিঃ

৪, দিলকুশা বাণিজ্যিক এলাকা,
ঢাকা।

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ON THE SECOND ISSUE OF THEIR JOURNAL

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বিদ্যুৎ ব্যবহারে মিতব্যয়ী হোন

- গ্যাস সরবরাহ কম থাকায় চাহিদানুযায়ী বিদ্যুৎ উৎপাদন করা যাচ্ছে না। ফলে লোডশেডিং করতে হচ্ছে।
- লোডশেডিং কমানোর লক্ষ্যে ঔষধের দোকান, খাবার দোকান, কাঁচাবাজার ব্যতীত সকল মার্কেট ও বাণিজ্যিক প্রতিষ্ঠান ৭টার পর বন্ধ রাখুন।
- সরকার ঘোষিত উৎসবের দিন ব্যতীত সব ধরনের আলোকসজ্জা বন্ধ রাখুন।
- সান্দ্যকালীন পিক আওয়ারে পানির পাম্প, সেচ পাম্প, ইস্ত্রি, হিটার এবং ওয়েল্ডিং মেশিন বন্ধ রাখুন।
- সেচ পাম্পে রাত ১১টা থেকে সকাল ৬টা পর্যন্ত বিদ্যুৎ সরবরাহ নিশ্চিত করা হয়েছে।
- এক শিফট ও দুই শিফটে চালু সকল শিল্প কারখানা সন্ধ্যা ৬টা থেকে রাত ১১টা পর্যন্ত বন্ধ রাখুন।
- বৃহৎ শিল্প কারখানার সাপ্তাহিক ছুটির দিন সপ্তাহের অন্য দিনে পুনঃ নির্ধারণ করে বিদ্যুৎ ঘাটতি মোকাবেলায় সহযোগিতা করুন।
- প্রয়োজনের অতিরিক্ত বাতি, ফ্যান, এয়ারকুলার বন্ধ রেখে বিদ্যুৎ ব্যবহারে মিতব্যয়ী হোন।
- অবৈধ বিদ্যুৎ ব্যবহারকারীদের জন্য লোডশেডিং বেড়ে যায়। এদের বিরুদ্ধে সামাজিক প্রতিরোধ গড়ে তুলুন।
- গ্যাস সরবরাহ বৃদ্ধির জন্য সরকার পদক্ষেপ গ্রহণ করেছে। আগামী দু'এক মাসের মধ্যে গ্যাস সরবরাহ বাড়বে। ফলে লোডশেডিং কমবে।

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Tel : 9117010