



Public Money and Management

VOLUME 1

NOVEMBER 1999

Annual Journal of Financial Management Academy (FIMA), Audit Department

CONTENTS

Osman Ghani Khan	1	Auditing of Government Accounts in Bangladesh : Some Comments
Mohammad Mohabbat Khan	17	Trade Unions in Bangladesh : an Overview
Dr. Salehuddin Ahmed	27	Local Government and Development in Bangladesh
Dr. M Fouzul Kabir Khan	36	Whither Bangladesh? A Review of the State of the Economy
Dr. Chowdhury Md. Saleh	46	State Owned Enterprises of Bangladesh in Transition-An Economic and Financial Analysis
Al Mamoon Md. Sanaul Huq	55	Public Service Obligation Claim by Bangladesh Railway
Ahmed Ataul Hakeem	79	Application of Decision Theory and Critical Path Analysis to a Project
Masud Ahmed	102	Objectives in Performance Auditing
M T H S Iqbal	107	Internal Control, Internal Auditing and Professional Training for Auditors
Md. Abul Kashem	116	Systematic Approach to Training: SAI Perspective
Mohammad Muslim Chowdhury	125	An Insight into the C&AG (Additional Functions) Act, 1974
Dr. Riazur Rahman Chowdhury	159	Comptroller and Auditor General's Report : an Analysis
Uttam Kumar Karmaker	171	Resource Accounting and its Relevance in Bangladesh
Dr. Mohammad Hassanul Abedin Khan	182	User Involvement in Information Systems Development : an Analysis
Md. Hassan Khaled	195	Rural Credit Program: a New concept in Conventional Banking

PUBLIC MONEY AND MANAGEMENT

**ANNUAL JOURNAL OF FINANCIAL MANAGEMENT
ACADEMY (FIMA)**

Vol. 1

November 1999

FINANCIAL MANAGEMENT ACADEMY (FIMA)

Government of the People's Republic of Bangladesh

Editor

Ahmed Ataul Hakeem

Associate Editors

Zeenat Khan

Khan Md. Ferdousur Rahman

Advisory Board

Zakir Ahmed Khan, Additional Secretary, Finance Division

Rezauddin M. Chowdhury, Deputy Comptroller and Auditor General.

Golam Mustafa, Member (Finance), REB

Arastoo Khan, Director (MIS), Ribec Project

Abu Nomaan Md. Hossain, CAO, Health & Family Welfare

Aftab Ahmad, ADC & AG (Sangsad)

Niaz Rahman, Deputy Director, Works Audit Directorate

The views and interpretations in the articles published are those of the authors' and do not necessarily represent the views and policies of FIMA.

Copyright: FIMA

Published by Director General, Financial Management Academy (FIMA),

2nd 12 Storied Government Office Building, Segunbagicha, Dhaka-1000

Phone : 8314204, e-mail: fima@bangla.net

AUDITING OF GOVERNMENT ACCOUNTS IN BANGLADESH : SOME COMMENTS

Osman Ghani Khan*

In Bangladesh, as in any country with parliamentary form of government, control of public finance is the exclusive prerogative of the Parliament. Article 83 of the Constitution of the People's Republic of Bangladesh lays down that no tax shall be levied or collected except by or under the authority of an Act of Parliament. The financial procedures are laid down in Articles 81-92 in Part V of Chapter II of the Constitution. Article 87 of the Constitution requires a statement in respect of each financial year, known as the Annual Financial Statement, of the estimated receipts and expenditures of the government for the year be laid before the Parliament.

Demands for grants are discussed and debated in the Parliament which has the power to assent to or to refuse to assent to any demand or to assent to a reduction of the amount specified therein. The expenditure charged upon the Consolidated Fund as specified in Article 88 of the constitution may be discussed in the Parliament but are not to be submitted to the vote of the Parliament.

When grants are made by the Parliament, a Bill to provide appropriation out of the Consolidated Fund of all money required to meet the grants made by the Parliament and the expenditure charged on the Consolidated Fund is passed by the Parliament. No money can be withdrawn from the Consolidated Fund unless provided for in the Appropriation Act. Under Article 91 of the Constitution the President of the Republic has the power to authorize supplementary and excess grants and a supplementary financial statement setting out the estimated amount of the excess amount is required to be laid before the Parliament. The procedures of Articles 87-90 of the Constitution apply in relation to those statements as they apply to the Annual Financial Statement.

*Former Comptroller and Auditor General.

The final stage in the process of disbursement and appropriation in implementing the budget is audit of the government accounts to ensure that obligations and outlays follow the provisions of the authorizing and appropriating legislation and adherence to rules and regulations in incurring expenditures of funds.

The President makes the Rules of Business for allocation of the business of government under Articles 55 (b) of the Constitution. Under the Rules of Business, made in two parts, the business of expenditure control is allocated to the Ministry of Finance. The Republic is a democracy and according to Article 11 of the Constitution effective participation by the people through their elected representatives in administration at all levels has to be ensured. Thus, the supremacy of the Parliament and the role of its Standing Public Accounts Committee, Estimates Committee and other Standing Committees appointed by the parliament are important.

In the cycle of accountability, the Comptroller and Auditor General (C&AG), who is legally responsible for preparing the government accounts, for determining the manner and form of government accounts and for audit of the government accounts and expenditures, the Public Accounts Committee which considers the Comptroller's Reports along with the accounting officers of the departments and ministries, or the principal accounting officers as they are called, constitute important links.

Articles 127-132 under Part VIII of the Constitution (1972) provided for establishment of the Comptroller and Auditor General and defined his functions and powers. In 1974, the Comptroller and Auditor General (Additional Functions) Act (Act XXIV) was passed which conferred some additional functions, including keeping of government accounts, preparation of appropriation and finance accounts, audit of accounts of statutory public bodies, preparation of commercial accounts and general financial statements on the C&AG. The C&AG prepares the annual Appropriation Accounts of the

government which is submitted to the president who cause them to be laid before Parliament under Article 132 of the Constitution.

The Office of the Comptroller and Auditor General is the supreme audit institution of the country being a constitutionally established office and not a mere secretariat of the auditors as some may call it. The C&AG is independent of the government for discharge of his functions and Article 128(4) of the Constitution provides that he shall not be subject to the direction and control of any person or authority.

In 1985, the Ministry of Finance, by an executive order passed the task of maintaining accounts to a newly created office of Controller General of Accounts but the legal framework remained as before. The Controller General of Accounts is still under the administrative control of the Comptroller and Auditor General for his officers and staff.

The Controller General of Accounts and other officers are recruited through the Public Service Commission on the basis of competitive examinations held for various superior services including the Accounts Service cadre. Officers recruited to the Accounts Service have to undergo training for two years in the Financial Management Academy and pass a departmental examination and serve on probation. This cadre is under the administrative control of the Ministry of Finance.

The posting and transfer of the officers within the audit and accounts offices are generally made by the Comptroller and Auditor General. The C&AG has under him about 1,200 officers of whom approximately half are engaged in the audit offices. He also has nearly 14,000 auditors in the Accounts and Audit offices who are generally university graduates and undergo training in the Financial Management Academy. If they pass the Subordinate Accounts Services departmental examination held by the C&AG, they become eligible for promotion to superior posts on a percentage basis.

The Comptroller and Auditor General of Bangladesh is the head of the audit department. He has under him ten Directorates of Audit including the Directorate of Commercial Audit, Directorate of Works Audit, Directorate of Civil Audit, Directorate of Mission Audit, Directorate of Defence Audit, Directorate of Posts, Telegraphs and Telephone Audit, Directorate of Railway Audit, Directorate of Foreign Aided Projects Audit, the Financial Management Academy.

The Controller General of Accounts is entrusted with matters related to Accounts. There are twenty one Chief Accounts Officers who are attached to various Ministries of the government to assist the Principal Accounting Officers or Secretaries of the different Ministries with matters of accounts. However, their annual confidential report are countersigned by the Comptroller and Auditor General.

Government Accounts are kept on cash basis by single entry as distinct from commercial accounts maintained by the double entry system involving preparation of manufacturing, trading and profit and loss accounts and a Balance Sheet for the purpose of making profit and determining the state of affairs of the enterprise at a particular date.

Government accounts are maintained for accountability of the government, transparency and good governance of the country and not for making profit. Numerous transactions of the government are made in 35 or more Ministries and various Departments of the government and agencies spread over the country and their accounts are maintained in different offices, courts of law and authorities of the government. The government accounts are classified under numerous heads for identifying the nature of payments or receipts and the Department to which it may relate. The audit of government accounts is conducted by the Comptroller and Auditor General or the officers and staff authorized by him.

The Audit Department of Bangladesh follow the traditions of the Audit Department of Pakistan and India, all being based on the British system following the Exchequer and Audit Department Act of 1866. The Office of the Auditor General of India was for the first time recognized statutory with the constitutional reform of 1919. The Auditor General was independent of the Government of India in audit matters and this independence was secured under the Government of India Act 1935.

According to the provisions of Section 166 of the Government of India Act, 1935 the Auditor General of India was to be appointed by His Majesty and could only be removed from office in the manner and on grounds as a judge of the Federal Court. Conditions of service were prescribed by the Government of India (Audit and Accounts) Order 1936 made by His Majesty in Council. This order also dealt with the duties and powers of the Auditor General in relation to government accounts. The order was, however, silent about administrative and financial powers of the Auditor General.

The fundamental provisions relating to audit were laid down in paragraph 13 of the Audit and Accounts Order 1936. Clause (1) of the paragraph follows closely the words of the Exchequer and Audit Department Act of 1866 of the United Kingdom (29 and 30 Vict.) Under sub-paragraph (4) of paragraph 11 of the Order, each year the Auditor General had to prepare comprehensive accounts of receipts and expenditures of the government classifying the transactions under respective heads and to submit them to the government.

Besides these accounts, the Auditor General had to submit annually, Appropriation Accounts, that is, accounts relating to expenditure brought into account during a financial year. Under paragraph 12 of the Audit and Accounts Order 1936, the Auditor General had to prepare annually a general financial statement incorporating a summary of the government accounts for the preceding financial year with particulars of their balances and outstanding liabilities. This

financial statement is known as the Combined Finance and Revenue Accounts of the Governments.

The Finance Accounts is an auditor's presentation of the general accounts of the government to the legislative along with the Auditor General's Report made under Article 128 (i) and 132 of the Constitution of Bangladesh. The report and the finance accounts form a single document and are divided into two sections as follows:

Section A: General Finance Accounts—
Report
Accounts

Section B: Debt, Deposit and Remittance Accounts—
Report
Accounts

The accounts portion of the document is composed of six statements for Section A and five statements, including statement of debt and other interest bearing obligations showing additions to and discharge of debt, etc., during the financial year.

Early in 1990, a Committee on Reforms in Budgeting and Expenditure Control (CORBEC) was constituted by the Ministry of Finance in the process of reforming the financial sector. On the recommendation of the Committee, a three phased project was floated and its second phase included computerization of accounts, etc. are being considered. The project is being financed by ODA. Though the legal framework was not changed, certain changes in separation of audit from accounts, classification of accounts and their computerization are being considered for implementation.

The World Bank in a country report on Bangladesh dated February 29, 1996 titled "Government that Works: Reforming the Public Sector" (Chapter 4 "Enhancing Accountability and Responsiveness") suggested strengthening constitutional bodies including the Comptroller and Auditor General. In their view, the reports of the

C&AG do not offer satisfactory ex-post checks over the spending agencies for a number of reasons, including:

- i. Weak staff skills as the Audit Department do not have any professionally qualified Chartered Accountants;
- ii. Dual responsibility of accounting and auditing, specially due to the fact that the staff performing audit and keeping accounts belong to the same cadre;
- iii. Delays in issuing reports due to shortage of qualified staff and lack of requisite office equipment.

The World Bank also made mention of the ODA assisted RIBEC project and explained improving availability of resources and stressed the need for separation of audit from accounting function to establish credibility of audit.

It appears that there is lack of information on the fact that government accounts and audit are different from commercial accounts and audit, and that according to legal requirements, the office of the C&AG, besides the supreme audit institution, is also required to keep the government accounts. Furthermore, for auditing government accounts, it is not necessary to appoint any Chartered Accountant. Even if a Chartered Accountant is appointed in the Audit department he would have to undergo rigorous and intensive training to be able to audit government accounts.

It may be pertinent to quote from para 432 of the India Statutory Commission Report, Volume I, Survey (1930) relating to the Auditor General as follows:

"It is clear that if the control is to be effective, there must be an agency in India independent of the Executive and responsible to the Secretary of State for seeing that the governments do not act in excess of the powers conferred on them by Statute or the executive orders of the Secretary of State.

The officers on whom the responsibility rests are the Auditor General and his staff..... He is an officer appointed by the secretary of State and holds office during His Majesty's pleasure. He is the final audit authority in India, and though not in any sense servant of the legislature, he is an important part of the machinery through which the legislature enforce regularity and economy in the administration of public finance.

A peculiar feature of the Indian financial system imposes on him (the Comptroller and Auditor General) a third function. The compilation of accounts and their audit are entrusted to the same agency, the Indian Audit Department. The Comptroller and Auditor General is, therefore, responsible not only for audit but also for the preparation of accounts he audits. He is, in fact, the officer who is statutorily responsible for the compilation of accounts which the Secretary of State is required to lay before both Houses of Parliament every year. In practice, a system had grown up in India under which accounts to transactions of the government are kept and audited by one and the same agency, namely the Indian Audit Department."

In Bangladesh also, the same system has been legally prescribed and practically followed so far. It is not provided anywhere that the Comptroller and Auditor General of Bangladesh (or of India, or Pakistan or any other Commonwealth country) should be a Chartered Accountant or his staff should be professionally qualified Chartered Accountants. As already stated, the Office of the Comptroller and Auditor General is a statutory authority and is not simply an auditor of a commercial concern running for profit.

Section 212 of the Companies Act (1994) of Bangladesh, passed by the Parliament on September 5, 1994 prescribes that nobody should be appointed an auditor of a company unless he is a Chartered Accountant and Section 20 of the Act requires audit of certain companies by a Cost Accountant as Defined in Cost and Management Accounts Ordinance (No. L III) of 1977. Section 218 and 219 of the Act also prescribes some punishment for auditors.

But in case of government audit and accounts, the officers and staff of the Audit Department are not required to be professionally qualified as Chartered Accountant or Cost Accountant. Government auditors are required to be university graduates, who after recruitment to the Audit and Accounts Offices, receive intensive training on the job and in the Financial Management Academy. They are not eligible for promotion in the Department as Accountant or as Audit and Accounts Officer unless they qualify in a very rigorous departmental examination called the S.A.S. examination which is held in two parts—comprising book keeping, pay and allowances accounts (including pension and retirement benefits), store accounts, works accounts, etc.

Superior Service Officers are recruited through competitive examination conducted by the Public Service Commission to the Audit and Accounts cadre (previously in Pakistan and India, there were there separate accounts cadres—civil, military and railway). These officers are appointed on probation who receive two years training in the Financial Management Academy (previously known as the Audit and Accounts Training Academy) and on the job in various Directorates of the Audit Department.

In Bangladesh, a good number of officers of the Audit and Accounts Department served and are still serving as secretaries/Additional Secretaries/Auditor General, etc. Some engineers and other professionally qualified persons entered the Audit and Accounts Service cadre of the Bangladesh government through competitive examination conducted by the Public Service Commission. The officers of the Accounts cadre have served in the field of both audit and accounts in the Audit Department of Bangladesh, Pakistan and India of about a century and this practice has not been abandoned on the principle of separation of audit from accounts of the government. Some members of the Accounts Cadre of Bangladesh held important positions with international organizations including the position of Member/Chairman of the United Nations Board of Auditors.

In Canada, till April 1887, one and the same person acted as the Deputy Minister of Finance and legislative auditor. There is no established machinery for the selection of an Auditor General, on mandatory list of qualification other than competence and integrity.

Very often it is said that the Comptroller and Auditor General does not have professionally qualified staff. "Professionally qualified staff" possibly signify a Chartered Accountant who is a member of the Institute of Chartered Accountants, Bangladesh or a member of the Institution of Chartered Accountants in England and Wales or the British Association of Accountants and Auditors, Ltd., or a Certified Public Accountant of any state of the USA or a member or fellow of the Bangladesh Institute of Cost and Management Accountants.

In the book titled "Auditing" (Chapter on "The Auditor and his Appointment" page 7) it is stated that "In Great Britain, auditors are now thoroughly organized into professional societies. It must be stated, however, that these societies have been formed on a purely voluntary basis and there is nothing as yet anything whatever to prevent a person professionally practicing as an auditor notwithstanding that he does not belong to any recognized societies"

Section 26(i) of the Friendly Societies Act (1896) created quasi-official auditors the "approved auditors" who are appointed by the Treasury acting through the Registrar of Friendly Societies, Official auditors, called the District Auditors are generally barristers and act under the direction of the Ministry of Health in auditing the accounts of local authorities.

In Canada, during the 103 years from 1878 to 1980 seven Auditors General held office. They were men of vastly different character and occupational background. Of the four who loom largest in the history of the office-John Marn McDougall, Watson Seller, Maxwell Henderson and James Macdonell- the first had been a lumber merchant and a politician. the second was a lawyer by training and a newspaperman turned civil servant by occupation, the third was a

financial officer in the distilling industry who came to office after a brief interlude with the Canadian Broadcasting Corporation and the fourth had spent most of his professional life in a management consulting firm. (Sonja Sinclair : Cordial but Not Cosy-A History of the Office of the Auditor General, 1979. p. 10-11).

I had occasion to work with Mr. James Macdonell as a colleague in the three member United Nations Board of Auditors. He was a dynamic personality with enthusiasm for studies and indeed "Macdonell"s ability to woo, cajole, entice or bulldoze gifted people into joining his team had been part of the audit office folklore" (Sonja Sinclair : Cordial but Not Cosy- A History of the Office of the Auditor General, 1979, P 19). He seemed frustrated when he left the United Nations Board of Auditors on June 30, 1980 on expiry of Canada's term. He reached the statutory retirement age as Auditor General of Canada in September 1980.

Regarding delay in issuing the Audit Reports by the Comptroller and Auditor General for submission to the President of Bangladesh who causes them be laid before Parliament, it may be mentioned that there is no fixed date for submission of the Audit Reports, as in the case of the United Kingdom. The Government accounts have to be collected from many accounts offices and paymasters spread over the whole country covering six Divisions, sixty four District Accounts Offices and four hundred sixty Thana Accounts Offices and numerous paymasters for compilation. This leads to delay Which cannot however be attributed to shortage of professionally qualified staff in the C & AG's office.

The very significant feature of the appropriation accounts and finance accounts are reports thereon of the United Kingdom is the quick appearance soon after the end of the financial year. The "Public Income and Expenditure Accounts" is published as a House of Commons paper within one month after the end of the financial year, that is, by the end of April. The "Finance Accounts of the UK." is

published as a House of Commons paper within six or seven months (that is September or October) after the end of the financial year.

The quick appearance of these documents is very useful to the Treasury and the House of Commons. They get the figures of receipts and payments within two to three weeks after the closure of the financial year. This is one reason why in the U. K. the budget is presented to the House of Commons in the third week of April, that is almost three weeks after the new financial year has actually commenced.

Section 21 of the Exchequer and Audit Department Act. 1866 (29 & Vict. Chapter 39) lays down:

Treasury shall cause account to be prepared and transmitted to the Comptroller and Auditor General for examination on or before 30th September every year showing issues.. in the financial year end on the 31st March preceding..."

Due to different circumstances and a different system in Bangladesh our "Finance Accounts" cannot provide the benefit to the government and the parliament. For one thing our budget for the coming year must be gone through by the parliament and the schedule of authorized expenditure authenticated by the President before the new financial year has commenced, that is by 30th June of every year, and the question of the accounts of the year being available before the budget is presented to the Parliament does not, therefore, arise.

The Exchequer accounting system does not exist in Bangladesh and accounts are collected from District and Thana Accounts Offices across the country with undeveloped communication facilities necessarily take a long time. The peculiar feature of our system of keeping government accounts does not exist in any other country except India and Pakistan.

The Comptroller and Auditor General of Bangladesh is legally responsible for the Keeping of government accounts and for their

audit. This system was introduced by the British rulers in India although it did not exist in their country. Our Auditor General is not only the supreme audit institution but also the Comptroller of accounts and is a paymaster. The Secretaries of the Ministries and Divisions, although called "Principal Accounting Officers" are accountable officers and by no sense an accounting officer.

The control exercised by the Comptroller and Auditor General of the U. K. over receipts and issues from the Consolidated Fund is Known as "Exchequer Control". This has not been introduced in Bangladesh. The Bank of England is the sole custodian of the Consolidated Fund of the U.K. and all issues from that fund are made at one point. In Our country there is no one point of payment but there are hundreds of paymasters located at different places. The question of introducing "Exchequer Control" in India was considered by two Auditors General of India namely Sir Frederick Gauntlet in 1919 and Sir Everest Burdon in 1934. They considered it unnecessary and the matter was dropped in 1934.

Under Section 21 of the Exchequer and Audit Department Act, 1866 the Appropriation Accounts are prepared by the treasury and submitted to the Comptroller and Auditor general for examination. In Bangladesh, the Appropriation Accounts are prepared by the Comptroller and Auditor General. All revenues received by the government, all loans raised by the government, all moneys received by the government in repayment of loans are part of a fund known as the consolidated Fund as required under Article 84(i) of the Constitution and Article 49 (i) provides that expenditures chargeable to the Consolidated Fund may be discussed in but not submitted to the vote of Parliament.

In the United States of America, which declared independence from Great Britain on July 4, 1776 and approved its Constitution in 1788, a Bill (proposed law) must be approved by both the Senate and house of Representatives and signed by the President before it becomes a law. Each of the two chambers divides its work into committees.

There are 15 regular or Standing Committees in the Senate and 22 in the House.

The money necessary to pay for programs and services is appropriated in the same way a law is enacted. The General Accounting Office (GAO) serves as the main auditor of the federal government. The Comptroller General, head of the GAO, audits, examines and evaluates agency programmes. The GAO cannot audit every account every year. Rather, it does so selectively, reports on violations, findings and recommendation for correction are reported to the Congress, office of Management and Budget and the concerned agencies.

The Comptroller General reports any withholding of funds not reported by the President and may bring civil action against the President if he fails to comply with law. The process of budget review and audit takes upto 12 months after the end of the fiscal year. This means that an annual budget finally becomes history more than three years after its preparation. Some of its provisions and decisions may have implications for many more years. The process of budget execution and audit involves many more subtleties than this brief description implies (Lance T LeLoup: Budgetary Politics, Chapter 8, p. 227-8)

Mr. Edward du Can, M.P, Chairman of the Public Accounts Committee (PAC) of Great Britain in giving evidence to the Committee in 1998 said that "broadly speaking, the government expenditure is not within parliamentary control" The House, over the years, had connived at a situation where government expenditure has grown inexorably and hugely. Mr. Edward du Can and Mr. John Garret, a member of the Committee proposed reforms intended to expand the powers of the C & AG and to secure independence of his Department from the civil service. It was recommended that Office of the C & AG should be made truly independent and brought under control of the Parliament.

The recommendation seems to be in the right direction and in principle the Bangladesh Audit Department should be brought out of control of the Ministry of Finance to make the supreme audit institution independent in the real sense what administrative and financial powers for the Comptroller and Auditor General.

Overseeing government sitting in a Parliament and watch the vast empire of government offices and agencies is certainly ambitious in though. Growth of government and greater scrutiny of their activities by Parliament are outstanding issues in which the Comptroller and Auditor General can give valuable assistance, Success in the matter will enhance the puerility of parliamentary control over public finance in our nascent parliamentary democracy riddled with hostility of imperfect party system and changing electorate. The public Accounts Committee (PAC) should have a sharper teeth. Currently, about four hundred fifty audit reports are pending with the PAC for examination and action.

The functions of the public Accounts Committee and other Standing Committees appointed by the parliament are laid down in Article 77(2) and include examination of bills and other legislative proposals, review the enforcement of laws and propose measures for such enforcement, and in relation to any matter referred to it by Parliament as a matter of public importance, investigate or inquire into the activities of a Ministry. The Comptroller and Auditor General assists the public Accounts Committee in their examination of the Audit Reports. Audit serves as an instrument of financial control and promotes accountability.

Bangladesh is one of the least developed countries with the ninth largest population in the world having about 127.2 million people (124 million May 1998 according to World Bank estimate), low per capita GDP of U S Dollars 218 in 1997 and heavily dependent on foreign aid. In 1988-99 fiscal year, the foreign debt of Bangladesh stood at US Dollars 16.4 million (39.61% of GDP of \$ 41.4 billion) with a current account deficit of U S Dollars 454 million. a huge trade imbalance and overall budget deficit of Taka 13,506 crore. The

country is growing poorer over the years, and the growth of public expenditure should be addressed, teeth of audit of government accounts should be sharpened, and accountability of the executive to the Parliament should be promoted.

There has been a tremendous increase in public expenditure of Bangladesh. In 1913-14 the total central and provincial expenditure in India was Rupees 125 crore only. It rose to Rupees 211 crore in 1936-37, showing an increase of 60% in 23 years. The budget for Bangladesh was Taka 808 crore in 1972-73 including revenue budget of Taka 224 crore and development budget of Taka 584 crore. The revenue budget rose to Taka 17,800 crore in 1999-2000 budget.

The growth of expenditure has put great pressure on the Comptroller and Auditor General and made his role very important. The audit of revenue receipts of Taka 24,151 crore, foreign loans and grants of Taka 8,360 crore and domestic debt of Taka 3,667 crore are also under audit control of the C & AG. The additional functions to the C & AG includes audit of the contents of about 650 foreign aided projects and the state owned enterprises. The Government Accounts Offices are Located in 64 administrative districts and 460 thanes in the six divisions of the country. The collection, compilation and audit of their accounts reveals interesting stories of public finance.

The Finance Minister who manages the economy proposed a 22 percent increase in revenue in 1999-2000 budget speech over the total revenue receipt of Taka 19,700 crore in 1998-99 fiscal year and suggested measures for streamlining tax administration and reduction of corruption with a view to generate considerable revenue was silent about the failure of the Finance Ministry in expenditure control and about audit reports which highlighted the instances of fraud, misappropriation of public resources and their wastage.

Increasing revenue by hitting the poor hard, by increased taxation and devaluation of the currency will be of no avail unless frauds, misappropriations and wastage of public resources highlighted in the audit reports can be avoided and incurring of non-productive expenditure from public funds can be stopped.

TRADE UNIONS IN BANGLADESH : AN OVERVIEW

Mohammad Mohabbat Khan*

Trade unions (TUs) are institutional representatives of worker interests. Sidney and Beatrice Webb in 1896 defined a TU as a continuous association of wage earners for the purpose of maintaining or improving the condition of their working lives (Green, 1987:10). From a legal perspective a TU can be viewed as an organization consisting mostly of workers whose principal purpose includes regulation of relations between workers and employers (Green, 1987:10). Three types of TUs can be found in Western countries. These include unions that primarily act as collective bargaining agents; unions which serve as constituent elements of political parties and unions that perform as partners within social democratic governing context (Bean, 1994:20). In developing countries TUs also perform a number of functions. These are collective bargaining, safeguarding jobs, co-operation with employers, political activities, provision of social and friendly services (Green, 1987: 14-16)

The chapter contains an overview of trade unions in Bangladesh. More specifically, the focus is on the evolution, legal framework, structure, role and problems of trade unions in Bangladesh.

Evolution of trade unions

Trade unions in undivided British India developed slowly and over a long period of time. The formation of Bombay Mill Hands Association in 1890 under the leadership of M.N. Lokhande is

* Professor, Department of Public Administration, University of Dhaka, Dhaka-1000, Bangladesh, Fax: 880-2-817277, 880-2-865583, Tel : 880-2-861411, E-Mail: cdrb@dhaka.agni.com, The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

considered by many to be the beginning of trade union movement in the Indian sub-continent (Talukder, 1997: 128). In real sense there was no union between 1890 and 1918 which represented the interests of industrial labour. In 1918 Madras Labour Union was established in the model of modern trade union principles by B.P. Wadia (Ahmad 1978:10). The Madras example provided a spur for development of trade unionism in a big way. Trade unions were formed in cities like Bombay and Calcutta emulating the Madras experience. In fact, in 1918 Indian Seamen's Union was formed in Calcutta. Within two years many unions were formed in many parts of India covering workers in railways, docks, textiles, engineering, coal mines and other sectors. In 1920 a significant milestone was heralded in the trade union movement with the formation of the All India Trade Union Congress (AITUC) under the presidentship of Lala Lajpat Roy. Sixty-four labour unions with a combined membership of 1,40,864 were affiliated with AITUC. The formation of AITUC had two positive impact on labour unions, First, it quickened the pace of development of trade union movement in the Indian sub-continent. Second, it brought credibility to labour movement. But AITUC was split in 1929 due to intense struggle for power between leftists and rightists. The difference between the two were ideological and revolved around the objects of the trade union movement. While the rightists wanted to protect and advance the economic interests of workers through constitutional means, the leftists wanted to use the organization as revolutionary movement for the establishment of a new order of society (Ahmad, 1978:13). Due to conflict among different leaders in 1931 three central labour federations came into being. These were AITUC, Indian Trade Union Federation (ITUF) and Red Trade Union Congress (RTUC). The second split of AITUC was the result of leftist leaders belief that labour class had an independent political identity. On the issue of involvement of Great Britain in the Second World War there were serious differences of opinion among AITUC leadership which culminated in the third split in 1941 and the formation of Indian Federation of Labour (IFL).

After the division of the Indian sub-continent, East Pakistan Trade Union Federation (EPTUF) was formed in September, 1947 under the leadership of Dr. A.M. Malik and Faiz Ahmed. In 1948 Trade Union Federation of Pakistan (TUFP) came into being in April, 1948 under the stewardship of Nurul Huda, Kamruddin Ahmed and B.A. Siddiqui. Both the federations were merged into one in April, 1950 and Trade Union Federation of Pakistan (TUFP) was born. Between 1951 and 1985 a number of federations were formed. At the same time, split among established federations continued. The period between 1961 and 1969 saw the emergence of a number of new labour federations and consequently quickening of the tempo of trade union movement in East Pakistan.

Many of the labour federations which operated in East Pakistan continued their activities after the emergence of Bangladesh in December, 1971 and 1975 each major political party including the ruling party Awami League (AL) formed a labour federation to consolidate its position in the labour front. This development had two negative impact on the trade union movement. First, Professional labour leaders were replaced by individuals with political support. Second, increasingly the trade union movement moved away from its original objectives. Still the number of registered TUs and their membership continued to increase (Talukder, 1997: 137-138). There were 74 registered TUs with a membership of 99, 543 in 1969. In 1972 number of registered TUs increased to 2,523 with 6,82,923 members. Number of registered TUs in 1981 stood at 3,533 with 11,27,508 members. At the same time, divisions and consequent split became common among labour federations. Between 1975-1990 two labour federations emerged at the behest of two ruling parties; Bangladesh Nationalist Party (BNP) between 1979-1982 and Jatiya (National) Party (JP) between 1985-1990. Also an umbrella federation was constituted styled as Labour Employees United Council (SKOP) with seventeen national-level trade union federations. SKOP includes, within its domain, all important trade union federations and almost

all of these are closely linked with political parties. All three major political parties, i.e, AL, BNP and JP labour federations are active components of SKOP.

LEGAL FRAMEWORK

The rights of workers to engage in lawful trade union activities was recognized in 1926 with the passage of Trade Unions Act. The Act was modeled in the light of the British Trade Union Act, 1913. The Act had its origin in a draft bill presented to the Assembly by well-known trade union leader N.M. Joshi in 1921. The Act provided the legal basis to undertake trade union activities in the Indian sub-continent. The Act allowed registration of TUs, accepted the rights of TUs to call strikes and provided immunity to TU leaders from criminal and civil suits. The significance of the Act lies on two factors. First, it provided the legal mechanism of organising and participation in trade union movements. Second, it was amended in Pakistan in 1960 after almost thirty-four years of its promulgation signifying the wider acceptance of the Act.

In Pakistan the two labour policies of 1955 and 1959 recognized the important role of TUs in the industrial and other sectors. The Labour Policy of 1955 wanted to promote settlement of disputes between employers and employees through conciliation and arbitration. The 1959 Act contained similar provisions.

In 1960, the Trade Union Act of 1926 was amended in the light of Labour Policy of 1959. The amendment provided for (a) compulsory recognition of TUs by owners after fulfillment of certain conditions; (b) allowing labour courts to try those cases which would be brought by unions not recognized by owners; and (c) fixing punitive measures for both owners and workers for dishonest labour practices (Talukder, 1997:143).

In 1969 a new Industrial Policy was announced in view of increasing political and labour movements. In light of this policy an Industrial Relations Ordinance was promulgated also in 1969. This Ordinance

empowered the labourers with the right to form unions as well as to call strikes. The owners were given the right to declare lock outs. Registered TUs were recognized as legal entities in any organization to act as Collective Bargaining Agents (CBAs).

This Ordinance remains the legal framework of trade union activities in Bangladesh. The Ordinance has been amended nine times to bring it in tune with existing realities.

But the first labour policy in independent Bangladesh announced in September, 1972 called for reducing the activities of the TUs to the status of welfare organizations (Bhuyan, 1986:163). Earlier Nationalized Industries Statutory Corporation (Prohibition of Strikes and Unfair Labour Practices) Order, 1972 was promulgated to curb problems emanating from nationalization of all big industries, banks and insurance companies. But the restrictive order resulted in stoppage of registration of new TUs, restriction of collective bargaining and banning of strikes and lock outs. The Martial Law Government in 1975, through Industrial Relation Regulations Ordinance, further restricted trade union activities. The important features of this Ordinance were: stopping registration of new unions, keeping in abeyance appointment of Collective Bargaining Agents (CBAs) through election and placing restrictions on trade union activities in public corporations and semi-autonomous government bodies (Talukder, 1997: 137).

But in March, 1980 a Labour policy was declared allowing workers the right to strike and lock out (Bhuyan, 1986: 163). Earlier in 1977 an Industrial Relations Ordinance was promulgated to limit excessive growth of trade unions. Due to the imposition of martial law in the country again on March 24, 1982 all trade union activities were banned. Accordingly, on August 30, 1982 Industrial Relations Ordinance was promulgated like the one in 1975. But this restrictive ordinance was withdrawn on May 15, 1984 against the backdrop of increased political and labour movements. The Industrial Relations

Ordinance has since been amended a number of times mostly to gain political advantage for the ruling party or clique in power.

STRUCTURE AND ROLE OF TRADE UNIONS

In terms of structure four varieties of trade unions can be seen. These are: (a) professional or craft unions, (b) industrial unions, (c) ordinary unions and (d) trade union federations (Talukder, 1997: 124). A professional or craft union is formed by individuals belonging to any particular or related professions. Labourers of all varieties in an industry irrespective of their jobs when form unions these are termed as industrial unions. Ordinary unions can be formed in any type of organization by its employees. Federations are apex bodies and formed by trade unions at different levels, i.e, local, regional and national. Twenty-three registered federations are now in existence in Bangladesh.

Trade unions in Bangladesh both in private and public sectors perform a number of functions which are similar to those of other trade unions in many countries of the world. These functions fall into four categories. Economic functions relate to acting as CBAs, organizing demonstrations, strikes an other forms of non-cooperation. The objective here is to put pressure on the owners to concede to demands of the unions. Political activities encompass a wide arena inculcating political education to the workers to make them aware of their rights; influencing political parties to draw their support; lobbying for passage of laws and regulations that would strengthen the position of organized labour vis-a-vis other segments of the society and representing organized labour in concerned organizations in advisory capacities. Providing education and housing facilities, constitution and operation of cooperative societies and undertaking of group insurance and welfare for labour constitute major social activities. International activities include keeping liaison with international bodies like ILO and attending international labour-related conferences, meetings, seminars and symposiums.

ISSUES AND PROBLEMS OF TRADE UNIONS

Trade unions in Bangladesh are at a crossroad now. There is growing debate about their role, ability and credibility in the context of changing domestic socio-politico-economic context and international scenario. Pro-market policies and subsequent slimming of the public sector by successive governments in Bangladesh has put public sector trade unions in a relatively difficult situation. Internal squabbles and weak leadership has considerably sapped the energies of labour union federations. There is a growing unease among urban middle and upper classes as to the intention of leaders of some trade unions. The World Bank in a recent report cited what it termed outrageous activities of trade unions in public sector banks and recommended for outright banning of unions (The independent, 24 May, 1997). The World Bank felt that without banning trade union activities, whole development programme in the banking sector would fail. The Public Accounts Committee (PAC) of the National Assembly (Parliament) has termed trade unions in different government departments and autonomous and semi-autonomous bodies at present as a national problem (Daily Janakantha, 27 April, 1997). The PAC found that some government organizations have become literally hostage to their CBAs. Officials in these organizations continue to suffer from insecurity and indignity. Punitive actions against dishonest employees cannot be taken because of undue interference by the CBAs. Only very recently the two major trade unions of lower level employees almost paralysed functioning in the Secretariat, i.e. where most of the Ministries are located by starting work stoppage against new office timing and immediate implementation of a new pay scale. Only intervention by the Prime Minister and her pledge to form a new Wage Commission for lower level government employees and announcement of new pay scale to be effective from July this year cooled the agitating unionized employees (The Independent, 8 June, 1997).

A number of critical issues and major problems pertaining to trade unions are analyzed below at some detail.

Size: The number of registered unions at different levels and their membership is on increase. The data (Interview, 22 April, 1997) collected in 1996 indicate that number of basic unions, industrial federations and national federations stand at 4,140 97 and 23 respectively. The membership at basic union level is 16,40,048. In autonomous and semi-autonomous government organizations 62,165 employees are unionized within the framework of 129 basic unions and 15 federations (Labour Directorate, 1997). But the number of basic unions and federations and their membership will rise significantly in the public sector if non-traditional and hidden sub-sectors are included.

It is also widely known that so-called associations of many class I and class II gazetted officers actually perform the functions of trade unions for their members. But as none of these are officially registered as trade unions hence they are also excluded from any count.

Politicization : In many cases trade unions have failed to create a good image for themselves in the public eye. Most of the unions are highly politicized and faction-ridden. It has been observed that ambitious and dishonest union leaders and unprincipled politicians work for each other's mutual benefit thereby denying the rightful claim of workers and employees at large. It appears that general membership has little influence over leadership. It has been seen in the past that top union leaders eagerly joined the political parties and labour fronts floated by two generals, i.e. General Ziaur Rahman and General H.M. Ershad forsaking their faith in democratic values. Still others willingly provided them with support from outside. The common workers and compolyees were used as pawns in this games of exchanging favours. One of the consequences of extreme politicization has been little interest in promoting the genuine causes of the working class rather than jockeying for positions within unions. The leadership succession has also not been

democratic. The election process is openly manipulated by established union leadership in their favour with the help of musclemen and goons.

Corruption : Trade union leadership tend to be corrupt. Their assets and life styles give ample proof of this. Corruption in trade unions has vitiated almost all layers benefiting mostly those who occupy key strategic leadership positions. They use such positions to bargain with their counterparts be it private owners of industrial units or government representatives in case of ministries, divisions, departments or directorates. Corruption is also linked with violence. Sometimes conflict ensues due to differences in sharing of the loot among mid-level union leaders resulting in bloodbath.

CONCLUSION

Trade unions in Bangladesh have developed over a long period of time in response to social, economic and political needs of workers and employees, but the last decade has witnessed a number of developments resulting in loss of credibility of trade unions in general and trade union leaders in particular. Increasing militancy on the part of public sector unions to gain benefits for its members without matching contributions, large-scale corruption and misuse of union funds and lack of clear direction for future have all contributed in different degrees to the lessening of the impact of trade union movements on the public sectors still retain some influence on the economy and politics of the country. The growth of a vocal and well-organized business community and increasing impatience of the citizens-at-large with the performance and attitude of labour leaders and their activities in the public sector clearly signals an uncertain future for trade unions in Bangladesh.

REFERENCES

- Ahmad, K. (1978). Labour Movement in Bangladesh. Dhaka: Inside Library.
- Bean, R, (1994). Comparative Industrial Relations: An Introduction to Cross-National Perspectives. London: Routledge.
- Bhuyan, M.S. (1986). "Trade Union Movement" in S.R. Chakravarty and V. Narain eds. Bangladesh : Domestic Politics, Vol. 2, New Delhi: South Asian
- Green. G.D. (1987). Industrial Relation. London: Pitman
- Independent, The (1997). 24 May and 8 June.
- Janakhantha, The (1997). 22 April
- Interview (1997). Assistant Labour Director, Directorate of Labour, Ministry of Labour and Manpower, 22 April.
- Labour Directorate (1996). Statement of Trade Union Federations in Bangladesh based on Industries, 1995. Dhaka : Government of Bangladesh.
- Talukder, M.A.S (1997). Labour and Industry (in Bangla). Dhaka: Nasa Publications.

LOCAL GOVERNMENT AND DEVELOPMENT IN BANGLADESH

Dr. Salehuddin Ahmed*

INTRODUCTION

The issue of local government has recently been receiving sympathetic attention from the politicians, development administrators and academicians. One can ask why? Central institutions have often been wary of the initiative of local-level actors, but more often they have simply underestimated the capacity that exists at the local level. Too often, the rural population has been seen as a burden. This was the major thrust in some thirty years ago, when the "modernization" theory was in its peak :

"The new elite, will drive their people by 'forced marches' into the modern world [seeking] to sweep away the last vestiges of the traditional order, to jolt the people out of their ruts and to attack their most ancient beliefs and practices" (Sinai, 1964, pp. 218-219).

According to such view, decentralization of power and development of local government was unthinkable because the rural populace was too "backward". To delegate authority through local institutions was deemed tantamount to reinforcing "traditionalism". Fortunately such theory has been discredited. But again, calls for participation and decentralization have become as common as one finds for patriotism, democracy, motherhood and so on. As with other virtues, more of people's participation through local institutions, is considered better by politicians, development administrators and academicians, at least in rhetorics. And as also with other qualities, thinking about people's participation and local government tends to get muddled when it comes to build them into concrete programmes and actions. In this paper, I shall try to raise a few issues which have interface with local government such as local government institutions, local level planning and people's participation.

* Managing Director, Palli Karma Sahayak Foundation. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

HISTORICAL PERSPECTIVE OF LOCAL GOVERNMENT

From the historical perspective, the shift of political leadership from colonial power to the newly independent countries was widely believed to be a necessary condition to guide the country's development by local political leaders. To that end in view, the revitalization and the reorganization process of local government organizations should have been carried out. However, contrary to the desired "political commitment", the development experience of many post independent countries demonstrated that the top politicians and civil servants in command of the state apparatus tended to further their own causes by "petty politicking" capturing development resources (Valk, 1990, p.4).

Bangladesh inherits a local government system which dates back to the British period. In 1793 the East India Company formed municipal committees in three commercially important cities of Bombay, Madras and Calcutta. In the same year through the Permanent Settlement Act, Lord Cornwallis created a landed aristocracy (*Zamindari* system) to keep British control over the vast rural areas. In 1870, the British enacted the *Chowkidary Panchayet Act*, which marked the beginning of a formal or statutory local government system in the rural areas. By the Bengal Local Self Government Act of 1885, the Union Committees were set up. The Act of 1919 set up two-tier local government that consisted of Union Board and Zilla Board. All the reforms during the British period were essentially introduced for political reasons and to stop the nationalist uprising. When Indians became violent and began to claim participation in the decision making process at the central level, the British government lauded the role of local government. Against a background of urban political agitation, and rural agrarian unrest, local government with full central government control was devised as a strategy of neutralizing nationalist political forces.

During Pakistan period, several reforms were introduced at the local level, most important was the introduction of Basic Democracy by President Ayub. It is pertinent to quote Dr. Akhter Hameed Khan, a pioneer in rural development, "The first programme we dabbled in was local government. It was then supremely important because it happened to be our President's favourite concubine he wanted to put down the townies and lift up the rustics. He aspired to find a political base in the countryside His Basic Democracy made the local councillors electors of President and Parliament. Local government can hardly survive such inflation. It was an attempt to cover the sheep of local government with the bull of national politics. As a result the poor sheep died." After the emergence of Bangladesh in 1972, and till 1982, not much difference, in terms of quality, of the local government institutions, could be observed. Three tiers: Union Parishad, Thana Parishad and Zilla Parishad were in existence. In 1982, the government set up the Committee for Administrative Reform and Reorganization (CARR). Following the recommendations of CARR, the Local Government Ordinance 1983 was promulgated and the Upazila Parishad (UZP) was introduced, which was a major change in the local government system. At present UZP does not exist. By an administrative order, the government, in September 1993, has set up Thana Development Coordination Committee, each meeting of which is to be presided by a UP Chairman by rotation elected UP Chairmen, alphabetically. TDCC is not a statutory local government institution, it is just a coordinating body.

LOCAL GOVERNMENT AND DEVELOPMENT

Beginning from 1793, all the reforms of the local government institutions seem to have taken place, not with the objectives of integrating local people in the decision making and development process but mainly for the following reasons (Tofail, 1987).

- (a) To devise an administrative mechanism to establish centre's control over the peripheries.

- (b) To suppress anti-establishment movements by creating some countervailing forces to help the process of depoliticisation.
- (c) To create a support base in favour of the hegemonic central state at the grassroots level under a dependency syndrome.

In Bangladesh, the experiments in local government organizations have been carried mainly to maintain political peace (the avoidance of conflict) rather than achieving development advances.

In this context local level planning for development has been conceived as a "process" of development "from below", which considers development to be based on optimum utilisation of each area's natural, human and institutional resources with the primary objectives of improving the socio-economic conditions of the people of that area. The development activities based on this premise must be taken as an integral process of widening opportunities for individuals, social groups, and geographically organised communities at the small and intermediate scale, and mobilising the full range of their capabilities and resources for the common benefit in social, economic and political terms (Stohr, 1981, p-40).

PRECONDITIONS FOR LOCAL LEVEL PLANNING

There has been a growing demand for decentralisation of development related decision making process to the lower tiers of government to bring about an optimum and socially more responsible development process. According to Rondinelli and Cheema (1983) decentralising authority to local level arose from three converging forces. First, the disillusionment with the results of central planning and control of development activities during the 50's and 60's. Second, the implicit requirements for growth and equity considerations in development programmes emphasized during the 70's. Third, as the societies become more complex and the government activities begin to expand, it becomes increasingly difficult to plan and implement development activities effectively from the centre.

In the process of decentralisation of authority at the local level, one must be clear between decentralisation and field administration. Local Government Organisations (LGOs) which consist of elected representatives within specified geographical unit at the local level are different than the field administration which consists of officials appointed by the centre or a national agency but posted in the 'field' to act as the representative of the centre. Mere strengthening of field offices without strengthening LGOs will contribute to a tightening of central control and in the geographical areas where political dissent is strong, this will harm development activities in that area. To call that process 'decentralisation' is surely a misuse of language (Wallis, 1989). The term 'decentralisation' should therefore, combine devolution of decision making power to lower level political bodies/LGOs and deconcentration of administrative authority to the field level administrative units.

While, the need for 'decentralisation' has hastened the process of consideration for local level planning, there were other factors mainly lack of pre-requisites of central planning, which gave importance to local level planning. In the early 70's, various writers criticized the central planning as the elaboration of unattainable "pies in the sky". Among them, some were concerned with the conventional view of planning as a "collection of documents", while others were concerned with the shortcomings of programme implementation. Many writers also pointed out that the conventional central (top-down) planning assumed the existence of political stability, economic certainties, political will and administrative capabilities to carry out the plans. However, those pre-requisites were seldom present in most developing countries (Sagasti, 1988).

In this context local level planning can be used as a tool to increase access to information, methodology, training and above all resources by the local people to make them interested in exploring alternative ways of development according to their own problems and

potentialities. As Myrdal said, "..... the process of planning can be regarded as a 'learning process' in which intuition is transformed into hunches and hunches into knowledge" (Myrdal, 1968, P-1896). Local level planned development would thus become the basis of the whole cooperative learning process in which the beneficiaries also have a role in the process of knowledge building and development (Paudyal, 1994).

In local level planning, the geographical unit or territorial size has been a subject of controversy. The main consideration in determining the area of a unit is that it should allow a reasonable scale of development plans and programmes to be undertaken. Sundaram (1981) comments "..... to locate the minimum needs at appropriate points, locational aspects and spatial planning become important. In such spatial planning, the population to be served, and the distance at service should be provided become crucial issues in decision making." It seems that a unit may cover about 100 to 200 thousand people in a local level planning set-up. In Bangladesh, a Thana has an average population of about 200 thousand, in India a Block has about 140 thousand people on an average and in Nepal a district consists of about the same size of population. However, in practical sense when the local government organizations in Bangladesh is considered, the Union Parishad (UP) seems to be a better Basic Development Unit (BDU) for local level planning. The concept of Union as the BDU is particularly important if we look at the scale of dispersion of villages and households over a wide geographically scattered and remote places where transport and communication facilities have not yet fully developed. A Thana office and a Thana level Official is still quite far from the reach of a poor villager!

The Bangladesh Academy for Rural Development (BARD), from the mid-sixties, made several attempts to devise viable models of Local Level Planning (LLP) involving various tiers of local government. The Academy prepared Union Plan Book and Thana Plan Book for use to implement various development projects at local level and to

train all concerned officers, Members and Chairmen of the Union Parishads. Recently, BARD has prepared a Manual/Framework on local level planning for use by all concerned in implementing projects at local level.

PEOPLE'S PARTICIPATION IN DEVELOPMENT

There is a vast literature on people's participation. Following Dusseldorp (1981), this paper suggests the pre-requisites of people's participation as follows:

- (a) People must be 'aware' of the present situation and the scope to change it.
- (b) People must be 'convinced' that the benefits related to their participation is greater than the costs.
- (c) People must be given 'chance' to get involved in several stages of the planned development.
- (d) Political and social contexts must make it 'possible' for the people to participate.

From a pragmatic point of view, local level can consist of three levels: locality level (Thana, Block etc.), community level (village, socio-economic unit etc.), and group level (occupational group, ethnic group, neighbourhood etc.). Various case studies revealed that it was the community level where members of the rural community were best able to sit together for mutual consultations in search of solutions to the problems which they jointly face. Besides, the community organization had an inherent management aspect internal to itself. This management aspect was reflected in the peculiarities of the village community such as patron-client and kinship relations, and norms, values and intrinsic qualities of the people (Ahmed, 1985). Looking only at the linkage between the receiving and delivery institutions, without taking into consideration the internal dynamics of the community itself, would not give a realistic picture, nor would it in itself ensure people's participation.

The ultimate aim of any development effort is to reach an individual.

However, operationally, it is the 'household' which often is taken as a unit for economic activities and impact studies. Therefore, the 'group' assumes a special significance in 'local action' and the tasks to develop local institutions are to be geared for:

- working with beneficiary-oriented organisations;
- practicing beneficiary-oriented management;
- providing beneficiary - oriented incentives.

CONCLUSION

The local government system of Bangladesh is indeed in a state of flux. It is high time we take some pragmatic and decisive steps. Good governance can not be judged only by the system at the central level. In fact, good governance is a manner in which power is exercised in the utilization of country's human, economic and other resources for development. It is pertinent to point out that there is a vacuum in the local government system in the sense that except the Union Parishads, there is no representative body at the Thana and Zilla levels. Union Parishads have passed the tests over time and it has been recognized as the pivot of local government organizations. However, over time much of the development functions have been robbed away from the Union, Thana and Zilla level local bodies. The establishment of separate Local Government Engineering Department, Directorate of Primary Education, Public Health Engineering Department, etc. whose functions were looked after by the Zilla Board in the early days, bear the testimony that local bodies are withering away day by day. If the local bodies are strengthened and decision making process is made transparent enough, allowing the grassroots and local people to participate in the process, the general concern of local elites taking the larger share of the benefits could also be minimized.

REFERENCES

- Ahmed, Salehuddin, 1985; "Community Collective Activity and Receiving Mechanisms in Rural Areas" in *Regional Development Dialogue*, Vol. 6, UNCRD, Japan.
- Ahmed, Salehuddin, 1994. "Major Issues on Local Level Planning and Project Management", Keynote paper presented at a Seminar in BARD, Comilla.
- Ahmed, Tofail, 1987; "Decentralization and People's Participation in Bangladesh : A Political Perspective", BARD, Kotbari, Comilla.
- Dusseldorp, D.V., 1981; "Participation in Planned Development". WAU, The Netherlands.
- Myrdal, G., 1968; "Asian Drama : An Inquiry into the Poverty of Nations", New Delhi : Kalyani.
- Paudyal, D.P., 1994; "Strategies for Local Level Planned Development in Nepal", Kathmandu.
- Rondinelli, D.A. and G.S. Cheema (Ed.), 1983; "Decentralization and Development", UNCRD/SAGE.
- Sagasti, F.R. 1988; "National Development Planning in Turbulent Times", *World Development*, Vol. 16, No. 4.
- Sinai, I.R., 1964; "The Challenge of Modernization"; New York: Norton.
- Stohr, W.D., 1981; "Development from Below: The Bottom-up and Periphery Inward Development Paradigm" in *Regional Development Alternatives*, UNCRD, Japan.
- Sundaram, K.V., 1981; "Search for Strategy: Regional Development and Planning for the Backward Areas of India" in *Regional Development Alternatives*, Vol. 2, UNCRD, Japan.
- Valk, P.D., 1990; "State, Decentralization and Participation, in Valk and Wekwete (Ed.) *Decentralizing for Participatory Planning?*, Aldershot , Brookfield.
- Wallis, M., 1989 "Bureaucracy : Its Role in Third World Development", London, Macmillan.

WHITHER BANGLADESH? A REVIEW OF THE STATE OF THE ECONOMY

Dr. M. Fouzul Kabir Khan*

INTRODUCTION

Bangladesh experienced comparatively high GDP growth rate of 5.3, 5.9, and 5.6 percent during FY 1996-1998 period. This raised hopes that the country was finally at the threshold of a growth path of around seven percent considered necessary to make immediate and significant dent on the prevailing poverty. However, major adverse shocks since mid-1997 have put a restraint on these expectations. First came the South East Asian (SEA) economic crisis and the longest lasting flood in the Country's history followed it. Instead of treading through the expected high growth path, following achievement of political and economic stability and careful macroeconomic management, the Country was forced into making strenuous efforts in trying to insulate the economy from the SEA contagion and coping with the aftermath of the devastating flood. This essay reviews the state of the economy in this backdrop, its performance and prospects. We begin with a discussion on the adverse shocks experienced by the economy.

EFFECTS OF THE SOUTH EAST ASIAN ECONOMIC CRISIS

It was initially thought that the effects of the recent currency and financial crisis in SEA on Bangladesh would be minimal due to the limited exposure to short-term capital, limited convertibility in the balance of payment accounts, concessionary type of the foreign debts, and low current account deficits. However, as the crisis prolonged and spread around the region the adverse effects of the crisis on Bangladesh economy became clear. Economic depression in South

*Executive Director and CEO. Infrastructure Development Company Limited. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

East Asia was manifested initially in the external sector of the economy, through reduction of exports to these countries, decline in foreign investments, particularly from South Korea, loss of job opportunities by Bangladeshi workers in those countries. Competitive currency devaluations in these countries also affected exports to other countries and eroded the levels of protection enjoyed by the domestic producers and reduced collection of revenue from import based taxes.

SEA currency and financial crisis, in addition to inflicting losses on the economy also instilled the urgency of undertaking financial and capital market reforms and maintenance of realistic exchange rates. The government responded promptly by quickly adjusting the Taka-US dollar rate. The cumulative devaluation amounted to 6.1 and 4.8 percent in 1997/98 and 1998/99 (up to November 1998) respectively. To restore the financial discipline, classified loan recovery was geared up by setting up of Loan Courts. To restore confidence in the capital market automation of the two major bourses of the country were undertaken, central depository bill was placed before the Cabinet, and the trial of the alleged manipulators in the share market has been undertaken. These timely actions of the Government halted further erosion in the competitiveness of our exports, averted triggering of any currency crisis and considerably restored confidence in the financial market.

LONGEST LASTING FLOODS

The 1998 floods, that started during mid July and ended in early October, inundated two-thirds of the country and inflicted severe damages to lives and property. It also caused severe damage to agriculture resulting in loss of crops and vegetables, affected industrial production and exports. The damages caused were so severe that spectre of famine and mass starvation was raised in both national and international media. Pursuing the policy of self-reliance, the initial response of the Government was to face the calamity with

its own resources. But as the floods prolonged and its severity became known the Government issued urgent appeal for international assistance in August. The immediate focus of the Government was to prevent starvation and disease by making food and medicine available to marooned people isolated due to damage to physical infrastructure. The next task was to rehabilitate the economy through restoration of infrastructure links, reviving the agriculture and manufacturing sectors.

The international community has responded favourably to the Government's appeal for assistance. The IMF and the World Bank have pledged US\$ 135 million and US\$ 400 million respectively as emergency assistance. The Asian Development Bank is expected to contribute another US\$ 138 million. Donors have also committed 1.5 million MT food aid. The Government has also taken measures to conserve and raise additional resources for the purpose. It announced a package of revenue measures aimed at mobilising Tk. 3 billion and launched an austerity drive to save Tk. 2 billion by cutting down non-essential costs.

The Government with the support of the international community not only averted the imminent catastrophe predicted by the national and international media but also succeeded in avoiding any major downturn in the economy. However, the floods will have lasting impact on the economy by way of lowering the immediate prospects of growth, impact on prices, reduced export growth rate and additional food related imports. It will also adversely affect the budget by additional flood related expenditure and lesser revenues, due to slower economic growth.

Notwithstanding the recent adverse shocks in the economy, it has recorded significant performance, to the discussion of which we will turn our attention now.

DEVELOPMENTS IN THE REAL SECTOR

As mentioned earlier Bangladesh experienced relatively high growth rate of GDP of 5.3, 5.9, and 5.6 per cent for three consecutive years during FY 1996-1998. The economy was poised to achieve similar growth rates during FY 1998/99. However, with the extensive damage due to flood the earlier estimates would need downward revision by about a percentage point. The lower growth in GDP is mainly due to negative growth in agriculture, particularly Crops. Other contributing factors include a lower than expected growth in Livestock and Fisheries. Similar deceleration in growth rate is also expected in manufacturing and transport sectors. Construction and trade sectors are likely to receive a boost because of the post-flood rehabilitation work.

MACROECONOMIC MANAGEMENT

SEA currency and financial crisis has stressed the currency-financial-real sector nexus. It also emphasises the close links between monetary aggregates, the fiscal deficit and foreign exchange reserve and the need for maintaining a realistic exchange rate. It shows that liberalisation without measures to promote supervision, corporate governance, market discipline and financial stability could be perilous. Therefore, while remaining committed to the reform process the Government pursued sound macroeconomic policies and emphasised on corporate governance, market discipline and financial stability. Some measures and performance indicators relating to these objectives are discussed below.

Monetary Developements

Recognising the dangers of unsustainable monetary expansion, growth rate of domestic credit was brought down from 17.9 percent in 1996 to 11.4 percent for the period ending in mid October 1998. Credit to the public sector increased by 14.5 percent and credit to the private sector increased by 10.3 percent during the same period. Postflood recovery programme explains the relatively higher

expansion of the credit to the private sector. The success of the government in controlling the monetary aggregates and pursuing a more pragmatic domestic credit policy have been instrumental in containing emerging internal and external imbalances.

Savings and Investment

Investment to GDP ratio has increased from 11.5 to 17.3 percent between FY 90/91 to FY 96/97. The most striking feature in the investment scenario is the increase in private sector activity. The share of the private sector in total investment has increased from 5.8 per cent in FY 90/91 to 10.8 percent in FY 96/97. A larger proportion of investment is being financed from domestic savings. The national savings rate rose to about 20 percent of the GDP. Another positive development in the recent years is the increase in realised foreign direct investment. Between 1991/92 and 1996/97 actual foreign direct investments amounted to US\$ 1.2 billion. Gas and Power sectors are likely to attract around US\$ 2 billion investment in the next couple of years.

External Sector Performance

The effects of the SEA meltdown were less severe in case of countries like Taiwan and Singapore because of their healthy foreign exchange reserves. Therefore, recent economic policies emphasised maintenance of a healthy level of reserves. As a result of these policies foreign exchange reserves increased to US\$ 1.8 billion by November 1998 compared to US\$ 1.6 billion in November 1997. The present level of reserves is roughly equal to 2.8 months' import bill.

The balance of payment situation has remained strong. The trade deficit fell from US\$ 2.6 billion in July 96-May 97 to US\$ 2 billion in July 97-May 98 period. This was possible due to robust growth of exports, which was 17 percent higher during July 97-May 98 compared to the corresponding period in the previous year. Imports have increased by 3 percent. The current account recorded a deficit of

US\$ 231 million in July 97-May 98 compared to a deficit of US\$ 634 million in the corresponding period of the previous year. Workers' remittances increased by 3.6 percent during July to September 1997 compared to the corresponding period of the previous year. More recent data however indicate some weakening in the balance of payments position following the floods mainly because of reduced export growth rate and additional flood related imports.

Exchange Rate Management

The government has pursued a policy of flexible management of the exchange rate under which periodic adjustments in the nominal exchange rates are made to maintain competitiveness of the export sector. Following this policy, the official Taka-Dollar exchange rate has been adjusted twice so far during FY 1998/99. The latest adjustment was done on October 18, 1998. The cumulative devaluation amounts to 6.1 and 4.8 percent in 1997/98 and 1998/99 (up to November 1998) respectively. The tight stance of financial policies should enable the economy to contain cost-pressures in the export sectors broadly in line with those of our trading partners.

Fiscal Performance

Actual collection of tax revenue in the first four months of FY 1998-99 decreased by less than 1 percent over the collection during the corresponding period of the previous year. Collection from import based taxes during the first four months of the current FY decreased by 4.7 percent over the collection during the corresponding period of the previous year. Collection of income tax increased by 9.7 percent over collections during the corresponding period of the previous year. Nevertheless, tax revenue fell short of the budget target by 12 percent. The Government has announced a package of revenue measures aimed at mobilising Tk. 3 billion additional revenue. This together with the austerity drive to save Tk. 2 billion by reducing non-essential costs should enable the Government to contain budget deficits within targets.

Inflation and Price Situation

There has been an increase in average annual inflation rate based in the national CPI (1985/86 = 100). In October 1998 the inflation rate (12 monthly moving average) was 7.3 percent compared to 4.2 percent in October. These increases were driven mainly by rising food prices following the floods. With prompt shipments of foodgrains committed by the donors, Government's commercial imports, and expected private sector imports, food prices are expected to fall. The Government is keeping a close watch on the price situation in general and food prices in particular, and is determined to keep the inflation rate at a level consistent with the objective of growth within the context of macroeconomic stability.

Financial Sector

Despite modest improvements in loan recovery situation the percentage of non-performing loans remains very high and continues to threaten the financial system. The confidence in the capital market is yet to be fully restored following the debacle of 1997. As the SEA crisis indicates that a shift in market sentiments leading to currency crisis is exacerbated in a weak financial system and ultimately affect the real sectors when banks responds to crisis by curtailing their lending even to creditworthy borrowers.

DEVELOPMENTS IN THE SOCIAL SECTORS

The country has made considerable progress in the area of human development. A successful population programme is the centrepiece of these developments. Some progress has also been made in the area of reproductive health. Progress in the education sector particularly achieving parity in enrollment of girls in primary school is significant. Poverty has declined, although there is room for much improvement.

Population

The population growth rate has fallen from 3 percent at the time of independence to 1.8 percent in 1997. Life expectancy at birth has

increased to 58 percent for both males and females compared with 1991 levels 55 years. Underlying this low growth rate is the higher contraceptive prevalence rate of 48 percent compared to 8.5 percent in 1985. The achievement in this area is particularly impressive given the backdrop of low literacy, per capita income and status of women in the society.

Health

Some achievements have also been made in the health sector. Infant mortality rate has fallen from 112 in the mid-eighties to 75 per 1000 live births today, still very high by international standards. Persons per physician registered a modest decline from 5054 in 1993 to 4955 in 1996; persons per hospital bed registered a modest increase from 3208 to 3288 during the same period. Similar modest decline was also observed in case of persons per nurse from 11972 in 1993 to 10,714 in 1995. The percentage of households having access to safe drinking water increased from 94 to 96.6 percent, and the percentage of households having access to hygienic toilet increased from 12.5 to 35.8 percent during the same period.

Education

The country has also made appreciable progress in the area of education. Overall literacy rate has increased from 32.4 percent in 1991 to 47.3 percent in 1997. During the same period male literacy rate increased from 38.9 percent to 50.6 percent and the female literacy rate has increased from 25.5 percent to 41.5 percent during the same period. Although female literacy rate still lags behind the male literacy rate, the gap has been considerably narrowed down because of the higher growth in female literacy. Adult literacy rate has also increased from 37 percent in 1993 to 44 percent in 1996.

Poverty Alleviation and Employment

The incidence of poverty has declined from 42.7 percent in 1991-92 to 35.6 percent in 1995-96. However, most of the poverty is concentrated

in rural areas and the pace of reduction of poverty is higher in the urban areas. The decline in poverty was also accompanied by an increase in income inequality. The pace of poverty reduction was rather slow and the magnitude of poverty remains a daunting challenge for the economy.

CONCLUDING REMARKS

After nearly three decades of its independence Bangladesh economy still remains at crossroads. The dynamism of the economy has often been stifled by external and internal shocks. Despite these shocks, the resilience of the economy and the reform programme has propelled it to move forward, albeit at a speed slower than what was desirable and could have been achieved. The foregoing review of the state of the economy throws light on the soft spots of the economy. The inflation needs to be contained by increasing availability of foodgrains in the short-run and through the rehabilitation of agriculture in the medium term. Like the SEA's the financial sector in Bangladesh remains vulnerable. As the SEA crisis indicates that a shift in market sentiments leading to a currency crisis is exacerbated in a weak financial system and ultimately affects the real sectors as the banks respond to crisis by curtailing their lending even to creditworthy borrowers. The challenge of poverty remains daunting. The progress in the area of human development, except those achieved in the area of population control, remains modest and needs to be accelerated. The review shows that despite these major shocks, the economy has largely remained on course. A continuation of the prudent economic policies is likely to put the economy back on the fast growth track again.

REFERENCES

Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh, various issues.

Djiwando, J. Soedradjad, (1998), "Causes and Implications of the Asian Crisis: An Indonesian View," Mimeo.

Metzler, Allan H. (1998), "Asian Problems and the IMF," The Cato Journal 17, Winter.

Ministry of Finance, Bangladesh Economic Survey, various issues.

Radelet, Steven and Jeffrey Sachs (1998), "The East Asian Financial Crisis: Diagnosis, Remedies and Prospects," Brookings Paper on Economic Activity 1, pp 1-74.

The World Bank, (1998) "Bangladesh Economic Trends and the Policy Agenda."

STATE OWNED ENTERPRISES OF BANGLADESH IN TRANSITION—AN ECONOMIC AND FINANCIAL ANALYSIS

Dr. Chowdhury Md. Saleh*

INTRODUCTION

The analysis is based on statistics of 38 Non-Financial Public Enterprises or State Owned Enterprises (SOEs) as commonly called. These SOEs of Bangladesh are divided into six broad Bangladesh Standard Industrial Classification (BSIC) sectors and are shown below :

Sector	Number of Corporations/ Boards	Name of Corporations/Boards
Manufacturing	6	Bangladesh Textile Mills Corporation (BTMC) Bangladesh Steel and Engineering Corporation (BSEC) Bangladesh Sugar and Food Industries Corporation (BSFIC) Bangladesh Chemical Industries Corporation (BCIC) Bangladesh Forest Industries Development Corporation (BFIDC) Bangladesh Jute Mills Corporation (BJMC)
Power, Gas and Water	5	Bangladesh Oil, Gas and Mineral Corporation (BOGMC) Bangladesh Power Development Board (BPDB) Dhaka Electric Supply Authority (DESA) Dhaka Water Supply and Sewerage Authority (DWASA) Chittagong Water Supply and Sewerage Authority (CWASA)
Transport and Communication	6	Bangladesh Shipping Corporation (BSC) Bangladesh Inland Water Transport Corporation (BIWTC) Bangladesh Biman Corporation (BBC) Bangladesh Road Transport Corporation (BRTC) Chittagong Port Authority (CPA) Mongla Port Authority (MPA)

* Director General, Monitoring Cell, Finance Division, Ministry of Finance. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

Trading	3	Bangladesh Petroleum Corporation (BPC) Bangladesh Jute Corporation (BJC) Trading Corporation of Bangladesh (TCB)
Agriculture and Fisheries	2	Bangladesh Fisheries Development Corporation (BFDC) Bangladesh Agricultural Development Corporation (BADC)
Construction	4	Rajdhani (Capital) Unnayan Kartripakha (RAJUK) Chittagong Development Authority (CDA) Khulna Development Authority (KDA) Rajshahi Development Authority (RDA)
Service	12	Bangladesh Freedom Fighters' Welfare Trust (BFFWT) Bangladesh Film Development Corporation (BFDC) Bangladesh Parjatan Corporation (BPC) Bangladesh Civil Aviation Authority (CAAB) Bangladesh Small and Cottage Industries Corporation (BSCIC) Bangladesh Inland Water Transport Authority (BIWTA) Rural Electrification Board (REB) Bangladesh Export Processing Zones Authority (BEPZA) Bangladesh Handloom Board (BHB) Bangladesh Silk Board (BSB) Bangladesh Water Development Board (BWDB) Bangladesh Tea Board (BTB)

The present coverage of SOEs excludes three departmental type SOEs - The Bangladesh Railway (BR), Bangladesh Telephone and Telegraph Board (BTTB) and Bangladesh Post Office (BPO).

The period of the analysis is 1995/96 - 1996/97 e.g., latest two years for which actual data are currently available. During this period, public sector was undergoing changes in terms of (i) retrenchment of employees under voluntary separation scheme, (ii) closure of units through paying off employees (iii), privatisation of units etc. Government deliberately wanted to reduce the relative position of the public sector during the period.

ECONOMIC ANALYSIS

Detailed analysis is presented of net output (value added) and factor income, productivity, investment and savings, current account with government and flow of funds. In all of the analysis below, 1995/96 and 1996/97 figures refer to actual data.

Output and Factor Income

The operating revenue (gross output), value added (net output) and factor income generated by the SOEs in 1996/97 and 1997/98 and its annual growth rates are shown in Table 1.

Table 1 : SOE Gross Output and Value Added

	1995/96 (million Tk.)	1996/97 (million Tk.)	Annual growth rate (%)
Operating Revenue	163,842	169,105	3.2
Less Purchased goods and services	134,099	145,747	8.7
Value Added at factor cost	29,749	23,367	(21.4)
Compensation of employees	15,643	15,439	(1.3)
Depreciation	12,097	15,136	25.1
Operating Surplus/deficit	(2,001)	(7,208)	(261)
Factor Income	29,749	23,367	(21.4)

1. Values in the parenthesis denotes negative numbers
2. Values may not add up due to rounding

The total net output (total value added) by SOEs estimated at Tk. 29,749 million for 1995/96 and Tk. 23,367 million in 1996/97. The rate of decline is 21.4%. The decline in value addition reflects success in government's efforts in delimiting the size of the SOE sector in the country. The table shows that a significant portion of the decline in

value added is due to decrease in operating surplus, which declined at a rate of 261% per annum over the period. The contribution of capital in value addition (depreciation) is observed to increase at a rate of 25.1%

The share of labour decreased in 1996/97 compared to 1995/96. Personnel strength decreased from 258,444 to 253,405. Average monthly pay and allowances were Tk. 60,527 in 1995/96 and this decreased to Tk. 59,863 in 1996/97.

Sector-wise Value Addition

Table 2 : Sector-wise value Addition

BSIC Sector Classification	Value Addition in 1995/96 (million Tk.)	Value Addition in 1996/97 (million Tk.)	Annual Growth Rate (%) (1996/97)	Value addition by Total Economy (million Tk.) (1996/97)	% Share of National Economy
Manufacturing	10,482	6,829	(35)	130,500	5.2
Power, Gas and Water	8,665	10,987	27	30,320	36.2
Transport and Communication	5,165	4,676	(11)	161,160	2.8
Trading	2,406	(2,119)	(188)	124,990	
Agriculture and Fisheries	133	114	(15)	411,630	0.03
Construction	352	249	(29)	82,860	0.30
Service	2539	2,632	(35)	461,590	0.57
Total	29,743	23,367	(21.4)	1403,050	1.67

Table 2 shows growth in value addition by sectors. The share of SOEs in GDP appears to be 1.67% of GDP in 1996/97 compared to 4.63% in 1995/96. The share is low partly because agriculture, forestry and fisheries and livestock, which together account for about 30 percent of GDP and service sector which account for about 33 percent of GDP, (both are growing), are mostly out of SOE coverage. The share of SOE in large scale manufacturing is declining. The current share is only 5.2%. On the contrary, the power, gas and water sector is substantially

in the public sector and its share in GDP is increasing. Its current share is 36.2%.

Productivity

The productivity of labour at factor cost is shown in Table 3.

Table 3 : Productivity of Labour

	1995/96	1996/97	Annual Growth Rate (%)
Value Addition (million Tk.)	29,743	23,367	(21.4)
Number of Employees	258,444	253,405	(1.95)
Labour Productivity (row 1/row 2) Tk.	1,15,084	92,214	(19.9)

According to Table 3, labour productivity, measured as V/L (where V is value addition and L is labour employed) is found to be Tk. 1,15,084 in 1995/96 and Tk. 92,214 in 1996/97. During the period, net decline in number of employees is 5,039, labour productivity of the remaining employees has deteriorated as decline in value addition was greater than decline in the number of personnel employed.

The productivity of capital at factor cost is shown in Table 4.

Table 4 : Productivity of Capital

	1995/96	1996/97	Annual Growth Rate (%)
Value Addition (million Tk.)	29,743	23,367	(21.4)
Capital (fixed asset) (million Tk.)	259,297	288,187	11.1
Capital Productivity (row 1 / row 2) Tk.	11.5%	8.1%	(29.6)

According to Table 4, capital productivity, measured as V/K (where V is value addition and K is capital stock employed) is found to be 11.5% in 1995/96 and 8.1% in 1996/97. During the period, capital (fixed assets) increased by 11.1%.

Factor Share in Net Output

Table 5 : Factor Share of Labour, Capital and Operating Surplus

	1995/96	1996/97	Change in share (Percentage points)
Labour's Share	52.6	66.1	20.4
Capital's Share	40.7	64.8	24.1
Operating Surplus Share	6.7	(30.9)	(37.1)

Table 5 shows that share of labour (compensation of employees) and capital (depreciation) in net output is observed to change over the two-year period considered. The share of net output going to labour is observed to increase by 13.5 percentage points despite retrenchment of labour through voluntary separation scheme. The share of capital increased at an even faster rate. These unexpected phenomena occurred only as operating surplus decreased by over 37.1 percentage points over the period.

Investment and Saving

Table 6: Investment, Savings and Financing Requirements

	1995/96 (million tk)	1996/97 (million tk)	Annual Growth Rate (%)
Investment	26,162	24,902	(4.8)
Retained Income	(3,997)	(15,210)	(281)
Depreciation	12,097	15,136	(25.1)
Gross Savings	8,100	(74)	(101.0)
Financing Requirements	18,062	24,975	(38.3)

SOE investment figures includes fixed capital investment, net of disposals and may include some financial investment.

Total investment by SOEs in 1995/96 was Tk.26,162 million and has decreased to Tk.24,902 million in 1996/97. The growth rate is (4.8)%. Gross savings consist of retained income and depreciation. The savings of SOEs are found to be Tk. 8,100 million and Tk. (74) million in 1995/96 and 1996/97 respectively. Investment and savings leave a gap of Tk. 18,062 million in 1995/96 and Tk. 24,975 million in 1996/97 not financed from SOEs' internal cash flows. These financing requirement was met both from domestic and foreign sources.

FINANCIAL ANALYSIS

Flow of Fund

Fund flow analysis shows how the deficit/surplus on account of savings/investment is financed.

Table 7 : Fund Flow of SOEs

	1995/96 (million Tk.)	1996/97 (million Tk.)
Financing expenditure		
capital expenditure-gross savings	18,062	24,902
less equity injection	6,784	10,758
long term borrowing	21,168	14,917
add long term loan repayments	11,757	10,436
Financing deficit	18,823	9,663
Assumed increase in current assets
Assumed increase in short term credit

Table 7 shows that financing needs of SOEs have increased from Tk. 18,062 million in 1995/96 to Tk. 24,902 million in 1996/97. These increased expenditure has been met from equity injection and long term borrowing net of long term repayment. The final outcome appears to reduce financing deficit in 1996/97 (Tk. 9,663 million) compared to 1995/96 (Tk. 18,823 million). This happened as equity injection marked a significant increase in 1996/97 and long term repayment declined compared to 1995/96.

Financial Profitability

In Bangladesh, government provides both equity and long term loans of SOEs (along with government owned banks). Therefore, Return on Total Fund (equity plus loans) is an important indicator. Margin of Net Profit on Operating Revenue and Turnover of Total Assets are other two important indicators used in the analysis.

Table 8 : Financial Profitability Calculation

	1995/96 (million Tk.)	1996/97 (million Tk.)
1 Operating revenue	163,842	169,105
2 Operating surplus	2,002	(7,208)
3 Non-operating income	5,318	2,837
4 Workers' Profit Participation Fund	191	183
5 Subsidy	5	5
6 Interest	7,515	8,437
7 Net Profit /Loss before Tax (2+3) - (4+6)	(380)	(12,986)
8 Tax (direct)	1,515	1,000
9 Net Profit /Loss after tax (7-8)	(1,895)	(14,076)
10 Dividend	1,992	1,465
11 Retained Income (9-10)	(3,886)	(15,541)
12 Total Investment /Fund	634,041	680,027
13 Equity	214,607	231,338
14 Return on Assets (2/12) x 100	0.32%	(1.06%)
15 Margin on Operating Revenue (9/1) x 100	(1.16%)	(8.32%)
16 Dividend Return on Equity (10/3) x 100	0.93%	0.63%
17 Turnover of Total Assets (1/12) x 100	0.25	0.25

Table 8 shows that operating revenue of the SOEs marked an increase by 3.2% over the period. However, operating surplus deteriorated and became negative in 1996/97. Similarly non-operating revenue declined. Net loss of Tk. 380 million of 1995/96 increased to Tk. 12,986 million in 1996/97. Direct tax payment of SOEs decreased from Tk. 1,515 million in 1995/96 to Tk. 1,010 million in 1996/97. Net loss after tax was Tk. 1,895 million in 1995/96 and Tk. 14,076 million in 1996/97. Dividend payment to government declined from Tk. 1,992 million in 1995/96 to Tk. 1,465 million in 1996/97.

Total investment /fund calculated to be Tk. 634,041 million in 1995/96 increased to Tk. 680,027 million in 1996/97. The increase is 7.3%. Return on total fund declined from 0.32% in 1995/96 to a negative figure (1.06%) in 1996/97. Margin of net profit on operating revenue declined over the period. Dividend return on equity declined from 0.93% in 1995/96 to 0.63% in 1996/97. Rate of turnover of assets remained same over the two years.

CONCLUDING REMARKS

The paper attempted to emphasize changes in the important economic and financial parameters pertaining to the SOE sector of Bangladesh over the period 1995/96 and 1996/97. As was mentioned earlier, the period marked deliberate government attempts to downsize to SOE sector through policies such as retrenchment of labour under voluntary separation schemes, closure of units through forces, lay off and pay of programmes, privatization/sale of units and restriction of further employment and investment. The results among other show that the size of the sector (as measured by contribution to GDP) fell from 4.63% of GDP in 1995/96 to 1.67% in 1997/97. Net number of persons employed declined by over 5,000 and net investment declined by Tk. 1260 million. Government was therefore successful in setting a trend for downsizing the sector. However, the efficiency of the remaining SOE units as measured by the indicators such as Return on Total Invested Fund and Dividend Return on Equity continued to remain low compared to those of the neighbouring countries. The immediate task should be to improve the efficiency of units that would continue to be in the government sector in the medium to long term.

PUBLIC SERVICE OBLIGATION CLAIM BY BANGLADESH RAILWAY

Al Mamoon Md. Sanaul Haq*

Bangladesh Railway is a transportation carrier operating in competitive freight and passenger market under GOB (Government of Bangladesh) mandate and instructions to run on a commercial basis. With the exception of two years (Fiscal year 1972-73 and Fiscal year 1978-79), BR has incurred substantial losses on its operations. It has been argued that one of the reasons for these losses is that BR is forced to provide certain unremunerative railway services to the general public on instructions from the GOB. It has also been argued that, in a commercial environment, these public service losses should be subsidised by the GOB, a concept which is consistently applied to railways world-wide.

Prior to the 1990's, the GOB practice was to provide open-ended subsidies for whatever railway financial losses incurred. In order to segregate the losses on public service operations from other BR losses, a process to reimburse the railway called the Public Service Obligation Compensation (PSO Compensation) was elaborated. In accordance with this formulation, a Notification (No. F&B/IB-20/92) was issued on 27 December, 1992 by the Ministry of Communications formalising the process. In order to understand the concept underpinning the PSO Compensation scheme, an extract from the Notification is quoted below.

"It is evident that it is essential under social considerations to impose a public service obligation (PSO) upon Bangladesh Railway (BR) in order to ensure provision of adequate transport services, the adequacy being assessed in the light of supply and demand for such services and of the needs of the

* Joint Director General (Finance), Bangladesh Railway

The author worked as the Public Service Obligation Advisor to ADB's TA project on Organisational Reforms of Bangladesh Railway (Phase-II). The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

local communities, and that such Public Service Obligation may entail financial burden on BR which BR, if it were considering its own commercial interest, would not assume, or would not assume to the same extent or under the same condition. Therefore, the financial burdens devolving upon BR by reasons of the maintenance of public service obligation defined above shall be subject to compensation made in accordance with procedures laid down in the Notification and such compensation shall be termed as Public Service Obligation Compensation (PSO Compensation)."

According to the Notification, the PSO definition covers any obligation imposed upon BR by the GOB. It also covers any obligation to operate additional service or to maintain in good condition routes, equipment and installations in so far as these are surplus to the operations requirements as a whole, even after PSO service may have been withdrawn. However, the claims to-date have been restricted to losses on Local Passenger trains.

BR provides Inter-city, Mail & Express and Local passenger as well as freight services. Local Passenger trains that operate on branch lines and on the main line serve all intermediate stations en-route. The Inter-city and Mail & Express trains connect only important stations. With the exception of Local Passenger services, the others were implicitly considered in 1992 to be financially-remunerative operations of BR. Accordingly Local Passenger services and mixed train services were deemed to qualify for PSO Compensation.

THE CONCEPT OF PUBLIC SERVICE OBLIGATIONS

At the request of Governments, public as well as some private sector enterprises provide some goods and/ or services to certain categories of users at a price which does not cover all costs. The provision of these goods and/ or services (termed Public Obligation) can have a significant impact on the performance of the enterprises depending on the manner in which they are financed and the proportion of their activities which are provided under Government requests. In turn, this situation makes it difficult to measure the performance of the enterprises and to compare their performance with that of others.

Numerous definitions of Public Service Obligations (PSO) are available. It is consequently important to reach some agreement as to what constitutes a PSO. Several characteristics are commonly associated with the provision of PSO services. Namely, it encompasses the following.

- a government directive to an enterprise relating to the conditions of supply of a specific service,
- the service would not otherwise be supplied under the same conditions and/or
- the service provides an identifiable community or social benefit.

There is some ambiguity associated with each one of these characteristics and considerable scope for different interpretations of their practical meaning. Therefore, it is customary to define a PSO as generally arising from any specific government directive which induces departures from otherwise commercial decisions regarding the conditions of supply of services.

Within the framework of this definition, three broad categories of PSO can be considered. That is, the government requires an enterprise to provide access to certain services for final consumers at uniform or affordable prices,

- enterprises are required to grant price concessions to special groups of consumers as a way of implementing the income redistribution policies of a government, or particular public enterprises are required to purchase some inputs at regulated prices to meet government objectives regarding sources and conditions of supply which do not apply to competing public or private firms.

This definition explicitly recognises the capacity of governments to influence the types and costs of inputs used by a particular enterprise, and their responsibility in the resulting financial performance of such an enterprise.

To take into account the impact of PSO services on the financial performance of enterprises requires prior agreement on a standard definition as well as be consistent to the costing of PSO services. In addition, better information on the extent and cost of PSO services

will provide government with a clearer idea of their budgetary implications and distribution consequences. This should ultimately lead to improved decision making.

The development of an agreed approach to measuring the cost of PSO services is necessary to reduce potential inconsistencies in performance measurement. The purpose is to determine the economic cost of the resources used in the production of such services. The central issues are those relating to the establishment of appropriate benchmarks for pricing (which determines revenue) and the identification of relevant costs. The shortfall between revenues and expenses is a measure of the cost of the PSO services. Conceptually, marginal cost provides the basis for measuring the economic cost of PSO service because it reflects the opportunity cost of extra units of resources devoted to providing the service. However, in practice it is difficult to estimate. On the other hand, avoidable cost is an approximation of marginal cost which reduces problems of calculation. A distinction is to be made between short-run and long-run avoidable cost, the latter including the capital cost of additions to capacity to serve PSO services. There may exist at times differences between avoidable cost and average accounting costs or fully distributed cost. In general fully distributed costs do not reflect the relationship between the extent of cost increases and the supply of additional quantities of a service. Stand-alone costs measure the cost of supplying a service by itself and therefore tend to ignore economies of scale and scope. Given the difficulties and expenses associated with measuring marginal costs and at times the tendency for fully distributed costs to over-estimate PSO costs, avoidable cost will sometimes be the preferred method. However, further potential complexities in precisely PSO service are likely to necessitate trade-off between precision and the time and resources devoted to the exercise.

Consequently, in practice, it may be necessary to adopt the fully distributed cost approach for efficiency reasons. Furthermore, the data used can be tied back directly to the figures provided by the accounting system in place and would thus furnish a clear audit trail.

There are a number of ways to finance the PSO services of public

enterprises. An advantage of direct funding of PSO services over other methods is that it provides for greater transparency in the provision of these services. It provides an avenue for ensuring that the objectives of government policies are made more explicit and for providing public scrutiny of the costs of implementing them.

PRESENT METHODOLOGY FOR CALCULATING THE PSO COMPENSATION

It was informally agreed in 1992 between BR and GOB that only Local Passenger services would qualify for PSO Compensation explicitly excluding parcels and luggage services. Accordingly, a methodology for the calculation of expenditures and revenues (earnings) relating to Local Passenger services was developed in 1992 by Mr. S.S. Goyal, Senior Asian Development Bank consultant. The calculations took as base year the accounting and statistical information available for Fiscal Year 1990-91. This methodology is shown in Table-1 with a flow diagram which summarises it, it is discussed in the following sections.

EXPENDITURES RELATED TO LOCAL PASSENGER SERVICES

The elements of cost that were found allocable to local passenger train operations were identified as follows :

- a) Cost of train line haulage.
- b) Cost of maintenance of tracks and signals.
- c) Cost of provision and maintenance of carriages.
- d) Cost of other transportation expenses.
- e) Cost of terminals.
- f) General expenses including a share of costs of management, accounting, stores etc (overhead expenses).

Cost of Train Line Haulage

The cost of train line haulage relates to train operations and includes salaries and allowances for the running staff (crews), repairs and maintenance of locomotives, fuel lubricants etc. This can be summarised as the expenditures of the Mechanical Department (Locomotives) covered under Abstract B of the Railway Head of

Accounts.

Cost of Maintenance of Tracks and Signals

The cost of maintenance of Tracks and signals includes the costs of the Civil Engineering (infrastructure) Department under Abstract A and part of the costs of the signalling and Telecommunications Department under Abstract K, but excludes the cost of structures, other than tracks and telecommunications structures.

Cost of Provision and Maintenance of Carriages

The cost of provision and maintenance of carriages includes repairs and maintenance of passenger coaches and carriages. This includes the expenditures of the Mechanical Department (Wagons and Carriages) under Abstract C.

Other Transportation Expenses

Other transportation expenses include electric lighting in the coaches (part of Abstract H) , the expenses of the Traffic (operations) Department (Abstract E) and the cost of maintenance of the remaining structures.

Terminal Costs

Terminal costs include repairs and maintenance of tracks in terminals, foot over-bridges , offices stations, platforms, sheds halls, roads, fencing, shunting locomotive repairs and maintenance and commercial staff at the stations.

General Expenses

General expenses include the following;

- a) Expenses of general departments, such as;
 - i) General Managers and Divisional Railway Managers offices;
 - ii) Stores, Medical, Accounts RNB (Railway security force) and Police.
- b) Miscellaneous expenses such as law, pensions and gratuities, health and welfare services, education, taxes etc.
- c) Cost of electricity.

METHODOLOGY USED FOR CALCULATION EXPENDITURES RELATED TO LOCAL PASSENGER SERVICES

In 1992, the expenditures which were then identifiable with and apportionable to the passenger services (Inter-city, Mail and Express and Local) were allocated by the Costing Cell to the various passenger services on the basis of the following performance statistics :

- a) Line haul costs per thousand gross tonne-kilometres.
- b) Costs of tracks and signalling maintenance per thousand gross tonne-kilometres.
- c) Costs of provision and maintenance of carriages per vehicle-kilometre.
- d) Costs of other transportation expenses per train-kilometre.
- e) Costs at terminals per passenger carried.
- f) General expenses as a percentage of working expenses.

In order to allocate the line haul costs and the costs of tracks and signalling maintenance attributable to Local Passenger services, the total gross-tonne kilometres related to Local Passenger services was determined. This was calculated by adding the product of the passenger carriage-kilometres of Local Passenger trains stated in terms of four-wheelers multiplied by the weight of a four-wheeler passenger carriage and the product of train-kilometres of Local Passenger trains multiplied by the average weight of a locomotive. This sum was to represent the gross tonne-kilometres related to Local Passenger trains. These calculations were done separately for broad gauge and for metre gauge trains and subsequently totalled.

The carriage costs were segregated from van costs, because parcels and luggage vans ordinarily operate on Local Passenger trains. In general, the Statistical Office compiles only the total vehicle-kilometres (including carriages and vans together) and the total vehicle-kilometres associated with parcels and luggage vans for all passenger trains combined (Inter-city, Mail and Express and Local). Vehicle kilometres for passenger carriages and parcels and luggage vans separately are not routinely calculated for Local Passenger trains.

In the absence of usable statistics constructed from the actual compositions of passenger rakes used during the year, overall averages were utilised. The passenger carriage-kilometres for Local Passenger trains (excluding vans) were estimated to be in the same proportion as all passenger train carriage-kilometres (excluding vans) represented to all passenger trains vehicle-kilometres (including vans and carriages). In other words, the passenger carriage-kilometres for Local Passenger trains (excluding vans) were arrived at by multiplying the total vehicle-kilometres for Local Passenger trains (including vans) by the ratio of the passenger carriage-kilometres for all passenger trains (excluding vans) to the total vehicle-kilometres for all passenger trains (including vans). This passenger-kilometre figure was then used to calculate the gross tonne-kilometres mentioned in the previous section.

Adjustments in the Calculation of Local Passenger Service Expenditures

The PSO calculation methodology assumed at the outset that the standards of service and consequently that the costs for maintaining tracks, signals and terminals for the Local Passenger trains would be lower than the average calculated for the entire railway system. Therefore, the working expenses for Local Passenger trains were adjusted downwards by a factor of 0.8 for the maintenance of tracks and signals and for the costs at terminals. The other cost elements involved were not adjusted.

Depreciation Expenses

The depreciation expenses associated with the Local Passenger Service for the Fiscal year 1990-91 were calculated to be Tk. 119 million. This amount was suggested to be kept constant for some years. However, the period and the reasons for this proposal were not documented nor mentioned.

Estimation of local passenger service working expenses in subsequent years

In subsequent years, the actual or the budgeted Local Passenger Service working expenses (excluding depreciation) were calculated

by multiplying the actual or the budgeted total working expenses (excluding depreciation) by a factor of 0.2380. This factor was calculated for the Base FY 1990-91 by dividing the Local passenger working expenses obtained from the methodology by the total working expenses. This factor was kept constant thereafter.

CALCULATION OF LOCAL PASSENGER SERVICE EARNINGS

Local Passenger Services Earnings (Revenues)

The Local Passenger Services Earnings are produced annually by the Statistical Office and therefore, no additional computation was required. For FY 1990-91, the ratio of Local Passenger Service Earnings to total passenger service earnings was calculated to be 0.1425.

Local Passenger Service Sundry Earnings

Total Sundry Earnings were apportioned between Local Passenger services and other passenger services since part of these earnings were generated on sections used by local Passenger trains. The share of Sundry Earnings for Local Passenger services was calculated to be 6.35% of the total sundry earnings. This percentage was arrived at by dividing the Local Passenger earnings by the total freight and passengers earnings (excluding Sundry Earnings).

Estimation of Local Passenger Service Earnings in Subsequent Years

For the years subsequent to FY 1990-91, the calculation of Local Passenger Service Earnings and Local Passenger Service Sundry Earnings were based on the fixed ratios that these earnings represented respectively to the actual total passenger earnings and to the actual total sundry earnings in the Base FY 1990-91. For calculating the actual or the budgeted Local Passenger Service Earnings for any year, the actual or the budgeted total passenger earnings in that year is multiplied by a factor of 0.1425. For obtaining the actual or the budgeted Local Passenger Service Sundry Earnings, the actual or the budgeted total sundry earnings is multiplied by a factor of 0.0635.

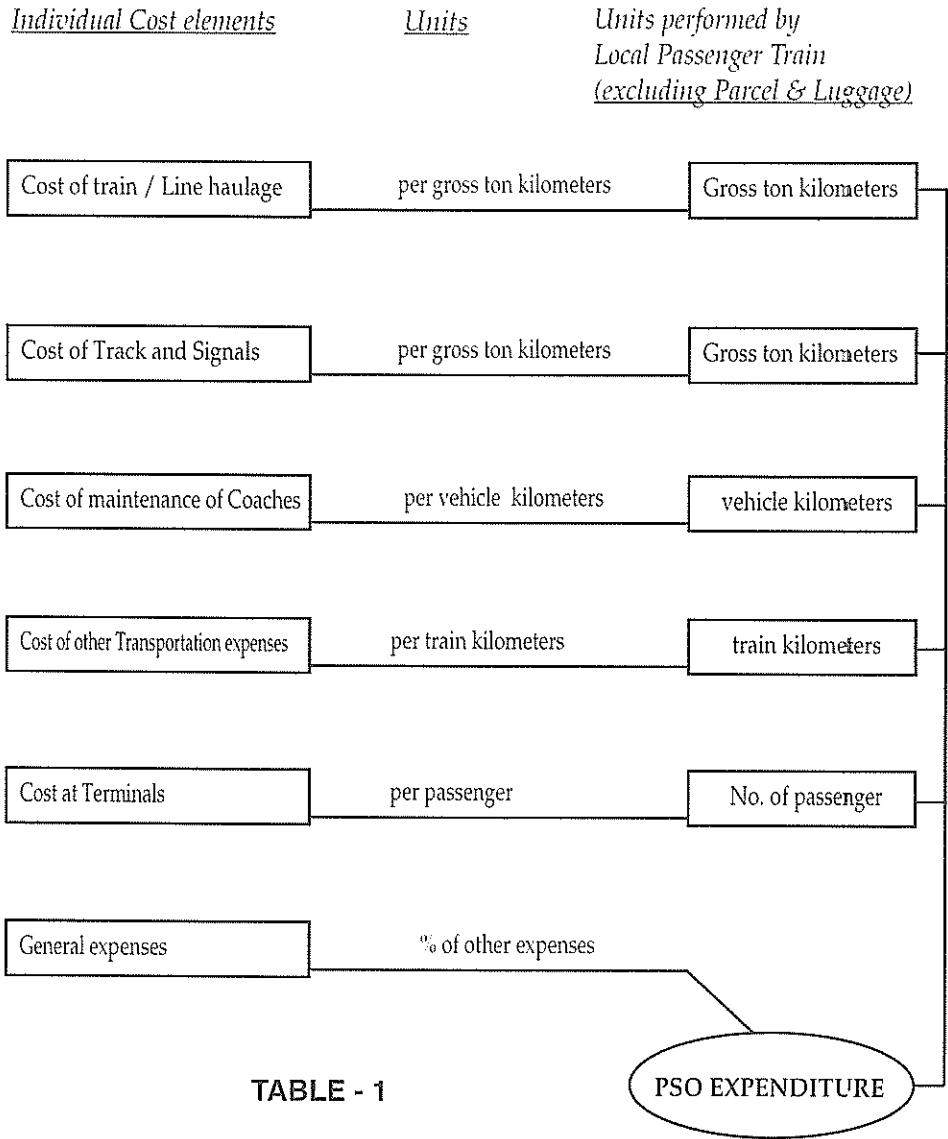
The use of the ratios (0.2380 for Working Expenses, 0.1425 for local Passenger Service Earnings and 0.0635 for Local Passenger Service Sundry Earnings) were made necessary for very pragmatic reasons. Indeed the present manual system generating accounting and statistical information cannot produce data in a time period which would permit their utilisation for budget preparation purposes and/or PSO Compensation calculations.

STRENGTHS AND WEAKNESSES OF THE PRESENT PSO COMPENSATION METHODOLOGY

The objective of the PSO Compensation process was largely for it to be simple, transparent and to be based directly on statistical, accounting and traffic data available within BR. The methodology for apportioning expenditures and earnings between PSO and non-PSO services by using fixed ratios is simple, and can be applied with ease. However in actual practice, the ratios do not remain constant over the years. The number of trains on PSO services as well as on non-PSO services vary from year to year, as does the traffic mix, gross tonne-kilometres, carriage and van kilometres, train-kilometres, number of passengers etc. The ratios of PSO to non-PSO Expenditures and Earnings consequently expected to vary from year to year, and so is the PSO Compensation amount.

In the Base Fiscal Year 1990-91, the PSO Expenditures calculations were based directly on the actual statistical, accounting and traffic costing data available for that year. In that year, the Costing Cell produced the required cost calculations for the various cost elements allocable to the PSO services. This was the only time such calculations were performed for that purpose. Subsequently, the Costing Cell discontinued the production of this costing data in the format required by the PSO methodology. If the calculations of the PSO Compensation amount had been made conditional upon the production of these costing calculations, then each year such detailed calculations based on accounting, statistical and costing data would have been performed.

PSO CALCULATION METHODOLOGY
Proposed in 1992 by Mr. S. S. Goyal, ADB Consultant



The amount of depreciation included into the PSO Expenditures was set at a fixed amount of TK. 119 million. Since the amount of total system depreciation will depend on total system asset values and since the share allocable to PSO activities will depend on the PSO services provided, the amount of depreciation allocated to PSO services is also expected to change from year to year. Therefore, the constant amount used for depreciation allocated to PSO services is also expected to change from year to year. Therefore, the constant amount used for depreciation would generally tend to understate the actual amount that should be allocated in each year.

In addition, the depreciation cost was calculated on the book value of the assets. As a going concern, BR must periodically replenish its assets in order to maintain its capacity to provide services on a commercial basis, this can be accomplished if depreciation is calculated on the replacement cost of these assets. Therefore, future adjustments to the PSO formula should ensure that the depreciation component included in the calculation relates to the replacement cost of assets.

Line haul costs were allocated between PSO and non-PSO services on the basis of gross tonne-kilometres calculated from overall actual and apportioned between vehicle types by using standard rake compositions. It is a well known fact that the number of carriages on PSO trains are below the standard rake compositions. It is a well known fact that the number of carriages on PSO trains are below the standard rake composition set for these trains. Many of the main line PSO trains are mixed trains with nearly half of the rake being goods wagons. In the present PSO calculation method, the gross tonne-kilometres are calculated as the sum of the passenger carriage-kilometres multiplied by the weight of a locomotive. In actual practice, there are fewer passenger coaches in an average train than the number utilised in the methodology. In such a case, the PSO trains have been allocated an excessive share of the gross tonne-kilometres.

In addition, the gross tonne-kilometres associated with the locomotive were assumed to be all dedicated to PSO services. In mixed trains with goods wagons constituting a major part of the train composition, the locomotive gross tonne-kilometres should be

apportioned between PSO services and non-PSO services. This allocation was not performed and consequently the share allocated to PSO services was higher than what it should have been.

PROPOSED METHODOLOGY FOR CALCULATING THE PSO COMPENSATION

Normally, a reliable PSO Compensation methodology would be based on available accounting and statistical data and information generated on an on-going basis by the accounting and management systems in place in the organisation. If the systems are properly designed, the data produced will give a faithful picture at a detailed level of the set of resources used for the provision of services. Such data would readily allow for the costs of resources to be segregated on a train-specific or on a track-section-specific basis for example.

However, the systems presently in use at BR do not produce data and information at such a level of dis-aggregation. In the absence of this detailed data, it is suggested to base the proposed PSO Compensation methodology on the unit cost calculation performed by the Costing Cell. Although the set of unit costs developed by the Costing Cell is far from being perfect, it constitutes together with the statistical information produced by the Statistical Office an acceptable alternative.

In this instance, the procedures followed and the methods utilised by the Costing Cell in performing the unit cost calculations are critical to the reliability that can be ascribed to the results obtained. Similarly, the methodology used by the Statistical Office in producing the various operating statistics required in the unit cost calculation process will have a direct impact on the quality and the credibility of the end products.

The incurrence of expenditures originate in the field within each major functions of the railway, that is Civil Engineering, Mechanical Engineering, Electrical, Signal and Telecommunications etc, and form general administration at division, zone or general headquarters levels.

The division is the cornerstone of the present accounting system. Accounts are maintained at Division Accounts Offices for all expenditures taking place within a division. The three mechanical workshops at Chittagong, Saidpur and Parbatipur each have the rank of division and thus keep accounts related to their own operations. Expenditures incurred at headquarters are accounted for at Headquarters Accounts Office. As for stores transactions, separate Stores Accounts Offices are attached to the two major stores depots at Pahartali and Saidpur. Accounting for all stores receipts and issues is accomplished at these two offices.

All divisional accounts are then consolidated at related respective Zonal Accounts Offices and constitute the accounts for the zone. They are ultimately integrated into central accounts for the whole railway at the office of the Financial Adviser and Chief Accounts Officer (FA & CAO) of the East Zone in Chittagong where annual Balance Sheet and Profit & Loss statements are prepared.

All railway earnings accounting is performed by the Traffic Accounts Branch situated in Chittagong. All earnings information originating either at the stations or at any other centres are routed through the Pay and Cash Offices before being transmitted to the Traffic Accounts. Monthly station returns including Coaching and Goods Balance Sheets are verified against remittance particulars sent by Cash Offices. After checking station returns, earnings figures are classified under different heads of accounts. These figures are subsequently entered into the Traffic Book and the balances further transferred to the Books and Budget section of the General Accounts branch for incorporation into monthly statements for the railway.

At present, the Accounts Offices (FA & CAO) produce annually detailed expenditures statement showing the expenditures incurred by each accounting unit (divisions) under each detailed heads of accounts. These statements are prepared for each abstract, which generally represent the departments. The expenditures under the detailed expenditures heads that represent the direct costs related to the operations of the railway are accumulated under two classes, that is broad gauge and meter gauge.

The detailed annual expenditures for each gauge are then individually apportioned by the Costing Cell between goods and passenger services through apportionment ratios that is, gross tonne-kilometres, engine-hours, engine kilometres, vehicle-kilometres, wagon-kilometres etc, appropriate to each detailed head of expenditures. The passenger expenditures thus obtained are further prorated between three main function, namely, Terminal, Running and Ferry on the basis of predetermined apportionment ratios. Each of the Terminal, Running and Ferry costs so allocated are divided between Passengers and Parcels services. The Passenger services costs are further distributed between Inter-city, Mail & Express and Local services. The Running costs are apportioned on the basis of train-kilometres, Terminal costs on the basis of the number of passengers handled and Ferry costs on the basis of the number of carriages transported. The above mentioned expenses categories are then grouped together to form the working expenses of each passenger services.

The expenses of the departments that are not directly involved in train operations that is, general administration, accounts, medical Nirapatta Bahini, stores, welfare, personnel etc, and some of the operating departments that are not related to train operations are grouped together as overhead expenses. These overhead expenses (the costs that have not been so far distributed) are divided by the total working expenses to obtain the overhead ratio. This overhead ratio is then used to distribute the overhead expenses to each abstract.

Depreciation expenses are currently calculated on the asset value (historical book value) of individual asset groups from the rate of depreciation individually fixed for each of the asset group depending on its average expected life. This calculation is performed for each abstract separately. The amount of depreciation of each abstract is distributed first between goods and passenger services. The passenger services portion is then divided between passengers and parcels. The passenger's total is sub divide among the three passenger services. The distribution is made on a pro-rata of the working expenses.

The asset value of each individual abstract (department) was last determined in 1987. The amount of depreciation is calculated on that asset value. For overhead departments like Medical, Nirapatta Bahini, Accounts etc. no depreciation expense is calculated and allocated. Consequently, the total amount of depreciation distributed does not reflect the total amount of depreciation calculated on the assets shown in the Balance Sheet.

According to the Railway General Code, depreciation should be calculated at the rate of 1/30 of the capitalised value of total assets. The Balance Sheet of BR Produced annually by the Accounts Department shows the capitalised value (book value) of assets. The amount of depreciation charged to railway services should therefore be based on the asset valuation shown in the Balance Sheet for costing purposes, the depreciation expense should be equal to 1/30 of the value of assets appearing in the Balance Sheet of the previous year. The distribution of this amount to various abstracts may be made from the distribution of assets shown in the asset register. Appropriate shares of depreciation expenses should be added to the expenses of overhead, so that these expenses are subsequently appropriately distributed. In the absence of further updating, the ratio of the assets allocated to an abstract to the total assets as it stood in 1987 is proposed to used as the basis for this distribution.

Normally, a return on investment figure is to be calculated on the net asset base utilised. The total so calculated is to be distributed to the services provided as this return represents a genuine cost to the same extent as any other cost element. According to GOB regulations, BR is required to provide a return of 4% on its asset base. However, since BR has been incurring deficits for most of its existence, this item does not appear in the annual budget of BR even though it is part of the costing methods utilised. GOB has in fact waived this requirement altogether.

The Costing Cell also computes annually costs related to the structural elements making-up the total unit costs. For Running Costs, these elements are as follows:

- i) Track and other engineering works (the Civil Engineering Department) per thousand gross tonne-kilometres. These costs represent the majority of the working expenses of Abstract A. The balance is included in Terminal Costs.
- ii) Signals and Telecommunications (the Signals and Telecommunications Department) and train lighting (portion of the Electrical Department) per gross tonne-kilometre. These costs are the working expenses of Abstract K and part of Abstract H.
- iii) Provision and Maintenance of Locomotive (the Mechanical Department-Locomotives) per engine-kilometre and per thousand gross tonne-kilometres. These costs are in greater part the working expenses of Abstract B. The balance is included in Terminal Costs.
- iv) Provision and maintenance of Carrying Units (the Mechanical Department-Carriages and wagons) per vehicle-kilometre. These costs are the working expenses of Abstract C.
- v) Other Transportation Expenses (the Traffic Department) per vehicle-kilometre. These costs are for the most part the working expenses of Abstract E. The balance is included in Terminal Costs.

For Ferry costs, these include the working expenses of Abstract D and the unit cost is calculated per carrying unit transported.

The Terminal costs include part of the costs of Abstracts A,B and the unit cost is calculated on a per passenger handled basis.

Each one of the three categories, that is, Running Costs, Ferry Costs and Terminal Costs is broken down into the following parts ;

- i) Working expenses;
- ii) Depreciation;
- iii) Return on Investment (Interest)

These costs together with overhead costs cover all costs related to railway operations. A flow diagram of the methodology used by the Costing Cell to arrive at the various unit costs is shown in table-2. The unit costs derived therefrom along with the appropriate train statistics can be used to calculate the cost of PSO services.

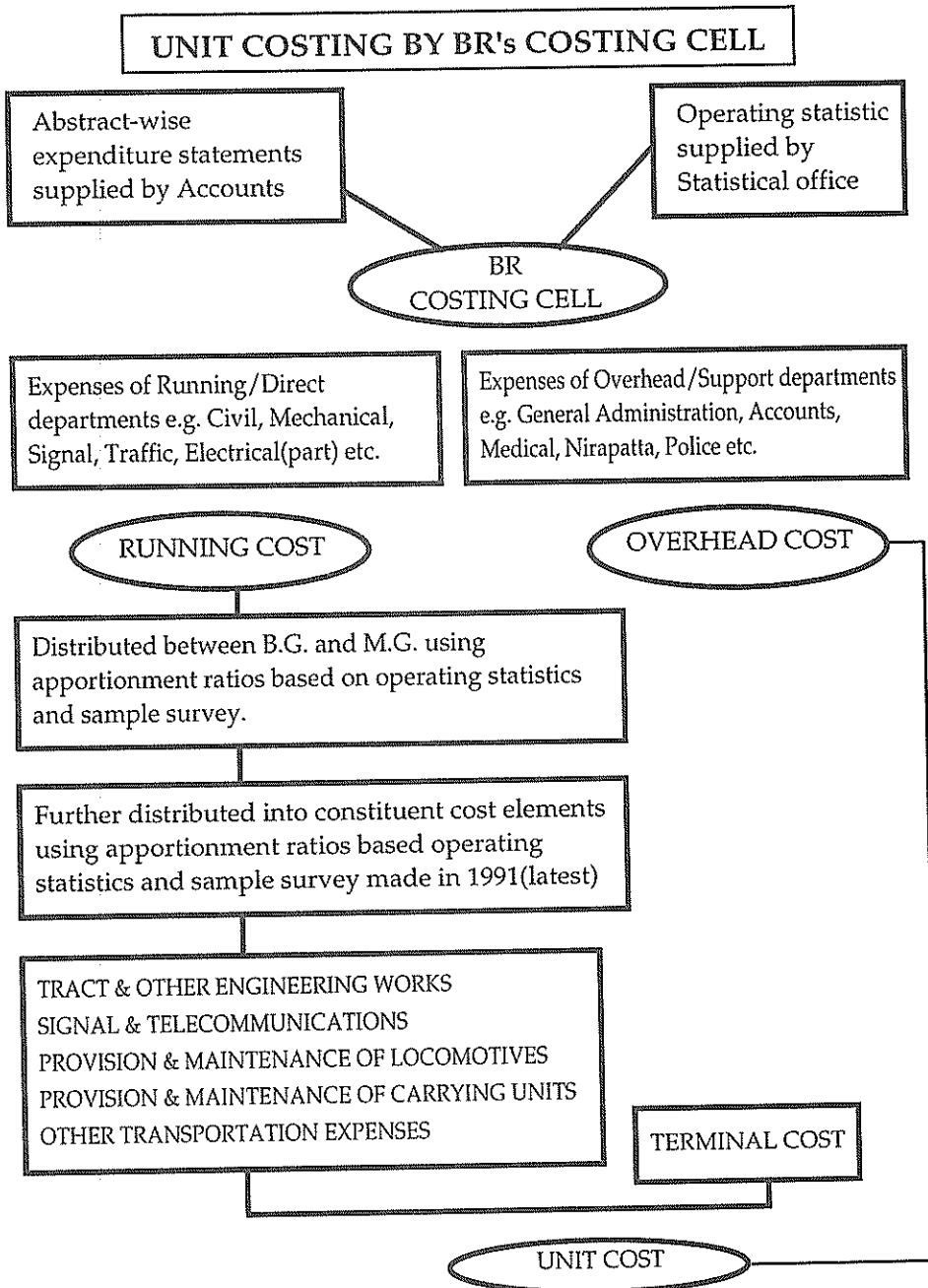


TABLE-2

METHODOLOGY PROPOSED FOR CALCULATING THE OVERALL PSO COMPENSATION AMOUNT

From the data produced by Accounts offices the Costing Cell calculates annually a series of unit costs. The Statistical Office publishes every year a group of operating statistics which can be used in conjunction with the unit cost developed. In general, these elements of cost which in totality constitute the unit cost of a unit of service (e.g., the cost per passenger kilometre), and can be effectively utilised together with the relevant statistical information to arrive at the annual PSO compensation.

The total PSO Expenditures will comprise the following three categories;

- Running Cost
- Ferry Costs;
- Terminal Costs.

Each cost category will include the following three elements;

- Working expenses;
- Depreciation;
- Return on investment

A flow diagram related to the proposed methodology to calculate PSO costs is shown in table-3.

Running Costs

The Running Cost for the PSO services would be calculated through the use of the following structural elements of costs.

	Data Provided by the Costing Cell	Data Provided by the Statistical Office
Cost elements	Unit Cost expressed per	Operating Statistics in number of
Tracks and Engineering Works	gross tonne-kilometre	gross tonne-kilometre
Signals and Telecommunication	engine-kilometres	engine-kilometres
Provision and maintenance of Locomotives	engine-kilometre	engine-kilometre
Provision and maintenance of carrying units	Vehicle-kilometres	Vehicle-kilometres
Other Transportation Expenses	Vehicle-kilometres	Vehicle-kilometres

To obtain the Running costs associated with PSO services, each unit cost from the above table is multiplied by its appropriate operating statistics and the results are totalled. The number of vehicle-kilometres to be used in the calculation method implied by the above table is not to include those vehicle-kilometres associated with parcels and luggage vans. As mentioned previously, the Statistical Office does not produce vehicle-kilometres associated with parcels and luggage vans for Local Passenger trains but calculates such number for all passenger trains combined (Inter-city, Mail and Express and Local). To separate the vehicle-kilometres for parcels and luggage vans for all passenger trains combined to the total vehicle-kilometres for all passenger trains is calculated. The total Local Passenger vehicle-kilometres (produced by the Statistical Office) are then multiplied by this ratio and the result is subtracted from the total. The figure thus obtained represents the total Local Passenger vehicle-kilometres excluding parcels and luggage vans. This is the number which is to be utilised in the multiplication above.

Similarly, the gross tonne-kilometres for Local Passenger trains produced by the Statistical Office include the gross tonne-kilometres associated with parcels and luggage vans. The required gross tonne-kilometres will be obtained first by multiplying the total Local Passenger vehicle-kilometres calculated previously by the average weight of a passenger coach. To account for the locomotive, three calculations will be necessary. First the train-kilometres for Local Passenger trains (produced by the Statistical Office) are multiplied by the average weight of a locomotive. The resulting gross tonne-kilometres so produced need to be divided between coaches and parcels and luggage vans. To this end, the ratio of vehicle-kilometres calculated previously will be utilised. The locomotive gross tonne-kilometres are there to be multiplied by this ratio and the result subtracted from the total. The figure so obtained will represent the locomotive gross tonne-kilometres for Local Passenger trains excluding the portion for parcels and luggage vans. This number is to be subsequently added to the vehicle gross tonne-kilometres calculated above to obtain the gross tonne-kilometres associated with Local Passenger service. The total so obtained is the number to be used for the multiplication in the above table.

As for engine-kilometres for Local Passenger trains, this number is routinely generated by the Statistical Office.

Ferry Costs

The provision of Local Passenger trains does not involve ferry services since the fares cover only the land portion, Presently, passengers disembark at the station and those wishing to cross the Jamuna, have to make their own arrangements for the crossing. Consequently, Ferry cost are not to be considered in the calculation of Local Passenger train costs.

Terminal Costs

The Terminal costs for PSO services would be calculated by multiplying the unit terminal cost per passenger with the number of Local Passenger trains passengers.

Overhead Expenses

The three categories of expenses (Running, Ferry and Terminal Costs) identified previously represent the costs directly allocable to services. They do not include the general or overhead expenses. These would cover the costs related to departments such as General Administration, Accounting, Stores, Medical, Security, Training Academy etc.

The total of these overhead expenses is to be prorated. For this purpose, the ratio of total overhead expenses to total direct expenses (working expenses) is calculated. The overhead costs pertaining to PSO services will be arrived at by multiplying this ratio by the direct PSO costs calculated from adding the total of each of the three cost categories (Running, Ferry and Terminal Costs). The overhead costs so obtained will then be added to the direct costs to produce the total PSO Expenditures.

PSO Earnings

The earnings generated by the Local Passenger services are produced annually by the Statistical Office. Another category of earnings,

Sundry Earnings, is also produced by the Statistical Office. However, this category is not divided amongst the various services (Freight and passengers) provided by the railway. A share of these earnings should be added to Local Passenger earnings since part of the earnings are generated on sections used exclusively by Local Passenger trains.

It is proposed that the allocation of Sundry Earnings to PSO services be accomplished in the following manner. First, the ratio of Local Passenger earnings to total freight and passenger earnings (excluding Sundry Earnings) is to be calculated. This ratio will then serve to multiply the Sundry Earnings to obtain the share allocated to PSO services. This amount will be subsequently added to Local Passenger earnings to produce total PSO Earnings.

Adjustment Factor

The Local Passenger trains use mostly branch lines and wayside terminals while freight trains and Mail and Express passenger trains use primarily the main line. The quality standards of the locomotives and carriages utilised on Local Passenger trains are usually below those of the Inter-city and Mail and Express trains. Furthermore, the maintenance level of the tracks on branch lines is also inferior to that provided to the main line or core network.

To account for the lower standards associated with Local Passenger services, and adjustment factor was proposed in 1992 and is currently utilised in the present methodology. Since the unit costs generated by the Costing Cell represent overall system averages and consequently are not sensitive to variations in quality standards or in maintenance levels, it is proposed that an adjustment factor of 0.8 (the same factor as proposed in 1992) be used to scale down the PSO Expenditures to arrive at a seemingly more realistic cost for PSO services.

CALCULATION OF P.S.O. COST
(using unit constituent cost elements)

Constituent elements of cost

Multiply by
Statistics of local Passenger Trains

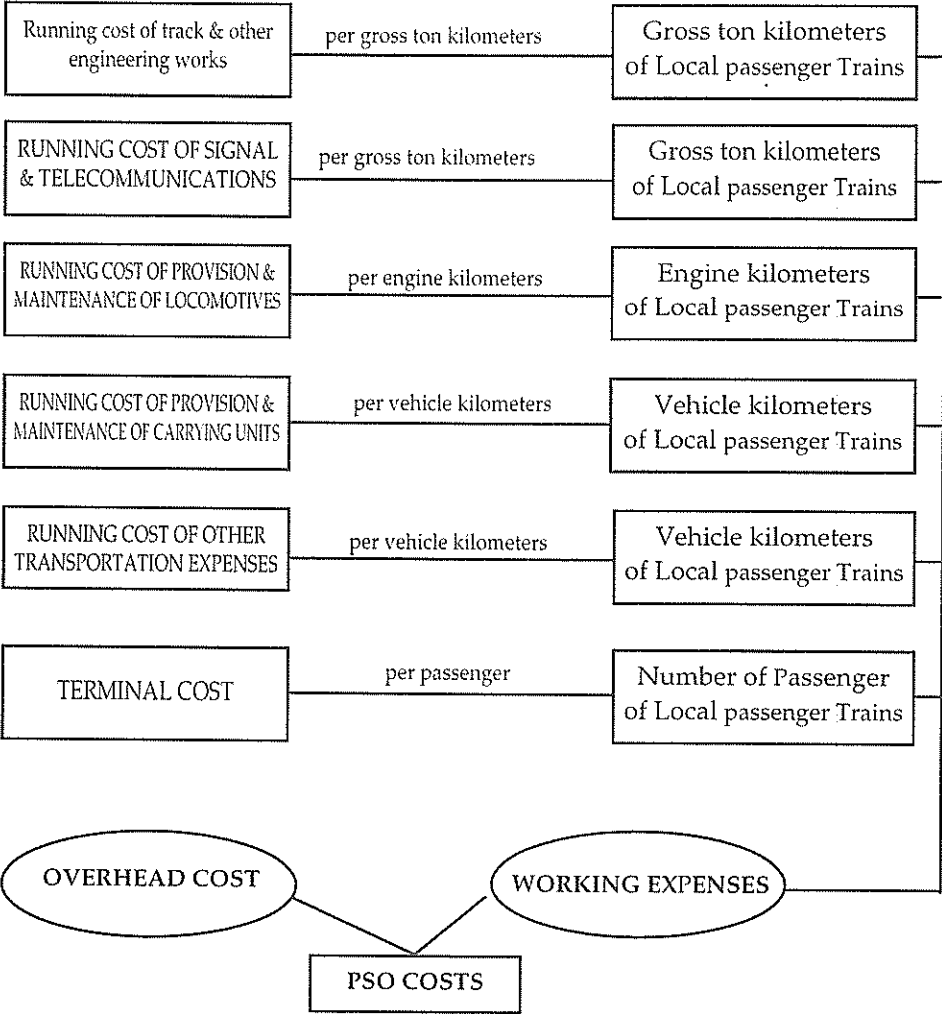


TABLE-3

PSO COMPENSATION CLAIM BY BANALGADESH RAILWAY

The PSO compensation claim which in theory and GOB notification should be transferred/adjusted in favour of BR is the net of PSO expenditure minus the PSO earnings. At present BR is showing the amount of PSO claim only as an entry in its budget document. This is neither accepted as an earning of BR nor as a reduction to the total expenditure by GOB (Ministry of Finance). This situation does not allow the BR to show a clear picture of its true financial state and the true losses of BR on its commercial operations are not clear. Rather it produces a situation where the shortcomings in BR's commercial operations become masked into the overall deficit including the losses on PSO. There may be a number of ways to compensate BR for PSO losses it incurs. Direct funding of the PSO services provides for greater transparency in the provision of these services. Besides, it creates public awareness regarding the cost of rendering such services, and public scrutiny of government policies for implementing the same. Each year BR should be allocated an amount by GOB as PSO compensation to be shown as earning/receipt in its budget. This amount will be equal to budgeted PSO losses of BR. The actual amount of PSO claim which can be calculated after the books of accounts are closed may be adjusted in next years budget. For this an entry (+ or -) called *adjustment of PSO claim* may be shown on the receipt side.

APPLICATION OF DECISION THEORY AND CRITICAL PATH ANALYSIS TO A PROJECT

Ahmed Ataul Hakeem*

BACKGROUND

Before going directly into the application of modelling techniques to the problems, it would be appropriate to give a brief description of overall management with special reference to the quantitative approach.

Management is a process which includes leading, organizing, planning, controlling, decision making, staffing and communicating which determines and accomplishes stated objective through the use of human beings and other resources. The central role of management is to take decisions in order to achieve individual, group or organizational objectives.

Management of people, resources and organization is an ancient art. However, its application to management decisions is a recent phenomenon. In such decision making process, management science uses models to assist the decision maker. Because of the complexity of these models, it has developed concurrently with and is heavily dependent on electronic computers.

In brief, management is:

- a) Simultaneously the integration of all the activities necessary to achieve the objectives;
- b) Dynamic in that it is not independent of time and changes in value systems;
- c) Complex and social because it involves people and their interrelationships (human relations);
- d) Multi-dimensional because it operates in several fields -- problems and solutions relate to several dimensions -- human, economic, political, social etc.;

*Director General, Financial Management Academy (FIMA). The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

- e) Universal in that all organizations have a need to be managed;
- f) Inter-disciplinary requiring skills and techniques from political science, philosophy, mathematics, economics etc.

Decision problems in modern management are so complex that only a conscience, systematic and scientifically based analysis will provide solutions. This has ushered in quantitative approach in management. It aims to apply programmed decision making to as many aspects of a problem as possible and is enabled by combining the art and science approaches.

The scientific method is the foundation of decision making which is the primary emphasis in management science. This approach helps the management to single out critical issues, which require executive appraisal and analysis. It also provides factual basis to support and guide executive judgement. It involves the following steps²:

1. Define the problem - It is very difficult in most cases. Solutions aimed at symptoms rather than at the true problem will give only temporary results.
2. Collect pertinent facts - Instead of generalized statements specific observations and data are required.
3. Analyze facts - For example, a general decision by individuals close to the problem, the use of similar problems as examples and the use of models portraying future results are all means of evaluating the pertinent data.
4. Derive and implement the solution - A thorough evaluation of the pertinent facts will allow for the determination of a solution to the problem.

Under quantitative approach a manager has to make simplified 'assumptions- these are stated in quantitative terms. This can be applied at any level of complexity in any field. Quantitative approach requires:

1. Decision problems must be defined, analyzed and solved in conscious, logical, rational, systematic and scientific manner -- based on data, facts, information and logic;

2. Choices are made according to objectively measured decision criteria;
3. Different levels of mathematical sophistication. The advantages of the quantitative approach are:
 - i) there are many tried and tested models available;
 - ii) computers help speed up the process;
 - iii) unique solution can be obtained from a related set of problems;
 - iv) the expression of problems to their quantitative components helps managers to understand better;

Because of increasing complexity of decision problems in modern management tested models relating to different real-world situations are being increasingly used for reaching solution. A model is symbolic or physical representation of reality. It does not represent precisely what it is supposed to represent; that is, it cannot be mistaken for or replace reality. A decision maker must accept this restriction of models.

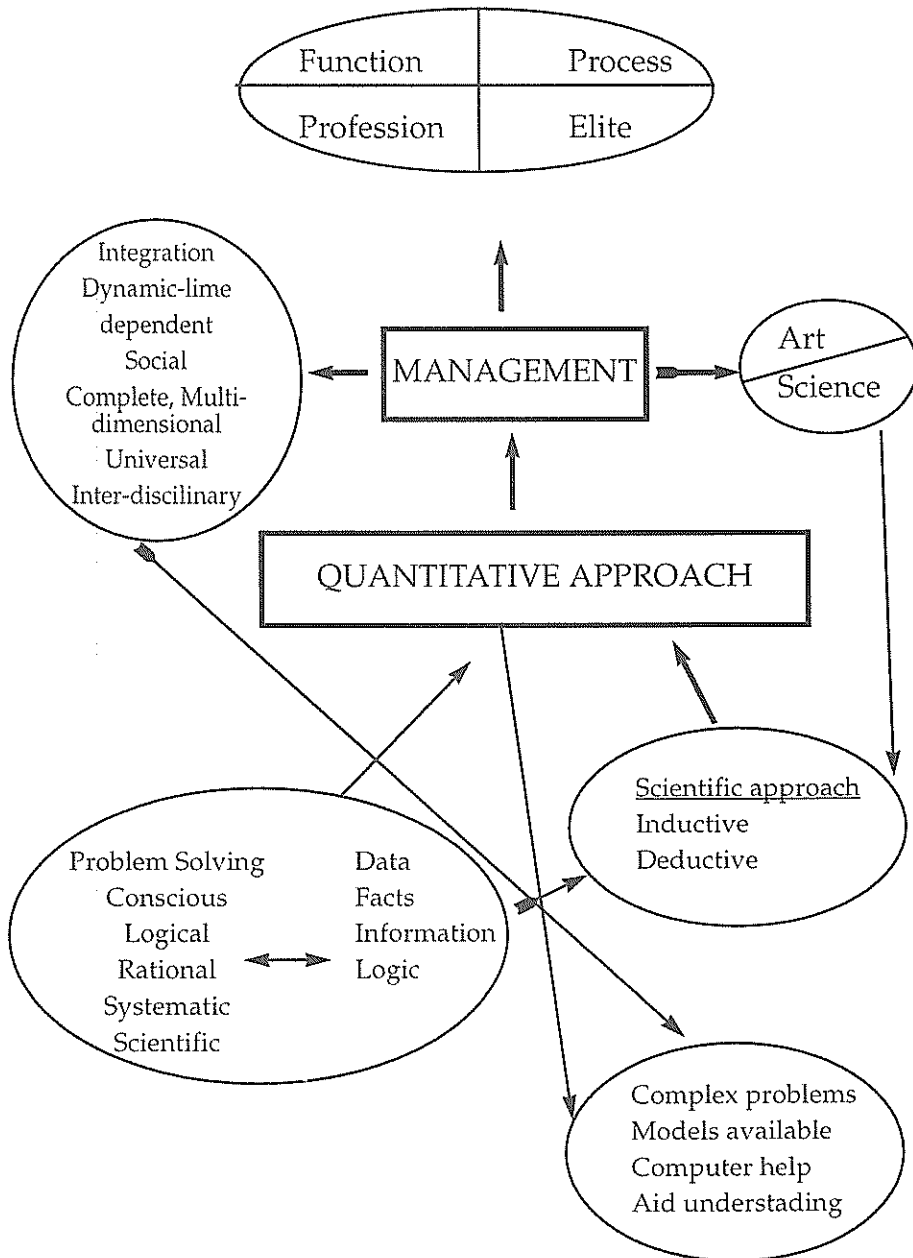
Any organization may have several systems -- marketing, finance etc. A model is a relationship between specified variables in the system. It is almost a simplified version of the real life situation. A model is understanding of the organization and an increased degree of control over its operations to facilitate better decision making.

The most important advantage of quantitative models is that, given same assumptions, different people will reach the same conclusions.

The following steps are taken to structure a Model :

- i) formulate objectives with well defined assumptions;
- ii) develop a model;
- iii) solve model;
- iv) apply solution to a particular problem;
- v) implement decision;
- vi) monitor model and feed back.

Figure I : Management AT A GLANCE



Types of Models

There are various types of models, the type being determined by the use to which they are put. Models are either iconic or symbolic.

An iconic model is concrete. It is physical representation of some real life object at different scale for example, a space-ship model.

Management science deals with symbolic or abstract models which are expressed in symbolic and can be manipulated using mathematical methods. An important type of abstract model which neither symbolic nor mathematical is the simulation model.

The figure 1 depicts clearly the concise picture of the overall aspects of the management.

Modelling Techniques

Having discussed briefly about various concepts of modern management I would like to apply a modelling technique (network analysis) to a hypothetical project of building a small hospital in the district X. Because of acute problems of medical treatment especially faced by fixed income earners in government service the government thinks it is high time for embarking upon a project of building a hospital. The government with great concern have been observing growing discontentment among the people of X at the medical facilities available to them. which led to the decision of undertaking such a project.

I think it would be quite relevant here to focus on some theoretical aspects of a project before getting involved into the real activities of the project.

A project is specific activity with a specific starting point and a specific ending point intended to accomplish specific objectives. All projects can be conceived of having a three stage cycle -- design, execution and evaluation.

Projects begin at the designing stage. At this stage projects are selected on felt need basis, project objectives are established and feasibility studies are undertaken in appropriate cases. Projects are formulated in specified project proforma (supplied by the Government of Bangladesh), technical, economic and financial appraisal is made, budget and resource requirements are provided for, responsibility for implementing the project are defined and coordinated detailed work plans are developed, and approval of the competent authority for undertaking the project is obtained. Then the project is included in the Annual Development Programme (ADP) prepared by the planning commission.

The design stage ordinarily may last for years, especially if a project is large in size and requires high technical capabilities as well as heavy resource investment. A project may be redesigned during the implementation stage of the project if monitoring and evaluation at the on-going stage necessitates such redesigning.

The second stage in the project cycle is execution. During this stage work plan of the project is developed, mostly through network analysis where under project activities are identified and scheduled in well-knit sequence and resources are mobilized. In other words, under the project implementation plan resources are mobilized, activities determined, and control mechanism established so that the project inputs can produce project outputs, that is, specific results in order to achieve the project purpose.

The third stage of the project cycle is evaluation. Evaluation is the process of examining progress made towards meeting objectives as well as assessment of what happened to the hypothetical planning. During the implementation stage of the project, activities are monitored against present targets and evaluation is undertaken to help managers improve their activities and work plan for achieving the project purpose. At this stage on-going evaluation may require redesigning the project, followed by improved execution until project

objectives are achieved. After completion of the project, performance evaluation is undertaken to find out if the project objectives have been achieved through supply of inputs and production of outputs. Such evaluation can be quantitative as well as qualitative

One of the basic management tools to support all stages of the project cycle is Performance Network which show how the project will be implemented over time. Performance Networks identify the sequence and relationship of project activities and measure performance throughout the project. CPM (Critical Path Method)/PERT (Programme Evaluation and Review Technique) techniques are applied for drawing the network. The choices of whether to use CPM or PERT results from whether the project being considered is repetitive or non-repetitive. Generally CPM will be more effective in repetitive process where required time of completion is assumed to be known with certainty. On the other hand, PERT would be more effective in non-repetitive case. Initially PERT was emphasized for monitoring of project's progress. CPM is originally evolved for construction industry. Now-a-days it has been used widely in various fields.

Network analysis as a management technique is designed for use in the planning, scheduling, monitoring and controlling the projects. The basic objective in applying network analysis to a project is to achieve completion in the best possible time at the best cost. To achieve such an objective it is necessary to have a master plan that can be used as working model of the project.

The basic tool in network analysis (whether it is CPM, PERT) is the arrow diagram, a model composed of arrows representing activities in the project. The arrows are connected to illustrate relationship between activities and to indicate the flow of work from the beginning to the end of the project. Each activity is assigned an estimated time duration from which it is possible to determine the chain of activities which consume the longest period of time (and

which therefore is the most critical). It is also possible to determine how much slack time is available in other paths.

In planning projects, we are concerned with operational planning which consists of:

1. determining all the specific tasks (activities) to be done;
2. establishing the order in which these tasks must be performed;
3. specifying the resources required for each task;
4. determining the project duration by establishing the starting and finishing times of all the tasks.

Planning also involves the consideration of outside restraints which must be fitted into the plan before resources are allocated to project activities.

In the backdrop of this theoretical discussion I would now like to illustrate the application of some management techniques -- decision theory and network analysis in particular to a real project of "building a small hospital" as already mentioned.

While taking decision in the Ministry of Health we are faced with the problem of the size and type of the hospital. We have three possible choices before us:

1. Hospital exclusively for government servants without any paying beds and provision of free treatment
2. Hospital with 100 paying beds
3. Hospital with 200 paying beds

The financial analysts of the Ministry examined all the possibilities with the application of decision theory and structured them in the form of the decision tree.

Decision Theory

Decision theory provides a rational method for choice. This approach generally involves three steps⁵ :

Step I : The first action a decision maker must take is to list all the viable alternatives that must be considered in the decision. In the case of our project, the planners of the Ministry indicated that there are viable options open to the Ministry (as mentioned above).

Step II : Having identified all the viable alternatives, the decision maker must now list the events that may occur. Generally, decision makers can identify most future events that can occur, the difficulty is identifying which particular event will occur. These future events (not under the control of the decision maker) are called states of nature in decision theory literature. In this listing, we include everything that can happen. In our case, the future events relating to demand are listed as:

1. High demand
2. Medium demand
3. Low demand

In defusing these states, it is usual for decision maker to attach probability or unit volume value to each of the possible events to define them more accurately.

Step III: The decision maker now constructs a payoff (table-I), a table which shows the payoffs (expressed in profits or any other measure of benefit which is appropriate to the situation) which would result from each possible combination of decision alternative and state of nature, Table I: illustrates the five possible payoffs in the decision.

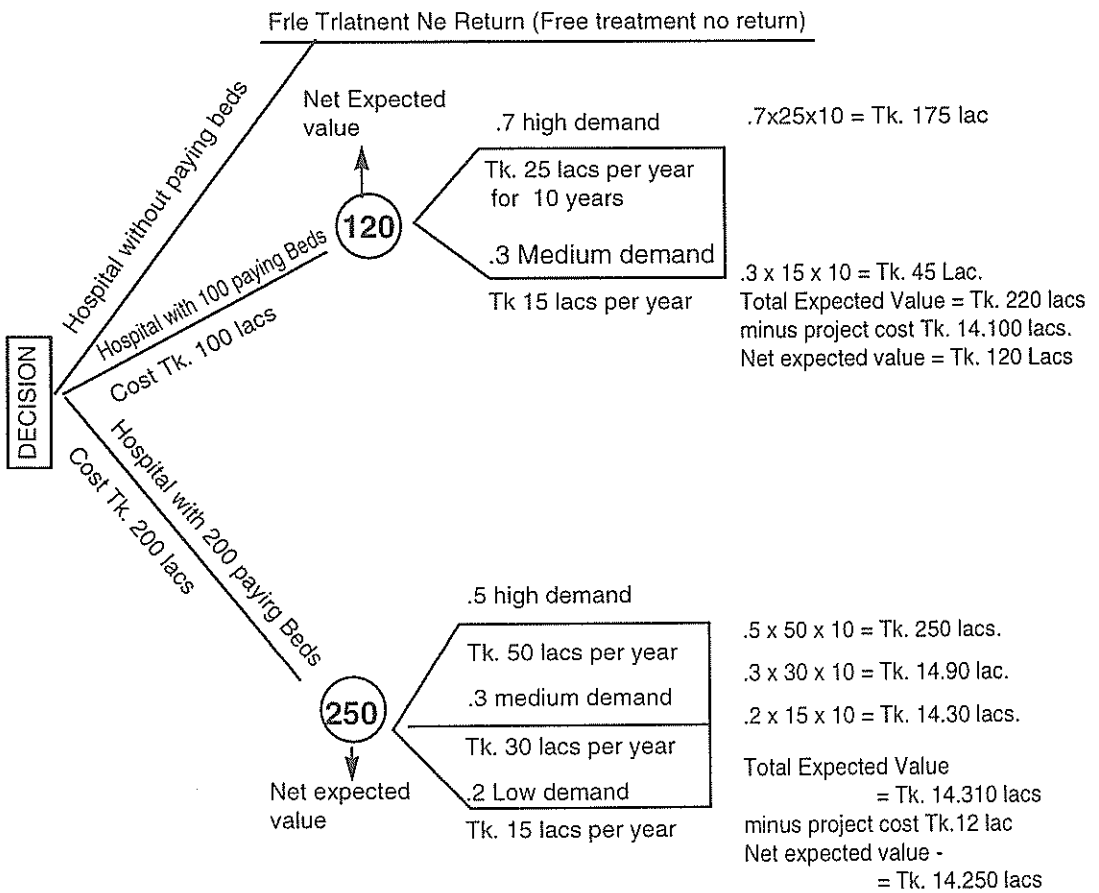
Table I: Payoff For Decision

(Profits earned over 10 years)

(In Taka)

		High	Medium	Low
Decision Maker's Alternatives	Hospital with 100 paying beds	175,00,00	45,00,00	-
	Hospital with 200 paying beds	250,00,000	90,00,000	30,00,000

FIGURE II : DECISION TREE ANALYSIS



Decision makers must function in three types of environments 6 :

1. **Decision making under conditions of certainty** : Only one state of nature exists, in this environment that is, there is complete certainty about the future. Although this environment sometimes exists, it is usually associated with very routine decision involving fairly inconsequential issues; even here, it is usually impossible to guarantee complete certainty about the future.
2. **Decision making under conditions of uncertainty** : Here, more than one state of nature exists, but the decision maker has no knowledge about the various states, not even sufficient knowledge to permit the assignment of probabilities to the states of nature.
3. **Decision Making under conditions of risk** : In this situation, more than one state of nature exists, but the decision maker has information which will support the assignment of probability values to each of the possible states.

A decision represents the conclusion of a process after judging the various alternatives. One of the methods applied in decisions theory is known as "Decision Tree". This technique helps the decision maker to analyze the various outcomes. When both probabilities of outcomes and conditional monetary values of these outcomes, are such that expected values can be computed we refer them as "Decision Trees".

Decision trees are usually drawn with standard symbols (Figure II). In the figure simple decision of making a choice between the three alternatives are represented (as already mentioned). The square node symbolizes a decision point; for each alternative it is standard practice to show a circular node from which branches on the tree represent each possible outcome or state of nature which could result. In our illustration the expected values for the alternatives were

computed to make choice using the criteria. The general process used in decision tree analysis is to work "backward" through the tree (from right to left), computing the expected value of each state of nature node. Then the particular branch is chosen having a decision node which leads to the state of nature node with the highest expected value. This process is known as "roll-back"

The real value of the decision tree type analysis to a manager is when it is used to a complex kind of problem where not only a number of alternatives are available but also a decision about a considerably longer future period is required to be taken.

The project under consideration in this report is expected to have a smooth life of ten years.

The concerned finance department has also carried out a cost return analysis with various options. The findings are stated below:

1. Hospital without any paying bed would yield no return;
2. Hospital with 100 paying beds will have probability 0.7 high demand and probability 0.3 of medium demand. Since in this case the number of paying beds is only 100 it is expected that there would always be a fair demand so the case of low demand is not considered. In this case it is expected that with high demand project yield would be Tk. 25 lacs annually and with medium demand yield expected to be Tk. 15 lacs annually.

In this case the net expected value after deducting the cost is Tk. 120 lacs

3. In the same way it has been calculated that hospital with 200 paying beds would have probability .5 high demand, probability, .3 medium demand and probability, .2 low demand. It is expected that with high demand profit yield would be annually Tk. 50 lacs and with medium demand would be Tk. 30 lacs annually and annual yield with low demand would be Tk. 15 lacs.

In this case the net expected value is Tk. 250 lacs.

In the decision process roll back approach has been used i.e., to compute the value of each state-of-nature node. We worked backward through the tree from right to left. We then chose that particular branch leaving a decision node which leads to the state-of-nature node with the highest expected value.

From the decision tree analysis it appears that the hospital with 200 paying beds would produce maximum profit yield over the next 10 years under the given conditions.

Having taken the decision on the type of the project, next step is the identification and determination of component activities of the scheme which are listed below:

Number	Activity	Duration (in weeks)
A	Selection of site	4
B	Approval of fund	4
C	Acquisition of land	6
D	Release of fund	5
E	Surveying of the plot	2
F	Design by Architecture	4
G	Calling of tender for construction	4
H	Acceptance of quotation	2
I	Work order for costurction	2
J	Tender for electrical goods, furniture etc.	3
K	Tender for equipment	3
L	Monitoring work progress and quarterly payment	20
M	Work order for furniture, electrical fittings etc.	2

N	Delivery of furniture, electrical fittings etc. and payment	10
O	Work order for equipment	2
P	Delivery of equipment and payment	7
Q	Final inspection of construction work	3
R	Building possession taking and final payment	1
S	Installation of equipment	3
T	Installation of furniture, electrical fittings etc.	4
U	Appointment of doctors, nurse and other staff	4
V	Conducting of the opening ceremony	3

The estimated time in weeks and costs in taka are based on past records and standard followed by the Department of Works and other concerned government departments.

The next step is to determine the logical planning and sequential flow of each activity (as shown in figure III) as network flow.

The network diagram shows the various activities and events of the Project. It indicates the flow of each activity in relation to another in logical sequences. It indicates the order of activities.

The network helps the management to co-ordinate activities involving different agencies responsible for implementation of the scheme. Each agency is able to comprehend its proper role and functional relationships with the total scheme.

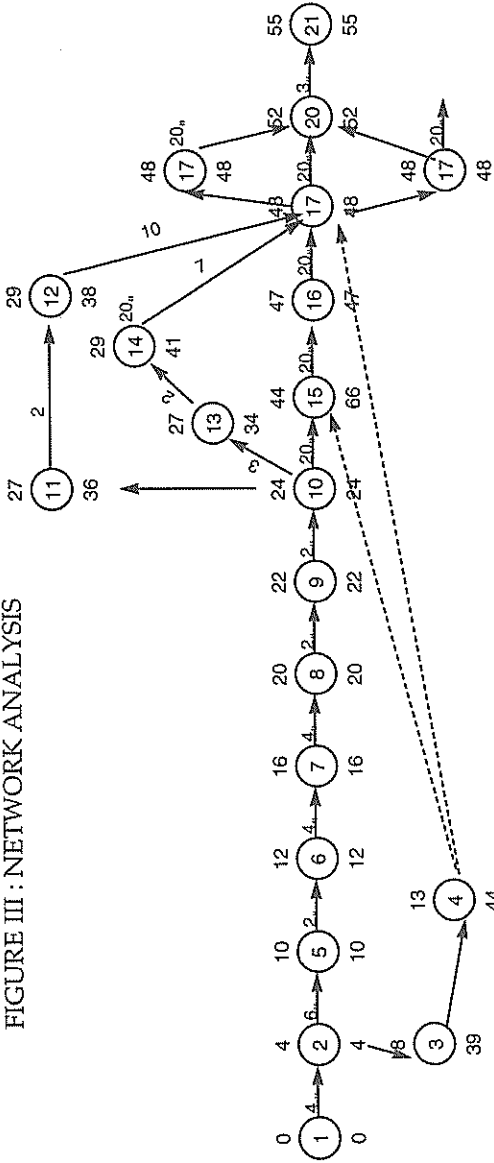
The scheduling of the scheme is done by calculating the earliest and the latest time for each activity. This also gives the float time. Those activities with no float-time constitute the critical path which are the activities from event 1 to 2, 5, 6, 7, 8, 9, 10, 15, 16, 17, 19, 20 and 21. This is the longest path or time taken to complete the project which is 55 weeks.

The activities on the critical path are monitored closely as any delay in any of these activities can alter the whole schedule of the project

thus creating problems in completion which might upset the whole planning. Some of the efforts can be taken to complement activities in the critical path so as to avoid any delay. This will reduce completion time. Progress of each activity is monitored and followed-up closely. The network is constantly up dated to see if any delays affected the critical path and the completion time.

The critical path analysis is also used to determine the starting time of the project and for each event so that completion target can be achieved. The critical path can also be utilized to shorten the completion time if needed through manipulation of different activities.

FIGURE III : NETWORK ANALYSIS



CRITICAL PATH :
1-2-5-6-7-8-9-10-15-16-17 - 20-21

Activity	Duration	Earliest Time (ET)	Latest Finish (LF)	Total Float (TF)
1-2	4	0	4	0
2-3	4	4	8	0
3-4	6	4	10	0
4-5	2	5	7	31
5-6	2	10	12	0
6-7	4	12	16	0
7-8	4	16	20	0
8-9	2	20	22	0
9-10	2	22	24	0
10-11	3	24	27	4
10-15	3	24	27	4
11-12	2	24	26	12
12-17	2	27	29	0
13-14	2	27	29	9
14-17	7	29	36	12
15-16	3	29	32	0
16-17	3	47	50	0
17-14	3	48	51	0
17-24	4	48	52	0
20-21	3	52	55	0

GANTT or open Bar Chart

Having drawn the network and completed the analysis which includes calculation of floats, an extremely useful presentation of the plan can be made by means of a GANTT chart. (as shown in figure IV)

The length of the bars represent times of the activities being considered. For example, inside each open bar is shown the head and tail event number and progressing down the chart each bar is drawn by matching the tail number with the same number for farthest to the right. The figures in the center of each bar represent the activity time and those beneath the bar at each end coincide with the time scale above.

The dummies are represented by vertical lines. It may be easier to understand from the chart how floats are used or their relationship.

Activities on the critical path have no float.

A network combined with a GANTT or bar chart gives a very good picture of the plan or model each one complementing the other.

Resource Allocation:

The next stage is to consider the total number of men to be put on the project. Table II, shows the numbers required on individual jobs and the corresponding work contents.

FIGURE IV : GANTT OR OPEN BAR CHART

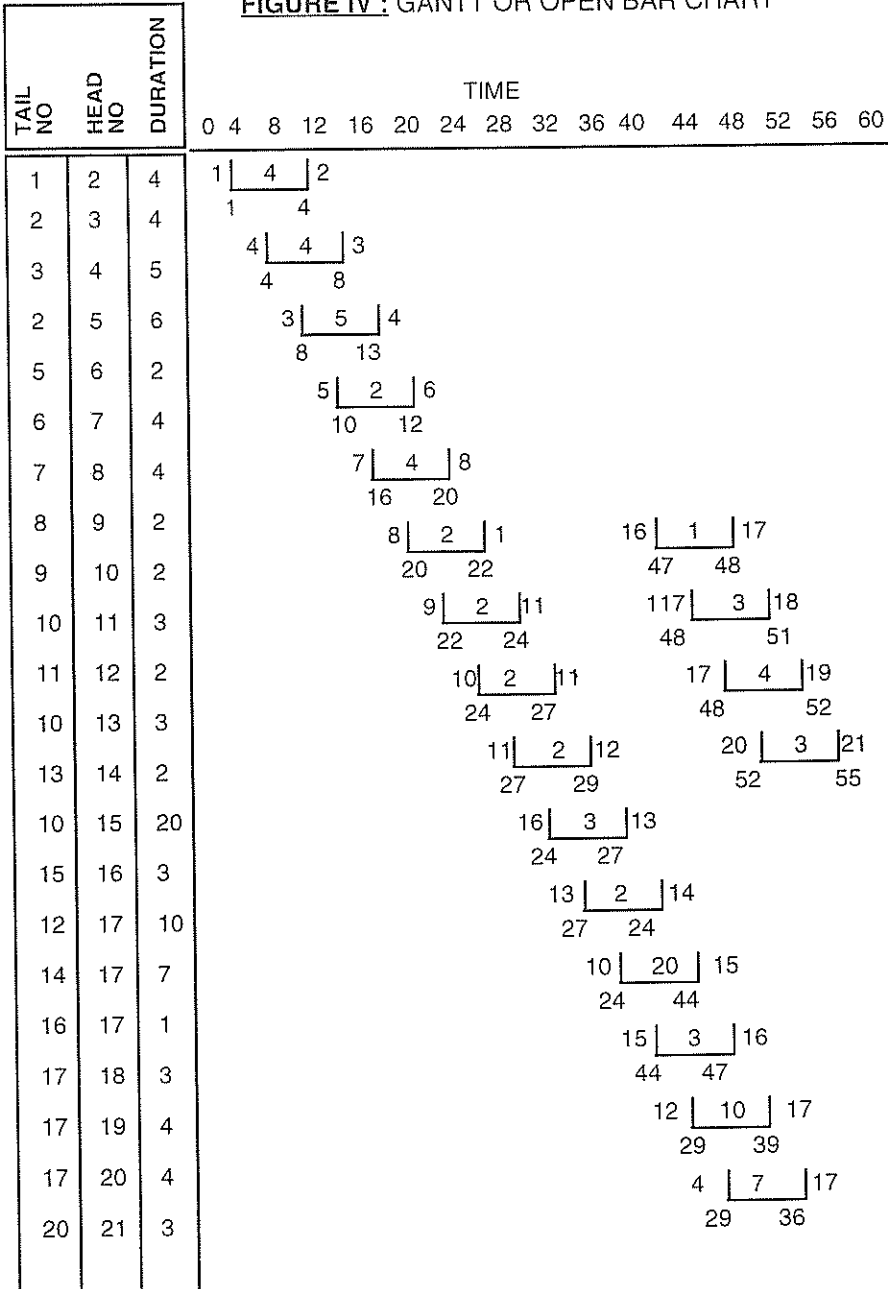


TABLE II : RESOURCE ALLOCATION

JOB	MEN	DURATION (IN WEEKS)	WORK CONTENT (Man-days) Working day in a week
1.2	2	4	40
2.3	1	4	20
2.5	1	6	30
3.4	1	5	25
5.6	3	2	30
6.7	2	4	40
7.8	1	4	20
8.9	1	2	10
9.10	1	2	10
10.11	2	3	30
10.13	1	3	15
10.15	1	20	100
11.12	1	2	10
12.17	1	10	50
13.14	1	2	10
14.17	1	7	35
15.16	2	3	15
16.17	2	1	10
17.18	1	3	30
17.19	2	4	40
17.20	4	4	80
20.21	5	3	15

FIGURE V : RESSOURCE - PROFILE

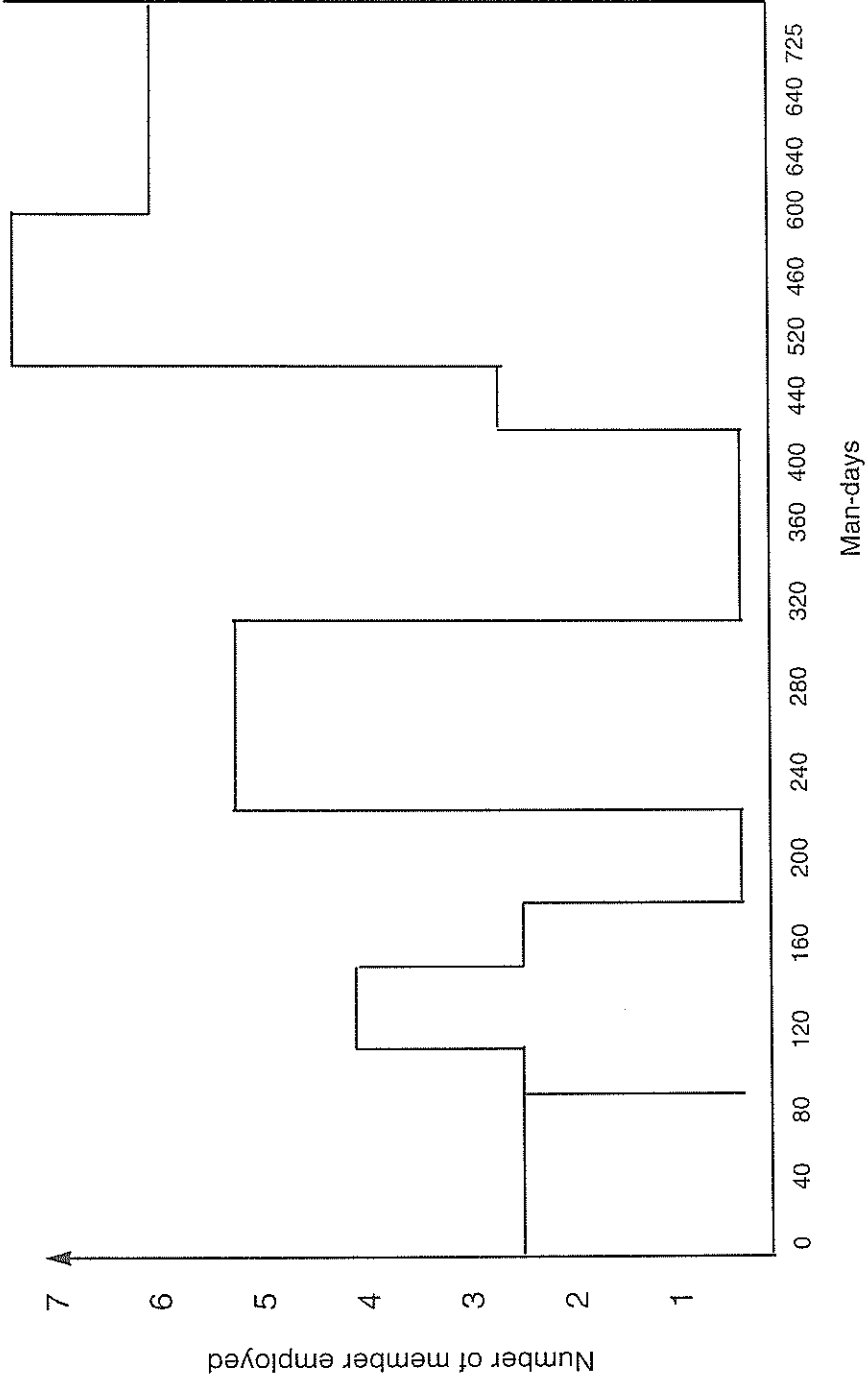


Figure V, shows the number of men employed as function of the time, reaching a maximum of seven. This is known as resource profile. Even if the noncritical jobs are delayed by utilizing their float, seven men must still be available at the peak if the project is not to be delayed.

The name of 'resource aggregation' has been given to this simple process. The term resource allocation is used when a restriction is placed on the resources available but the project duration is allowed to adjust itself correspondingly. No perfect method of doing this has yet been devised⁷. However, once the logical network has been drawn up and job duration have been estimated, the work of scheduling jobs and allocating resources can be reduced to a set of routine calculations. which may be delegated to an electronic Computer. The burden of work which falls on the human planners can therefore be reduced by delegation to a machine, giving yet another advantage of applying network analysis to projects of great complexity.

Finally, the great appeal of the technique lies in its essential simplicity. It demands no great mathematical expertise but relies on common sense, logic and simple arithmetic.

Conclusion :

From the analysis of the practical applicability of different tools of quantitative management in the real life situation it is quite evident that the quantitative approach has positively contributed towards achieving present day management objectives. With the growing complexity of management problems the necessity of the quantitative approach is increasingly being felt.

From the above analysis of the project it is quite clear that the contribution made by the network technique in proper planning, scheduling and monitoring of the project for achieving set targets. It ensures that the project is realistically planned and each stage or point of action is identified. It provides the management an efficient

tool for effective control and co-ordination of the project.

Compared with the traditional method it is certainly a much more pragmatic approach for forecasting the operational aspects of the project management. Had we applied the traditional method we would have faced with occurrences of unforeseen problems during the progress of the project resulting in distortion of our plans and targets. Whereas in the preparation of the network all those future problems are very well taken care of at the initial stage so that a pragmatic plan can be drawn up.

However, this quantitative approach does not give full-proof solution to the management problems. Since management of human resources involves human behavior which is not always guided by mathematical formulae like machines. Even the best possible modelling technique may prove ineffective if not properly integrated with the human relations aspects of management. A quantitative model properly developed after consideration of all aspects of management would go a long way in solving complex management decision problems with great speed and efficiency.

REFERENCES

- LOCKYER, K.G., An introduction to critical path analysis (p.9-11)
- PALMER, C.F., Network Planning and Control
- Ibid ibid
- BATTERSBY, A., Network Analysis for Planning and scheduling
- SEVIN, I.R., Quantitative Approach to Management (P. 163)
- KNOTTS, U.S., Management Science for Management Decision (P. 121)
- SIRAJUDDIN, M., PROJECT MANAGEMENT (P. 93)

BIBLIOGRAPHY

- BATTERSBY, A., Network Analysis for Planning and Scheduling, Macmillian, 1964.
- BEERS, S., Management Science, Aldus Book Ltd. London.
- DUCK WORTH, E. A Guide to Operational Resources, Methuen & Co. London
- FINE, B., Engineering, London
- KNOTTS, U.S., Management Science for Management Decisions, Allyn and Bacon, Inc. Boston.
- LEVIN, I.R. Quantitative Approach to Management McGraw-Hill Book Company, New York.
- LOCKYER, K.G. An introduction to critical Path Analysis Third Edition, PITMAN PUBLISHING, London.
- PALMER, C. F., Network Planning and Control, GEE & CO. Publishing Ltd. London.
- SIRAJUDDIN, M. PROJECT MANAGEMENT, Ministry of Planning, Government of Bangladesh.

OBJECTIVES IN PERFORMANCE AUDITING

Masud Ahmed*

Since a few years, much chanting of calls on performance auditing has been on the air from the Audit Department. Consequently, quite a number of audit reports appearing to be performance oriented have surfaced. Since it is comparatively a nascent idea, it is fit to print a few sentences on one of the very important facets of performance auditing. The entity (Auditee) usually has and can have multi-dimensional activities and transactions starting from its concept, planning, implementing and transacting business irrespective of its nature being service rendering or goods-producing. The audit universe, accordingly can be very vast and deep. But the juxtaposition of the Audit organization with the Auditee would always show that for the Audit organization there is limitation of resources in the form of staff available, travel costs, pre-set programmes of audit on other auditees by the same organization and the obligation of presenting audit reports to its clientel-group within a dead-line. Such practical factors necessitate conducting audits ensuring maximum utilization of resources making a balance between quality and quantity. One of the key instruments for such economy is to determine, at the planning stage of audit, what aim the audit is going to achieve. In other words it is called the audit objective. If the auditors don't fix it and think "okay, we will sniff for anything and surely bump on something at the end" every likelihoods are there that many of their costly time and other resources will be wasted on sterile ground. Again if too may objectives are determined, they can't attain all of them as staff days and other resources shall never be adequate to attain all the objectives. So it is necessary that auditors' management, determine a

* Chief Accounts Officer, Ministry of Foreign Affairs. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

few specific and important objectives instead of going for anything haphazardly.

An Audit objective is the key to performance audit. It defines the audit purpose, and thus establishes the direction for detailed audit work and provides the focus for formulating subsequent findings. All planning evidence gathering and data evaluation begins with the objectives and the audit ends when the auditor has enough competent and relevant evidence to write a report that satisfies the objective(s). A finding depends entirely on the objectives of the assignment, and a finding or set of findings is thus complete to the extent that the objectives of that assignment are satisfied. In planning a performance audit, it, therefore, is important that one begin with a precise statement of the objectives that fully and clearly articulates what the audit is expected to accomplish. To be practicable, the objectives should be worthwhile and achievable. It can't be ambitious or far-fetched which ultimately is unattainable.

The way objectives should be stated.

There are preferred ways of stating objectives. As the end result of an audit is to express a conclusion on or answer the audit objectives, the same should be stated in such a way that a response can be given in specific positive terms. Accordingly this can be done by either (i) posing a question like "Is the management making the purchases most economically?" or (ii) "to determine if funds were being used for the purposes for which they were allocated." In order to have a conclusive result, objectives should be as specific and clear as possible and not vague. Vague objectives make it impossible to come up with any specific answer. As a result the labour of the auditors turn to insignificance. In one of the recent audits of the T & T Board the auditors made the following to be one of their objectives :

"To review that role of the T & T Board as Public Utility service." I was inquisitive to see the result and ransacked through the pages of the report accordingly. Not to my surprise that I found nothing about

that point in the report. It goes without saying that such a vast and indefinite objective can't be accomplished through an Audit Team having a limited staff days at their disposal. The Auditor General (Army) of the U.S.A states in his guidance that vague objectives like "evaluate the use of resources", "review the policies, practices procedures and control" should not be used. A positive conclusion can not be drawn nor answer given to such vaguely worded objectives. Besides they do not provide a clear direction for planning audit work.

OBJECTIVES CONVEY INFORMATION

Stating objectives as questions or "to determine" statements is not enough. Let's suppose the DG, FAPA asked one of the audit team leaders "to determine how a certain health department project was doing in conducting its children immunisation programme." After spending a few days, the team leader reports back that he has found evidence to show that the entity can perform its work with 15% less staff than it is doing now. So a reduction in staff strength can be recommended. Appreciating the observation, the DG says, "Well this is no mean feat, but I wanted to know if the entity was successfully reducing child mortality." So, to clearly communicate what the audit is expected to accomplish, objectives need to identify :

- 0 - the audit subject (other than the organization).
- 0 - the performance aspect (of the subject) being reviewed, and
- 0 - the finding elements to be developed.

A precise description of the subject is vital. Next is the performance aspect. Performance is what management is held accountable for and assessing how well management is doing or helping management to improve is what performance auditing is about. Common performance aspects are profit, programme accomplishments, customer satisfaction, product / service quality, timeliness and cost. Some of these can further be defined by various measures, such as accuracy, reliability, safety, cleanliness, courtesy, and understandability.

ELEMENTS OF AUDIT FINDING

While an objective like "to determine how accurately and quickly the T & T Board personnel respond to phone User's queries" is a reasonably clear one, it may not describe fully what the audit is intended to accomplish. The objective does not call for identifying the effect, nor for developing the cause if performance is found to be poor. Yet establishing the effect and the cause may be desired. Audit findings have traditionally been viewed as containing the four elements of criterion, condition, effect and adding cause when problems are found. Recommendations are added to in reporting. However the elements needed for a complete finding depend on the objectives of the audit. An audit team may be asked to ascertain what results are being achieved for example, by putting more cargo aircrafts to the fleet to increase exports. Or it can go a step further and determine if a problem exists that is, to determine if the increase in exports is satisfactory. If no problem is found, the team will normally stop without determining the reason (cause).

OBJECTIVES FACILITATE REPORT WRITING

Auditors should plan the audit with the report in mind. Detailed objectives can provide a blueprint for what the report will say. This vision helps the auditors keep the audit work on track and help them writing the audit report. The auditors, can begin writing by answering the question phrased in each objective. It can also be used to formulate side captions which can be arrayed later to form an outline. Demonstrating the objectives from the air cargo example once again could form the following side captions :

- 0 - Has an increase taken place in exports?
- 0 - What are the consequences of its not being increased (assuming this is what was found)?
- 0 - What does account for the problem?
- 0 - What can be done to improve the situation?

With these captions, one could start writing the report by answering each caption question, adding the supporting evidence. The captions also outline the presentation sequence and thus streamline the materials.

ADDRESSING OBJECTIVES IN REPORTING

The audit objectives should be stated in the audit report as follows :

- 0 - Provide an explanation of why the audit was performed.
- 0 - Put it in as neutral terms as possible as biased sounding objectives will detract from the reports' objectivity.

The point to remember in reporting is that the objectives establish expectations for the reader on what the report will say. So there should be conformity between objectives and report message.

The author acknowledges indebtedness to the following publications as source documents of this write-up.

1. Government Auditing Standards, U.S.A.
2. Operational Auditing - G.A.O. U.S.A.
3. Army Audit Agency, U.S.A.

INTERNAL CONTROL, INTERNAL AUDITING AND PROFESSIONAL TRAINING FOR AUDITORS

M. T. H. S. Iqbal*

INTRODUCTION

Control, originally defined as a 'roll of account, a parallel of the same quality and content with the original', first appeared in the English lexicon around 1600. It derived from the Latin *contra* ('against') and *rotula* ('a roll') meaning 'against a roll'. Samuel Johnson sums up this original meaning as 'a register or account kept by another officer, that each may be examined by the other'.¹

The importance of control to auditors was first recognised by L.R. Dicksee as early as 1905. He pointed out that a suitable system of internal check should eliminate the need for a detailed audit. He viewed control as a composite of three elements: division of work, the use of accounting records, and the rotation of personnel.²

EXTERNAL CONTROL AND INTERNAL CONTROL

It would be useful to differentiate between the external and internal controls at the outset. For practical purposes, there are only two forms of control: external and internal.

Forces outside the enterprise or organisation exert external control such as laws, government rules and regulations including required exposure or audited financial statements, and government inspection on it. The needs of the society as a whole also exert some form of control on the company or organisation.

In this paper, we will limit ourselves to explaining the nature of internal control systems and its necessity; internal auditing and its

* Additional Project Director, RIBEC 2000 Project. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

¹L.B. Sawyer, *Sawyer's Internal Auditing-The Practice of Modern Internal Auditing* (Alta Monte Springs, Florida: The Institute of Internal Auditors, 1988)

²R. H. Montgomery, 'Dicksee's Auditing', quoted in the CPA Handbook, American Institute of Certified Public Accountants, 1956

necessity; the need for establishing audit committee and the usefulness of professional training for auditor.

INTERNAL CONTROL

Definition

In 1949, a special report of AICPA's Committee on Auditing procedures entitled "Internal Control—Elements of a co-ordinate System and it's Importance to Management and Independent Accountant," broadened the definition of Internal Control:

Internal control comprises the plan of organisation and all of the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

This definition recognises that internal control system extends beyond those matters, which relate directly to the functions of the accounting and financial department. However, because this definition is too broad for specific audit focus, in 1973, the *SAS No. 1* of AICPA's Professional Standards, subdivided the internal control into administrative control and accounting control.

Definition for internal auditors

Internal Auditors, who should be management-oriented and objective oriented, need a definition of their own. The Institute of Internal Auditors, USA, defined Internal Control as a management tool used to provide reasonable assurance that management's objectives are being achieved.

Therefore it is important that all levels of management understands the nature of systems and the objectives internal controls are to achieve.

Systems

Internal control systems are defined as the plans of an organisation, including management's attitude, methods, procedures and measures that provide reasonable assurance that the objectives are being achieved. Those objectives are :

Objectives

1. Promoting orderly, economical, efficient and effective operations and quality products and services consistent with the organisation's mission;
2. Safeguarding resources against loss due to waste, abuse, mismanagement, errors, and fraud and irregularities;
3. Adhering to laws, regulations and management directives; and
4. Developing and maintaining reliable financial and management data and fairly disclosing that data in timely reports.

TYPES OF CONTROL

Internal Controls by their role in the organisational structures have often been categorised into (a) Management, (b) Administrative and (c) Accounting controls.

Management controls

These are often viewed as encompassing all controls. They are the framework of the organisation i.e. all the plans, policies, procedures and practices needed for employees to achieve the entity's objectives.

Administrative Control

These are those procedures and records concerning the decision-making process that lead employees to carry out authorised activities in achieving the organisation's objectives.

Accounting Controls

These controls cover the procedures and documentation concerned with the safeguarding of assets and the reliability of financial records.

Internal controls have also been categorised by their intended purposes :

- a) To prevent errors. For example, by segregating duties and authorisation requirements.
- b) To detect errors. For example, by establishing production standards to detect variances in actual results.

- c) To correct errors that have been detected. For example, by collecting an overpayment to a vendor.
- d) To compensate for weak controls where the risk of loss is high and additional controls are needed.

In practice, the distinction among these categories and types are often difficult to recognise because an effective internal control system requires elements of each. They are not mutually exclusive. They should be complementary. Any one control has advantages and disadvantages. So an effective internal control system uses a mix of controls to compensate for the particular disadvantages of individual controls.

Effectiveness criteria

To be effective, internal control system must satisfy the following criteria :

- a) Controls must be appropriate e.g. right control in the right place and commensurate to the risk involved.
- b) They must function consistently over the period e.g. they must be complied with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy.
- c) They must be cost effective e.g. the cost of implementing the control should not exceed the benefit derived.

Three Control models

There have been new developments in the way of thinking about controls. The committee of Sponsoring Organisations of the Treadway Commission (COSO), the UK's Cadbury Commission, and the Canadian Criteria of Control Committee (COCO) have put forward three models of Control.

COSO models

COSO set the stage with a broad definition of control as a process, effected by directors management and others, to provide reasonable

assurance of the achievements of objectives in the areas of :

- Operation effectiveness and efficiency,
- Reliability of financial reporting,
- Compliance with laws and regulations.

The model has five key elements :

- The control environment—which acknowledge the importance of people’s behavior
- Risk assessment
- Control activities
- Information systems
- Monitoring.

Cadbury (UK) model

The second model, developed by UK Cadbury Committee, also adopted a broad interpretation of control, but with greater specificity to its definition focusing on the whole system of controls, financial and otherwise, established in order to provide reasonable assurance of:

- Effective and efficient operations including safeguarding of assets.
- Reliability of financial information and reporting including protection of records against concealment of theft and distortion of results.
- Compliance with laws and regulations.

COCO (Canada) model

The Canadian Criteria of Control committee model, which was released for comment in August, 1994, deliberately builds off the COSO and Cadbury models with a similar definition and similar control elements as Cadbury and COSO, COCO differs from the other two models in certain areas. For example, it provides the national of multiple frameworks or models. The model also addresses the reliability of internal management reporting , it addresses objective

setting as well as risk management, and it adopts a wider focus on monitoring to include specific reference to learning and adaptation.

For a UK-based company the Cadbury model more relevant. The Cadbury report contains the Code of Best Practice which is mandatory for all listed companies of UK to follow. However, not internal control structure, can by itself guarantee efficient administration and complete and accurate records or be foolproof against fraud, especially when those involved hold positions of authority and trust. Thus an independent Internal Audit Department within the organisations required to provide independent assurance that controls are functioning as intended, to help executive management improve the design and operation of control systems, to expose internal irregularities, to keep the relatively isolated senior management better informed about the operations and also suggest improvements in key areas.

Internal Auditing

Although developed in the USA in early 40s as a necessary element of internal control system in any organisation, UK companies were able to follow US examples quickly. Now across the globe, all major corporations, companies and public organisations have internal audit department. The work of an internal audit department is constantly measured against the world class professional standards set by the Institute of Internal Auditors. The guidelines and the standards are continuously reviewed and updated to meet the changing need of management objectives, corporate governance and environmental demand.

Definition

Ideally internal auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. Thus the objective of the internal auditing is to assist the members of the organisation in the effective discharge of their responsibilities. To this end internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information canceling the activities reviewed.

Everyday, news are about the contribution of efficient internal audit department in large corporation towards cost savings, increased profit, detection of fraud and irregularities and better survivability.

But one of the most important criteria of an efficient internal audit department is its independence. Independence implies—independence from line management or line operations. Ideally and internal audit department should be separate of line activities which will ensure non-bias and objective review and analysis. There is another important element which ensures independence of auditors. It is the reporting line of the Chief Internal Auditor. Ideally the CIA should submit his reports to the CEO, the Board of Directors or to the Audit Committee set up by the board as a sub-committee to the board. This will ensure that audit reports will be considered properly and the recommendations and suggestions will be given due weightage.

Audit Committee

There has been audit committees for more than thirty seven years. But recent growth in such audit committees has been associated mainly in the law promoted by several highly publicised corporate failures and dubious corporate practices in the 1960s and as well as more recently. The initial moves were Canadian, influenced by the bankrupting of Atlantic Acceptance which led to legal requirements for corporations to have audit committees. In 1978, audit committees became mandatory for companies quoted on the New York Stock Exchange, and this requirement had considerable impact on a number of UK companies.

In the UK, the growth of audit committees has not been very encouraging until the publication of Cadbury report. "The Code of Best Practices" of Cadbury Report recommends that "the board should establish an audit committee of at least 3 non-executive directors with written terms of reference which deal clearly with its authority and duties." All listed UK companies are supposed to follow the Cadbury Code of Best Practice. Therefore, the company should have an audit committee which will coordinate both internal auditing and external auditing and act as an advisory body to the

board and management as a whole.

Ideally an efficient audit committee can—

1. assist directors in their legal obligations.
2. encourage higher quality accounting and audit.
3. provide more credible and objective financial reporting,
4. provide more coordinated approach to internal and external auditing,
5. improves contact between auditors, directors and management,
6. strengthens audits independence, and
7. provides a central focus for future organisational survival.

Moreover, once established in the company, the audit committee will be able to provide more services to the company that these listed above. Certainly the existence of audit committee in a company elevates the position of the company and enhances its corporate courage which is very valuable for future business of the company.

Training for the Auditors

The objectivity, independence and professional proficiency of the internal auditors are very crucial. Usually courage, integrity and line of reporting are essential elements or independent and objective audit work. But without appropriate professional knowledge and skills those elements are of no use. So it is very important for internal auditors should possess the knowledge, skills and disciplines essential to the performance of internal audits. It is also important that internal auditors should maintain their technical competence through continuing education.

Traditionally, fresh Chartered Accountants were used to be recruited for internal auditing job. But as the scope and area of internal auditing expanded, internal auditors are required to have multi disciplinary and technical skill to efficiently review, examine and evaluate and recommend on various types of activities of today's organisations and companies.

Therefore, our company should draw up a plan for training the existing auditors to improve and update auditing skills and in other technical and operational aspects of the company so that they can review the systems more confidently and more efficiently. The ideal place would be at the IIA—UK. The syllabus and the standard of training is very comprehensive and would be very appropriate for our kind of company. There should be also future plan to continuously training the auditors after a regular intervals of time. This will keep them absent with the developments and changes in the business environments everyday.

Conclusion

World over, no company could grow and survive without an effective internal control system and an efficient internal auditing department. Fortunately we have both. What we need now is to revamp both by reviewing the whole systems, establish an audit committee and impart proper training to internal auditors. All these steps will ultimately add value to the company and ensure its survivability.

SYSTEMATIC APPROACH TO TRAINING SAI PERSPECTIVE

Md. Abul Kashem*

In most of the developing countries, supervisors and managers often send their employees to training courses as a "perk", a reward for good service. Training staffs are accountable for the design and delivery of workshops, with little or no time available for need analysis or evaluation. Transfer of knowledge and skills back to the work place is unknown. There is no clear linkage between organizational needs, job performance needs and learning needs. Without such linkage, it is understandable that management is often unenthusiastic about training program. This leaves the training function vulnerable to budget cuts and adds fuel to the common perception that training is little more than a company sponsored vacation. All these functions made the job of training specialists difficult and they had to develop an effective training approach. Thus emerged the systematic approach to training (SAT).

Systematic approach to training divides the activities of training specialist into five distinct phases as shown below :

ANALYSIS PHASE	DESIGN PHASE	DEVELOPMENT PHASE	DELIVERY PHASE	EVALUATION PHASE
<ul style="list-style-type: none"> ● Needs Analysis ● Task Analysis ● Evaluation Strategy 	<ul style="list-style-type: none"> ● Learning Objective ● Learning Style ● Motivational Plan 	<ul style="list-style-type: none"> ● Instructor's Guide ● Participant Note ● Case Study ● Role Play ● Exercise ● Visual Aids 	<ul style="list-style-type: none"> ● Climate Setting ● Presentation Skill ● Discussion Leading Skill ● Group Dynamics 	<ul style="list-style-type: none"> ● Reaction ● Learning Transfer ● Impact

Let us have a look at each of these five phases.

* Chief Accounts Officer, Ministry of Works & Water Resources. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

- 1) ANALYSIS PHASE : involves gathering information regarding organizational needs, analyzing that information and determining if training is really required and if so, what kind of knowledge and skills are necessary to meet the needs of its staffs.
- 2) DESIGN PHASE: involves designing and constructing the appropriate training strategy - learning style & preferences, theories and models of motivation and adult learning principles. Here learning objectives, learning style and motivational plan are to be worked out.
- 3) DEVELOPMENT PHASE: is the actual preparation of course materials. These include instructor's guide, participants note, case study, role play, exercise, visual aids etc.
- 4) DELIVERY PHASE: involves climate setting, presentation skills, discussion leading skills etc.
- 5) EVALUATION PHASE: includes assessment of training given to the participants.

ANALYSIS PHASE

Needs Analysis

A specific training course may be indentified by :

- Management.
- Training Committee.
- Training Specialist.

But before starting the course, Needs Analysis is to be carried out for assessing the needs.

"There is no alternative to training" - says a proverb. So there is a scope for training which sharpens the individual faculty and results in better management of things in the desired direction. This focuses the needs for training. Good training is based on sound analysis. Needs Analysis for an audit training course is linking the request for training to priority SAI needs.

There may be variety of reasons, which can be categorised as either Reactive or Proactive. Training may be provided in reaction to SAIs problems : poor performance, poor quality of works, increased cost and so. In proactive situation, training is provided to meet the anticipated changes, bringing a change to the way people do thing. Moreover, the objective of Needs Analysis is to determine if training is the appropriate strategy to address organizational needs. Training is generally considered a business overhead, not a business partner. So to be effective, training provided to the employees, must be tied clearly and directly to organizational needs & priority. In other words, expected organizational impacts should be clearly articulated beforehand.

When searching for organizational needs, it can be seen that organizational needs tend to be related to finance, reputation or effectiveness. Financial needs involves cost, such as money, time or materials. A training programme that results in cost saving for SAI have priority over training that does not. Reputational needs includes credibility, reputations and how the SAI is perceived by citizens, by law makers and auditees. A training program that enhances the reputation & credibility of aduit staff would be meeting this type of organizational needs. Effectiveness have to do with actual mandate of SAI & its ability to fulfill that mandate. In other words, changing technologies, broader mandate, higher expectations, more complex legislation & diverse institutions require that employees in audit institutions continually upgrade their professional skill.

For SAI, training needs are to be viewed from its own point of view. Training needs can be assessed by gathering data on what organizational need should be & what it is and identifying a discrepancy / gap in the performance of SAI staff. Again "current" and "desired" job performance should be focussed. Work environment is to be examined to assess whether or not performance gap is caused by something other than lack of knowledge and skills. The following example shows how to analyse training needs of SAI.

	What should be	What is
SAI Needs	<ul style="list-style-type: none"> ● Reduce cost of Audit ● Full demonstration ● In depth analysis ● Professional image ● Improved audit reports 	<ul style="list-style-type: none"> ● High cost to conduct Audit ● Poor Documentation ● Loss of credibility
Job Performance	<ul style="list-style-type: none"> ● Good preparation ● Effective questions ● Handle conflicts ● Documentation strategy 	<ul style="list-style-type: none"> ● Poor preparation ● No probing ● Fear of conflicts ● Poor documentation

TASK ANALYSIS

When it is decided that training is necessary, then the course (TASK) is to be analyzed. Task analysis is the examination of how a task (course) should be done on the job. This includes identifying the exact steps involved in performing the task, the sequence in which the steps are performed, the tool or other job aids used in performing the task, the standards of performance expected on the job and the conditions under which the task is performed and by whom evaluated.

DESIGN PHASE

In designing effective training course for SAI the most important thing is the question of learning style. SAI training / learning programme is to be based on adult learning style. Adult learning is practised by using (4 steps) experiential learning model.

- Experience through our senses.
- Individual reflection & analysis
- Generalization or forming theories.
- Application or testing new knowledge.

To be effective, a training course / lecture should be based on 9 step design model which is as follows :

1. Session Overview: The instructor provides an overview of entire session in the step.
2. Learning objective: At this step the instructor informs participants about what is to be learned for use on workplace during the course / class.
3. Basic concepts: All necessary and relevant definitions of terms & concepts to be used in the session are to be discussed at this stage.
4. Experience: The instructor involves the learners in the learning process through the senses. It may be a lecture or a case study or role-play or an exercise of real life situation that the learner's had experienced.
5. Reflection: This step provides an opportunity for learners to reflect on the experience as shown in step 4.
6. Generalization: At this stage the instructor encourages learners to share their observations on the experience they had in step 5 & to find common themes to form conclusions.
7. Application: In this step the instructor provides ways in which learners are required to use or apply their new knowledge in a realistic way.
8. Evaluation: Tests of any type be held to ensure that all learners have achieved the learning objective as designed in step 2.
9. Summary: In this stage the instructor highlights key points of the session & draw the session to a close.

DEVELOPMENT PHASE

As soon as the design phase is complete, then comes the question of development stage. Development phase involves the preparation and development of course materials. Materials typically included in

most training workshops are instructor's guide, participant notes (Lecture note given to the participants), exercise, hand- outs, case studies and required reference materials. Materials for participants should be complete, easy to use, and useful for future reference. Overhead transparencies will enhance the learning process - as will other audio visual aids.

In the series of sessions that make up the Development phase, all principles of adult education will have to be applied. The materials to be developed will provide an opportunity to reflect and build on past experiences in order to link these experiences to training related activities. The course designer will have to be on guard that the methodology has variety and encourages participation. At the same time, the designer will be trying to introduce realism to enhance that all course materials & activities are relevant to the course objectives. As for methodology, the Development phase will have fewer lectures & be more participative using exercises & guided discussions to elicit much of the content. Thus, to a great extent, the instructor will serve as the guide who structures the information that has been elicited & links it to course content. Participatory learning process can be ensured by designing the Instructor's Guide.

Instructor's guide is actually the session guide. It describes the total action of the instructor - what he will tell, how he will tell, how much he will tell, what is to be asked, what is to be explained and so. An example of Instructor's guide is given below.

to where we stated- at the organizational level. This part of evaluation strategy occurs well after the training is complete. It assesses the impact of the training on the organization. If it is seen by the evaluation strategy that (1) participants liked the course, (2) they learned (i.e. they met the course objective) (3) they used what was learned & retained their learning, then it can be taken that the impact is visible and that training has made a positive effect on the organization and thereby enhancing the image of the organization.

Principles of learning adults are to be kept in mind. Conceptual knowledge, understanding people, and understanding group are also important. Delivery phase is actually the teaching, training or educating phase. The act of teaching, training or educating is synonymous with offering instruction. Successful result - oriented instruction depends on

- addressing learners needs and expectations
- using effective platform skills;
- applying principles of adult learning;
- taking advantage of learning conditions;
- using exercises and examinations skillfully so that learners can apply what they learn;
- anticipating and helping overcome problems with transferring learning to the job;
- motivating learners;
- building and sustaining interest;
- stimulating many senses to aid retention;
- repeating key points to aid retention even more;
- providing for as much learner participation as possible;
- explaining why the information (or experience) is or will be useful to learners.

The author attended a course on "Course Design & Development Course" in Bangkok. The present article is based on that course

EVALUATION PHASE

There are 3 questions to be answered in evaluation phase - did the participants like the training ? did participants transferred what they learnt back to the workplace ? & did the training that was provided meet the organizational needs ? Evaluation of learning is done during & at the end of the training. Tests, written or oral, are a good way to evaluate if someone has gained new knowledge. Role plays & case studies are ways to assess interpersonal skill & problem-solving. Demonstrations provide the means to assess skills. The learning objective prepared in the Design phase act as the primary evaluation strategy.

AN INSIGHT INTO THE C&AG (ADDITIONAL FUNCTIONS) ACT, 1974

Mohammad Muslim Chowdhury*

INTRODUCTION

The objective of this paper is to give a brief historical background of powers and functions of the Auditor General, trace the source of the present legal framework under which the Comptroller and Auditor General works and analyse the existing statutes comparing those with the statutes which existed before emergence of Bangladesh as an independent country. Finally, a draft Act is suggested by eliminating the anomalies, inconsistencies found in the existing statutes.

It is held that even in the absence of specific legislation as regards authority to carry out VFM audit / investigation, the Comptroller and Auditor General may go ahead with VFM audit on the basis of a requirement to see that expenditure has been incurred with due regard to the avoidance of waste and extravagance. But a specific legislative provision in this regard will certainly strengthen the position of the Supreme Audit Institution of Bangladesh.

Hence, in the draft act a new provision is suggested for Value For Money (VFM) audit to promote economy, efficiency and effectiveness in the use of public money by strengthening Parliamentary control and supervision of expenditure of such money.

HISTORICAL BACKGROUND OF POWER AND FUNCTIONS OF COMPTROLLER & AUDITOR GENERAL

In British India

The powers and functions of C&AG were derived in mainly from the provisions of sections 166 to 169 of the **Government of India Act, 1935**, a Constitutional Act under which he was entrusted, subject to

* A member of BCS : Audit and Accounts Service, now on Study leave. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

certain specified reservations, with the duty of keeping the accounts of the Central Government and of the Provinces and of auditing those accounts. **Government of India (Audit and Accounts) Order, 1936**, an Order in Council, issued under Section 166 of the Government of India Act, 1935 detailed the powers and functions of C&AG in relation to the accounts of the Central Government and of the provinces and audit of those accounts.

The Government of India Act, 1935 of Government of India (Audit and Accounts) Order, 1936 remained silent in respect of the audit by the Auditor-General of the accounts of local authorities and public or quasi-public bodies. The audit of accounts of local authorities and public or quasi-public bodies by the C&AG were in force only by consent between him and the Governor General.

In Pakistan

As a legacy, the same situation prevailed, more or less, in the then Pakistan until emergence of Bangladesh as a sovereign and independent country. **The Government of India Act, 1935** was adopted; **Pakistan (Audit and Accounts) Order, 1952**, was issued incorporating almost all the provision of **Government of India (Audit and Accounts) Order, 1936**.

In Bangladesh

The office of the Comptroller and Auditor General is established under Bangladesh Constitution and appointment, condition of service, powers and functions of the Comptroller and Auditor-General in relation to audit of accounts of the Republic are incorporated in Article 127 to 132 in Part VIII of the Constitution (Pl. refer to note-a).

Powers and functions of Auditor General in relation to keeping accounts of the Republic [section 3(1)] and provision for relieving him of responsibility for the keeping of the accounts of particular class or character [section 3(2)] are made through enactment of the

Comptroller and Auditor General (Additional Functions) Act, 1974
(Pl. refer to note-c).

Section 5 of this Act gave legal mandate to the audit responsibility of the Auditor General in respect of audit of accounts of local authorities, statutory public authority, etc. which was previously done by the Auditor General on consent basis; this section certainly strengthened the position of the Auditor General in regard to audit of accounts of statutory public authorities, public enterprises, corporation and local authorities.

COMPARISON OF PRESENT STATUTES WITH THE STATUTES WHICH EXISTED BEFORE INDEPENDENCE OF BANGLADESH

Though the Audit and Accounts Order, 1952 was repealed by the C&AG Additional Functions Act, 1974 [vide, section 12], as will be seen later, many a provisions were extracted from the Order and embedded in the Act, with minor modifications here and there. In some cases these modifications were not seamless, consequently they turned many provisions in the Act confusing, inconsistent, impracticable and even making some of them meaningless.

For convenience of discussion and making the comparison more meaningful, relevant paragraph of the Audit and Accounts Order, 1952 (now repealed) is quoted; below which similar section of the C&AG Additional Functions Act of 1974 is also quoted. Then rule position of the two statute compared and contrasted. Finally, if the inconsistency is established, proposed amendment to the respective section of the Act is suggested.

1. Provision in regard to keeping of Accounts

Para 11(1) of the Audit and Accounts Order, 1952

", the Comptroller and Auditor General shall be responsible for the keeping of the accounts of the Federation and of each Province, other than the accounts of the Federation

relating to Defence or Railways"

Section 3(1) of the Additional Functions Act, 1974

"Keeping of Government Accounts ... (1), the Auditor General shall be responsible for the keeping of the accounts of the Government."

1.1. Comparative rule position in two Statutes

It can be seen that in para 11(1) of the Order, the Auditor General was not made responsible for keeping accounts of the Federation relating to Defence and Railway. The idea of separation of accounts and audit in these departments can be reinforced by quoting a segment of Para 53 of the Manual "**An Introduction to Accounts and Audit of the Government of Pakistan**" issued under the authority of Comptroller and Auditor General of Pakistan, in 1952,

"..... . Separation of Accounts from Audit has, however, been definitely established in the case of Railway Accounts and brought into force as a permanent measure, while in the case of the Defence services, the accounting authorities have never been really subordinate to the Auditor General except for the short period from 15-8-1947 to 30-6-1949. The system of "separation" in these departments has been completed by an arrangement under which the Auditor General performs his statutory audit duties by means of a test audit of the independently compiled accounts through a separate audit staff."

The same working arrangement still prevails in these two departments, with an exception made in the area of personnel management by combining three accounts service cadres into one. These departments still prepare their own Appropriation Account, follow their own departmental account code and maintain all accounts including the Public Account showing their Debt and Remittance head balances in their own book.

Every year end, these two departments send finance account materials in the form of working sheet to the Controller General of Accounts to compile Finance Account of the Republic on behalf of the Auditor General.

Hence, it is evident that section 3(1) of the Act needs to be amended to make the provision consistent with the situation actually prevailing.

1.2. Suggested Amendment

This section may be amended as follows:

Section 3(1)

"Keeping of Government Accounts. ... Subject to the provisions of sub-section (2), the Auditor General shall be responsible for the Keeping of the accounts of the Government other than the accounts of the Government relating to Defence or Railway."

2. Provision for relieving the Auditor General of responsibility for the keeping of the accounts of any particular class or character.

Para 11(3) of the Audit and Accounts Order, 1952

"The President may after consultation with the Comptroller and Auditor General make provisions by rules relieving the Comptroller and Auditor General of responsibility for keeping accounts of any particular class or character."

The President accordingly made **The Initial and Subsidiary Accounts Rules** under the above sub-paragraph (Please see the Rules in note- b).

Section 3 of the additional Functions Act, 1974

"(2) The Auditor General, Shall not be responsible for the keeping of....

- (a) initial accounts that may be required to be kept in the treasuries; and

(b) initial and subsidiary accounts, of stores and stock, manufacturing, trading and profit and loss accounts that may be required to kept by any Ministry, Division or office of the Government."

2.1. Comparative rule position in two Statutes

Closer scrutiny reveals that by abrogating **The Initial and Subsidiary Accounts Rules** and extracting bits and pieces from the rules in the above section of the Act, the main essence of the rules is lost.

The following are the examples:

Rule 3(b), (c) & (d) (please see the rules in Appendix) nicely combined into one in clause (b) of Section 3(2) of the Act above, but the word "Ministry" and "Division" should be replaced by the word "Department" because being a policy making organ of the Government no Ministry or division keep any initial and subsidiary account nor it prepares any manufacturing, trading account, profit & loss account and balance sheet but Department or Office may have and required to keep all these accounts.

The word "Balance Sheet" is not at all mentioned in clause (b) of sub-section 2 of section 3 of the **Additional Functions Act, 1974**. How can an office or a department prepare manufacturing, trading, profit and loss account without being followed by Balance Sheet?

Rule 4 of the Initial and Subsidiary Accounts Rules (please refer to the rules in note-b) is altogether omitted from the Act. But this is an important provision because Art. 131 (Please see note-a) of Bangladesh Constitution under which Auditor General prescribes the forms and manner of the public accounts of the Republic, is the main account of the Government (Finance Account, to be more precise). As far as the initial account is

concerned, the Auditor General deriving his power from rule 4(b) of the **Initial and Subsidiary Account Rule** issued **Account Code Volume II & III** (for treasury and departmental accounts), but by not extracting this rule contents in the **Additional Functions Act, 1974**, the source of power is lost in the process. Things should be put on the right track immediately by inserting this rule content in the Act, before being too late.

2.2 Suggested Amendment

Taking into consideration, the above missing points, **Section 3(2) of the Additional Functions Act, 1974** in the amended form will look like as follows:

Section 3

"(2) The Auditor General, shall not be responsible for the keeping of--

- (a) initial accounts that may be kept in treasuries; and
- (b) initial and subsidiary accounts, accounts of stores and stock, manufacturing, trading and profit and loss accounts and balance sheets that may be required to be kept in any office or department of the Government.

(3) Nothing contained in sub-section (2) above shall be construed as derogating from the authority of Auditor-General --

- (a) to require any treasury, office or department keeping initial or subsidiary accounts to render accounts of such transactions as are included in them to the audit and accounts offices under his control on such dates as he may determine; or
- (b) to prescribe the form in which such accounts shall be rendered and in which the initial accounts, from which

the accounts so rendered are compiled or on which they are based, shall be kept."

3. Provision in regard to preparation of Appropriation Accounts and Finance Account

Para 11(4) of the Audit and Accounts Order, 1952

"The Comptroller and Auditor General shall, from the accounts kept by him and by other persons responsible for keeping public accounts, prepare in each year accounts (including in the case of accounts kept by him, appropriation accounts) showing the annual receipts and disbursements for the purpose of the Federation and of each province, distinguished under the respective head thereof and shall submit these accounts to Federal Government, or as the case may be, to the Government of the Province on such dates as he may, with the concurrence of the Government concerned, determine."

Section 4 of the Additional Functions Act, 1974

"Preparation of appropriation and finance accounts-- The Auditor General shall from the accounts kept by him and by other persons responsible for keeping public accounts (inserted by amendment ordinance, 1983), prepare annually appropriation accounts and finance accounts showing disbursements or as the case may be, the annual receipts and disbursements for the purposes of the Government, distinguished under the respective heads thereof, and shall submit these accounts to the President on such dates as he may, with the concurrence of the President, determine."

3.1 Comparative rule position in two Statutes

The two provision mentioned above, apparently though look same, a flaw is made in section 4 of the Additional Functions Act, 1974 by inserting the part sentence "by other persons

responsible for keeping public accounts" through Amendment Ordinance, 1983 before the expression "Prepare annually appropriation accounts". How can the Auditor General prepare Appropriation Account from the accounts which is not kept by him? He can only discharge his statutory audit responsibility by certifying the accounts and actually he does certify the Appropriation Account (but not prepare) in case of Railway and Defence.

3.2. Suggested Amendment

This flaw in the law can be eliminated by amending this section and the amended section may look as follows:

Section 4

"Preparation of appropriation accounts and finance accounts-- The Auditor General shall from the accounts kept by him and by other persons responsible for keeping public accounts, prepare annually (including in the case of accounts kept by him, appropriation accounts) finance accounts showing the annual receipts and disbursements for the purpose of the Government, distinguished under the respective heads thereof, and particulars of its balances and outstanding liabilities and containing such other information as to its financial position and shall submit these accounts to the President on such dates as he may, with the concurrence of the President, determine."

4. Preparation of Commercial Accounts

No such provision was made in the **Audit and Accounts Order, 1952**. But a provision was there for audit of commercial accounts kept in any Government Department outside the regular Government account on *Proforma* basis (not to be confused with commercial accounts maintained by statutory public authority, local authority etc.).

Para 13 (iii) of the Audit and Accounts Order, 1952

"to audit all trading, manufacturing and profit and loss accounts and balance sheets kept by order of the President or of the Governor of a Province in any department of the Federation or of the Province".

Section 6 of the Additional Functions Act, 1974

"The Auditor General shall prepare annually, after audit, commercial accounts on the basis of manufacturing, trading and profit and loss accounts, balance sheets and any other accounts that are kept by the Ministries, Divisions and offices of the Government, statutory public authorities and local authorities".

4.1. Comparative rule position in two Statutes

This section of the **Additional Functions Act, 1974** suffers from following drawbacks:

1. Statutory Public Authorities, Local Authorities, Corporations, Public Enterprises are distinct legal entity and financially independent of the Government under respective statute or ordinance and prepare their own commercial accounts. Auditor General under authority derived from section 5 of the **Additional Functions Act, 1974** audits and reports on those accounts. In Section 6 again requiring him to prepare Commercial Accounts (for keeping of which he is not at all responsible), after audit, of these legally independent institutions virtually compromises the independence of the Supreme Audit Institution as external auditor of those institutions.
2. If the Auditor General is pressed to comply with requirement of this faulty section of the law, just for the sake of compliance, scarce public resources in the form of human resources and other incidental costs will be wasted for this

duplicate work without any tangible benefit derived from such work, which might not be the intention of the legislature.

4.2. Suggested Amendment

To put this section on a logical footing it may be replaced by the following amended section:

Section 6

"The Auditor General shall audit and report on all manufacturing, trading, profit and loss accounts and balance sheets and any other accounts that are kept in any office or department of the Government".

5. Preparation of General Financial Statement.

Para 12 of the Audit and Accounts Order, 1952

"It shall be the duty of the Comptroller and Auditor General to prepare annually in such form as he, with the concurrence of the President, may determine, and to submit to the President a general financial statement incorporating a summary of the accounts of the **Federation and of all the Provinces** for the last preceding year and particulars of their balances and outstanding liabilities and containing such other information as to their financial position as the President may direct to be included in the statement."

Section 7 of the Additional Functions Act, 1974

"The Auditor General shall prepare annually in such form as he may, with the concurrence of the President, determine, and submit to the President, a general financial statement incorporating a summary of the accounts of the **Government, statutory public authorities and local authorities** for the last preceding year and the particulars of their balances and

outstanding liabilities and containing such other information as to their financial position as the President may direct to be included in the statement."

5.1. Comparative rule position in two Statutes

Para 12 of the Audit and Accounts Order, 1952 clearly explained the requirement of the law. In Federation concept, as far as the financial administration was concerned, every province of the erstwhile Pakistan had its own separate Consolidated Fund as well as Public Account. The Central Government had also separate Consolidated Fund and Public Account. Consequently, every Government required to prepare separate Finance Account.

During Pakistan time, three Finance Accounts (one for East Pakistan, one for West Pakistan and one for Central Government) were required to be prepared by the Auditor-General. Statement for the country as a whole was necessary to depict the picture of the financial position of the whole country in one statement. This statement was nothing but replication of three finance accounts in one statement under four columns (two for two Province, one for Central and one for total) to show and compare the financial position of the Provinces vis a-vis Central Government. This statement was known as **General Financial Statement** and used to provide in one document valuable information to the legislature, decision makers, planners as regards to the finance of each Province and Central Government including their financial assets and liabilities position at the end of every year.

"..... This General Financial Statement shall otherwise be known as the **Combined Finance and Revenue Accounts** of the Central and Provincial governments in Pakistan. These accounts which shall be so designed as to present the accounts of all the

governments in Pakistan on a common and comparable basis shall be made up of (1) the General Accounts and (2) the Subsidiary Accounts and shall be prefaced by an introductory note in which a brief and general description of the structure of Government accounts shall be given in addition to the brief historical survey of the stages leading upto the existing financial and accounting system"--(Article 277, Account Code Vol.-IV and also Article 18, Account Code Vol. 1).

After emergence of Bangladesh as an independent country, due to its unitary nature of Government, the necessity for preparation of general financial statement ceased to exist. But for unknown reasons, this requirement is kept in the Additional Functions Act, 1974. Section 7 of the Act made the requirement more complicated by asking to incorporate accounts of Government, statutory public authorities, local bodies in one document. It is seen in the preceding para that the spirit behind preparation of general financial statement was to present accounts of all the governments in Pakistan (erstwhile) on a common and comparable basis; and the information reflected through the statement was meaningful because of uniform accounting policies, bases followed by all the governments in maintaining their accounts.

The consolidation of accounts of the Government, statutory public authorities and local authorities in one document is useless on the following grounds:

- 1) Government accounts are on cash basis; on the other hand, statutory authorities etc. follow accrual basis of accounting. So consolidation of accounting information of the Government and other organisations in one statement is meaningless and contrary to generally accepted accounting principles;

- 2) Due to divergent nature of business of different statutory public authorities, local bodies, corporations, public enterprises and adoption of different accounting policy as regards to depreciation methods, valuation of assets etc. Interpretation and comparison of financial information of a bunch of heterogeneous organisations depicted in the so called general financial statement carries no meaning to the legislature for whom it is required to be prepared;
- 3) The accounts of Government are based mainly on the single entry system; on the other hand statutory authorities etc. mostly follow double entry principles. Hence no comparable base exists between this two types of accounts.

5.2. Suggested Amendment

The explanation put forward in the above paras, hopefully made clear the situation and can now safely be concluded that this section has inadvertently found its place in the Act. Auditor General should be relieved of responsibility from preparation of this meaningless statement forthwith. Section 7 of the Act should be deleted with retrospective effect from the date when the Act came into force (16th day of December, 1971).

6. **Government's power to give direction as to make the Act not applicable in respect of any Ministry, Division or Office of the Government.**

Para 11(2) of the Audit and Accounts Order, 1952

"As respect accounts of the Federation the President and, as respect accounts of a Province, the Governor may **after consultation with the Comptroller and Auditor General** make provisions by rules for relieving the Comptroller and Auditor General of responsibility for the keeping of the accounts of any particular service or department."

Section 3A of the Additional Functions Act, 1974 (inserted by amendment in 1983)

"**Expenditure**– The Government may, subject to such condition as may specify therein, direct that all or any of the provisions of this Act shall not apply in respect of such Ministry, Division or office of the Government as it may specify."

6.1. Comparative rule position in two Statute

The rationale behind insertion of *Section 3A in the Additional Functions Act, 1974*, perhaps, was for relieving the Auditor General from responsibility of keeping Government Accounts by phases. Comparative study of **Para 11(2) of the Audit and Accounts Order, 1952** and *Section 3A of the Act* reveals that in the Audit and Accounts Order, 1952, President was given the power to make provisions by rules (and that is also after consultation with the Auditor General) to relieve the Auditor General from keeping Government accounts. This provision upheld the prestige of the Supreme Audit Institution on two counts. Viz, 1) by Presidential Rule and 2) by consultation with the Auditor General. Conversely, *Section 3A of the Additional Functions Act, 1974* gave that power of the Government.

This provision allowing the Government (instead of the President and without consultation with the Auditor General) to direct that all or any provision of this Act may not apply to any Ministry, Division or Office of the Government tantamount to derogation of the authority of the Auditor General.

Section 3A as inserted in the 1983 Amendment appears to conflict with a constitutional provision at least one count as explained below.

Section 11 of the Additional Functions Act, 1974 has given rule making power the Auditor-General in respect of audit runs as follows.

"**Making of rules**– The Auditor General may make rules and give directions in respect of all matters pertaining of audit of any accounts he is required to audit."

By including the word "all" (which certainly includes section 11 above) in **section 3A of the Act**, Government has been given the power to decide which rule made by the Auditor General in regard to audit will be applicable for a Ministry, Division or office; thereby making the Auditor General subservient to the Executive Government in audit matters and curtails the independence of the Auditor General guaranteed by specific provision of the Constitution through Clause (4) of Article 128 which states that the Auditor General in the exercise of the functions as auditor shall not be subject to be direction or control of any other person or authority.

Although this clause (Section 3A), inserted in 1983, may seem to be a logical saving clause, this actually infringes another Section of the same law (Section 11). It may also be mentioned that a delegated legislation (the Ordinance of 1983 in question) should not limit the wide-ranging powers already vested in a person or institution (here the Auditor General) by the Constitution, nor should it create a condition were one provision of the law almost negates another provision of the same law.

6.2. Suggested Amendment

"As respect accounts of the Government, the President may **after consultation with the Comptroller and Auditor General** make provisions by rules for relieving the Comptroller and Auditor-General of responsibility for the keeping of the accounts of any ministry, division, department or service."

Following is the proposed Draft Act which may be considered by all concerned:

DRAFT ACT

An Act to prescribe certain additional functions of the Comptroller and Auditor General

Whereas clause (3) of article 128 of the Constitution of the People's Republic of Bangladesh provides that Parliament may by law require the Comptroller and Auditor General to exercise such functions in addition to those in Clause (1) of that article, as such law may prescribe;

It is hereby enacted as follows :

1. Short title and commencement- (1) This Act may be called the Comptroller and Auditor General (Additional Functions) Act, 19XX.

(2) It shall come into force on the---- day of the----- 19XX.

2. Definitions----

in this Act, unless there is anything repugnant in the subject or context,----

(a) "accounts", in relation to a commercial undertaking of the Government, includes subsidiary accounts;

(b) "appropriation accounts" means accounts relating to expenditure brought into account during a financial year to the several items specified in the Appropriation Act;

(c) "Auditor General" means the Comptroller and Auditor General of Bangladesh;

(d) "Statutory public authority" means any authority, corporation or body the activities or the principal activities of which are authorised by any Act, Ordinance, Order or Instrument having the force of Law in Bangladesh.

(e) "Public enterprise" means a company or firm, whether incorporated or registered or not in which the Government has at least fifty per cent share or interest.

- (f) "Commercial Accounts" means accounts of any commercial undertaking operating within the Government the activities of which are of a commercial or quasi-commercial character and express their financial results by maintaining suitable Capital, Manufacturing, Trading and Profit and Loss Accounts and Balance sheet on a *proforma* basis outside the general accounts of the Government.

3. Keeping of Government accounts —

- (1) Subject to the provisions of sub-section (2), the Auditor General shall be responsible for the keeping of the accounts of the Government other than the accounts of the Government relating to Defence or Railway."
- (2) The Auditor General, shall not be responsible for the keeping of—
 - (a) initial accounts that may be kept in treasuries; and
 - (b) initial and subsidiary accounts, accounts of stores and stock, manufacturing, trading and profit and loss accounts and balance sheets that may be required to be kept in any office or department of the Government.
- (3) Nothing contained in sub-section (2) above shall be construed as derogating from the authority of Auditor General —
 - (a) to require any treasury, office or department keeping initial or subsidiary accounts to render accounts of such transactions as are included in them to the audit and accounts offices under his control on such dates as he may determine; or
 - (b) to prescribe the form in which such accounts shall be rendered and in which the initial accounts, from which the accounts so rendered are compiled or on which they are based, shall be kept.

4. **Preparation of appropriation accounts and finance accounts**—
The Auditor General shall, from the accounts kept by him and by other persons responsible for keeping public accounts, prepare annually (including in the case of accounts kept by him, appropriation accounts) finance accounts showing the annual receipts and disbursements for the purpose of the Government, distinguished under the respective heads thereof, and particulars of its balances and outstanding liabilities and containing such other information as to its financial position and shall submit these accounts to the President on such dates as he may, with the concurrence of the President, determine.
5. **Authority to relieve Auditor General from keeping of Government Accounts**—As respect accounts of the Government, the President may after consultation with the Comptroller and Auditor General make provisions by rules for relieving the Comptroller and Auditor General of the responsibility for the keeping of the accounts of any ministry, division, department or service.
6. **Audit of Accounts of statutory public authorities, etc. —**
 - (1) Notwithstanding anything contained in any other law for the time being in force, or in any memorandum or articles of association or in any deed, the Auditor General may audit the accounts of any statutory public authority, public enterprises or local authority and shall submit his report on such audit to the President for laying it before parliament.
 - (2) For the purpose of any audit under sub-section (1) the Auditor General or any other person authorised by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other property of the statutory public authority, public enterprises or local authority concerned.

7. Audit of Commercial Accounts –

The Auditor General shall audit and report on all manufacturing, trading, profit and loss accounts and balance sheets and any other accounts that are kept in any office or department of the Government.

8. Inspection of certain offices, etc.– The Auditor General shall have authority—

- (a) to inspect any office of the Government which is responsible for the keeping of any account; and
- (b) to require that any books and other documents relating to transactions to which his duty in respect of audit extend shall be sent to such places he may appoint for inspection by him.

9. Authority to carry out Value for Money Audit---

- (1) The Auditor General may carry out examinations/ investigations into the economy, efficiency and effectiveness with any ministry, division, department, authority or body to which his audit jurisdiction applies under clause (1) of Art. 128 of the Constitution and under any section of this Act, has used its resources in discharging its function;
- (2) sub-section (1) above shall not be construed as entitling the Auditor-General to question the merits of the policy objectives of any ministry, division, department, authority or body in respect of which an examination/investigation is carried out. "Policy" in relation to any ministry, division, department, authority or body includes any policy of the Government so far as relating to the functions of that ministry, division, department, authority or body;
- (3) The Auditor General in the exercise of the functions under sub-section (1), shall not be subject to the direction or control of any other person or authority.

- (4) Subject to sub-section (5) below, the Auditor General shall have access to all such documents as he may require for carrying out any examination/investigation under sub-section (1) above and shall be entitled to require from any person holding or accountable for any such document such information and explanation necessary for the purpose.
- (5) Sub-section (4) above applies only to documents in the custody or under the control of the ministry, division, department, authority or body to which the examination relates.
- (6) The Auditor General shall submit to the President report of any examination/investigation carried out by him under sub-section (1) above who shall cause them to be laid before Parliament.

10. Information etc. to be given by the Auditor General to the Government –

The Auditor General shall, so far as the accounts for the keeping of which he is responsible enable him so to do, to give to the Government such information as it may from time to time require, and such assistance in the preparation of its annual financial statement as it may reasonable ask for.

11. Information to be given by the Government to the Auditor General–

The Government shall give the Auditor General such information as he may require for the preparation of any account or report which is his duty to prepare.

12. Making of rules –

The Auditor General may make rules and give directions in respect of all matters pertaining to audit of any accounts he is required to audit including Value For Money (VFM) audit.

13. Repeal and savings--

- (1) The Comptroller and Auditor General (Additional Functions) Act, 1974 (Act., No. XXIV of 1974), the Comptroller and Auditor General (Additional Functions) (Amendment) Act, 1975 (Act, No. XIV of 1975), the Comptroller and Auditor-General (Additional Functions) (Amendment) Ordinance, 1983 (Ordinance No. XXVIII of 1983), hereinafter referred to as the said Acts and Ordinance, are hereby repealed.
- (2) Notwithstanding such repeal, anything done or any action taken, including any order made or direction given under the said Acts and Ordinance shall be deemed to have been done, taken, made, or given, as the case may be, under the corresponding provision of this act.

NOTES

a) CONSTITUTIONAL PROVISIONS AS REGARDS C&AG'S POWERS, FUNCTIONS ETC.

(Extract from the Constitution of Bangladesh)

- Article 127** (1) There shall be a Comptroller and Auditor General of Bangladesh (hereinafter referred to as the Auditor General) who shall be appointed by the President.
- (2) subject to the provisions of this constitution and of any law made by Parliament, the conditions of service of the Auditor General shall be such as the President may, by order, determine.
- Article 128** (1) The public accounts of the republic and of all courts of Law and all authorities and officers of the government shall be audited and reported on by the Auditor General and for that purpose he or any person authorised by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other government property in the possession of any person in the service of the Republic.
- (2) without prejudice to the provisions of clause (1), if it is prescribed by Law in the case of any body corporate directly established by Law, the accounts of that body corporate shall be audited and reported on by such person as may be so prescribed.
- (3) Parliament by Law require the Auditor General to exercise such functions, in addition to those specified in clause (1), as such Law may prescribe,

and until provision is made by Law under this clause the president may, by order, made such provision.

- (4) The Auditor General, in the exercise of his functions under clause (1), shall not be subject to the direction or control of any other person or authority.

Article 129

- (1) The Auditor General shall, subject to this article, hold office until he attains the age of sixty years.
- (2) The Auditor General shall not be removed from his office except in the like manner and on the like ground as a judge of the Supreme Court.
- (3) The Auditor General may resign his office by writing under his hand addressed to the president.
- (4) On ceasing to hold office the Auditor General shall not be eligible for further office in the service of the Republic.

Article 130

At any time when the office of the Auditor General is vacant, or the President is satisfied that the Auditor General is unable to perform his functions on account of absence, illness or any other cause, the President may appoint a person to act as Auditor General and to perform the functions of that office until an appointment is made under article 127 or, as the case may be, until the Auditor General resumes the functions of his office.

Article 131

The public accounts of the Republic shall be kept in such form and in such manner as the Auditor General may, with the approval of the President, prescribe.

Article 132 The reports of the Auditor General relating to the public accounts of the republic shall be submitted to the President, who shall cause them to be laid before Parliament.

b) The Initial and Subsidiary Accounts Rules

In exercise of the power conferred by sub-paragraph (3) of paragraph 11 of the Government of Pakistan (Audit and Accounts) Order, 1952 the President is pleased, after consultation with the Comptroller and Auditor General of Pakistan, to make the following rules:—

1. This rules may be called the Initial and Subsidiary Accounts Rules.
2. In these rules—
 - (1) "Initial Accounts" means a primary record of all money transactions affecting the revenues of the Federation or of any Province as they occur;
 - (2) the "Order" means the Government of Pakistan (Audit and Accounts) Order, 1952;
 - (3) "Treasuries" includes all treasuries and sub-treasuries whether under the control of the Federation or of a Province; and other terms and expressions have the same meanings as have been assigned to them in the Order.
3. Under the rules the Comptroller and Auditor General of Pakistan has been relieved from the responsibility for keeping accounts of the under mentioned class or character:—
 - (a) Initial Accounts required to be kept in treasuries;
 - (b) Initial and Subsidiary Accounts that may be required to be kept in any office or department of the Federation, or as the case may be, of any Province;

- (c) Accounts of stores and stock that may be required to be kept in any office or department of the Federation or of a Province by order of the President or of the Governor of the Province; and
 - (d) Trading, Manufacturing and Profit and Loss Accounts and Balance Sheets and any other Subsidiary Accounts that may be required to be kept by order of the President or of the Governor of a Province in any Department of the Federation or of the Province.
4. Nothing contained in Rule 3 Shall be construed as derogating from the authority of the Comptroller and Auditor General of Pakistan:—
- (a) to require any treasury, or department keeping initial or subsidiary accounts to render accounts of such transactions as are included in them to the audit and accounts offices under his control on such dates as he may determine; or
 - (b) to prescribe the form in which such accounts shall be rendered and in which the initial accounts, from which the accounts so rendered are compiled or on which they are based, shall be kept.

c) COMPTROLLER AND AUDITOR GENERAL (ADDITIONAL
FUNCTIONS) ACT, 1974

Act No. XXIV of 1974

*An act to prescribe certain additional functions of the
Comptroller and Auditor General.*

Whereas clause (3) of article 128 of the Constitution of the Peoples' Republic of Bangladesh provides that Parliament may by Law require the Comptroller and Auditor General to exercise such functions in addition to those clause (1) of that article, as such Law may prescribe;

It is hereby enacted as follows:—

1. **Short title and commencement –**
 - (1) This act may be called the Comptroller and Auditor General (Additional Functions) Act, 1974.
 - (2) It shall be deemed to have come into force on the 16th day of the December, 1971.
2. **Definitions–** In this act, unless there is anything repugnant in the subject or context,—
 - (a) "accounts" in relation to a commercial undertaking of the Government, includes subsidiary accounts;
 - (b) "appropriation accounts" means accounts relating to expenditure brought into account during a financial year to the several items specified in the Appropriation Act;
 - (c) "Auditor General" means the Comptroller and Auditor-General of Bangladesh;
 - (d) "statutory public authority" means any authority, corporation or body the activities or principal activities of which are authorised by any Act, Ordinance, Order or Instrument having the force of Law in Bangladesh.

3. Keeping of Government accounts-

- (1) Subject to the provisions of sub-section (2), the Auditor General shall be responsible for the keeping of the accounts of the Government.
- (2) The Auditor General shall not be responsible for the keeping of-
 - (a) Initial accounts that may required to be kept in the Treasuries; and
 - (b) initial and subsidiary accounts, of stores and stock, manufacturing, trading and profit and loss accounts that may be required to be kept in any Ministry, Division or office of the Government.

4. Preparation of appropriation and finance accounts-

The Auditor General shall, from the accounts kept by him, prepare annually appropriation accounts and finance accounts showing disbursements or, as the case may be, the annual receipts and disbursements for the purposes of the Government, distinguished under the respective heads thereof, and shall submit these accounts to the President on such dates as he may, with the concurrence of the president, determine.

5. Audit of accounts of statutory public authorities, etc.-

- (1) Notwithstanding anything contained in any other Law for the time being in force, the Auditor General may audit the accounts of any statutory public authority or local authority and shall submit his report on such audit to the President for laying it before Parliament.
- (2) For the purpose of any audit under sub-section (1) the Auditor General or any person authorised by him in that behalf shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other property of the statutory public authority or local authority concerned.

6. Preparation of commercial accounts-

The Auditor General shall prepare annually, after audit, commercial accounts on the basis of manufacturing, trading and profit and loss accounts, balance sheets and any other accounts that are kept by the Ministries, Divisions and offices of the Government, statutory public authorities and local authorities.

7. Preparation of general financial statement-

The Auditor General shall prepare annually in such form as he may, with the concurrence of the President, determine, and submit to the President, a general financial statement incorporating a summary of the accounts of the Government, statutory public authorities and local authorities for the last preceding year and the particulars of their balances and outstanding liabilities and containing such other information as to their financial position as the President may direct to be included in the statement.

8. Inspection of certain offices, etc -

- (a) inspect any office of the Government which is responsible for the keeping of any account; and
- (b) require that any book or other document relating to transactions to which his duty in respect of audit extend shall be sent to such place as he may appoint for inspection by him.

9. Information etc. to be given by the Auditor General to the Government-

The Auditor General shall, so far as the accounts for keeping of which he is responsible enable him so to do, give to the Government such information and such assistance in the preparation of the annual financial statement as it may ask for.

10. Information to be given by the Government to the Auditor-General-

The government shall give the Auditor-General such information as he may require for the preparation of any account or report which it is his duty to prepare.

11. Making of rules-

The Auditor-General may make rules and give directions in respect of all matters pertaining to audit of any accounts he is required to audit.

12. Repeal and savings-

- (1) The Audit and Accounts Order, 1952 (G.G.O. No. 9A of 1952), and the Comptroller and Auditor-General (Additional Functions) Ordinance, 1973 (ordXXX of 1973), hereinafter referred to as the said Ordinance, are hereby repealed.
- (2) Notwithstanding such repeal, anything done or any action taken, including any order made or direction given under the said Ordinance shall be deemed to have been done, taken, made or given, as the case may be, under the corresponding provision of this act.

S.M. RAHMAN
Secretary

**d) THE COMPTROLLER AND AUDITOR-GENERAL
(ADDITIONAL FUNCTIONS) (AMENDMENT) ACT, 1975**

Act No. XIV of 1975

An Act to amend the Comptroller and Auditor General (Additional Functions) Act, 1974.

Whereas it is expedient to amend the Comptroller and Auditor-General (Additional Functions) Act, 1974 (XXIV of 1974), for the purpose hereinafter appearing;

It is hereby enacted as follows-

1. Short title and commencement-

- (1) This Act may be called the Comptroller and Auditor-General (Additional Functions) (Amendment) Act, 1975.
- (2) It shall be deemed to have come into force on the 5th April, 1975.

2. Amendment of section 2, Act XXIV of 1974.-- In the Comptroller and Auditor-General (Additional Function) Act, in section 2, after clause (c), the following new clause shall be inserted, namely:-

" (cc) "public enterprises" means a company or firm, whether incorporated or registered or not, in which the Government has at least fifty percent, share or interest:"

3. Amendment of section 5, Act XXIV of 1974.-- In the said Act, in section 5,--

- (a) in sub-section (1),--
 - (1) after the words "being in force", the words "or in any memorandum or articles of association or in any other deed" shall be inserted; and
 - (11) after the words "statutory public authority", the comma and words, "public enterprise" shall be inserted.

4. **Amendment of section 6, Act XXIV of 1974.**-- In the said Act, in section 6, after the words "statutory public authorities", the comma and words, "public enterprises" shall be inserted.
5. **Amendment of section 7, Act XXIV of 1974.**-- In the said Act, in section 7, after the words "statutory public authorities", the comma and words, "public enterprises" shall be inserted.
6. **Repeal and savings-**
 - (1) The Comptroller and Auditor General (Additional Functions) (Amendment) Ordinance, 1975 (ord. XVIII of 1975), is hereby repealed.
 - (2) Notwithstanding such repeal, anything done or any action taken including any order made or direction given under any provision of the Comptroller and Auditor-General(Additional Functions) Act, 1974 (XXIV of 1974), as amended by the said ordinance, shall be deemed to have done, as amended be said ordinance, shall be deemed to have done, taken, made or given, as the case may be under the corresponding provision of the said Act, as Amended by this Act.

e) THE COMPTROLLER AND AUDITOR GENERAL (ADDITIONAL
FUNCTIONS) (AMENDMENT) ORDINANCE, 1983

Ordinance No. XXVIII of 1983

*further to amend the Comptroller and Auditor General
(Additional Functions) Act, 1974*

Whereas it is expedient further amend the Comptroller and Auditor-General (Additional Functions) Act, 1974), for the purposes hereinafter appearing;

Now, therefore, in pursuance of the proclamation of the 24th March, 1982 and in exercise of all powers enabling him in that behalf, the Chief Martial Law Administrator is pleased to make and promulgate the following ordinance:-

1. **Short title-** This ordinance may be called the Comptroller and Auditor General (Additional Functions) (Amendment) Ordinance, 1983.
2. **Insertion of a new section 3A, Act, XXIV of 1974-** In the Comptroller and Auditor-General (Additional Functions) Act, 1974 (XXIV of 1974), hereinafter referred to as the said Act, after section 3, the following new section shall be inserted, namely:--

"3A. Expenditure.-- The Government may, subject to such condition as may be specified therein, direct that all or any provisions of this Act shall not apply in respect of such Ministry, Divisions or office of the Government as it may specify."
3. **Amendment of section 4, Act XXIV of 1974-** In the said Act, in section 4, after the words "kept by him," the words "and by other persons responsible for keeping public accounts" shall be inserted.

H.M. ERSHAD, ndc, psc.
Lieutenant General
Chief Martial Law Administrator

REFERENCES

1. The Constitution of Peoples Republic of Bangladesh.
2. The Comptroller and Auditor General (Additional Functions) Act, 1974
3. The Comptroller and Auditor General (Additional Functions) (amendment) Act, 1975.
4. The Comptroller and Auditor General (Additional Functions) (Amendment) Ordinance, 1983.
5. An Introduction to the Accounts and Audit of the Government of Pakistan, First Edition, 1952 (issued under the authority of Comptroller and Auditor General).
6. Account Code. Vol. 1. First (Bangladesh) Edition. 1983. (Chapter 1 &2, Appendix 1, *ibid.*).
7. Account Code. Vol. IV. 2nd (Pakistan) Edition. 1965. (Chapter 21).
8. Audit Code. First Edition, 1959. Reprint (Bangladesh) 1975 (Section II).
9. National Audit Act, 1983. United Kingdom.

COMPTROLLER AND AUDITOR GENERAL'S REPORT : AN ANALYSIS

Dr. Riazur Rahman Chowdhury*

INTRODUCTION

Government departments and agencies account for the activities and stewardship of public resources under their control and the Comptroller and Auditor General (C&AG) has the responsibility to report on the adequacy and validity of any such account. Therefore, the C&AG audit report can be considered as one which may be used to provide accountability (Jones and Bates, 1990, p. 286). The following statement by Normanton (1966, p. 159) is appropriate to highlight the importance of CAG audit reports for Bangladesh:

"In a society in which informed criticism is increasingly rare, the few prime sources of impartial reporting and comment based upon inside information are therefore of special value. The list is a short one and high upon it must figure the published reports of the state audit."

The C&AG report is considered an important element in the process of Parliamentary control of the public sector enterprises in Bangladesh. The importance of the C&AG audit report is evidenced by the Constitutional empowerment of the C&AG to audit the public sector enterprises. Each audit directorate of the C&AG office is responsible for the preparation of its own audit report which is submitted with the sign and seal of the Comptroller and Auditor-General to the President of the People's Republic of Bangladesh to be placed before the Parliament. The Constitutional requirement makes the Public Accounts Committee (PAC) members the principal users of the C&AG report. The International Funding Agencies (IFA) operating in Bangladesh have a special arrangement with the C&AG

* Assistant Professor, Department of Accounting, Faculty of Business Studies, Dhaka University. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

department to have their financial activities examined by the C&AG auditors. However, such reporting by the C&AG does not have Constitutional support, and hence, not legally obligatory.

A selective analysis of the audit reports issued by the Comptroller and Auditor General of Bangladesh was undertaken with a view to finding out the perceptions of both C&AG auditors and the two user groups of C&AG audit reports about the usefulness of the information communicated to user groups and the format of the reports used. This analysis is based on extensive interviews with concerned officials of both the C&AG audit directorates and the users of the C&AG audit reports. For each directorate, the last report discussed by the Public Accounts Committee (PAC) was chosen. Two audit paragraphs were selected from each report and shown to the Director and field auditors from the relevant audit directorate. The PAC members responded to all the directorate reports except the Foreign Aided Projects Directorate report (The report issued by the Foreign Aided Projects Audit Directorate is not submitted to the PAC). The representatives from the International Funding Agencies (IFA) responded to the paragraphs related to the report issued by the Foreign Aided Projects Directorate only.

Discussion on C&AG Report

The Comptroller and Auditor General's report for each audit directorate is published in one volume containing sections for all audited entities under a particular Ministry. As a result, the audit directorates have a general format of reporting which applies to all entities. General preface and introduction sections were provided in every report. The analysis of selected C&AG reports revealed the following.

1. The preface contained Constitutional and legal support for the C&AG audit and the types of public sector organizations under C&AG audit.

2. The introduction contained a brief description of the systems of financial statements, such as manufacturing, trading, profit and loss accounts and balance sheet and the main points of consideration from these financial statements. No description was provided of the general government accounts which formed a major basis of the C&AG audit.
3. Summarized lists of findings were provided for each audited entity. The findings were generally of a financial nature and the resulting consequences. The effectiveness of the communication of findings was somewhat restricted due to the non-disclosure of reasons underlying a particular problem area. For example, it was often stated in the reports that net profit had fallen due to the increase in expenditures, without mentioning the reasons for such an increase.
4. The recommendations contained in the C&AG report were generally found to be conventional. For example, when actual gas supply fell short of the quantity targeted, the report contained recommendations that supply should be increased to achieve the target. This sort of highly conventional recommendation was possibly the consequence of the general level of findings that preceded such recommendations which might have been the result of a lack of understanding of the operational procedures of the audited entity on the part of the C&AG auditors.
5. Supporting data were provided in the form of annexure to the reports containing a brief financial round-up based on the entity's manufacturing, trading, profit and loss account and balance sheet. In other words, the annexure contained statement of accounts in an abridged form,
6. The main considerations stated in the introduction section of the C&AG report were not addressed in the actual report - for

example, whether the total expenditure of the entity was commensurate with its size and overall position; whether the large addition of fixed assets were justifiable for the concerned enterprise; and whether the accumulation of stocks was justified and the accumulation of unnecessary stocks minimized. These points were not highlighted in the C&AG reports.

The analysis showed that significant differences in perceptions existed between the C&AG auditors and the users of the reports in respect of the format of the audit report and the usefulness of information provided. The analysis suggested that in every instance the auditors were more inclined to agree with the statement that the dimension was useful than the Members of Parliament who on the whole disagreed. A similar overall pattern but with stronger disagreement was exhibited by the representatives of the International Funding Agencies (IFAS). There were significant differences in perceptions between the C&AG auditors and the IFA representatives in respect of both the format of the report and the usefulness of the information provided. A discussion on how each of the three groups responded to the two important dimensions of the C&AG report now follows.

C&AG Auditors

The C&AG auditors expressed their general agreement on the usefulness of both the format of the reports used and the information provided to the two main user groups. However, they accepted the fact that due to a number of constraints faced by the C&AG office, namely, limited audit scope, limited time allocated for audit, shortage of staff and other logistical support, the audit and reporting functions performed could also be affected. But the absence of any serious criticism from the user groups so far implied that they were performing at an acceptable level. They said that the delay in reporting was not their responsibility alone and the users appreciated this fact.

The field auditors felt more strongly than their superiors having decision making authority about the usefulness of the information provided that they did about the adequacy of the format of the reports. The explanation for this could be that the field auditors had direct involvement in the information appearing in the audit reports; whereas the format was designed by their superiors. Although on such pattern could be detected in the response given by the decision making auditors, overall, they felt a bit more strongly than the field auditors in respect of the adequacy of both the dimensions. The explanation for this could be that as top level decision makers, the directors of audit directorates were more protective of their organization's image. However, there were instances where the directors laid more emphasis on the need to improve audit at the field level, commenting that in some cases the field auditors raised objections without explaining the nature of the problem.

Some of the field auditors in their turn remarked that there was a lack of effective supervision by their superior auditors in some cases which affected the audit function. The field auditors commented that under the present audit system, they were required to conduct test audit on certain areas due to lack of time and shortage of manpower. They felt that this resulted in limiting the effectiveness of the audit function. They favoured the report format being more flexible. The field auditors suggested that there was scope to improve the decision usefulness of the C&AG audit reports by cutting down on routine findings and communicating precise information to the users.

The decision making auditors commented that the PAC did not ask them for information on specific areas and that they had to decide applying their own judgement. It was also pointed out that political considerations often prevailed over economic rationale; for example, a certain government entity obtained a moratorium from the Finance Ministry not to charge depreciation for a number of years, thereby understating losses which were running at approximately Taka 150

crore. They remarked that at the end of the day if the users were not serious about the information provided, no matter how developed the format of the report was or how good the analysis was, it would not improve the present situation. The auditors expressed their opinion that they were also providing information to the IFAs which was largely fulfilling the requirements given to them by the IFAs.

Public Accounts Committee

The PAC members were mostly critical of the length of the audit reports. They viewed these reports as being unnecessarily long mostly with routine and unimportant findings and observations. Some of the MPs commented that the usefulness of the reported information was restricted because of the limited time spent on audits by the C&AG auditors. They also said that the delay in reporting to the PAC on the affairs of the public sector enterprises caused the usefulness of the information to be reduced as it became very difficult to hold responsible officials to account who may no longer be in the same department or even in the service. An example was cited to highlight the point whereby a loss of stock worth Taka 6 lakh was reported after 10 years of its occurrence with the C&AG recommendation that the loss be written off. Another major area of criticism was the lack of management performance related information, lack of information regarding the extent to which objectives of the public sector enterprises were achieved and the viability of the objectives pursued, for example, whether the public money spent was worth the benefits derived.

The MPs observed that in many cases the information provided did not portray the actual situation. This required the PAC members to initiate further investigations on their own accord to arrive at a conclusion. This was not an ideal situation as the PAC members themselves were constrained by a huge backlog of reports. They commented that the reporting language was often not lucid enough to encourage easy reading. Insufficient background information

about a problem area prevented the explanation of the problem clearly and succinctly. Also, insufficient information was given about the enterprise and its management and the importance and nature of the audited entities. The MPs felt that the C&AG auditors needed to be trained to report effectively to the PAC to improve their understandability and facilitate decision-making. The wordings of the C&AG audit reports could have significant impact on the perceptions of the users in such important areas as what the auditors are responsible for communicating through audit reports and what the auditors are not responsible for and therefore do not communicate to the users through the reports.

The PAC members generally considered that there was a dearth of skilled audit staff, especially at the field level. This often resulted in trivial matters being reported and important aspects of the audited entity's affairs being left out. A number of examples were cited to highlight this point. First, it was not brought to the attention of the PAC that excess money was being spent by the audited entity over its budget allocation but this was not subsequently presented to the House for re-appropriation to regularize the excess spending. Second, the fact that money was allocated in the budget for a certain group of professionals who were no longer in the service was never reported by the C&AG auditors. Third, auditors failed to detect, because of their lack of familiarity with the system, the fact that the project cost was artificially inflated by the project engineers and disclosed to prospective bidders who could bid at 30% to 40% lower than the cost price in the tender and still manage to make a profit. The MPs commented that the services of professionals with relevant expertise could have been used by the C&AG office. The MPs considered that the audit report should also contain recommendations as how best to address these problems highlighted. There was also the need for top level auditors to become more involved in the audit process which would improve communication with the management and consequently improve the present state of

reporting in respect of both quality and timeliness. Some of the MPs favoured the need to report on management achievements along with their failures to help to motivate managers.

International Funding Agencies

The Foreign Aided Projects Directorate's position was that the IFA's requirements have to be reflected in the reports produced by it. The audit report issued by the C&AG office on the projects funded by the IFAs contained as its scope the following:

- Whether the accounts have been maintained in accordance with accepted accounting principles;
- Whether equipment, materials, etc. received have been utilized for the project;
- Whether the fund obtained has been applied for the purpose indicated;
- Whether contracts for procurement under the project have been executed in-keeping with the procedures laid down in the agreement;
- Whether other conditions laid down in the agreement have been complied with.
- An international funding agency's audit objectives laid out the following:
 - Project disbursements are made in accordance with the project documents;
 - Project disbursements are valid and supported by adequate documentations;
 - Project financial reports are fair and accurately presented;
 - Appropriate management structure, internal controls and record-keeping systems are maintained by the project management and can be relied upon;

- Project equipment procurement, use, control and disposition are in accordance with the requirements.

The report did not cover fully the scope as required by the IFA. An audit opinion was not expressed on each of the audit scopes mentioned above. The C&AG report did not report on material weaknesses in the management structure or in internal controls or in certification from the government. The C&AG report stated the percentage of completion of both physical and financial targets but did not elaborate the reasons for the under-achievement of targets. The report recommended the need for timely completion without detailing the best way to do so which was one of the IFA's reporting requirements. The comments of the project management on the findings and observations were also not included in the audit report as required by the IFA. Another IFA specified that the C&AG auditors needed to commence their audit not later than the starting date of the project. In reality, the C&AG auditors seldom started work until very late partly because of lack of manpower and partly because the accounts were not prepared in time by the executing agencies.

It was also required by the IFA that C&AG audit officials should not serve as directors of the executing agencies. But it was reported by at least a couple PAC members that officials from the C&AG audit office acted as directors of the entity which was audited by the C&AG auditors thereby undermining the independence required from the audit staff. The C&AG auditor's version was that the executing agencies normally requested for their services, as the C&AG officers are reputed to have the necessary expertise regarding knowledge of the government's financial rules and regulations. The IFA further alleged that the various statements presented often did not add up and abbreviations were used without communicating what those stood for. Information provided was often not clear to the IFAs, for example, on one occasion the materiality level used by the auditors was not comprehensible to the IFA.

The respondents viewed the existing format of reports as useless and favoured a private sector audit report format. They also expressed strong criticism of the "subject to observations" audit opinion which they thought rendered the reports useless. The examination of the audit report issued to a third IFA showed that the government auditors did not comply with the following requirements of the IFA on issuing of the reports, namely (i) Fund Accountability statement; (ii) Internal Controls related to programmes; and (iii) Compliance with agreement terms and applicable laws and regulations. The requirement to report on whether government owned local currencies generated by or resulting from the relevant IFA's programmes had been deposited, disbursed, recorded, and accounted for in accordance with the agreed conditions and to report this to the IFA, was also not fulfilled by the auditors. The respondents also commented that the types of audit observations included in the audit report clearly indicated that the auditors were not being taken seriously by the entities', management. They cited an example where the auditors could not even obtain the register for materials and equipment from the relevant management.

CONCLUSION

The auditors should have the recipients of the reports clearly in mind at all times whilst preparing the document. But the above discussion on the adequacy of the format of the C&AG reports and the usefulness of the reported information revealed the feelings of discontent among the users, especially, among the representatives of the IFAs. The C&AG auditors to some extent accepted the auditors not being able to properly fulfill their reporting obligations. In respect of the IFAs, although their reporting requirements were not totally fulfilled by the C&AG auditors, there was an apparent lack of effective communication from them to the C&AG office conveying their requirements.

C&AG audit should be able to give an insight into the government functioning through its reporting mechanism to the users so that accountability can be secured and proper control can be exercised. To achieve such objectives, formal channels of communication between the C&AG auditors and the two user groups would be necessary to effectively communicate exactly what is expected by both the auditors and the users. Pre-audit discussions need to be held between the C&AG auditors and the PAC members and IFA representatives as to what exactly needs to be communicated through the audit reports. The auditors should point out to the report users the relevant areas of importance for each audited entity and not make generalized comments. Although the C&AG auditors generally suggested that users' information requirements were determined on the basis of meetings with the PAC and by conditions laid down in the contracts in the case of IFAs, clearly the reactions of the users from both groups did not corroborate such assertions. The field auditor is needed to know the priority areas for audit, so that they did not spend the same amount of time on unimportant areas. This would help to reduce the number of minor audit observations raised by the field auditors which is a common area of criticism for both user groups.

REFERENCES

Jones, P. and Bates, J. (1990): *Public sector Auditing: Practical Techniques for an Integrated Approach*, Chapman & Hall. Great Britain

Normanton, E.L. (1966): *The Accountability and Audit of Governments —A Comparative study*. Manchester University Press.

Figure 1: TABLE: Comparative Results–Auditors v. User Groups

Audit Directorate (AD)	Dimensions	P-Value ¹	Means Aud ²	MPs ³	P-Value	Means Aud	IFA ⁴
AD1	Useful Format	0.11	2.5	4.1			
	Useful Information	0.00	2.0	3.7			
AD2	Useful format	0.00	2.0	4.1			
	Useful Information	0.04	1.5	3.5			
AD3	Useful Format	0.05	1.5	3.9			
	Useful Information	0.03	1.0	3.1			
AD4	Useful Format	0.13	2.5	3.9			
	Useful Information	0.14	2.0	3.4			
AD5	Useful Format	N/A ⁵	N/A	N/A	0.00	1.5	5.6
	Useful Information	N/A	N/A	N/A	0.00	1.0	5.2

¹ Two-tailed test. P-value significant at 5% level

²Government Auditors

³Public Accounts Committee members

⁴International Funding Agencies

⁵Not Applicable since the PAC does not discuss the reports issued for IFAs by the relevant directorate

RESOURCE ACCOUNTING AND ITS RELEVANCE IN BANGLADESH

Uttam Kumar Karmaker*

INTRODUCTION

As part of reform process the last decade has seen some very significant changes in the structure and operation of the civil service in the UK. The process of change for radical improvement in the public sector management has been proposed mainly in the Financial Management Initiative back in 1982, then in the Citizen's Charter and the Next Steps agenda. Better accounting of public resources is demanded to ensure greater accountability, transparency and value for money. Efforts have been taken to develop the public sector accounting techniques to facilitate improvements in the efficiency and effectiveness of public sector management. Resource accounting and budgeting is one of the outcome of the reform process. We will try to describe the inherent problems of cash accounting and find out the ways how we can adopt and implement accrual or resource accounting in Bangladesh in light of the UK experience.

ACCOUNTING

Accounting is the collection and summarisation of financial data, and presenting them as information in a form which help in making effective decisions. There are various systems of accounting, i.e. cash accounting, accrual accounting, fund accounting, commitment accounting and budgetary accounting. However, accrual accounting and cash accounting are widely practiced in private and public sectors respectively.

CASH ACCOUNTING

Government organisations or public sector bodies, set up by the act of Parliament, primarily follow cash accounting. Cash accounting shows how much cash was spent, and how much cash was received,

* Deputy Director, Local and Revenue Audit Directorate. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

compared to plan. Under cash accounting, income is recognised at the point of time when money is received by an organisation, and cost is recognised at the point when payment is made. All receipts and payments made in a specified period will be included in the cash accounts for that period, irrespective of the period of activity to which the costs or income actually relates.

The main stream of public sector accounting is based on cash accounting. However, a big number of public sector bodies in UK such as Nationalised Industries, Local Government, Next Steps Executive Agencies, National Health Service, etc., have already established accrual accounting. In Bangladesh, commercial accounting techniques are used in some organisations which have business-like activities, e.g. T&T Board, Nationalised Commercial Banks, Bangladesh Biman etc.

WEAKNESSES OF CASH ACCOUNTING

Cash basis of accounting focuses mainly on cash receipt and payment. Cash is the only deciding factor. However, recording of cash payment and receipt is not sufficient to measure the performance and state of financial affairs.

Cash accounting has some drawbacks which should be overcome to help better financial reporting.

- 1) There are limitations to the information which it provides on capital. Spending is recorded only when the money is spent. No subsequent account is therefore taken of whether the asset is still in use, or has reached the end of its useful life, or has been sold or damaged.
- 2) No allocation of cost is made for providing capital over its expected useful life. Effective decision making on new capital investment is not possible for lack of information.
- 3) No greater focus is given on dividing capital and current expenditure.
- 4) Capital can not be measured properly, as there are no assets and liabilities.

- 5) No worth means of measuring performance. Matching of the actual spending with budget is a narrow indicator as this does not say whether the money has been spent economically, efficiently and effectively.
- 6) When budgets are used to control spending, artificial postponing of cash payments may lead to manipulation of cash accounts and increasing government liabilities to the third parties.
- 7) It does not permit to construct a balance sheet as there are no assets, capital and liabilities.
- 8) It provides no way to make comparison of performance regarding service provided across the public sector and with the private sector.
- 9) It offers no possibility of reduced borrowing through identifying, and then disposing of, under-utilised fixed assets, and through the better management of working capital.
- 10) It does not give accurate and relevant information on the cost of the services they provide.

ACCRUAL ACCOUNTING

Private sector organisations run commercially and follow accrual basis of accounting. The definition of accrual concept as given by SSAP 2 issued by Accounting Standard Board of UK is as follows :

Revenue and costs are accrued (that is, recognised as they are earned or incurred, not as money is received or paid), matched with one another so far as their relationship can be established or justifiably assumed, and dealt with in the profit and loss account of the period to which they relate; provided that where the accrual concept is inconsistent with prudence concept, the latter prevails.

Underpinning accrual accounting are a number of concepts. Four of the fundamental concepts originated in the private sector accounting are : 'going concern, 'accruals', 'consistency' and 'prudence.' (Archibald, 1996)

RESOURCE ACCOUNTING

In July 1994 the UK government published a Green Paper "Better Accounting for the Taxpayers' Money : Resource Accounting and Budgeting in Government". It contained proposals to revolutionise the way Government plans, monitors, controls and accounts for its activities. After a period of consultation a White Paper was issued in August 1995.

"Resource accounting" covers a set of accrual accounting techniques for reporting on the expenditure of UK central government, comprising departments and their executive agencies including Trading Funds, and a framework for analysing expenditure by departmental objectives, relating this to outputs wherever possible. "Resource budgeting" covers planning and controlling public expenditure on a resource accounting basis. (Cm 2626, July 1994).

Resource accounting takes the new accrual-based financial statements and supporting systems and replace existing cash-based systems and Appropriation accounts.

(The White Paper Proposals, HC 334, Session 1995-96)

Resource accounting will provide information for better management decisions so that government departments can improve the use of resources to meet their objectives. It will provide a better basis for treatment of capital and capital charging, make comparison of service provided across the public sector and with private sector straightforward. It helps reduce the public sector's call on funds by promoting better use of resources.

The UK government intends to prepare resource accounting from 1998-99 and onwards. Till to date, only the New Zealand Government has published a full set of accrual based accounts for government. Other countries such as Australia, Canada, Iceland, and Sweden, are moving towards accrual accounting.

Departmental Resource Accounts are the principal financial reports of departments and will be published annually. The accounts comprise :

- ❖ Summary of resource Outturn- The Parliamentary Control Schedule comparing Outturn with Estimates by Vote, of both resources and overall cash requirement.
- ❖ Operating Cost Statement, showing the administrative and programme costs of the department's operations
- ❖ Balance Sheet- showing the assets and liabilities at the year end represented by reserves and a General Fund.
- ❖ Cash Flow Statement - analysing net cash outflow by operating and investing activities.
- ❖ Statement of Resources - statement showing the allocation of resources analysed by aims and objectives.
- ❖ Notes to the Accounts - explaining and amplifying the information in the previous Schedules.

An **output and performance analysis** follows to the notes of accounts. This statement will not form the part of financial accounts but might be part of the accompanying report. It may need to be adapted to suit the particular circumstances of individual department.

Problems with the accrual or resource accounting

The UK government initiative to adopt private sector accounting practices in the public sector has some potential problems. The accrual accounting is being considered a model of greater efficiency and accountability, but it is not beyond criticism regarding its validity and objectivity.

The potential problems of accrual accounting in the public sector are discussed below:

- 1) The accrual accounting introduces more **subjectivity** into the

accounts. When there is no price change the income calculated in historic cost accrual accounting is an acceptable measure of performance. This does not mean that measure of profit is absolute or objective. Accruing depreciation, valuation of fixed assets and stocks, provision for doubtful debts on debtors, discount on creditors etc., are subjective judgements which make historic cost profit subjective.

- 2) Accrual adjustments demand a higher administrative and accounting cost. Either keeping personal creditors accounts or making sundry creditors adjustments can consume inordinate amounts of administrative and accounting cost.
- 3) There are concerns that the changes will diminish the importance of cash and this may encourage government departments to indulge in creative accounting.
- 4) Opening Balances of the first resource accounts needs to be calculated , which may be very difficult.
- 5) There are major challenges in identifying and setting meaningful output and performance measures in the implementation of resource accounting. There are some conceptual and practical difficulties.
- 6) The recognition of pension cost is a sensitive issue across the public sector, because proper matching of cost of pension to its benefits is difficult.

SCOPE FOR MINIMISING THE POTENTIAL PROBLEMS

The UK government needs better accounting of the taxpayers' money and real resources which will both enhance accountability for government's stewardship of public resources and enable user (of such accounts) to assess government's performance better. The followings are the possible ways (in brief) to minimise the problem in implementing the resource accounting and budgeting:

1. It needs two types of training, one is for those, working day- to-day with the new systems, to understand the details of how they work and the other for throughout central government for an understanding of the basic concept of resource accounting and budgeting. Incentives- both financial and non- financial should be provided for the departments and individual managers to secure potential benefits. Appropriate investment is to be made in new IT systems and training.
2. Further work and consultation with Parliament should be necessary to explore the possibility of transitional arrangements.
3. Resource Accounting Manual should be prepared.
4. Systems should be in place prior to this to capture and collect information for the whole accounting period.
5. Cost and valuation of assets and ownership needs to be determined.
6. The regularity and propriety of expenditure must be ensured properly.
7. A new body may be set up for setting uniform accounting standards for resource accounting.
8. Priority should be given for the preparation of 'whole of government' accounts which provide a different and useful perspective in government activities.
9. The cost of pension should be recognised by the department who derives the benefits from that costs, though funding comes from central government.
10. The Government should gather and cultivate carefully the experiences of developments elsewhere in the world. New Zealand has moved furthest introducing accrual accounting and budgeting. Other countries such as Australia, Iceland, Canada and Sweden are moving in similar direction.
11. Financial statements of public sector should be finalised within seven months of the year end if public limited companies legislation is followed. Timeliness will ensure effectiveness of the use of information.

PRESENT GOVERNMENT ACCOUNTING SYSTEM IN BANGLADESH

Government accounting system in Bangladesh follow cash basis of accounting. Public accounts comprise of annual appropriation accounts and finance accounts, prepared on the cash basis. Appropriation accounts show the budget and the use of that budget with explanation for the amount over/under spent. There are no true balance sheet and profit and loss account to show the financial position of the organisation and the performance or result by one bottom line figure, i.e., profit or loss. The Controller General of Accounts (CGA), compile and prepare the civil appropriation accounts. The permanent secretary of each ministry/ division is the principal accounting officer, who is assisted by chief accounts officer who is under the control of the CGA. Controller General of Defence Finance (CGDF) and Additional Director General (Finance)/Railway prepare the defence accounts and railway accounts which are departmentalised. Bangladesh Bank acts as the banker of the Government. CGA compiles the whole of public accounts in the form of finance account and is responsible for reporting to the Comptroller & Auditor General (C & AG) who submits the appropriation accounts and finance account after audit to the President, who shall cause them to be laid before Parliament.

New classification of budgeting and accounting is introduced with the help of a project named Reforms In Budgeting and Expenditure Control (RIBEC) jointly financed by DFID and Government of Bangladesh. Partial computerization of budgeting and accounting system (in the budget wing of the Finance Division and in all CAOs and in the CGA office) by RIBEC alongwith the new classification is expected to help accelerate the flow of financial reporting resulting in better financial management. Divisional Accounts Offices(now known as Regional Accounts Office) are expected to be computerised soon.

New classification does not change the accounting system. It just coded the heads of accounts so that budget and accounts can be processed quickly and easily by computer. The cash basis of accounting is still in use in the government accounting.

SIGNIFICANCE OF RESOURCE ACCOUNTING IN BANGLADESH

Emergence of accrual accounting or resource accounting is the necessity of the time when taxpayers are more concerned about the better use of their money. Though the introduction of resource accounting is not a thing of the past but we should not think that we are not far behind from UK and New Zealand who, being so financially advanced, just introduced it. We are a poor nation. Poverty, illiteracy and natural calamity consume whole of our scarce resources and foreign aids. It is not a matter of pride for a country to be one of the ten poorest country in the world. We should not waste time and scarce resources. In a recent news paper report in Bangladesh, it was stated that machinery worth about Tk. 6000 million were kept unused in the stores of different government/public sector corporations. This is not a rare case. As spending of cash is one element of annual accounts and no balance sheet is prepared, so there is regular tendency of spending the whole money to get the same or more amount in the following years. In the bidding process of annual budget, it is rarely asked what has been done with the money a department got.

So, there is an urgency to introduce better accounting and budgeting process where purchase of machinery would not be the practice just for the sake of spending and keeping those machineries unused for several years. We need to keep accounts of our resources properly. Computerisation of only Civil accounts and of budget would not be sufficient. Military and Railway accounts that are also part of Government accounts along with all billing and payroll need to be computerised. Effective and independent audit with all modern techniques and expertise should be there to validate the resource accounting and budgeting.

CONCLUSION

The UK government is going to publish first set of audited resource accounts relating to 1999/2000. The development of resource accounting and budgeting will represent a significant improvement in public sector financial management techniques. It will provide much better means for setting departmental objectives and outputs in terms of resources used. Taxpayers will be in a better position to see what they are receiving for their money and to judge what value for money they are getting.

However, resource accounting and budgeting should not be oversold as a miracle cure but can be viewed as a useful contribution both in terms of improving value for money from public expenditure and of enhancing accountability to Parliament. It is only a set of accounting techniques. It is neither a magic wand nor a panacea that will automatically lead to better financial management in government. The potential benefits of resource accounting will be yielded only through the use which policy-makers, managers and users make of the new accounting information. The reform is expected to provide a mix of cash and accrual-based financial information that will allow Parliament and other users to assess both the stewardship and use of public money better, thereby enhancing accountability.' (CIPFA comment on Treasury Committee Second Report, HC 186, session 1996-97:69)

TERMINOLOGY

- CIPFA - Chartered Institute of Public Finance and Accountancy.
- GAAP - Generally Accepted Accounting Principles.
- SSAP - Statements of Standard Accounting Practice.
- UK - United Kingdom.

REFERENCES

Archibald, V. (1994) Accrual Accounting in the Public Sector, Harlow: Longman

House of Commons (1996) 'Resource Accounting and Budgeting', Treasury Committee, Second Report, Session 1996-97, London: The Stationery Office

HMSO (1994) 'Better Accounting for the Taxpayer's Money: Resource Accounting and Budgeting in Government', Cm2626, London : HMSO

HMSO (1995) 'Better Accounting for the Taxpayer's Money: The Government's Proposals: Resource Accounting and Budgeting in Government', Cm2929, London: HMSO

Jones R. and Pendlebury M. (1996) Public Sector Accounting, London: Pitman Publishing

(CIPFA Memo in Treasury Committee's Second Report, HC 186, Session 1996-97)

USER INVOLVEMENT IN INFORMATION SYSTEMS DEVELOPMENT : AN ANALYSIS

Dr. Mohammad Hassanul Abedin Khan*

ABSTRACT

Success of Information System Development in any organisation is an unenviable task for the system designers, because it is related not only with the technology and mechanism of stage-wise development of an Information System but also a large number of factors including the most sophisticated element of an organisation i.e human resources. So, their involvement is to be sought by the system designer for developing a successful Information System; but at the same time it is also true that over emphasising their role in developing an IS might lead to system mal-functioning and ultimately system failure.

INTRODUCTION

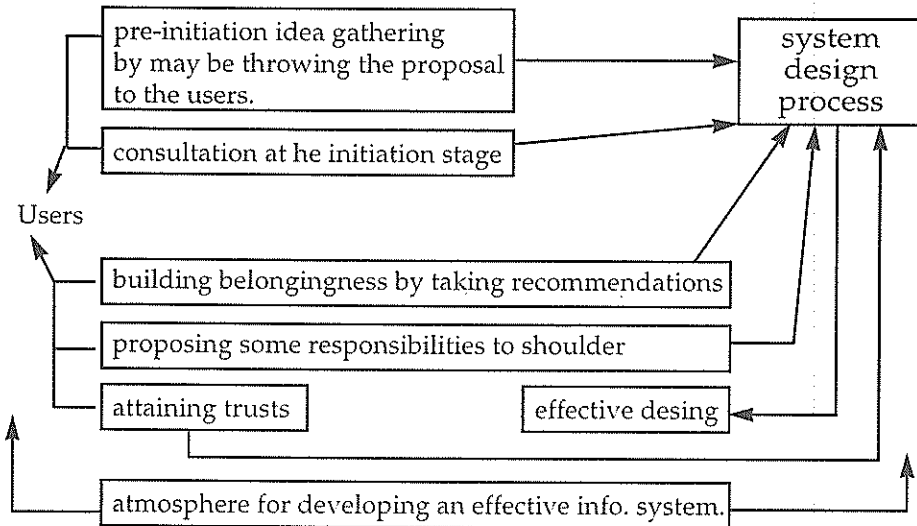
A particular product is not produced for its consumption rather the product has got its consumers or users and here users' or consumers' attitude towards that product is important. Side by side every system has got its own developers and owners or users; and since a system cannot work without the help of the users so their acknowledgement is necessary and this phenomenon need not be over emphasised. In the development of Information Systems, true involvement of users i.e person or group of persons engaged in yielding benefits using the system is essential and ultimate success of information system depends largely, among others, on the active participation of the users.

* Deputy Chief Accounts Officer, Ministry of Health & Family Welfare, Government of Bangladesh. The views expressed in the article are those of the author's and in no way reflect the views of the organisation he works for.

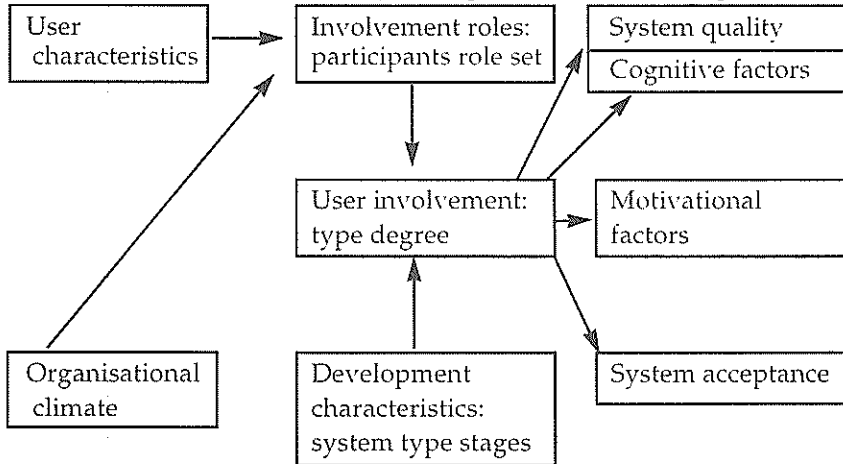
What is user involvement

User involvement in the design and operation of systems has several positive results which cannot be gained if proper attention is not given to this particular area.

"User involvement" refers to participation in the system development process by representatives of the target user group. The common wisdom that user involvement should lead to improved chances of successful system implementation can be traced to theory and research in organisational behaviour including group problem-solving, interpersonal communication and individual motivation." (Ives and Olson,1984). It is advocated by many in this area i.e Lucas, Swanson, Zmud that to make the system development effective, users active participation is necessary. The following figure depicts some of the main elements for creating congenial atmosphere before going for developing any system.



The figure below shows the major components of the Descriptive Model



Source: Blake Ives and M. H. Olson, 'User involvement and MIS Success: A Review of Research', in Management Science, Vol. 30, No. 5, May 1984.

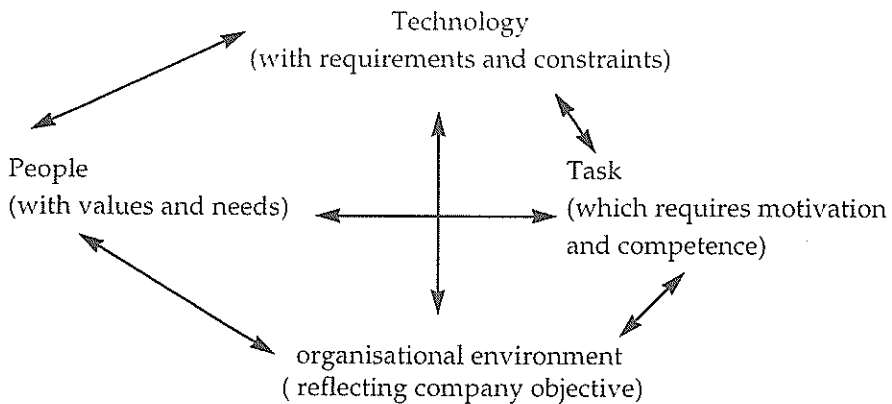
The following figure depicts causes of success and failures of information systems. One of the main determinants of systems success is user involvement:

User involvement	→	information system success/ failure
Management support	→	design
Level of risk	→	cost
Management of implementation process	→	operations
		date

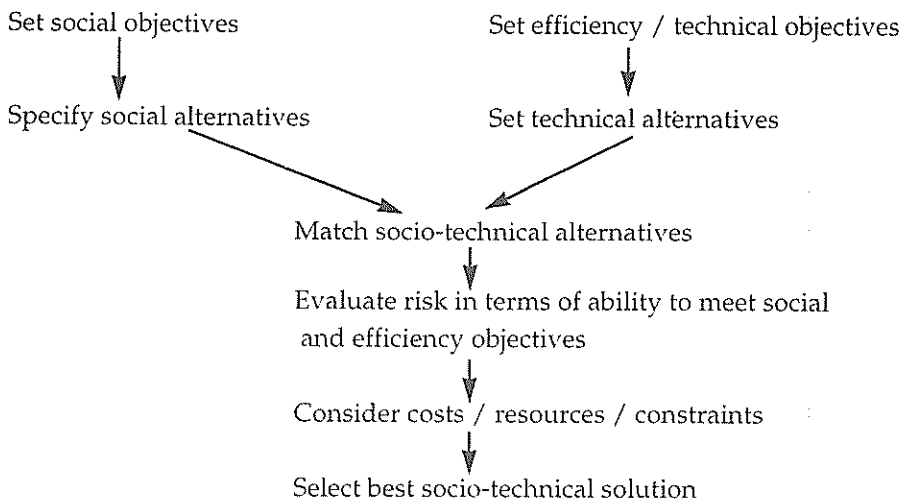
Source: Laudon and Laudon, 'Management Information System, 1991 page 772. There exist advantages, disadvantages and limitations with regard to the concept of user involvement. One of the programmes of encouraging user involvement is ETHICS i.e Effective Technical and Human Implementation of Computer-based Systems. ETHICS tries to

accommodate the human factors in dealing with designing a computer based information system that ensures technical efficacy.

Technological Aspects of ETHICS:



Socio-technical System Design:



Importance of User Involvement

As a matter of fact, system design and development is a political process and system designer is a political person in that process. He has to seek support not to win the election but to win in developing the system. Although it is not possible for a system developer, in relation to an organisation, to motivate each and every person towards the IS development process he/she has to try and motivate as many as possible.

Following two quotations, indicated by Blake Ives and Margrethe H. Olson in their article - 'User Involvement and MIS Success: A Review of Research' in *Management Science*, Vol. 30, No. 5, May 1984, state the importance of User Involvement

"There is too little involvement in developing a system and too little ownership of the resulting system. These conditions, lead to lack of use and to dissatisfaction with the system." (Lucas 1978, p. 43)

"[The middle managers'] role is critical in the design, conversion and operation of the MIS. Many writers refer to the middle management participation, but token participation is not enough." (Guthrie 1972)

ADVANTAGES OF USER INVOLVEMENT

Participative Decision Making

In developing an IS, user involvement creates belongingness among the users; they feel themselves as parts of the whole system. The users can participate in decision making process which helps the designer to design the programme effectively.

ETHICS considers human factors, i.e people's natural desire of being considered as an important person as human beings are not extension of machine. This basically gains participation of the users. Besides, ETHICS analyses the system's effects on work relationship and job satisfaction. Users participation improves system quality by (Ives and

Olson-1984 :

1. Providing a more accurate and complete assessment of user information requirements (Robey and Farrow,1982).
2. Providing expertise about the organisation the system is to support (expertise usually unavailable within the information systems group (Lucas 1974).
3. Avoiding development of unacceptable / unimportant features (Robey and Farrow,1982).
4. Improving user understanding of the system (Lucas 1974, Robey and Farrow 1982).

Participation may lead to increased user acceptance through :

- Developing realistic expectations about system capabilities (Gibson 1977)
- Leading to system ownership by users (Bobey and Farrow 1982)
- Decreasing user resistance to change
- Committing users to the system (Lucas 1974)

-Anderson and Hedberg give three reasons for involving client users in the design process (Newman and Rosenberg1985).

1. the user probably knows his job better than anyone else
2. participation is one type of liberal democratic value

Anderson and Hedberg in their article 'Designing Information Systems in Organisational Perspective' in Perspective Models of Organisations (1977) put :

3. "because organisations ought to respect human dignity and basic human rights, all members should have a right to participate in decisions about changes that are likely to affect them."

Experiments and field studies have shown that participation inspires favourable attitudes towards change for the following reasons (Laudon and Laudon.1991)

- the participation process is challenging and ego enhancing
- participants in the process become more knowledgeable about the change itself and develop more skills and opportunities to control it.

PLanned Organisational Change:

Organisational change is facilitated by the participation on the part of the users. ETHICS through its objective of balancing technology and people ensures a better planned organisational change. In an organisation, system developers are the change agents, the representatives of technology and the users are general people i.e catalyst to the entire process of system development. The quality of the resulting system is dependent on the relationship between the system developers and the users.

Creating Belongingness

ETHICS gives due weight to human factors, which brings participation of the users and it creates commitment, belongingness, knowledge about the change and enhanced system quality. (Hirschheim and Newman.1988).

Managerial Support

Since ETHICS produces personal commitments among the persons involved in the organisational activities, this in turn brings managerial support for implementing the system design process.

Easy Acceptance of the Developed IS

ETHICS does not believe in imposing systems on the users, rather it tries to create such atmosphere which ultimately leads the users to accept the systems.

Technically Sound System

Users do not welcome any such system which is complex and suit neither them nor the organisation. ETHICS explores all possible potential advantages in terms of technology and human resources and this eventually gives the system developers to come up with a more desirable and functionally sound IS.

Reduce User Resistance

Although total elimination of resistance is not possible but it can be reduced to a greater extent. As ETHICS emphasises the human & social factors makes better balance between technology and people, creates commitments among the users, it subsequently reduces non-cooperation and resistance of the users.

Ensures 'Fitness' to the Organisational Hierarchy

ETHICS organises and balances technology and people in such a way that the newly developed system suit the organisational hierarchy and, at the same time, it gives maximum business efficiency and improvements in the working life of the people in the 'social - organisation' (the idea is that an organisation is a society).

Ease Fear, Uncertainty and Conservatism

As ETHICS balances technology and human being and ensures greater involvement of people, it might motivate the users in respect of the necessity of the system and reduces uncertainty through convincing that they would not be abandoned. When people understand the importance of the system, they might go for the system development process.

Assessment of Needs

By engaging the users, the system designer can unearth the demand for required information of the users. The analyst at Delta agreed that their aid forced them to consider the users more by involving them in

system development and implementation process in an organisation but it is not so easy too.

Personal Commitments at the Cost of The Effective System Development

ETHICS is in favour of gaining personal commitments for achieving a higher degree of human efficiency to make ISD a success. But it is not that much easy to attain commitment from all the users, and if it is possible at a smaller scale it might be at the cost of the entire system development process. Because a user would not be committed towards the success of the ISD until he/she is being given some concessions in respect of his job/duty; he/she might be assured by the designer that his/her position would not hampered in any way and he / she would not be required to work more for the sake of ISD and which ultimately creates hole in the network of ISD

Accommodation of Views of all Users may lead to technology adoption

ETHICS is more and more concerned with the philosophy of accommodating the ideas and views of all users. It is a good idea indeed, but, at the same time, it creates problems in choosing an appropriate information technology system to be developed; because accommodation of views from different parts of the users does not produce the exact form of technology and this undermines the role of system developer in playing his/her role in developing suitable system for the organisation.

LIMITATIONS OF USER INVOLVEMENT VIS-A-VIS ETHICS.

ETHICS is not free from certain limitations. Although it tells about the balance between human beings, and technology, in true sense obtaining a suitable mixr of these two is not that much easy, because human nature is very much divergent. It is also not possible to give adequate weight to everybody's opinion and moreover the word 'balance' is not an optimum term, rather it is a relative term. since social factors varies from organisation to organisation, it (ETHICS)

cannot address all the factors. ETHICS tells about the attainment of higher level of human efficiency but it does not say about the ways of achieving efficiency and it cannot increase the productivity on its own. One of the objectives of ETHICS is to realise potential advantages, but is not that much clear in the sense that it does not lead the exploiter of potential advantages in the proper way to realise those. It cannot judge properly the psychological climate of the organisation and the maturity as well. ETHICS cannot address the issues like, size of the organisation-whether centralised or decentralised, organisational time frame-shorter or longer, because shorter the time frame greater the failure of ETHICS. ETHICS cannot address the budgeting aspect of implementing IS. Requirement of budget may not come true because resources required is dependent on the availability of such resources either internally or in the external environment and ETHICS cannot give a true picture about it.

CONCLUSION

To some of the gurus of ISD User Involvement(UI) is a 'democratic right' (-Anderson and Hedberg, 1977; Mumford 1979). Advocates of 'socio-technical system design' (Bostrom and Heinen, 1977) and 'job enrichment' (Hackman et al 1975) observe participation as a means of improving employee satisfaction and productivity. I myself do not disagree with the idea of getting the users involved in the IS development process but at the same time I am not in favour of overemphasising the role of users and their participation in developing a system. Because it has got different problems. Besides, it (participation) cannot eliminate/address all probable problems and issues relating to the organisation concerned i.e size of the organisation and ETHICS. In my opinion 'participation' is not that much capable of handling these sorts of issues properly. So, participation is to be sought to that extent which is desirable for the sake of development of an effective IS and side by side the quality and acceptance of the system has to be improved so as to match with the organisational needs.

- (3) It is often said that only the males can be the clients of bank or financial institutions because they possess physical and mental strength and imagination for proper utilization of money in profit making activities. But the Rural Credit Program defying this conservative gospel has brought the divorced and destitute women under their credit program and made them involved successfully in income generating activities. Thus, the self employment process through RCP is increasing day by day and contributing much to the socio-economic development in Bangladesh.
- (4) Risk and uncertainty, fluctuating demands of products and unstable money market play a vital role in determining the courses of modern business. Therefore, only some selected people having knowledge to ascertain this course are bankable. This is indeed a countable barrier for those who are devoid of expert knowledge in this regard. But by maintaining a pragmatic harmony between the productions of the loan receivers and by exploring the market carefully by the expert the barrier could be made easily passable. Accordingly, Grameen Bank and other NGOs delivering credit facilities from door to door to the landless and assetless people including the necessary instruction and by recovering the credits in a systematic way have changed our old concepts and thinking that the illiteracy in most cases is cause of the crawling economy of Bangladesh.
- (5) Modern Banking system has another pious concept that the borrower would come to the bank to receive and repay the loan. But the borrowers do not come as per contract. As a result, the rate of recovery falls. By nature, man is a good borrower but a bad paymaster. Only by applying new method this tendency of man can be changed. Therefore, the Rural Credit Program has oriented an institutional order that when money is provided by the institution, it is institution's responsibility to recover it and to keep alive the process. So that, the pace and momentum of the organization is ensured.

- (6) Rural Credit Program not only provides loan, but also helps the borrowers in preparing the ways where to spend money, how to spend money, when to spend money and provides them technical know how and contribute in the promotion of marketing facilities. It helps them to blend imagination with his ability and labor. Rural Credit Program believes that man is wealth and wealth is a transcendental tool.

CONCLUSION

Now a days organizations engaged in Rural Credit Program are being censured widely for their effective rate of interest against the loan provided to the assetless people. The interest is comparatively higher than the normal traditional bank interest. Thus it apparently appears that such an organization instead of doing much of the welfare of the poor is playing the role of a Money lender, *Mahajan* or *Kabuliwala*.

But we must not forget, the main object of a Bank or of a Money Lender *Kabuliwala* is the realization of interest not the money they have lent. They do not want their clients to get rid of the bondage and obligations; so for them clients are assets.

To clarify the position it may be noted here that the very nature of rural credit program is that it is a closely supervised credit delivery system. The success of this program depends on close supervision, monitoring and evaluation of borrowers and their projects which involved a large number of staff. Therefore, a good amount is required for staff salary and administrative expenses. So we can not call these institutions engaged in rural credit program as *Kabuliwala* if they meet up their expenses from interest earning. Nevertheless there are some fictitious organizations misappropriating fund in the name of credit program. These are exceptions. And exceptions do not deny the fact; rather it confirms the fact. As the saying goes no road, no accident.

NOTES TO CONTRIBUTORS

Public Money and Management is published once a year by FIMA. It aims to draw contributions on wide range of issues covering public financial management and development related subjects from academics as well as practitioners in these fields.

Articles submitted for publication in Public Money and Management must be original contributions and that would be taken to mean that the article has not been published or submitted for publication elsewhere. Manuscripts should be submitted in a hard copy, double-spaced with sufficient margins along with a copy of the manuscript on an IBM-compatible diskette. Articles should not normally exceed 6,000 words.

References should be made in uniform style in the text and the Harvard system of reference should be followed with name and year in the text with an alphabetical list of citation at the end of the article. For example while referring to page number 32 of a book captioned "World Bank- Borrowers' Perspective" written by Y. Venogopal Reddy and published by University Press Limited, 1985, the reference shall be (Reddy, 1985:32) in the text followed by detail citation at the end of the article as Reddy, Venogopal, Y. (1985), *World Bank- Borrowers Perspective*, University Press Limited, Dhaka. Where reference is made to more than one work by the same author published in the same year each work should be identified in the text as (Reddy: 1985a) and (Reddy: 1985b)

Authors are expected to provide brief details of their institutional affiliation and any acknowledgement to be included in the footnote of the first page of the article. Journal titles and author's names should not be abbreviated.

Materials in all issues of Public Money and Management may be quoted with proper acknowledgement. All correspondence should be addressed to the Editor.