

Bangladesh
Strengthening Public Financial Management
Program to Enable Service Delivery
(SPFMS)

Program-for-Result (PforR)

Fiduciary System Assessment

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Fiduciary Systems Assessment

The World Bank has planned to support the Government of Bangladesh (GoB) in its effort to strengthen public financial management (PFM) through a programme called, ‘Strengthening Public Financial Management Program to enable Service Delivery’. This is to give impetus to the GoB on its continued effort to overcome the systemic weaknesses in its PFM, procurements and governance environs. Though improvements have been made in significant areas of Public Financial Management GoB still faces challenges in promoting good governance and curbing corruption.

The objective of this Program is to strengthen the public financial management (PFM) institutions and systems of the Government of Bangladesh (GOB) with the Finance Division in the pivotal position. As is done earlier, the World Bank (WB) has come forward to support the GOB in this initiative. Total value of the project is US\$ 100,000,000 (BDT 840,000,000), to be implemented in 5 years. The World Bank intends to finance this program adopting Program-for-Results (PforR) approach. Though improvements have been made in significant areas of Public Financial Management of GoB it still faces challenges in promoting good governance and curbing corruption. Therefore, in this program, these areas will be highlighted with the objective of achieving enhanced service delivery. The World Bank in its Systematic Country Diagnostic and Country Partnership Framework (FY16-20), and the GoB in its newly approved PFM reform Strategy (2016-21) prioritize strengthening of the PFM system that includes revenue mobilization, planning and budgeting, civil registration and national identification systems, development of regulatory capacity in the public administration, and devolution of public services to local governments. The Bank will channelise its support through the “Program for Results or PforR” instrument using pre-defined Disbursement-linked Indicators or DLIs. PforR will also use the government’s own systems in financial management, procurement, fiduciary, social and environmental areas. The Program will be executed by the Finance Division of the Ministry of Finance (MoF), using the country system of financial discipline and fund flow. Since there will be no PMU for the program and the responsibility for providing reasonable assurance for economic, efficient, effective, transparent, and accountable utilisation of fund for the intended purpose devolves on the government and hence the necessity of this integrated fiduciary assessment. The study will cover three interrelated fiduciary areas, (i) financial management, (ii) procurement and (iii) governance and anti-corruption, critical to assessing fiduciary risks to the project’s development objectives, risk mitigation and capacity development strategies.

The World Bank would finance the SPFMS through a Program-for-Results instrument which uses the Disbursement-Linked Indicators (DLIs). The Program-for-Results instrument links disbursement to results identified in agreement between the government and the World Bank. These DLIs have been finalized through several consultation sessions involving a broad range of stakeholders. The Program Development Objective (PDO) is to improve fiscal forecasting, budget preparation and execution, financial reporting and transparency to enable better resource availability for service delivery.

Table 1: Disbursement-Linked Indicators

Result Area 1: Improve fiscal forecasting and resource allocation consistent with Government priorities for spending in service delivery sectors (Contribution to the PFM Strategy Goal 1 & 2)
DLI 1: Use of improved fiscal projections for budget-making
DLI 2: Improved budget alignment with development strategy and gender, social, and climate considerations through better performance of Budget Management Committees
DLI 3: Reduced number of days taken for DDOs to receive budget in selected
Result Area 2: Improve budget execution in service delivery MDAs (Contribution to PFM Strategy Goal 3)
DLI 4: Timely and reliable payments of salaries and vendor invoices with a strengthened TSA and automated payment system
DLI 5: Improved Pension Service through facilitation of payments through EFT no later than the pension payment cycle following retirement
DLI 6: SOE and autonomous bodies' debt and contingent liabilities statement prepared and submitted to policy makers
DLI 7: Improved performance of the SOE sector and reduced subsidies as a percentage of total public sector spending
Result Area 3: Promote enhanced transparency of the budget execution and enable timely accountability (Contribution to the PFM Strategy Goal 4)
DLI 8: Budget Holders in selected MDAs effectively and transparently use financial information
DLI 9: Action taken on internal and external audit reports in selected MDAs and post-procurement reviews in the Finance Division
Results Area 4: Establish an enabling environment for improved PFM outcomes (PFM Reform Strategy Goal 5)
DLI 10 – PFM Action Plan implementation is effectively led through an adequate governance structure and an effective change management approach

Section 1: Conclusions

1.1 Reasonable assurance

1. The Fiduciary Systems Assessment (FSA) of the Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS) was conducted to ascertain whether the Program financial management and procurement arrangements provide reasonable assurance that the financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The FSA concludes that FD’s financial management and procurement arrangement and mitigation measures to fraud and corruption risks meet the requirements of the Bank’s Policy for PforR financing dated November 10, 2017 to achieve the Program development objectives and in achieving the disbursement linked indicators.

1.2 Risk assessment

2. **The overall fiduciary risk for the Program is rated as Substantial.** The main drivers for fiduciary risks are Inadequate emphasis of FD on providing response to audit observations, and weak procurement capacity of FD with no distinct procurement unit and lack of proficient procurement professional.

Summary of risks and mitigation measures

Risk Dimensions	Mitigation Measures	Risk Rating
<p>1. Non-compliance with the financial covenants and inability to identify and take remedial measures of performance failure due to</p> <p>a) Lack of response of FD to audit observation (Financial management and procurement post review)</p>	<p>A fiduciary DLI to incentivize FD to timely resolution of audit observations and procurement post review. (DLI 9)</p> <p>Training and capacity building of OC& AG on program audit through entity Audit model (Through BETF).</p> <p>The new organization reform at OC&AG office will make the respective directorate more focused on the entity audit concept whereby the entity financial statements expenditure that will include the Program and entity expenditure, will be audited annually and report submitted within nine months of the end of the fiscal year</p> <p>DLI 9: FD audit committee will actively follow-up the effectiveness of resolution process of audit observations both from external, internal auditors and procurement post review.</p>	<p>Substantial</p>

Risk Dimensions	Mitigation Measures	Risk Rating
<p>2. Inefficient and ineffective Program implementation and lack of value for money due to</p> <p>a) Absence of distinct procurement unit in FD</p> <p>b) Lack of proficient procurement experts</p>	<p>Create procurement unit in FD with well qualified and experienced procurement staff to ensure efficient and effective procurement (DLI:9)</p>	<p>High</p>
<p>3. Inappropriate allocation of budget due to</p> <p>a) lack of provision for detail budget allocation at the implementing wing level</p> <p>b) disconnect between budget operation and procurement planning.</p>	<p>Commissioning the full implementation of iBAS++, which adopts the system of budget classification up to field or pay point level, so that iBAS++ incorporates program budget and funding allocations and automation of budgeting accounting processes. (DLI 3 and 8).</p> <p>Establish a system of procurement planning together with Budget planning.</p> <p>Train both technical and procurement specialist in procurement planning.</p>	<p>Substantial</p>
<p>4. Delayed implementation of program due to</p> <p>a) low execution of budget</p> <p>b) slow collation of program because of dual institutional reporting arrangement whereby separate financial accounts are being maintained by DDO and CAOs).</p>	<p>Program implementation teams will use various Technical Notes to prepare detailed actions to initiate Program activities.</p> <p>Roll-out of Integrated Budget and Accounting System to DDOs who are responsible for certain sub-schemes for the Program to use online bill submission for enabling real time accounting and financial reporting for the program. (DLI 8)</p>	<p>Substantial</p>
<p>5. Inability to identify the weakness and gaps in program processes and quality in a timely manner due to</p> <p>a) weak Internal Audit capacity and practice in FD.</p>	<p>Strengthen internal audit with guidance notes and developing ICT based system of internal control linking procurement, payments and asset register in FD. (DLI 9)</p>	<p>Substantial</p>

1.3 Procurement exclusions

3. OPRC threshold per high risk contract of goods, information technology, and non-consulting services is US\$ 30 million and for high risk contracts of consulting services for firms and individual consultant are US\$ 15 million. Goods contracts under the Program includes computer hardware and accessories, software, office equipment, fixture etc. Consulting services (firms) under the Program includes identifying software for macro-economic model, data transfer from existing macro-economic forecasting model, survey, variance analysis, assessing fiscal risk and contingent liabilities, creation of debt data base, carry out sustainably analysis for debts, creation of debt database. Individual consultants under the Program includes IT consultant, economist, accountancy, statistician public administration, social sector specialties, sociologist ets.

There are no works contract under the Program. None of the contracts in the Program reach or cross OPRC clearance thresholds.

Section 2: Scope of FSA

4. The approach and methodology for the FSA is based on the Program-for-Results Fiduciary Systems Assessment Guidance Note issued and effective June 30, 2017 to assist task teams in conducting the Fiduciary Systems Assessment for PforR operations. The FSA covered the Finance Division (FD) which is the implementing agency for the Program through nine Program Implementation Teams (PITs) : (1) Treasury and Debt Management (TDM), (2) Budget-1, (3) Budget-2, (4) State Owned Enterprises (SOE), (5) Regulation, (6) Macroeconomics, (7) Admin & Coordination, (8) Implementation, and (9) Expenditure Control.

5. Three projects were identified as significant and relevant for assessment. One is SEIP which is funded by the Asian Development Bank (ADB) and the Swiss Agency for Development and Cooperation (SDC). The second one is the World Bank financed DMTBF / SPEMP-A. And the third one is Strengthening Public Expenditure Management: Continuation of Priority Ongoing Activities Program (SPEM). The strategic focus and scope of the third project, is significant as the Government continues its PFM reform activities, under taken with SPEMP-A, from its own budget.

Section 3: Review of Public Financial Management Cycle

6. Each process, with the risks and mitigation measures are described below.

3.1 Planning and Budgeting

Adequacy of budgets

7. **The new Budget and Accounts Classification System (BACS¹ - see Annex 3) is robust to capture and report on the Program.** The overall budget for FD can be clearly identified under Grant 07 of the Medium-Term Budget Framework (MTBF) 2018-19 to 2020-21. Together with the new integrated budget preparation and execution modules and functionalities, the planning and budget preparation process promotes better linkage between policy formulation, planning and budget allocation to enhance service delivery in a transparent and accountable manner.

8. **The Program budget is not yet in the approved budget for FD.** The practice is that donor-funded projects are included in the budget when the relevant Program Document is approved by the Prime Minister and subsequently reflected through the supplementary budget which is normally done in April. Meanwhile, FD has indicated that the provision in the budget

under ‘reserve for unapproved schemes’ (non-ADP Development Program category - Table 4) will be allocated to the Program to kick-start implementation.

Table 2: Reserve for unapproved schemes

Code	Scheme	Medium Term Expenditure Estimates			
		FY	FY2018-19	FY2019-20	FY2020-21
213000109	Reserve for unapproved Schemes	BDT ‘000’	1,000,000	1,070,000	1,144,900
		USD	11,904,762	12,738,095	13,629,762

(Source: Finance Division MTBF 2018-19: FD, MoF website)

9. **The subordinate office/organizational unit dimensions of BACS are not yet implemented in FD.** Deepening the organizational segment to the responsible wings (macro-economic, SOE, Debt, Expenditure etc.) will enhance managerial accountability of funds allocated to deliver on the specific schemes at the lowest organizational unit level as shown in Table 5 below to minimize the risk of delay in distribution of Program funds to the front-line units responsible for the DLIs.

Table 3: Finance Division Organizational codes

গণ খাত	মন্ত্রণালয় /বিভাগ	অধিদপ্তর /পরিদপ্তর	অধঃস্তন দপ্তর /প্রাতিষ্ঠানিক ইউনিট গ্রুপ	প্রাতিষ্ঠানিক ইউনিট
স্তর-১	স্তর-২	স্তর-৩	স্তর-৪	স্তর-৫
ডিজিট-১	ডিজিট-২	ডিজিট-২	ডিজিট-২	ডিজিট-৬
Public Sector	Ministry/Division	Directorate/Department	Subordinate office/ Organizational Unit Group	Organizational Unit
L-1	L-2	L-3	L-4	L-5
Digit-1	Digit-2	Digit-2	Digit-2	Digit-6
1	1-09	1-09-01	1-09-01-01	1-09-01-01-101435
Budgetary Central Government	Secretariat, Finance Division	Secretariat, Finance Division	Secretariat, Finance Division	Secretariat, Finance Division

10. **The operating segment of BACS** supports tracking of Program activities through adequate budget management and reporting arrangements to ensure external scrutiny of implementing the PFM reform action plan. The PforR will be included in the budget like the ‘Strengthening Public Expenditure Management: Continuation of Priority Ongoing Activities Programme’ (2-1-30014-00) as shown in Table 6 below.

Table 4: Finance Division Operational code

ধরন	উপধরন	টাস্ক/স্কিম/ প্রজেক্ট গ্রুপ	টাস্ক/স্কিম/ প্রজেক্ট
স্তর-১	স্তর-২	স্তর-৩	স্তর-৪
ডিজিট-১	ডিজিট-১	ডিজিট-৫	ডিজিট-২
Type	Sub-Type	Task/ Scheme/ Project Group	Task/ Scheme/ Project
Level 1	Level 2	Level 3	Level 4
1 Digit	1 Digit	5 Digit	2 Digit
2	2-1	2-1-30014	2-1-30014-00
Development Activities	Non-Annual Development Program	Strengthening Public Expenditure Management: Continuation of Priority Ongoing Activities Programme	Strengthening Public Expenditure Management: Continuation of Priority Ongoing Activities Programme

11. **The track record of implementing the ongoing Public Expenditure Management Strengthening Program (PEMSP) in FD shows low budget execution.** There were large deviations of 38 and 39 per cent for the past two years as shown in Table 7 mainly for inadequacy in procurement capacity for spending the budget where large part of unutilized budget was for training. Such deviations in the level of overall expenditure vis-à-vis the annual budget pose a risk that Program funds may not be absorbed for the intended purposes considering that the procedures for PEMPS will be similar for the PforR. In the event, if there is an underutilization of total program budget on the closing of program period, that results the total program expenditure being less than USD 100 million, the counterpart will have to make a refund for an amount that falls short of USD 100 million even after achieving all DLIs.

Table 5: Public Expenditure Management Strengthening Program (PEMSP): Continuation of priority ongoing activities programme

213001400 Non-Annual Development Program (Non-ADP) (USD)					
Financial Year (FY)	Approved	Revised	Actual	Variance	Variance %
FY 2017/18	1,361,131	1,361,131	834,190	526,940	39%
FY 2016/17	1,390,476	1,418,393	861,107	529,369	38%
FY 2015/16	917,274	877,369	838,750	78,524	9%

Variance: Approved budget less actual

12. **The current approved budget for FY2018-19 for the ongoing program is USD2,142,857 which is an increase of 57 per cent compared to the approved budget of USD1,361,131 for FY2017-18.** The reform program will improve efficiency for budget utilization across the financial management and procurement cycle through the DLIs and specific program action plan to fully implement the USD170m program. The risk associated with budget adequacy is moderate.

Program's Expenditure Framework

13. **The SPFMS will be implemented over five years, at an estimated total cost of US\$170 million out of which IDA would finance US\$100 million (i.e. 59 per cent).** The Program incremental cost is estimated to be around US\$110 million (Table 2 below). Additional US\$59.5 million of recurrent expenses of FD which represent 35 per cent of the program cost are closely related to the implementation of these reforms taking the total estimated cost to US\$170 million. Each component of the Program will be established as a budgetary *special program* on the Government's recurrent budget. This is similar and to some extent an expansion of the ongoing Public Expenditure Management Strengthening Program (PEMSP).

Table-6 Estimated Program Expenditure with Economic Codes (FY-18-19 to FY 21-22)

Nature of expense	Economic Code	Program cost %	Total Program cost	Recurrent cost	Incremental cost	Year 1 (2018-2019)	Year 2 (2019-2020)	Year 3 (2020-2021)	Year 4 (2021-2022)
Wages and salaries	3111	16%	27,904	26,705	1,199	6,433	6,740	7,126	7,604
Administrative expenses	3211	14%	23,983	2,609	21,374	5,038	7,425	6,409	5,110
Training	3231	18%	30,797	7,989	22,808	9,367	8,841	8,109	4,480
Petrol, oil and lubricants	3243	0%	420	319	101	94	137	92	97
Travel and Transfer	3244	2%	2,552	998	1,554	472	913	663	505
Printing and stationery	3255	2%	3,921	3,216	705	938	913	1,015	1,056
Professional services	3257	33%	55,419	2,611	52,808	14,369	18,352	14,149	8,549
Repairs and maintenance	3258	7%	11,355	11,355		2,608	2,738	2,903	3,106
Machinery and equipment	4112	7%	11,682	3,724	7,958	3,424	4,341	2,694	1,224
Other fixed assets	4113	1%	2,040		2,040	402	1,238	248	152
Total (Components 1,3,4,7,8,9,10 & 14)		100%	170,073	59,527	110,546	43,145	51,638	43,407	31,882
				35%	65%	25%	30%	26%	19%

14. **The Program budget will be distinguished as non-ADP special program with separated sub-schemes for which detailed Technical Notes have been prepared for each DLI.** The IDA funds will be disbursed to the Government Single Treasury Account (Consolidated Fund) on verification of achievement of Disbursement Linked Results (DLRs).

Table 7: Program Cost Estimates (USD millions)

PFM Reform Action Plan (Components)	Program Cost	%	Responsible Wings in FD
C-1 Revenue and Expenditure Forecasting	4.6	4%	Marco-Economic Wing
C-3 Debt Management	4.5	4%	Treasury and Debt Management Wing
C-4 Planning and Budget Preparation	18.4	17%	Budget Wing
C-7 iBAS++ /BACS Implementation)	28.8	26%	iBAS++ Project Unit
C-8 Pension Management	9.8	9%	Controller General Accounts
C-9 SOE Governance	16.4	15%	SOE Monitoring Cell
C-10 Financial Reporting	12.5	11%	Expenditure Control Wing and Controller General Accounts
C-14 PFM Reforms Leadership, Coordination, and Monitoring	15.6	14%	Budget Wing
	Incremental cost	110.5	100%
	Recurrent cost	59.5	All Implementing Wings
	Total	170.0	

Procurement planning

15. According to PPR-2008, at the beginning of each financial year a procuring entity shall update the total Procurement Plan and the official cost estimates for a development programme on an annual basis. The updated annual Procurement Plan (APP) and the official cost estimates for a development programme and APP for the revenue budget shall require approval of the Head of the Procuring Entity (HOPE). FD does not follow this at the moment. However, they prepare a two-year development program proforma. It appeared during assessment that they deviate by arbitrarily adding or removing from one year to another year.

16. Substantial alteration of the objects of procurement during implementation puts at risk or jeopardizes the achievement of the project or program objectives. This is likely to have made it difficult to ensure continuity of procurement plans over the project's life. The diminished reliability, consistency, and comparability of information in the procurement plans considerably reduced their effectiveness as planning, monitoring and managing tools – it became practically impossible in the assessment to track which contracts were being processed as planned, which ones were getting delayed or discarded, which parties were being awarded contracts, whether supply had proceeded according in the expected manner, and whether planned procurements were appropriately reviewed and approved.

17. The associated risks of this lack of procurement planning are (i) financial and (ii) operational. The financial risk involves budget shortfall and /or unutilized budget. The operational risk is retardation or hindrance in program implementations leading to non-achievements of results.

18. It is recommended under the Program, FD prepares APP. This is an iterative process that takes account of budget availability and the final APP is consistent with budget allocation. FD shall, for its own purposes, update the Procurement Plan on a quarterly basis to accommodate delays, re-tendering and other unforeseen changes or constraints. HOPE shall approve the APP and any revision to the APP. FD shall publish the APP and revised APP on their notice boards, and where applicable in their websites and in the websites of the concerned Department or

Directorate or organizations, bulletins and reports. FD will train its staffs who will be involved in program procurement on procurement planning.

Procurement profile of the Program.

19. It is observed from expenditure framework that the following goods and services will be procured under the Program.

Table-9 Procurement Profile

Type of Procurement	Category of items	Total Value	Range of larger expected contract size	Expected number of large contracts
Goods	Computer Hardware, Accessories	US\$ 6.21M	US\$ 230K – US\$ 800K	5
	Software	US\$ 2.00M	US\$ 100K – US\$ 700K	8
	Other Goods (Furniture, Office Equipment, Printing & Binding, Books, Motor Vehicle etc)	US\$ 2.04M	US\$ 100K – US\$ 280K	7
Works	There are no works contracts under the Program			-
Consultancy Firm	Identifying software for macro-economic model, data transfer from existing macro-economic forecasting model, survey, variance analysis, assessing fiscal risk and contingent liabilities, creation of debt data base, carry out sustainably analysis for debts, creation of debt database.	US\$23.35M	US\$ 700K – US\$ 1.55M	12
Individual Consultants	IT consultant, economist, accountancy, statistician public administration, social sector specialties, sociologist ets.	US\$28.45M	US\$ 100K – US\$350K (international)	20
			US\$ 50K – US\$ 150K (national)	

3.2 Budget Execution

Treasury management and funds flow. The funds flow arrangements for Program implementation.

20. **Technical Notes have been prepared for each DLI with time-wise activities that will be used to prepare sub-schemes for funds allocation.** Funds flow outlined in the Treasury Rules & Supplementary Rules (TR & SR) will apply. Generally, development fund release is sought by the Program/Project Director based on an Annual Operational Plan (AOP) approved by the line ministry and funds are released in four equal instalments.

21. **With the Finance Division as the Program Implementing Agency and the Finance Secretary as the Principal Accounting Officer (PAO), the risk of unavailability of funds for Program implementation is not envisaged.** Furthermore, since this Program is under the non-ADP, the Drawing and Disbursing Office (DDO) for the Program will submit payment requests to the Chief Accounts Officers Office (CAO) of the Finance Division for processing payments

through the Treasury Single Account (TSA) direct to the vendors for goods and services for the Program implementation.

Accounting and financial reporting

22. **The financial reporting obligations are specified in the PMBM Act 2009, Article 17: maintain financial accounts and reporting** - all principal accounting officers shall maintain accounts of their own ministry or division and other Institution, in specified methods, and shall reconcile regularly with the accounts maintained by the concerned accounts office; and in order to ensure sound monitoring, the accounts offices shall prepare monthly and quarterly statements with financial information and data and shall forward them to the Finance Division and based on these statements the Finance Division may publish analytical reports. While responsibility for Annual Appropriation Accounts for the Program rests with the FD PAO, the responsibility for preparation of Annual Financial Accounts for the Program rests with the OCGA.

23. **The CAO, FD currently uses the Integrated Budget and Accounting System (iBAS) mainly for payment processing, accounting and limited reporting purposes.** Budget execution reports are required to show financial and non-financial information as required by PMBM Act 2009, Article 17 (3): “in order to ensure sound monitoring, the Accounts Offices shall prepare a monthly and quarterly statements with financial information and data and shall forward it to the Finance Division and based on these statements the Finance Division may publish analytical reports”. Budget execution reports at the aggregate departmental level showing comparison between approved budget, release, actual and remaining balance are produced with considerable delay. Information on outstanding commitment and obligations are not yet reported. At the minimum, to improve budget management of the Program and monitor progress to take corrective action, budget execution reports should show spending against approved and released budget disaggregated (sliced/diced) by department-wise, scheme-wise, sector/sub-sector-wise, fund-wise and other BACS elements supplemented with output data for release to decision makers, service delivery managers and published in user-friendly format.

24. **A dual institutional reporting arrangement is in place whereby separate financial accounts are being maintained by line departments (under the supervision of Drawing and Disbursement Officers) from those maintained by the CGA (under the supervision of the Chief Accounts Officers – CAOs).** The dual reporting and lack of a clear definition of the role of the CAO and the CGA will slow down collation of program reporting from the DDO until such time when the DDO-module is rolled-out in 2021 with features for online bill submission that will be used by the DDOs responsible for the various sub-schemes of the Program.

25. **The iBAS++, together with the BACS will be used to prepare the Annual Program Financial Statements.** As per Articles 104 and 105 of the Account Code, Volume IV, the June final accounts of the government should be submitted by 30th October (*i.e. 4 months after the fiscal year-end*) for certification as per Article 131 of Account Code, Volume IV. The reform plan to improve quality in financial reporting include adoption of the revised *Financial Reporting under*

*the Cash Basis of Accounting*² issued by the *International Public-Sector Accounting Standards Board (IPSASB)*³. The amendments address some of the main barriers to adoption of this standard.

Procurement processes and procedures

26. **The Public Procurement Act (PPA) 2006 and the Public Procurement Rules (PPR) 2008** provide procedures to be followed for ensuring transparency and accountability in the procurement of goods, works and services using public funds and for ensuring equal treatment and a free and fair competition amongst all persons wishing to participate in public procurements.

Electronic Government Procurement

27. Although GOB has introduced electronic government procurement (e-GP) system in 2012 and at present about 35% of the country's development budget for procurements is processed through the e-GP. FD has not found it necessary to conduct procurement through the national e-GP system. However, FD used eGP in limited scope under SPEMP-A Project. Currently procurement of goods and works through national bidding is taking place through e-GP. Procurement of goods and works through international bidding using e-GP is expected in the very near future. Use of e-GP in service procurement is planned to for the coming years. Majority of the contracts in the program are for service procurement which, as explained here, will not be possible to process through e-GP. The enhanced governance, transparency, competitiveness and efficiency provided by e-GP will therefore be mostly unavailable to the program.

Advertising of Bidding Opportunities and Open Competition and Procurement Methods

28. SEIP publishes procurement notices on its own website. The SPEMP-A follow-on project sends those notices for publication on the website of the FD which has a link for procurement notices, but no notice was found listed at the time of this assessment. Most of the contracts of FD are of small value, therefore are not usually not advertised except for notice board of the procurement entity as is usual for shopping. On the rare occasions that the contract values are above the threshold for competitive bidding, these are advertised as prescribed in the law. There is a comparatively high proportion of direct contracting and single sourcing which, as can be presumed, do not require advertisement.

29. The compliance of FD with advertisement requirements prescribed in national procurement law is spotty at the best. It is mandatory under PPA-2006 to prepare advertisements for prequalification, tenders and expressions of interest using the prescribed standard formats and in prescribed media. It is also mandatory for procuring entities to publish such advertisement on its own website, if there is one, and to submit advertisements for procurement above prescribed threshold values to CPTU for uploading on its website.

30. Contracts which normally would be processed through open competition have been on many occasion broken down into smaller ones that are subsequently processed through less competitive methods (e.g. shopping or direct contracting in place of open competitive bidding).

² <http://www.ifac.org/system/files/publications/files/Cash-Basis-IPSAS-2017.pdf> - The International Public-Sector Accounting Standards (IPSASs) are authoritative financial reporting and accounting standards for governments and address: (i) the presentation, form and content of financial statements; (ii) the disclosures required; and (iii) the accounting treatment of different transactions, assets and liabilities. They apply to general purpose financial statements.

³ The IPSASB recognizes the right of governments and national standard setters to establish guidelines and accounting standards for financial reporting.

Non-compliance with wide advertisement requirements naturally leads to restricted competition. In addition, the use of non-competitive methods itself leads to the same situation which is non-realization of value for money in procurement.

31. Mitigation will begin with preparation and updating of proper procurement plans. This will ensure the adoption of appropriate procurement methods and wide advertisement of procurement opportunities.

Tender Documents

32. The project did not always use the standard procurement document issued by CPTU. That practice has improved recently, and a number of bidding documents were found to have been based on the standard documents.

33. CPTU is mandated under the national procurement laws to prepare and issue standard tender documents / request for proposal documents for procurement of goods, works and services. The conditions of selection and the conditions of contract in the national standard procurement documents have been found to be generally fair in serving the interests of both the purchaser and the supplier of goods, works and services. However, some of the contents of the documents have required revisions in the case of DFI funded projects. CPTU has recently introduced a separate standard document for procurement of works through e-GP system under Development Partners' funded project, which addressed the differences that existed between requirements of PPR-2008 and the guidelines/regulations of the DFIs.

34. Inappropriate use of standard bidding/proposal documents leads to a number of risks: (i) technical requirement are not adequately reflected, (ii) commercial requirements are not adequately described, and (iii) contractual terms and conditions are not fully developed. Any of these shortcomings will undermine the achievement of intended procurement results.

Tender/Proposal Evaluation

35. The FD has permanent evaluation committees in place, comprising of officials belonging to itself and to other Government organizations. Quality of tender/proposal evaluation is also found generally acceptable. PPR-2008 provides comprehensive instructions about the tender/proposal/application evaluation process, and formation & composition of the evaluation committee.

36. The program has a large number of goods and services contracts, most of which will also be of relatively small value. This produces the risk that evaluation will not receive the level of attention that is required to ensure that optimally qualified suppliers and products of required quality are selected.

37. There should be multiple evaluation committees for both goods and services procurement so that they are not overwhelmed by a large number of contracts that have to be evaluated within any given timeframe. The compositions of the committees must be such that each committee includes members with the necessary technical, commercial, and legal capacity that will ensure quality of bid/proposal evaluations.

Disclosure of procurement information

38. SEIP publishes procurement notices on its own website. The SPEMP-A follow-on project sends those notices for publication on the website of the FD which has a link for procurement notices. But no notice was found listed at the time of this assessment. Tender notices of SEIP and contract award notices of SDF were found in the CPTU website.

39. Procurement plan: As per PPR-2008, at the beginning of each financial year, the Procuring Entity shall arrange to publish the Total Procurement Plan and updated Annual Procurement Plan on their notice boards, and where applicable in their websites and in the websites of the concerned Department or Directorate or organizations, bulletins and reports.

40. Procurement invitation: As per PPR-2008, public advertisement of procurement invitation is required to be published in newspapers, websites or any other mass media for the purposes of wide publicity

41. Notification of Award: As per clause 37 of PPR-2008, (1) All Notification of Awards for procurement related Contracts above the threshold specified in Schedule II shall be notified in format as prescribed in Schedule VI to the Central Procurement Technical Unit for publication in their website, and that notice shall be kept posted for the period specified in Schedule II. (2) Notification of Award for Contracts below the threshold specified in in Schedule II, shall be published by the Procuring Entity on its Notice Board and where applicable on the website of the Procuring Entity and that notice shall be kept posted for the period specified in Schedule II.

42. Also, e-GP automatically publishes all approved procurement plan, procurement notices and award notices in the portal which is publicly accessible.

43. As explained earlier, the benefit of e-GP in disclosure will mostly be unavailable to the program. Available information also suggests that FD lags in compliance with the disclosure requirements of the national procurement law. This leads to the risk that transparency in procurement, necessary for both governance and value for money, will not be fully achieved.

44. The terms of reference of the procurement unit in FD will include the provision that planned and actual dates of tender and award notices will be meticulously reflected in the procurement plans and regularly reviewed by the relevant approving authority.

Access to Complaint Handling Mechanism

45. Complaints related to procurement processes are handled under the PPR-2008 which is acceptable to the Bank. During discussion with FD and its project officials, they informed that they had hardly ever received complaints in procurement. As a result, they have not put in place an organized structure for receiving and addressing complaints and preserving complaints records.

46. At the moment, the absence of an explicit grievance handling unit, and of a complaint register and document preservation system, must be treated as structural weaknesses.

47. FD will maintain a complaint register in electronic format and widely disseminate information to the public about grievance handling mechanism in the program. The approving

authority will ensure that the procurement process under any contract is not completed or closed as long as complaints against that contract are outstanding / unresolved.

Procurement Package Cost Estimation

48. The FD and its projects have Cost Estimation Committees as prescribed in the national procurement laws. These committees obtain price information mainly from the existing supplier base of the procuring entities. This eases the process of cost estimation but increases the risk of price fixation by vendors. SEIP reported that it has used independent market price verification on one occasion, though only after the original cost estimation was challenged.

49. Lack of rigor in cost estimation leads to: (i) over budgeting in procurement plan leading to unutilized funds, (ii) under budgeting in procurement plan leading to procurement held up or delayed, or (iii) purchase at prices that are not competitive in relation to the market.

50. FD will constitute cost estimation committees which will function in the manner described in PPR 2008 and prepare official cost estimates. These cost estimates will be periodically updated as prescribed in the law and meticulously referred to in both procurement planning and the awarding of contracts.

Contract administration

51. The FD and its projects do not have units dedicated to contract management. Based on the range of products procured, the procuring entities do not consider such a separate unit to be necessary. In case of the occasional complex procurement, project consultants have provided contract management support.

52. There have been some rare instances of both underrun and overrun of costs and contract performance delays. Contract costs and performance times have in general not varied substantially from what were programmed / anticipated. The practice of formulating cost estimates on the basis of price information received from potential suppliers has helped minimize large variations between estimates and contract prices.

53. Procedures to inspect for quality control of the goods, works, or services delivered. The FD and its projects normally procure a narrow range of Goods, for which they are able to form Goods receiving and inspection committees from among their own personnel. Works contracts, which are infrequent, are contracted to PWD or LGED (both Government organizations) who have their own long-standing mechanisms for contract management and quality assurance. Consulting Services are procured almost exclusively for reform activities carried out in PFM.

54. Based on information received from FD and the assessed projects, it appears that contract management will not be problematic given the nature and values of procurements to be undertaken by the program. However, given the large number of contracts in the program, it is likely that existing contract management capacity in FD will come under considerable stress.

55. FD may have to increase the number of personnel engaged in contract management either deputing personnel from within the organization or by hiring consultants.

3.3 Internal Controls

Internal controls

56. **The Secretary FD as the Principal Accounting Officer (PAO) of the Division is responsible for observance and compliance of all relevant financial rules and regulations of the Program through the Program Director as the DDO.** The PAO will ensure that the total expenditure is kept within the limits of the authorized appropriation and that the funds allotted to the Program are spent for the intended purpose. To maintain a proper control the PAO will receive regular report from the Program Steering Committee that will include Program Budget Execution Reports.

57. The FD issues the Delegation of Financial Powers for all public-sector organizations and projects. It is therefore expected that this delegation is meticulously followed by the FD and its line agencies. The Secretary of the Division is the Head of Procuring Entity (HOPE) of the FD.

58. Project Directors appear to prefer escalating procurements approvals to higher levels rather than exercising the power delegated to them or sub delegating to lower levels. This lengthens the procurement processing time.

59. As per Bangladesh Government delegation of financial power for non ADB, head of department / directorate/ wing can approve contract of goods and consulting services up to US\$ 250K (BDT 20,000,000) and US\$ 125K (BDT10,000,000) respectively. Head of department / wing can approve contract of goods and consulting services up to US\$ 5.8M (BDT 500,000,000) and US\$ 1.17M (BDT100,000,000) respectively. It is appeared that under the Program, there are procurement packages for both goods and consulting services (individual and firm) which lies with procurement clearance level of head of department and ministry.

Internal audit

60. **Monitoring of FD development Programs is conducted by the Economic Adviser Wing.** Recently the “*Expenditure Control and Internal Audit wing*” of FD was renamed as “*Expenditure Management Wing*” with mandate for internal audit for which capacity is currently lacking and will be supported under the Program which aims to conduct ,among others, creating awareness/sensitization of PAOs on the relevance of Internal Audit that will support PAOs in meeting their duties and responsibilities under Article 19 of the Public Moneys and Budget Management Act 2009 (PMBM Act 2009).

Program governance and anticorruption arrangements.

61. **Arrangements to deal with issues of fraud and corruption will follow the requirements of the Anti-Corruption Guidelines (ACG) on Preventing and Combating Fraud and Corruption in PforR Lending.** The Administration Wing of the Finance Division handles corruption and other disciplinary cases against employees of the Division under the ‘Discipline and Appeal Rules 2018 (SRO No. 110-Law 2018). The absence of internal control and internal audit hinders detection of corruption at an early stage. Fraud and corruption issues arising out of statutory audit is handled within the existing mandate of the Comptroller and Auditor General (OCAG). Three public finance-related committees in Bangladesh, namely the Public Accounts Committee (PAC), Estimates Committee (EC) and Public Undertakings Committee (PUC) – provide legislature’s oversight of public accounts in the form of ‘ex-post’

reviews of audit reports. The PAC plays a principal role in resolving audit objections as per applicable laws. However, because of piled up backlogs of audit observations PACs disposal of cases has slowed down. Many of the accused may go out of reach before their cases are settled.

62. **The complaint handling mechanism in procurement has two levels; the administrative process and the independent process.** The administrative process involves the handling of complaints by the implementing agency. Where the complainant is not satisfied with the outcome of the administrative process, he/she may take recourse in the independent process. The review panel is responsible for the independent process. The Government constituted in August 2005 a Review Panel for Complaints and Appeals to address bidders' complaints and appeals; and increased the number of such panels to three in April 2006. Each review panel is in CPTU and consists of three experts (one retired senior civil servant, one legal practitioner, and one member from the apex national trade organization) selected from a list of qualified personnel having experience in handling procurement matters. According to Rule 60(5) of PPR-2008 the decision of a review panel is binding upon the concerned parties.

63. **Rule 57(4) of PPR-2008 requires the officer dealing with the complaint to issue a written decision to the complainant within 5 working days, either accepting or rejecting the complaint.** In the case of acceptance, the letter will have to advise what corrective actions to have been or will be taken, e.g. issue of an addendum amending unacceptable provisions in the bid or proposal documents. In the case of rejection, the letter will have to state the reasons for the rejection of the complaint. Rule 57(13) requires procuring entities and other levels of administrative authorities to maintain a complaint register in which brief information of all complaints, and the decisions taken regarding such complaints, are to be recorded. Rule 43(3)(k) requires procuring entities to maintain documentation with respect to any appeal or complaint concerning the procurement proceedings for at least 5 years. Year-wise review panel's decisions are portrayed below, which demonstrates that the system is working reasonably well.

Table10: Procurement Review Panel decisions

Year	No of case handled by the Review Panel	Decisions in favour of	
		Procuring Entity	Tenderer
2005	1	0	1
2006	10	6	4
2007	7	3	4
2008	11	7	4
2009	26	13	13
2010	25	13	12
2011	28	14	14
2012	41	20	21
2013	33	23	10
2014	45	27	18
2015	20	9	11
Total	247	135 (54.66%)	112 (45.34%)

64. The manner of operationalization of the ACG under the Program has been agreed with the Finance Department (FD) during project appraisal. Key commitments under the Program in this area and how these commitments would be implemented are:

- (i) All appropriate measures to ensure that the Program is carried out in accordance with the PforR ACG;
- (ii) All appropriate measures to prevent Fraud and Corruption in connection with the Program, including (but not limited to) adopting and implementing appropriate fiduciary and administrative practices and institutional arrangements;
- (iii) Provide prompt information to the Bank of all credible and material allegations or other indications of Fraud and Corruption in connection with the Program that come to its attention;
- (iv) Timely and appropriate action to investigate Fraud and Corruption allegations and indications; report to the Bank on the actions taken in any such investigation, every six months; and, promptly update upon the completion of any such investigation, report to the Bank its findings;
- (v) Timely and appropriate action, satisfactory to the Bank, to remedy or otherwise address the situation and prevent its recurrence if the Borrower or the Bank determines that that Fraud and Corruption has occurred in connection with the Program;
- (vi) Cooperate fully with representatives of the Bank in any inquiry conducted by the Bank into allegations or other indications of Fraud and Corruption in connection with the Program, and takes all appropriate measures to ensure the full cooperation of relevant persons and entities subject to the Borrower's jurisdiction in such inquiry;
- (vii) Ensure that any person or entity debarred or suspended by the Bank is not awarded a contract under or otherwise allowed to participate in the Program during the period of such debarment or suspension; and
- (viii) Report to the Bank on actions taken in any investigation into Fraud and Corruption allegation or other indications, the
- (ix) In connection of the above, FD agrees to follow:
 - a. the intended periodicity of such reporting; and
 - b. the format/required contents of the reports.

3.4 Auditing

Program audit

65. **Audit report of FD's statement of expenditure covering the period 2009-2016 was completed on April 2017.** It is the practice of OCAg to audit FD once in every two years. However, FD's statement of expenditure remains unaudited from 2009. The most recent audit observations remain un-responded for 18 months. Such delay in addressing audit observations undermines the usefulness of audit reports and lead to cynicism towards audit, which in turn reduce the effectiveness of external audit of the Program. The audit observations summary, dated 9 August 2017 covering the audit report 2009-16 noted the following internal control irregularities on payment: excess payment on installation of iBAS++ BDT 3,838, 791; inappropriate use of vehicle and fuel 1,521,188; inappropriate payment for travel allowance

3,040,174; and unreconciled balance of 6,929,158 between bank account statement and general ledger bank book. Despite several reminders from OCAG, the FD's response after detail review is yet to be communicated to OC&AG to complete the follow-up for resolution. However, from FY 18 onwards, FD has plan to conduct the audit of FD annually

66. The Bank Executed Trust Fund (BETF) component of the Strengthening Public Expenditure Management Program Multi Donor Trust Fund is providing technical assistance to the OC&AG through the "Fiscal Accountability and Transparency (FAAT)" project to meet the following three objectives: (i) raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness to provide adequate assurance that the public funds are used efficiently & effectively; (ii) enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats; and (iii) Enable civil society, and other citizen groups to engage on budget formulation, budget execution and oversight. The BETF will operationalize an Audit Monitoring and Management System (AMMS) that will help to track follow-up on resolution of audit observations and Public Accounts Committee (PAC) recommendation. The BETF will also provide support for improving the timeliness of audited financial statements (Finance and Appropriation Accounts) by updating the form and method of accounts to international standards.

67. The Program audit will be carried out by the Office of the Comptroller and Auditor General (OC&AG) through the entity financial statement of FD that will include the Program transactions that will be tracked using the operating segment of BACS. There are ten audit directorates under the Office of C&AG. Each of the Audit Directorates is headed by a Director General who is responsible for conducting external audits in a specific functional area of the public sector. Of the ten directorates, Foreign Aided Project Audit Directorate (FAPAD) has been mandated to carry out the audit of all development partners funded development projects and programs including those having both foreign aid as well as the Government of Bangladesh (GOB) funding together. Moreover, Reimbursable Project Aid (RPA) through GOB arrangements, where expenditure is initially made from government treasury against GOB budget provisions and then actual expenditure is reimbursed by DP's in government treasury, are also audited by FAPAD because of involvement of both DP's and GOB funding. Currently, C & AG is underway of reform whereby they are moving to entity audit model by combining revenue and development expenditure in a single financial statement and will be audited by a single audit directorate.

3.5 Procurement and Financial Management Capacity

Staffing should be adequate in both numbers and experience.

68. This is the first PforR to be implemented in FD. The CAO, FD will need to assign staff who will focus on processing and reporting on the Program expenses. FD does not have any distinct procurement unit or specific personnel assigned to procurement. One Assistant Secretary in one wing has been made responsible for procuring items required for operations, like stationaries and office supplies, hiring vehicles etc. One Deputy Secretary, deputed as Deputy Program Director in the SPEMP-A follow on project has overall responsibilities for procurement of PEMPS, though he feels that he could perform better if he was given the opportunity to receive formal training in procurement. SEIP relied heavily on consultants for preparing technical

specifications, terms of reference, contract documents, bid evaluation reports, and proposal evaluation reports.

69. The FD has not taken any initiative for its personnel deputed to projects to receive formal training in procurement. The Coordinator of PEMSP took and completed at his own initiative the three-week procurement training offered by CPTU.

70. Project implementation structure comprises of Steering Committee (SC) chaired by Financed Secretary, Program Execution & Coordination Team (PECT) anchored at the Budget wing of FD headed by Additional Secretary-Budget as eight Program Director and Program Implementation Teams (PITs) consisted of 3 to 5 members. Around US\$ 40M will be procured at PECT and the rest US\$60M will be procured among eight PITs. It is recommended to have two full time individual procurement consultants at PECT who all procurement will handling at PECT and assist other eight PITs in procurement process.

Section 4: Program Systems and Capacity Improvements

Table11: Program Action Plan (PAP) and DLIs

Risk	Mitigation measures	Timing	Type of action (PAP, DLI)
1. Planning and Budgeting Inappropriate allocation of budget due to a) lack of provision for detail budget allocation at the implementing wing level b) disconnect between budget operation and procurement planning.	Deepen the organizational segment to the responsible wings (macro-economic, SOE, Debt, Expenditure etc.) to enhance managerial accountability of funds allocated to deliver on the specific schemes at the lowest organizational unit.	2019	PAP
	Establish a system of procurement planning together with budget planning.	2019	PAP
	<i>DLR 3.3:</i> At least 80% of DDOs have budget released & distributed by July 31 (\$3mil)	2021	DLI
2. Budget Execution Delayed implementation of program due to a) low execution of budget b) slow collation of program because of dual institutional reporting arrangement whereby separate financial accounts are being maintained by DDO and CAOs).	<i>DLR 4.3:</i> At least 40% of DDOs use online bills submission (\$3mil)	2021	DLI
	<i>DLR 8.6:</i> 60% of budget-holders generate monthly 10 or more iBAS++ reports for budget execution decisions (\$2mil)	2022	DLI

Risk	Mitigation measures	Timing	Type of action (PAP, DLI)
	<p>DLR 3.1: Delink budget release from the fund utilization report submission (\$3mil)</p> <p>Program to use the separate standard document for procurement of works through e-GP system under Development Partners' funded project, which does not have the provision of rejecting bids based on above/lower than the estimated cost.</p>	<p>2019</p> <p>2018</p>	<p>DLI</p> <p>PAP</p>
<p>3. Internal Controls Inability to identify the weakness and gaps in program processes and quality in a timely manner due to</p> <p>a) weak Internal Audit capacity and practice in FD.</p>	<p>Internal audit for the Program will be strengthened by including FD as one of the pilot agencies for the internal audit modernization under the Program.</p> <p>DLR 9.1: Model Internal Audit Charter issued, and risk based internal audit manual issued (\$1mil)</p> <p>DLR 9.2: System for annual procurement planning and, procurement post review established, and training conducted (\$1mil)</p> <p>DLR 9.3: Internal Audit reports issued to two respective heads of the Departments and PAOs (US\$ 1.5mil)</p>	<p>2019</p> <p>2019</p> <p>2020</p>	<p>DLI</p> <p>DLI</p> <p>DLI</p>
<p>4. Auditing Non-compliance with the financial covenants and inability to identify and take remedial measures of performance failure due to</p> <p>a) Lack of response of FD to audit observation (Financial management and procurement post review</p>	<p>A fiduciary DLI 9 to incentivize FD to timely complete the annual audit and resolve audit observations.</p> <p>Training and capacity building of OC& AG on program audit through entity Audit model (Through BETF).</p> <p>The new organization reform at OC&AG office will make the respective directorate more</p>	<p>2019</p>	<p>DLI</p>

Risk	Mitigation measures	Timing	Type of action (PAP, DLI)
	<p>focused on the entity audit concept whereby the entity financial statements expenditure that will include the Program, will be audited and report submitted within six months of the end of the fiscal year.</p> <p>DLI 9: FD audit committee will actively follow-up the effectiveness of resolution process of audit observations both from external and internal auditors.</p>		
<p>5. Procurement and Financial Management Capacity Inefficient and ineffective Program implementation and lack of value for money due to</p> <ul style="list-style-type: none"> a) Absence of distinct procurement unit in FD b) Lack of proficient procurement expert 	<p>Financial management and procurement staff in FD will receive certified training under the Program. Create procurement unit in FD.</p> <p>DLR 10.6: At least 100 civil servants (disaggregated by gender) completed specialized courses (\$4mil)</p> <p>DLR 9.1: Model Internal Audit Charter and risk based internal audit manual issued (\$1mil)</p> <p>DLR 9.2: System for annual procurement planning and procurement post-review established and training conducted in FD (\$1mil)</p> <p>DLR 9.4: Audit committee resolves at least 50% of audit recommendations for selected MDAs including FD and procurement post review finding in FD (US\$ 3.5mil)</p>	<p>2022</p> <p>2019</p> <p>2019</p> <p>2021</p>	<p>DLI</p> <p>DLI</p> <p>DLI</p> <p>DLI</p>
<p>6. Impaired quality of bid evaluation resulting in non-achievement of objective of procurement</p>	<p>Form Bid/ Proposal evaluation committees consisting of right members who have knowledge and experience is procurement of similar goods/services</p>	<p>2019</p>	<p>PAP</p>

Risk	Mitigation measures	Timing	Type of action (PAP, DLI)
7. Supplier community queries/complaints not addressed in a proper / timely manner leading to degradation of quality of procurement and /or disputes	Assign one trained Govt official as procurement focal point (PFP)	3 months from project implementation start	PAP
8. Reduction of public confidence of procurement process resulting in low supplier participation and disputes, ultimately risking public confidence in the reform process conducted by the Program	Maintain a publicly accessible website where all disclosable procurement data will be available and regularly updated.	3 months from project implementation start	PAP
9. Supplier’s complaint and concerns not received, resolved, monitored and reported leading to litigation and lack of competition	Maintain complain register in electronic form following PPR-2008.	3 months from project implementation start	PAP
10. Governance and results risk in procurement	Connect to and register with the national e-GP to process all procurement and use bidding document which approve by development partner Also maintain copies of all procurement related document in its own computer system so that this information is readily available to auditors and other authorized outsider for review	2 months from project implementation start	PAP

Section 5: Implementation Support

71. The fiduciary team will work with the borrower to monitor implementation progress and address underperforming areas identified in the PAP. Fiduciary support includes:

- Reviewing implementation progress and working with the task teams to examine the achievement of Program results and DLIs that are of a fiduciary nature.
- Helping the borrower resolve implementation issues and carry out institutional capacity building.
- Monitoring the performance of fiduciary systems and audit reports, including the implementation of the PAP.
- Monitoring changes in fiduciary risks to the Program and, as relevant, compliance with the fiduciary provisions of legal covenants.

Annex 1: Budget and Account Classification System (BACS)

The new 56-digits Budget and Account Classification System (BACS) was approved by the President in February 2017. The new BACS which has roll-up tables can now meet the current and future demands of the PFM system of Bangladesh as it can derive financial statements that meet IPSAS format, and IMF GFSM 2014. Core segments are assigned to all transactions by users at the time that they are posted into computer-based iBAS++. Conversely, users do not need to enter coding for derived segments since reports are produced automatically from the posted core segments. Core segments comprise four posted segments of 37 digits. These segments are Organization (13 digits), Operation (9 digits), Fund (8 digits), and Economic (7 digits). There are another 3 non-posted segments: Authorisation (1 digit), Function (COFOG, 4 digits), and Budget Sector (4 digits) that are derived within the iBAS++ based on posted data.

Two new tables for additional information —Mode of Payment (1 digit) and Location (9 digits) — are also available to facilitate budget preparation, control, and reporting. Unlike the core posted segments, these will not be posted for all transactions; only limited data will be inserted as and when required. Furthermore, each segment can be configured to provide for varying levels of detail, as deemed appropriate, to expand on existing monitoring/control requirements, or to introduce new informational segments and related reporting elements.

Overall structure of the new BAC System

Segment	Digits	Purpose
Posted Segments (Users to enter data in iBAS++)		
1. Organization <i>(5 sub-levels)</i>	13	Identifies the organisational unit (ministry/division, department, and operating unit) responsible for a transaction.
2. Operation	9	Identifies whether a transaction is for development or non-development purposes and, if part of an activity/project, to which activity/project it relates.
3. Fund	8	Identifies the fund in which a transaction is recorded (Consolidated Fund, Public Account); and for those transactions within the Consolidated Fund identifies whether the Government, a foreign grant, or a foreign loan funds the transaction.
4. Economic <i>(6 sub-levels)</i>	7	Identifies the economic nature of the transaction (tax or non-tax receipts, salaries, goods and services, grants, etc.).
Derived Segments (Pre-defined in iBAS++)		
5. Authorization	1	Identifies whether an expenditure transaction is charged or other expenditure.
7. Function	4	Identifies the purpose of a transaction according to Classification of Functions of Government (COFOG).
8. Budget sector	4	Identifies the budgetary sector to which a transaction should be attributed.
Additional Information		