



Public financial management for FSM services: A gap analysis and some recommendations

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Cover photo: Kushtia Paurashava main building.

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Disclaimer: The views expressed in this *unedited* report are those of the authors and do not necessarily reflect the views of SNV Netherlands Development Organisation. This *unedited* report has been made available to contribute to efforts to professionalise faecal sludge management services.

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Abbreviations

A/C	Account
ABC	Activity Based Costing
ADP	Annual Development Program
APA	Annual Performance Agreement
BDT	Bangladeshi Taka (currency of Bangladesh)
BPS	Benapole Paurashava
CAPEX	Capital Expense
CC	City Corporation
DPHE	Department of Public Health Engineering
ERAS	Environmental Resource Advancement Services
FGD	Focus Group Discussion
FSM	Faecal Sludge Management
GCC	Gazipur City Corporation
GoB	Government of Bangladesh
IRF	Institutional and Regulatory Framework
JAS	Jashore Paurashava
JPS	Jhenaidah Paurashava
KCC	Khulna City Corporation
KDA	Khulna Development Authority
KPS	Kushtia Paurashava
KPI	Key Performance Indicators
LGD	Local Government Division
LGI	Local Government Institutions
LIC	Low Income Community
LRAD	Local and Revenue Audit Directorate
MIS	Management Information System
MoA	Ministry of Agriculture
MoLGRD&C	Ministry of Local Government, Rural Development and Co-operatives
N/A	Not Applicable
NGO	Non-Governmental Organizations
OPEX	Operational Expense
PFM	Public Financial Management
P&L	Profit and Loss Statement
SLA	Service Level Agreement
Sq Km	Square Kilometre
WASA	Water Supply and Sewage Authority
USHHD	Urban Sanitation and Hygiene for Health and Development

Executive summary

This study, commissioned by SNV Netherlands Development Organisation under the assignment titled "*Analysis of Municipal Financial System and Development of Key Performance Indicators (KPIs) for FSM service*", has been designed to identify the gaps in Public Financial Management (PFM) as it relates to the provision of Faecal Sludge Management (FSM) services and suggests recommendations at six local government institutions (hereafter referred to as LGIs) in Bangladesh, namely Khulna City Corporation, Kushtia Paurashava, Jhenaidah Paurashava, Benapole Paurashava, Jashore Paurashava and Gazipur City Corporation.

Across the six studied LGIs, FSM services operates in four of them. Khulna City Corporation and Jashore Paurashava offer FSM services spanning the FSM value chain¹, while Jhenaidah Paurashava and Kushtia Paurashava had subscribed to a SLA/PPP model. Jhenaidah Paurashava had outsourced the emptying, transport and treatment segments of the value chain to a local NGO, while Kushtia Paurashava outsourced the emptying and transport segment and the treatment and re-use segment to a private company. Benapole Paurashava and Gazipur City Corporation do not offer currently FSM services to its citizens but have plans to do so in the future.

In the course of this study, the current financial management processes and procedures followed by the selected LGIs were analysed via secondary research and field data collection through in-depth interviews and focus group discussions with all the relevant departments and personnel of the LGIs in the respective intervention areas. For assessing their gaps in PFM for FSM, the financial management roles and responsibilities, processes, procedures and a variety of organizational process assets were analysed across four broad dimensions of PFM², namely budget formulation, accounting and financial reporting, performance reporting and auditing. The existing process and identified gaps were then compared against global best practices in municipal financial management to arrive at recommendations for instituting a PFM model that would be appropriate for recording, monitoring and objectively analysing the performance of FSM services in order to ensure transparency, facilitate decision-making and improve the financial sustainability of FSM services across all LGIs.

Gaps Identified

Across all the six LGIs, many similarities were found in the broader approaches to the various components of PFM. However, it was also evident that the national policies, and the guidelines issued by the Ministry of Local Government, Rural Development and Co-operatives (MoLGRD&C) left room for manoeuvre by LGIs to decide on their specific PFM processes, procedures and templates. In regard to FSM services, the Conservancy department and Mechanical section (under the Engineering department) are found to be the executing departments, while the Accounts and Finance department are responsible for all financial management processes, including that of FSM. However, none of the LGIs studied had any FSM unit or section to isolate or segregate the activities related to FSM services, meaning that the performance of FSM services could not be analysed independently.

¹ The FSM Value Chain is a cyclical process encompassing (a) containment, (b) emptying, (c) transportation, (d) treatment and (e) disposal/reuse of faecal sludge.

² Adapted from Farvacque-Vitkovic and Kopanyi (2014), *Municipal Finances – A Handbook for Local Governments*, The World Bank.

At a structural level, LGIs were found to have limited revenues from local resource mobilization (local government taxes and fees), which led to a dependence on loans/grants from the central government or development partners, limiting their decision-making capacity. The low level of local resource mobilization also limits employment at LGIs and despite a well-defined hierarchy and organizational chart, many important supervisory positions within department are either left vacant, staffed by junior officers for undefined periods or manned by temporary staff, in many cases without the appropriate capacity building support. Overall, this was found to contribute to persistent unpaid employee overtime and ultimately adversely impacted employee motivation.

Budget Formulation: Although ward committees and the presence of ward councillors at General Council Meetings, where budgets are approved and designed, do offer some level of citizen participation at municipalities, factual participatory budget formulation is found to be lacking at the LGIs. In practice, the Mayor's office wields significant legislative and executive power and provide them the authority to take all major financial decisions, thereby limiting citizens' ability to influence and inform budgetary priorities. What is more, the decisions taken at town level committees and the General Councils were not guided by any overarching strategic priorities or master plans. At the operational level, individual departments and sections within LGIs participate in the budget formulation process by providing their projected estimations for upcoming fiscal years. However, actual budget formulation is not performed utilizing any projection models, but rather using incremental budgeting, where an arbitrary increase is estimated based on historical trends. Such a process necessitates regular revisions of the Annual Budgets towards the end of the Fiscal Year, which adversely impacted financial discipline.

Accounting and Financial Reporting: All the studied LGIs have been found to practice Single-entry bookkeeping, which is an outdated form of accounting that is prone to errors when compared to a double-entry system. All six LGIs subscribed to simplified cash-based accounting rather than an accruals-based accounting. Accruals-based accounting regards transactions as independent of the movement of cash, in line with accepted accounting conventions. As mentioned earlier, there was no segregation of FSM services as separate accounting entity and hence essential financial management documents such as cashflow statements, income and expenditure statements and asset and liabilities registries related to FSM were lacking.

This was reflected in financial reporting as well, where none of the LGIs had offered a high level of precision when deriving cost projections for FSM services in their Annual Budgets (effectively a projected Statement of Receipts and Expenditures), which is the flagship financial reporting publication from LGIs. Most LGIs showed aggregate costs for the Conservancy Department or the aggregate costs for the Health and Sanitation line item. Since there was no line item for FSM service costs in particular, the LGIs did not take the necessary steps to derive cost projections individually for FSM services for any given year. The lack of a double-entry accounting system and accruals basis of accounting all culminated in the inability of LGIs to develop any major financial statements beyond the Annual Budget such as the Trial Balance and the Balance Sheet.

In terms of operational oversight, KCC is found to be the only LGI utilizing a set of checks and balances as an attempt to limit unauthorized service provision and pilferage. This practice is found to be lacking in other LGIs and would take on particular importance if a performance-based system is subsequently developed for FSM services at these LGIs.

Performance Reporting: Budget-actual variance analysis is an old but simple tool for performance measurement. As best practice it helps to identify variances outside an

acceptable range defined by planned targets, for further analysis and corrective action in order to the LGI's financial objectives. However, even this simple tool was underutilized across LGIs.

None of the LGIs applied any cost accounting or management accounting methods, focusing instead on financial accounting, which is solely concerned with the reporting of financial transactions and the financial position of the LGI to its stakeholders. The maintenance of a bank account dedicated to FSM service tariffs, that was maintained by most but not all LGIs offering FSM services, was a poor substitute for a FSM profit and loss statement. The concepts of cost accounting and management accounting are integral to the concept of internally allocating costs to a particular service (in this case, FSM) and seeks to empower management personnel with performance measurement data, that would help improve the operational efficiency of FSM services. However, the concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected across the LGIs.

In fact, the Government of Bangladesh initiated introduction of 'Government Performance Management System' (GPMS) in 2014, to enhance the effectiveness of public policies and service delivery. In 2015, Cabinet Division started signing the Annual Performance Agreement (APA) with the ministries/divisions under the GPMS. The APA provides a summary of the most important results that a ministry/division expects to achieve during the financial year. This document contains not only the agreed objectives, but also performance indicators and targets to measure progress in implementing them. The APA plays a vital role in ensuring transparency, accountability and dynamism in the organizations. By now, the APA has been expanded to all ministries/division, national agencies, City Corporations and WASAs. Yet to be introduced for the Paurashavas. Respective Secretaries of the ministry/divisions sign the APA with the line agencies and organisations they are responsible for. Therefore, the alignment of internal performance-based indicators (KPIs) with the APA would certainly increase the accountability between line Ministry and LGIs.

Furthermore, each of the City Corporations and Municipalities in Bangladesh should have a Citizen Charter describing the municipal services available for its citizens. Among the six studied LGIs, all have Citizen Charters uploaded on their website and available on a board at their office premises except GCC (yet to finalise). GCC and Benapole Paurashava do not have FSM services, while Khulna WASA just initiated their sewerage project. Therefore, nothing is mentioned about FSM or sewer services in their Citizen Charters. Kushtia and Jhenaidah Paurashava mention emptying of Faecal Sludge as one of their services with respective information in their citizen charter. However, only Jhenaidah Paurashava mentions details of fees for emptying services. KCC and Jashore Paurashava do not mention that they provide emptying services, but rather offer renting out of Vacutugs. KCC did not update the information into their Citizen Charter. Both Jashore and Benapole Paurashava follow the same template and include sanitation as one of their services in slums or LICs at free of cost. But did not specifically mention about the type of sanitation services. Overall, the details of the municipal services including FSM are not reflected in the Citizen Charters as intended and are not updated on a regular basis.

Auditing: Overall, larger LGIs (City Corporations) were found to have in place Audit Officer posts for performing internal audits, but this position was found vacant in GCC. Most larger LGIs underwent external auditing on an annual basis performed by the Comptroller and Auditor General's office (the Supreme Audit Institution of Bangladesh under the government), whilst in other LGIs these were performed less frequently - around once every 2-3 years. This was achieved thanks to mandating of external audits and linking successful external audit completion to Annual Development Program (ADP) pay-outs from the central government for the following year. However, the audit reports and findings were not publicly disseminated by the LGIs and audit conferences to discuss audit findings were also not a regular practice, limiting accountability to the public. Moreover, the only instances where audits from

independent third-party Chartered Accountants is found, is in cases when a development project is funded by development partners and an external audit specific to that project is mandated. The Standing Committee of Accounting and Audit, in place at all the LGIs, was found to be ceremonial and largely ineffective in audit affairs.

Recommendations

Taking into account the fact that FSM services form a small portion of a LGI's revenue and breadth of operations, the report's recommendations have been adjusted to be implementation-friendly and offers a flexible model with different options/degrees for implementation that are replicable across various other LGI services (and not just FSM). In deriving recommendations, options were considered that would improve PFM across the four PFM dimensions identified earlier.

The recommended management accounting model begins with the adoption of refined financial accounting practices. Financial accounting recommendations focus on a transition from single-entry cash-based accounting practice to an interim modified cash-basis accounting, and then to a long-term politically-backed adoption of the double-entry accruals-based best practice. New books of entry and financial statements are also recommended such as a FSM Cash Book and accompanying FSM Cashflow Statement, FSM bank reconciliation statement, a simplified balance sheet showing the long-term assets and liabilities of the LGI, and a FSM Profit and Loss Statement.

The adoption of these financial accounting practices will then become the gateway for the introduction of cost accounting and management accounting practices – beginning with the establishment of cost centres and an FSM profit centres for effective overhead allocation via either activity-based costing approach or an interdepartmental transfer pricing mechanism, resulting in a much more accurate picture of the performance of FSM services. This enhanced performance measurement will enable internal decision-making at LGIs in regard to profitability analysis, product pricing, cost

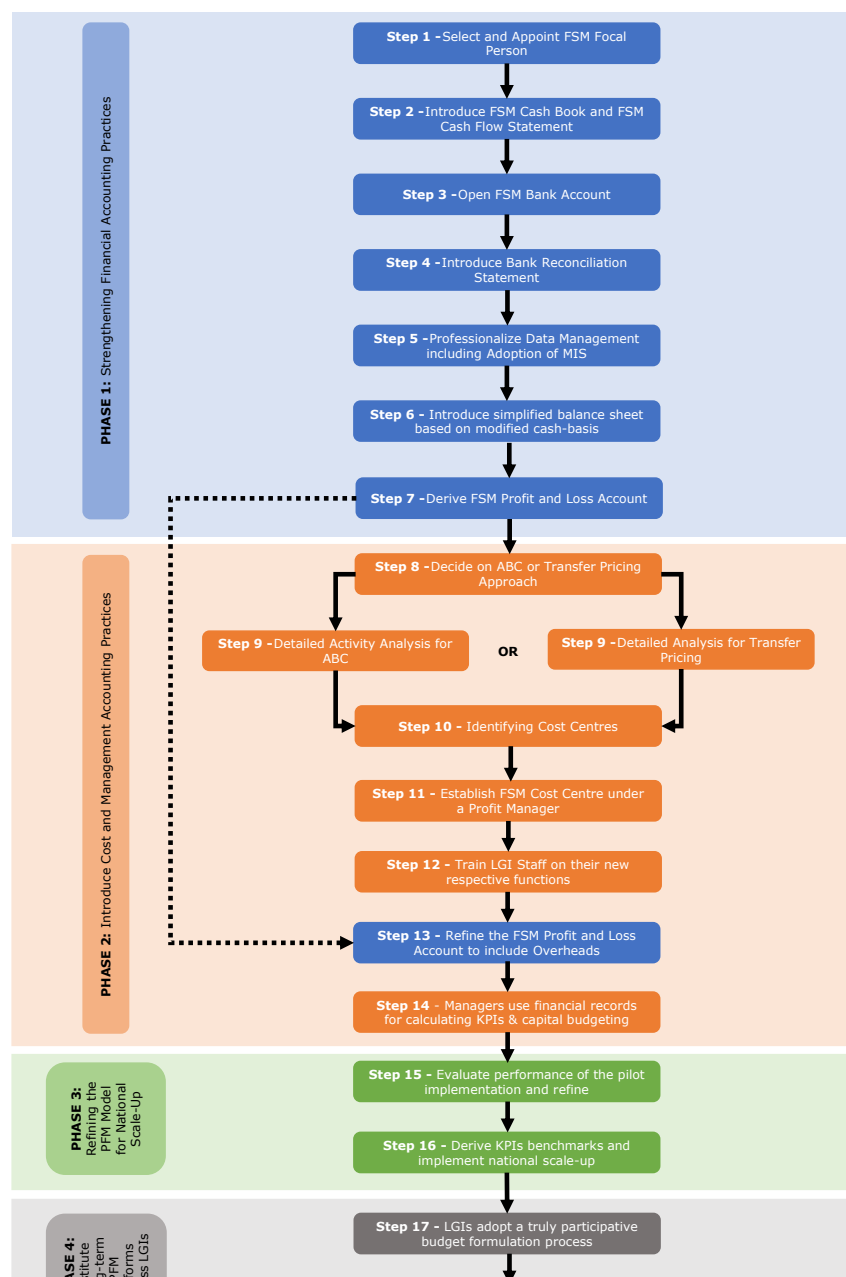


Figure 1: Recommended Steps for Implementing PFM for FSM

rationalization, process improvements, capital budgeting among others, as well enabling better forecasting. The importance of MIS as a catalyst throughout the entire proposed reformation process is also recognized and has been identified as a key recommendation.

From a budget formulation perspective, this report advocates for a more participatory budget dialogue focused on strategic priorities, and devolving decision-making power to citizens from the current centralized structure.

To implement these suggested changes, several immediate, mid-term and long-term recommendations have been formulated – covering 18 steps and spanning 4 phases of implementation as shown in Figure 1 - that can be operationalized with the active involvement of LGIs and wider stakeholder groups including various other LGI departments, the central government and development partners, each with their dynamic interests and priorities. The first two phases are recommended to be implemented on a pilot phase across a small number of selected LGIs to test the feasibility of the PFM model. The third phase proposes how the lessons from implementing the first two phases in a limited scale can be used to refine a national PFM for FSM model for national scale-up, while the fourth and final phase deals with institutionalizing long-term reforms (including a major transition to a fully accrual-based, double-entry method of accounting) to the overall PFM processes across LGIs.

The end-goal of this study is a dynamic FSM unit within LGIs, where FSM managers are empowered with the relevant information and decision-making authority to turn FSM units into commercially sustainable services in order to ensure continued FSM in their respective cities. The use of Key Performance Indicators (KPI) is a major tool for such a shift towards management accounting, performance measurement and analysis and this report forms a precursor to the second report under this assignment – the KPI Development Report.

Definitions of Key Financial Management Terms

Activity - An activity is an event, task, or unit of work with a specified purpose.

Activity Rates (also referred to as Overhead Rates) - Activity rate is the total overhead cost incurred against each activity per unit of its relevant *cost driver*.

Activity-based Costing (ABC) - ABC is a *cost accounting* method that refines costing systems by focusing on individual activities as the fundamental *cost objects*. An activity is an event, task, or unit of work with a specified purpose. ABC systems calculate the costs of individual activities and assign costs to cost objects, such as products and services, on the basis of the activities undertaken to produce each one. For this purpose, the cost accounting systems group activities into cost pools and use them as the basis for assigning costs.

Accruals-based Accounting - A *basis of accounting*, where transactions are accounted as revenues or expenses independent of the movement of cash. Income is recorded when it is earned, even if the money has not yet been received, and Expenses are recorded when they are incurred—not necessarily when they are actually paid. *See also Basis of Accounting and Cash-based Accounting.*

Auditing - Auditing is the process of independent verification of the financial information contained in the accounting records and financial reports. It provides assurance to external persons or entities about the credibility of the information. Auditing may be internal (conducted by the same organization to which the audit relates to) or external (conducted by a third-party organization). *See also Compliance Audits and Financial Audits.*

Annual Budget - In the context of Bangladesh, the Annual Budget is a projected Statement of Receipts and Expenditures for the following Fiscal Year (July to June). It is used both for planning purposes prior to that next Fiscal Year, and as an evaluation tool after completion of that Fiscal Year. *See also Statement of Receipts and Expenditures.*

Balance Sheet (also referred to as Statement of Financial Position) - The balance sheet is a key financial statement which reflects the structure of an organization's long-term and short-term assets and the financing sources (liabilities or equity) used to finance those assets, as of a particular date. *See also Simplified Balance Sheet.*

Bank Reconciliation Statement - A bank reconciliation statement is a summary of banking and business activity that reconciles an entity's bank account with its financial records. The statement outlines the deposits, withdrawals and other activities affecting a bank account for a specific period. The reconciliation statement helps identify differences between the bank balance and book balance, in order to process necessary adjustments or corrections.

Basis of Accounting - The basis of accounting refers to timing of recording a financial transaction, that is, whether it is recorded at the time of its occurrence or at the time of the exchange of cash. *See also Cash-based Accounting and Accruals-based Accounting.*

Financial Audits - A financial audit is a historically oriented, independent evaluation performed for the purpose of certifying the fairness, accuracy, and reliability of the financial data. Financial audits focus on whether financial statements prepared by an entity reflect the financial position of the organization.

CAPEX See Capital Expenditure.

Capital Expenditure - Capital expenditure, capital expense or CAPEX is the money an organization or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land. In the case of FSM services, capital expenditures can include costs for developing a new faecal sludge treatment plant or purchase of a Vacutug.

Capital Budgeting - Capital budgeting a process that businesses can undertake to evaluate potential major projects or investments. Construction of a new treatment plant or the acquisition of a new Vacutug are examples of FSM projects that could require capital budgeting before they are approved or rejected.

Cash-based Accounting - *A basis of accounting*, record keeping works on a strictly cash-in, cash-out basis. That is, financial transactions are recorded only when money actually changes hands. Income is recorded only when money (cash or a check) or revenue is actually received. Therefore, any bills issued are not recorded as revenue, only the tax actually paid in. Conversely, expenses are recorded only when they are actually paid, and not when a bill is received or when an invoice is due. *See also Basis of Accounting and Accruals-based Accounting.*

Cash Book/ Cashbook - The cash book is a ledger in which all cash transactions (whether cash received or paid) are primarily recorded according to date. It is both a book of original entry, in which all cash transactions are recorded as soon as they take place in which the cash aspect of all cash transactions is finally recorded, without posting in the ledger as a cash account.

Compliance Audits - A compliance audit focuses on whether the entity complied with certain rules and procedures regarding the spending of money.

Cost Accounting – A subset of management accounting, cost accounting provides key cost information for managers, helping them both in operation decisions and in analysing operational efficiency. In a cost accounting system, the costs of providing services are managed by measuring each service separately, enabling the manager to monitor the cost of delivering particular services (such as water utility or solid waste management in the context of a local government institution). *See also Financial Accounting and Management Accounting.*

Cost Centre - A cost centre is a department or segment within an organization that does not directly add to profits but still costs the organization money to operate. Cost centres only contribute to the organization's profitability in an indirect manner through operational efficiency, customer service, or by increasing product value. From a management accounting perspective, the main function of a cost centre is to track and control its expenses. *See also Profit Centre.*

Cost Drivers – A cost driver is a factor on the basis of which costs are allocated from a cost pool towards a cost object. Examples of a cost driver could be the hours spent in the case of an accounts officer filling out customer FSM applications or the distance travelled by a Vacutug to provide FSM services.

Cost Objects – Cost objects are individual products and services for which Activity-based costing (ABC) is performed. For example, if an LGI provides emptying services for pit latrines or septic tanks in the capacity of 1 cubic metre or 2 cubic metres. There are four service combinations and hence four cost objects to assign costs to.

Cost Pools – Cost pools are sums of overhead costs, from which costs are apportioned or assigned to different cost objects on the basis of the activities undertaken to produce each unit

of the cost object. Examples of cost pools are overheads such as rent for the entire LGI, or electricity bills for the LGI buildings etc.

Double-Entry accounting - Double-entry accounting, also known as the double-entry system of bookkeeping, is a system in which each transaction has two fundamental aspects, the receiving of a benefit and the giving of a benefit. Both aspects are recorded in the same set of books. The fundamental principle of the double-entry system lies in analysing the two changes involved in a business transaction and properly recording both of the changes in the books of accounts. For the accounts to remain in balance, a debit (Dr) change in one or several accounts must be matched with a credit (Cr.) change in one or several other accounts. Therefore, after a series of transactions, the sum of all the accounts with a debit balance will equal the sum of all the accounts with a credit balance. *See also Single-entry Accounting.*

Financial Accounting - Financial accounting, in contrast to management accounting is concerned with providing information to management and external stakeholders, such as investors, or citizens, on the receipts, expenditures, assets, and liabilities of a municipality. In other words, financial accounting is concerned with the reporting of financial transactions and the financial position of the municipality, monthly, quarterly, and at the close of the financial year. *See also Management Accounting and Cost Accounting.*

Inter-departmental Invoicing - In the context of this report, inter-departmental invoicing refers to an internal billing or invoicing mechanism designed to enable transfer pricing at an operational level between various departments of a local government institution. It is designed to facilitate the process of allocation and transfer costs from Cost Centres to the relevant Profit Centres. *See also Transfer Pricing.*

Management accounting - Management accounting is the process of analysing business costs and operations to prepare internal financial report, records, and account to aid managers' decision-making process in achieving business goals. In other words, it is the act of making sense of financial and costing data and translating that data into useful information for management and officers within an organization. *See also Financial Accounting and Cost Accounting.*

OPEX See Operating Expenditure.

Operating Expenditure - An operating expense, operating expenditure, operational expense, operational expenditure or OPEX is an ongoing cost for running a product, business, or system. In the case of FSM services, operating expense can include manual labour costs for emptiers or fuel costs for Vacutugs.

Profit and Loss Statement - The Profit and Loss statement (P&L), also referred to as an Income Statement, is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year. These records provide information about a company's ability or inability to generate profit by increasing revenue, reducing costs, or both. Note that Profit and Loss Statements can be maintained for an entire entity or, as outlined in this report, for specific departments or services.

Profit Centre - A profit centre is a department or segment within the organization that directly adds or is expected to add to the bottom-line profitability of the entire organization. It is treated virtually as a separate, standalone business, responsible for generating its revenues and earnings. Profit centres are crucial in determining which units are the most and the least profitable within an organization and are usually led by managers or executives (see *Profit*

Centre Manager) who have decision-making authority related to product pricing and operating expenses. *See also Cost Centre.*

Profit Centre Manager - A profit centre manager is the person in charge of overseeing the performance of a profit centre. He/she is held accountable for both revenue and costs (expenses), and therefore for profits. The manager is also accountable for driving the sales revenue generating activities which lead to cash inflows and at the same time controlling the cost-generating activities related to the products or services originating from the profit centre.

Statement of Receipts and Expenditures - The Statement of Receipts and Expenditures is a key part of a comprehensive annual financial report of a local government institution and at its fundamental level includes (a) Revenues, (b) Expenses such as expenditures, encumbrances, other financing uses, and (c) the surplus or deficit resulting from all the revenue and expenditure items that reflects the change in the fund balance.

Simplified Balance Sheet - In the context of this report, a simplified balance sheet is a partial balance sheet, proposed to be adopted in LGIs which are able to transition on an interim basis to a modified cash-based accounting, to list their long-term assets and liabilities. *See also Balance Sheet.*

Single-entry Accounting - Single-entry accounting systems record transactions line by line, in the order of occurrence, to a simple journal or cash book. Organizations following single-entry accounting record only one aspect of a transaction in the account books. Those records, however, are not integrated into the financial statements and at best are attached as memo items to financial reports. Thus, the single-entry system does not provide a comprehensive picture of the financial affairs of the entity and for that reason is not a preferred method of accounting. *See also Double-entry Accounting.*

Transfer Pricing - Transfer pricing is an accounting practice that represents the price that one division or segment in an organization charges another for goods and services provided. Transfer pricing allows for the establishment of an artificial prices for the goods and services exchanged. In the context of this report, transfer pricing is viewed as a tool to attribute and transfer costs from Cost Centres and ensure cost accountability for services provided by local government institutions. *See also Cost Centre.*

Trial Balance - A trial balance is a bookkeeping worksheet in which the balance of all ledgers is compiled into debit and credit account column totals that are equal. A company prepares a trial balance periodically, usually at the end of every reporting period. The general purpose of producing a trial balance is to ensure the entries in a company's bookkeeping system are mathematically correct.

Background of the Study

This study, commissioned by SNV under the project titled "*Analysis of Municipal Financial System and Development of Key Performance Indicators (KPIs) for FSM service*", has been designed to identify the gaps in Public Financial Management (PFM) as it relates to the provision of Faecal Sludge Management (FSM) services and suggest recommendations, at six LGIs in Bangladesh, namely Khulna City Corporation, Kushtia Paurashava, Jhenaidah Paurashava, Benapole Paurashava, Jashore Paurashava and Gazipur City Corporation.

Chapter 1 of this report starts with an introduction of the present state of sanitation of Bangladesh, identifies the key stakeholders involved and describes how FSM services provision, under the umbrella of WASH, has been empowered by recent regulatory reforms to become a more independent unit under the local government institutions (LGIs). The chapter further elaborates on the four key PFM objectives and identifies global best practices as they relate to PFM at LGIs. From a broad level, the chapter then outlines the PFM processes and frameworks as they relate to Bangladesh and closes with a description of the methodology utilized in the course of this assignment.

Building on secondary data and primary consultations, Chapter 2 of this report expands on the field findings regarding PFM for FSM as seen in the six LGIs that were the focus of this study. Each sub-section under Chapter 2 elaborates on the findings across each of the six LGIs, structured according to the four PFM objectives. The final subsection of Chapter 2 summarizes and consolidates the field findings across the six LGIs and comments on the gaps that were observed when comparing with best practices.

Chapter 3 of this report focuses on the recommendations for LGIs on how they can institute the identified best practices going forward in consideration of the status quo. The recommendations in Chapter 3 are organized in a chronological sequence and outlines staggered immediate, short-term, mid-term and long-term reforms required to implement a robust PFM for FSM at LGIs nationwide. Chapter 4 closes the report with concluding remarks that summarize the key findings and recommendation from the report.

This report forms a precursor to the second report under this assignment – the KPI Development Report. The KPI Development Report will be designed to outline and elaborate on indicative Key Performance Indicators as they relate to service efficiency and financial management for provision of FSM services, which will be recommended for adoption and subsequent replication by various tiers of Local Government Institutions (LGIs) Bangladesh.

1 Introduction

1.1 Present State and Institutional Set-up of FSM in Bangladesh

In Bangladesh, following significant investment in latrine building and improving access to sanitation, there is now the acute problem of managing the waste produced. Access to sewer networks with treatment plant is very limited and expensive to maintain, and is not available outside Dhaka City. As a result, most sanitation is on-site which needs periodic emptying and safe disposal. Limited emptying services are available by City Corporations and Paurashavas in the country but are heavily subsidized.³

According to the national institutional and regulatory framework (IRF) for Faecal Sludge Management (FSM), local government institutions (LGIs) such as City Corporations and Paurashavas are charged with the responsibility of FSM to their residents. But this is not being done universally due to lack of proper understanding of the subject and lack of resources. As a result, accumulated sludge overflows into nearby drains which causes adverse impact on both public and environment health.

With the help of government agencies such as Department of Public Health Engineering (DPHE) and Local Government Engineering Department (LGED), and various development partners, some LGIs are now promoting safe faecal sludge collection by highlighting best practices (mechanical emptying), imposing restrictions on unsafe practices, and outsourcing partly or fully services to interested private operators and also formalizing the informal sector through training and licensing. These measures will drive the demand for improved services, will improve hygiene, and enable business development and job creation.

1.1.1 Mandate of City Corporations and Paurashavas

The Local Government (City Corporation) Act, 2009 and the Local Government (Paurashava) Act, 2009 mandated that LGIs (City Corporations and Paurashavas) are responsible for provision of sanitation services within their jurisdiction. In order to deliver sanitation services, the Paurashavas and City Corporations are allowed to charge a variety of taxes or charges including that for "Conservancy" and "Water", which contribute to the provision of these services and are based on the valuation of holdings based on their rental value (or estimated construction costs in the case of government-owned holdings). In addition to these, Paurashavas are allowed to levy a special tax, the Sanitation tax, at a maximum rate of 12%.

In addition to City Corporations and Paurashavas themselves, the central government and its cabinet ministries, specialized departments within these ministries as well as the NGO sector and the development partner community play a key role in shaping the WASH public institutional framework in Bangladesh. The Figure 2 below outlines the relationships and responsibilities of these stakeholders in further detail.

³ Practical Action, PPP led improve FSM services in Faridpur Paurashava, Bangladesh.

Bangladesh WASH Public Institutional Framework – *Status Quo*

All institutions are under the Ministry of Local Government, Rural Dev. and Cooperatives (MoLGRD&C)

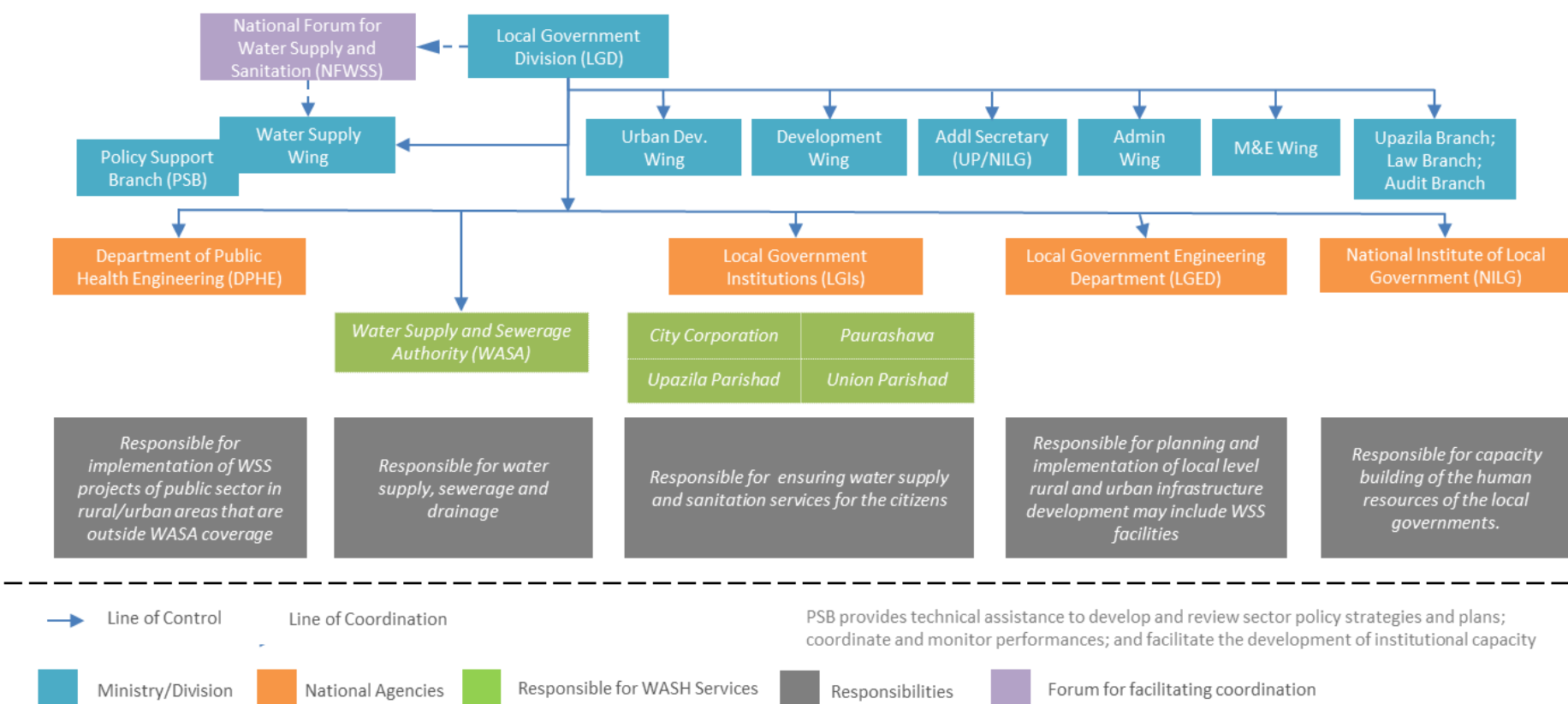


Figure 2: Bangladesh WASH Public Institutional Framework – Status Quo

1.1.2 Opening up FSM services to Private Sector Participation

Paurashavas and City Corporations also have mandates for FSM through the respective Local Government Acts further detailed out in the Institutional and Regulatory Framework (IRF) for FSM. The IRF lays out the institutional roles and responsibilities to implement FSM services by different institutions in these two LGI contexts.

Published by the Policy Support Branch (PSB) under the Ministry of Local Government, Rural Development and Co-operatives (MoLGRD&C), IRF officially recognizes that an appropriate institutional arrangement is a prerequisite for effective FSM. With that goal, it identifies specific roles and responsibilities depending on existing local conditions, skill, strength and commitment of institutions for effective, safe and sustainable FSM services. The IRF clearly delineates roles for sanitation stakeholders, grouped according to ministries, local government institutions and line agencies, institutions participating in capacity building and institutions participating in awareness building.

The IRF is a particularly prominent regulatory framework as, for the first time in Bangladesh, it opens up the possibility of private sector participation in all stages of the FSM service chain under a PPP framework. Local Governments in Jhenaidah, Kushtia, Faridpur, Rangpur, Dhaka & Chittagong are some of the LGIs that have adopted a PPP model for FSM service.

1.2 Global Best Practices in PFM

Public Financial Management (PFM) refers to the set of laws, rules, systems and processes used by central and local governments, to mobilise revenue, allocate public funds, undertake public spending, account for funds and audit results.

Public Financial Management is crucial for LGIs as it enables them to plan, mobilize, and use financial resources in an efficient and effective manner, as well as fulfilling their obligation to be transparent and accountable to its citizens. The scope of PFM goes beyond simple revenue and expenditure tracking, as it covers fiscal discipline spanning the entire breadth of operations of an LGI. This chapter seeks to uphold and present some of the globally identified best practices along the four following PFM dimensions:

- **Budget formulation** – This first phase of the PFM cycle commences with the planning of budgets, i.e. the planned income and expenditure parameters for a local government. Budgets should be designed to provide operational and financial plans for the attainment of the local government's goals based on both financial (contributions and revenue mobilization) and non-financial information (such as community priorities, policy, and political considerations).
- **Accounting and Financial Reporting** – Accounting relates to the process of execution of the planned budget as it involves classification and documentation of various financial transactions of the local government as they happen and feeds back into the budget formulation of the following cycle. Reporting is performed at the end of accounting milestones and is designed to provide aggregate figures on the LGI's revenues, expenditures and financial standing to the LGI's wider stakeholders and is essential from a public transparency perspective.
- **Performance Reporting** - Performance reporting is concerned with measuring and comparing the efficiency of a public organization in terms of financial and non-financial resource management.
- **Auditing** - Auditing is the process of independent verification of the financial information contained in the accounting records and financial reports. It adds an extra layer of authentication of reported information and provides assurance to external persons or entities about the credibility of the information.

The following sub-sections explore the best practices along each of these PFM dimensions based on a World Bank study by Farvacque-Vitkovic and Kopanyi⁴.

1.2.1 Budget Formulation

The budget is the annual financial plan of a local government, which defines its operational and development priorities for the ensuing financial year and describes how the plans will be financed. The budgeting process is vital in laying out the city's choice of expenditure priorities and identifying the resources necessary for the realization of planned expenditures. Figure 3 below illustrates the budget cycle a budgeting process should ideally follow.

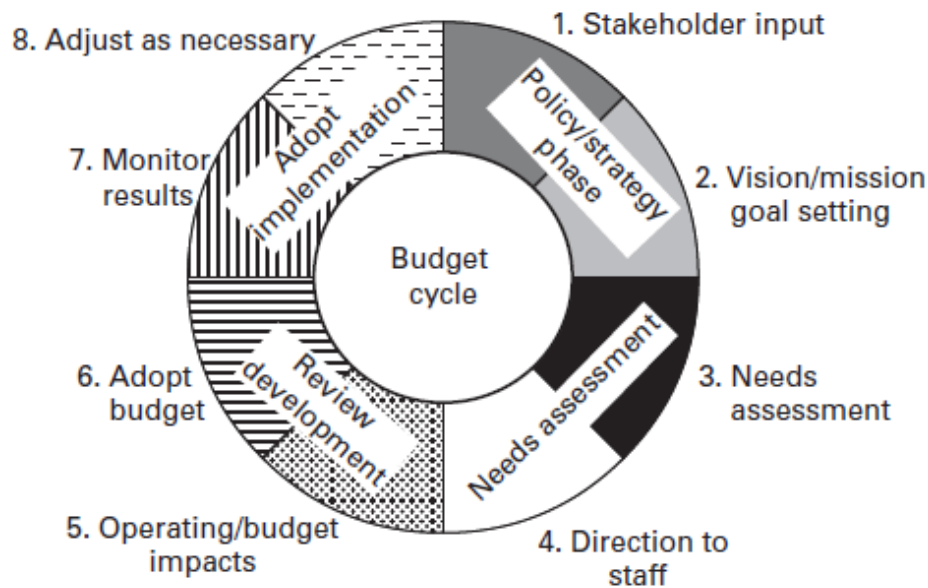


Figure 3: The Budget Cycle (Source: Farvacque-Vitkovic and Kopanyi)

Best Practices in Accounting Budget Formulation at LGIs according to Farvacque-Vitkovic and Kopanyi include:

- **Policy/Strategy phase:** Relating to the first two phases of the Budget Cycle illustrated above in Figure 3, a sound PFM system should ensure that public resources are allocated to agreed strategic priorities and should spur reallocation from lesser to higher priorities—in other words, should ensure that allocative efficiency is achieved. The optimal budget formulation process strives to channel scarce resources into meaningful services to the community, and in doing so considers perspectives from three (sometimes competing) levels, namely the national level, the local government level, and the community level. The National Advisory Council on State and Local Budgeting (NACSLB) in the United States advised that budget process should encompass a multi-year financial and operating plan that allocates resources on the basis of identified goals.
- **Needs Assessment:** Relating to the third and fourth phases of the Budget Cycle illustrated above in Figure 3, Budget formulation should consider the needs and demands of local citizens who are the main beneficiary of the LGI's services. The term participatory budgeting relates to a democratic process in which citizens or community members are directly involved in decisions about how to spend all or a part of a local budget, usually through a voting or collective decision-making process where residents themselves identify the most important local needs, generate ideas to respond to those

⁴ Farvacque-Vitkovic and Kopanyi (2014), *Municipal Finances – A Handbook for Local Governments*, The World Bank

needs, and choose budget representatives for each community. Standing committees on finance are city executive bodies found commonly in local governments in South Asia (including Bangladesh – see Chapter 2), where city councils may hold hearings to obtain the advice and opinions of key stakeholders. Only after completing its examinations, the city council adopts the budget by passing a local appropriations act or council resolution.

- **Direction to Staff:** Relating to the fourth phases of the Budget Cycle illustrated above in Figure 3, from a procedural perspective, the budget formulation process within LGIs should ideally begin with the finance department sending out a budget circular for the following fiscal year to all local government departments, agencies, or entities. The circular should include (a) the budget planning calendar; (b) instructions for preparing budget plans; (c) an indication of what funds are likely to be available; and (d) overall priority directions from the executive leadership. Good practice suggests that it is necessary to plan ahead and set up a calendar with specific dates for each unit, specifying the deadline for submission of their financial data to the accounting department.
- **Review Development and Adopt Implementation:** Relating to steps 5-8 of the Budget Cycle illustrated above in Figure 3, a good budget process should move beyond the traditional concept of line-item expenditure control and work to enhance performance monitoring, providing incentives and flexibility to managers that can lead to improved program efficiency and effectiveness. This concept is closely related to the practice of management accounting explored in the following sections.

1.2.2 Accounting and Reporting

Accounting processes provide the basic financial information required for preparation of the budget and financial reports and data to communicate with clients and partners such as lenders or higher-level governments. Accounting information includes specific figures on revenues earned and expenditures incurred within a specific period (usually a financial year) and information on assets and liabilities of the entity.

From a stakeholder perspective, the key output of the accounting function is financial reporting. Financial reporting provides a consolidated set of information to a wide range of stakeholders that require information about an entity, and includes citizens, the LGI employees, the central government, investors and creditors as well as suppliers, among others. The objective stems largely from the needs and interests of those users, who lack the ability to gather the information they need and therefore must rely, at least partly, on the entity's financial reports.

Best Practices in Accounting and Financial Reporting according to Farvacque-Vitkovic and Kopanyi⁵ include:

- **Combination of Financial and Management Accounting:** Various types of accounting exist, and each plays a specific role in the financial management of organizations. It is best practice to perform both financial and management accounting (which also encompasses cost accounting), and not just financial accounting. The key difference between financial and management accounting is that financial accounting aims at providing information to parties outside the organization, whereas management accounting information is aimed at helping managers within the organization make decisions. The ideal PFM system should ensure that operational efficiency is achieved, in the sense of achieving maximum value for money in the delivery of services. Management accounting makes use of tools and analytical techniques rooted in cost analysis, cost behaviour and cost variances in optimizing operational efficiency.

⁵ Farvacque-Vitkovic and Kopanyi (2014), *Municipal Finances – A Handbook for Local Governments*, The World Bank

- **Double entry system of accounting/bookkeeping** – There are two dominant accounting systems prevalent among LGIs – single entry and double entry bookkeeping. Single-entry bookkeeping is a simple and straightforward method of bookkeeping in which each transaction is recorded as a single-entry in a journal. This is a cash-based bookkeeping method that tracks incoming and outgoing cash in a journal. Double-entry bookkeeping, on the other hand, is a method of recording transactions where for every business transaction an entry is recorded in at least two accounts as a debit or credit. Although they are rare in developing countries, double-entry accounting system are widely accepted to be best practices and are followed by LGIs in developed countries. Double entry bookkeeping allows for tracking of asset and liability accounts, accurate calculation of profit and losses in complex organizations and the preparation of financial statements directly from the books, making errors or frauds easier to detect.
- **Accrual Basis of Accounting** - The “basis” refers to the timing of recording a financial transaction, that is, whether it is recorded at the time of its occurrence or at the time of the exchange of cash. The former is called accrual-based accounting, and the latter is called cash-based accounting. Of the two, accrual-based accounting is the preferred basis as it (a) records income when it is earned, even if the money has not yet been received and (b) records expenses when they are incurred—not necessarily when they are actually paid, in line with preferred accounting conventions.
- **Digitization of Records and Management Information Systems** - Computerized accounting and management information systems can offer convenient solutions in which each transaction is entered only once and automatically posted in various accounts, journals, and ledgers. They are generally more secure and accurate than manual systems and help to shift the focus of accounting from registering transactions to providing timely and structured information to those who need it, such as the mayors and executives, councils, and citizens. LGIs can use a MIS to track the patterns of its revenues and expenditures and also open up limitless avenues for advanced data insights such as geographic and geo-spatial analysis, automatic generations of trends and projections as well as real-time dashboards and publications.
- **Budgetary reporting to City Council** – As a best practice, LGI executives should report to the city council regarding progress in budget execution during the course of a financial year in monthly budgeted/actual reports and variance analyses. These reports are also internal, helping the city council know whether the approved budget is being executed in accordance.
- **Financial Accounting Standards Board (FASB) standards** – According to standards set by FASB⁶, a globally recognized standards body, the qualitative characteristics required in good financial reporting include Relevance, Faithful representation, Comparability, Understandability, Materiality, and that the benefits of financial reporting information should justify the costs of providing and using it. Although it is an American guideline, it can be considered a best practice elsewhere, too.

1.2.3 Performance Reporting

Performance reporting, as it relates to PFM, is concerned with measuring the efficiency of a public organization in terms of resource management. Where such measures are used, generally level indicators are used for tracking the effective and efficient use of financial resources in such areas as local taxation and invoice payment.

Some of the best practices identified for performance reporting according to Farvacque-Vitkovic and Kopanyi include:

⁶ FASB (Financial Accounting Standards Board). 2000. Statement of Financial Accounting Concepts. Norwalk, CT: FASB; www.fasb.org.

- **Budget-Actual Variances** – At its heart, budgets are instruments of fiscal discipline and control. Budget-actual variance analysis is an old and simple tool for performance measurement, and helps identify variances outside an acceptable range as defined by the planned targets, for further analysis and corrective action in order to the LGI's financial objectives.
- **Robust Data Management Framework:** Effective performance reporting, as cited in the case of New York City, relies on a formal internal framework of data collection and treatment, referred to as city-wide performance reporting, with integrated operational data residing in disparate databases developed and maintained by specialized departments/agencies⁷.
- **Use of non-Financial Performance Measures:** More and more local governments are realizing the importance of non-financial measures such as their performance in the achievement of its development goals and programs. These measures are increasingly gaining prominence, an example of which is the *Service Efforts and Accomplishments reporting* initiative of GASB in the United States that introduces standards for performance reporting (to assess governments' effectiveness in achieving their goals and objectives) along with the standards for financial reporting for local governments.
- **Culture of uniformity and comparison:** All Performance require baseline or historical data for comparison, without which the measures will have no context. It is common practice in municipalities in U.S. to have internal comparison mechanisms to contrast results from one year to the next or from one service or department to another and to point out main trends. External comparisons (that is, comparisons among different local governments), although very desirable, remain poorly developed for various technical and political reasons.

1.2.4 Auditing

Auditing is the process of independent verification of the financial information contained in the accounting records and financial reports. It provides assurance to external persons or entities about the credibility of the information. Auditing consists of a series of sequential steps, including evaluation of internal controls and testing the substance of transactions and balances. In the public sector, compliance with the rules and procedures for public expenditures take on special prominence and so does ensuring that public funds are not misused or misappropriated.

Identified best practices according to Farvacque-Vitkovic and Kopanyi as they relate to the auditing process are as follows:

- **Internal Audits** – Aside from external auditors, who are called upon to conduct audits on a needs-basis or at regular intervals, it is best practice to have internal auditors or controllers within LGIs who can perform auditing functions on a routine basis. This can alert the LGI more quickly to issues in financial management and take corrective action rather than act in a retrospective manner as in the case for external audits. In addition, internal audits should focus equally on the revenue side (including investigating revenues lost, missed or forgiven) as for the expenditure side.
- **External audits** - External audits are performed by parties or service providers who are external to the LGIs and hence are considered unaffiliated and free from bias to conduct the audit process. External audits play a significant role in enhancing the accountability of municipal governments, in addition to providing valuable feedback to city management on the quality of the city's financial management. External audits are becoming more and more prevalent in LGIs, as governments take steps to make

⁷ Farvacque-Vitkovic and Kopanyi (2014), *Municipal Finances – A Handbook for Local Governments*, The World Bank

mandatory external audits by tying in audits and compliance requirements with various incentives.

- **Expedited Audit Follow-Ups** - Audit follow-ups are a critical part of the audit process. The findings of the auditors are expressed in the form of an opinion concerning the fairness with which the financial statements present the organization's financial position, operating results, and cash flows. In the management letter, auditors point out specific issues that the city management needs to rectify to improve the quality of its financial management and reports. The auditor communicates the results of his or her audit work to interested users through the audit report. LGI executives must respond to the audit observations diligently and have them rectified by the time of the subsequent audit. LGIs generally take a lengthy approach to responding which can reduce the urgency and perceived importance of recommended corrections, and hence it is best practice to expedite audit follow-up responses from LGIs, either through incentives or coercion.
- **Both Financial and Compliance audits** - External audits carried out by public sector auditors are often compliance audits in which the auditors verify whether the entity's expenditures are in accordance with the government's rules and procedures. Local citizens and other stakeholders, such as lenders, are also interested in knowing about the quality of the municipality's financial management. Hence, municipal governments should undergo both financial and compliance audits, done together or separately.
- **Greater role of the city councils** - in many local governments, audits are handled by the executives, with little involvement by the municipal council. This should not be so as the best practice is to keep the city council fully abreast of the audit observations and make it a priority to ensure that the executives take prompt corrective actions. As a good practice for strengthening social accountability, audit observations and the corrective measures taken could be shared with citizens and other stakeholders, published on the city's website or on public notice boards.
- **Audit conferences** - Also linked to audit transparency, some developing countries have introduced the practice of audit conferences, in which the auditor, the audited LGI, and the supervising line ministry sit together to go over the audit observations and resolve issues through discussions. Such a process expedites, and reinforces the importance of, a prompt response to audit observations by LGI executives.

1.3 Public Financial Management in Bangladesh

After identifying global best PFM practices, this section applies the above findings to Bangladesh context and divides and elaborates the financial practices of local governments in four broad categories: Budgeting, Reporting and Accounting, Performance Reporting, and Auditing. It is important to note that the institutional framework of public financial management in Bangladesh is under transition and is undergoing positive improvements.

1.3.1 PFM Objective 1: Budgeting

The budget preparation of a local government falls under the responsibility of the Accounts section. The Accounts section invites all the departments of the Paurashava to submit their newly proposed budget for the upcoming fiscal year. Once received, the Accounts section then compiles all the proposals from respective departments into a unified draft budget. Upon compilation, this draft budget is sent to the "Finance and Establishment Standing Committee" and then is presented in front of the General Council for approval.

Since the national budget formulation in Bangladesh is a bottom-up approach, the consolidated and council-approved budget is forwarded to the LGD for further processing and then to the

Ministry of Finance and Ministry of Planning for the final approval⁸. *Figure 4* below visually depicts the budget formulation and execution process as outlined in JICA's Operational Manual on Paurashava Budget Formulation, Execution and Monitoring.

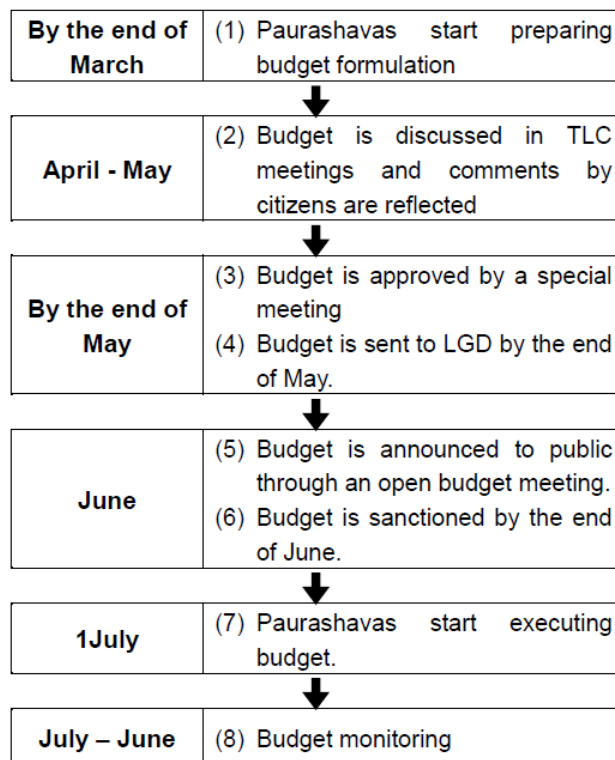


Figure 4: Budget formulation and execution process (Source: JICA⁹)

Local governments usually treat the budget rather as a legal exercise than as a monitoring (efficiency, transparency and accountability) tool. The budget is usually prepared in the traditional manner where the revenue estimates are prepared by totalling arrears and current demand for taxes, and by increasing other revenues by arbitrary percentages. Due to the legal mandate to provide a balanced budget, the expenditure of a local government is conditioned by the resources available under LGI. Hence, most local governments with low revenue receipts tend to provide low expenditure as well and this on the hindsight impacts the overall quality and nature of the services provided.

1.3.2 PFM Objective 2: Accounting and Reporting

Local governments follow the cash accounting procedure, in accordance with the Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) adopted from International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), prescribed and recommended by the Institute of Chartered Accountants in Bangladesh (ICAB). The Accounts Section and Finance Department practice the single-entry bookkeeping method, and adopts a cash-based accounting model which heavily relies on journals and cash-book entries. The Annual Budget (a de-facto projected Statement of Receipts and Expenditures for the Fiscal Year) acts as the major financial publication.

⁸ ADB, Additional Financing of Third Urban Governance and Infrastructure Improvement (Sector) Project (RRP BAN 39295).

⁹ JICA (2015), *Operational Manual on Paurashava Budget Formulation, Execution and Monitoring*.

The organizational system of the local governments ensures adequate segregation of duties with the finance and accounts department being responsible for billing, bill payment and management of revenue receipts. Authorization recording, payments and reconciliations are further segregated among staff of the accounts team. On the other hand, the administrative departments are responsible for procurement of equipment and services for the operations of a system and maintains registry for both the inflow and outflow of cash within each department.

1.3.3 PFM Objective 3: Performance reporting

Budget-actual variance analysis as a tool for performance measurement is underutilized across LGIs. None of the LGIs applied any cost accounting or management accounting methods, focusing instead on financial accounting, which is solely concerned with the reporting of financial transactions and the financial position of the LGI to its stakeholders. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected across the LGIs.

However, the Government of Bangladesh initiated the introduction of 'Government Performance Management System' (GPMS) in 2014 in light of the recommendations of the Public Administration Reforms Report-2000 and National Integrity Policy- 2012¹⁰. The GPMS is a framework which has been formulated to enhance the effectiveness of public policies and service delivery. The system works on a result-based management by holding agencies accountable at the outcome and output level, and providing flexibility at the activities at input level. It is one the most comprehensive interventions to improve productivity and service delivery in the public sector.

Subsequently, from 2015, Cabinet Division started signing the **Annual Performance Agreement** (APA) with the ministries/divisions under the GPMS. The APA provides a summary of the most important results that a ministry/division expects to achieve during the financial year. This document contains not only the agreed objectives, but also performance indicators and targets to measure progress in implementing them. The APA plays a vital role in ensuring transparency, accountability and dynamism in the organizations. The agreement helps increasing responsibility and efficiency of the officials of the respective organisations. Under the agreement the ministries would ascertain vision, mission and strategic goals in consistence with the development priorities of the government, long term perspective plan, five-year plan and allocation and business and budgetary allocation of the ministry. By now, the APA has been expanded to all ministries/division, national agencies, City Corporations and WASAs. Respective Senior Secretaries/Secretaries of the ministries/divisions sign the APA with Chief Executive Officers of the line agencies and organisations they are responsible for.

Every year, the Cabinet Division circulate a guideline for formulation, monitoring and evaluation of the APA highlighting the government's priorities for the respective year. Based on the guidelines respective organisations prepare APA and signs with their higher-level office, for example DPHE, LGED, KCC, KWASA signed agreement with Senior Secretary of LGD. Targets of these organisations are reflected in the APA signed between the ministry/division and the Cabinet division. In each of the offices a team has been formed to review progress on a monthly basis, prepare quarterly, half-yearly and annual progress report. The APA includes strategic objectives, activities, performance indicators and targets. At the end of the year, all Ministries/Divisions review and prepare a Performance Evaluation Report listing the achievements against the agreed results.

¹⁰ Bappy Rahman, Government Performance Management System in Bangladesh (<https://www.daily-sun.com/arcprint/details/294812/Government-Performance-Management-System-in-Bangladesh/2018-03-13>)

LGD is yet to introduce APA for the Paurashavas. However, a separate monitoring system is being practiced for Paurashavas, the Paurashava Performance Evaluation Form. The Deputy Directors, Local Government (DD-LG) based in the respective districts, conduct assessments based on a template introduced by LGD. In addition, LGD collects infrastructure development related information from Paurashavas through DD-LG on a quarterly basis. However, sanitation related information is missing here. LGC collects this information to report against the APA they made at LG level.

While under the APA, agencies/LGIs report to line ministries, the ***citizen's charter*** informs the public about the availability of public services. Generally, a citizen's charter includes the vision and mission of the agency and its operations, details on standards, quality, time frame for delivery, and redress mechanisms, scope for choice and consultation of service delivery, non-discrimination, and demonstrated value for money. The Charter also seeks to assure accessibility and courteous services.

The traditional approach to governing in Bangladesh did not take into account citizen's expectation for quality services. It was necessary to introduce changes in the way the government conducted its business. The concept of Citizen's Charter is the direct outcome of the recommendations given by the Public Administration Reform Commission (PARC) in 1997, which was mandated to recommend policies, programmes and activities to improve the level of efficiency, effectiveness, accountability and transparency in public organisations. In 2007, the government adapted Citizen's Charter in government offices for the first time. Consequently, The Secretariat Instruction (2008) of Bangladesh has given details to formulate and publish Citizen's Charter. There is a very close relation between the Right to Information (RTI) Act 2009 and the Citizen's Charter Initiative. The rapid adoption of this Act is recognition of the importance of the citizens' access to information as a catalyst for strengthening democracy, promoting human rights and good governance, and fighting corruption.

In spite of the top-down approach adopted in Bangladesh, the Citizen's Charter constitutes an important framework of local level administration and service delivery. Therefore, it is important that the charter is effectively implemented to ensure improved service delivery, poverty alleviation and an accountable and transparent public administration. LGIs and WASA are mandated to provide sanitation and sewerage services to the citizens of their jurisdiction area, therefore the sanitation and sewerage related service information must be included into their Citizen Charters.

1.3.4 PFM Objective 4: Auditing

A local government undergoes auditing in three instances: Internal Audit, External Audit for Entity Level and External Audit for specific projects:

- **Internal audit.** In City Corporation, there is a designated role within the Accounts section for performing the internal audit of the LGI. LGIs (both Paurashavas and City Corporations) also have a Standing Committee for Audit and Inspection. If any serious issues are uncovered by the internal auditor, these issues are discussed with the Standing Committee for Audit and Inspection and the summary of the discussion placed before the General Council for approval.
- **External audit for entity level.** The Office of the Comptroller and Auditor General of Bangladesh conducts the external audit of the local governments. Specifically, the Local Government and Rural Government Audit Directorate, under the Office of the Controller and Auditor General, have the constitutional mandate to conduct external audits of LGIs and their accounts. Annual audit reports are typically produced within 6 months of the end of the financial year. Formally, the compliance/financial audit performed by LRAD includes¹¹:

¹¹ Defence Audit Directorate (2018).

- Audit against provision of funds to ascertain whether the money shown as expenditure in the accounts was authorized for the purpose for which it was spent.
- Audit against rules and regulation to see that the expenditure incurred was in conformity with the laws, rules and regulations framed to regulate the procedure for expending public money.
- Audit of sanctions to expenditure to see that every item of expenditure was done with the approval of the competent authority in the government for expending the public money.
- Propriety audit which extends beyond scrutinizing the mere formality of expenditure to its wisdom and economy and to bring to light cases of improper expenditure or waste of public money.
- While conducting the audit of receipts of the government, the Comptroller and Auditor General satisfies him that the rules and procedures ensure that assessment, collection and allocation of revenue are done in accordance with the law and there is no leakage of revenue which legally should come to government.

The Comptroller and Auditor General of Bangladesh is mobilized at the request of the MoLGRD&C, which issues an "Audit Demand" to the Office of the Comptroller and Auditor General of Bangladesh with list of LGIs where audits are to be performed. LRAD is the dedicated directorate within the Comptroller and Auditor General of Bangladesh for conducting audits of local government bodies.

- **External audit for project level.** The Foreign Aided Projects Audit Directorate (FAPAD), also under the Office of the Controller and Auditor General has the constitutional mandate to conduct external audits of donor-funded projects and related accounts, including all subaccounts. This unit has expertise on loan procedures and loan negotiation documents. The unit reviews compliance with actual procedures based on the approved loan agreements, and reviews tax payments and disbursements.

In certain cases, LGIs appoint external third-party auditors, generally Chartered Accountant firms, to conduct independent audits. In most cases, such audits are done in cases where a development project has been funded by development partners and an external audit specific to that project had been mandated as part of the contract.

1.3.5 PFM-related policies and regulations relevant for Local Government

The responsibilities and functions of a local government in Bangladesh are most prominently specified in the Public Procurement Rules (including the Public Procurement Act, 2005 and Public Procurement Rules, 2008). Alongside this, the Local Government (City Corporation) Act, 2009 also acts to enable decision-making through participation of relevant stakeholders and brings accountability and monitoring into the Budgeting, Accounting and Reporting, and Auditing components of a local government. The guidelines however provide a general approach towards financial management and hence each local government can introduce unique adoptive measures to maintain their own financial management processes. Some of the legal mandates that pertain to financial management by LGIs in Bangladesh are listed below:

- **Constitutional Provision Article no. 59(1) and 60** - Elected bodies are empowered to impose taxes for local purposes and prepare budget. This constitutional act authorizes local government to cater to local development and provide civil services to the citizens while generating revenue via Local Resources Mobilization (LRM).
- **Local Government (Paurashava) Act, 2009** - Provides a general guideline for municipalities to conduct authorized roles and responsibilities. The Paurashavas do have a degree of freedom to adopt internal policies as convenient while being aligned with the broader guidelines.
- **Local Government (City Corporation) Act, 2009** - The City Corporation Act provides a general guideline for City Corporations to conduct authorized roles and responsibilities.

- **Paurashava Model Tax Schedule, 2014** - The Paurashava Standard Tax Schedule provides guidelines on calculating holding tax for buildings within a local government's jurisdiction. Tax Revenue is one of the major LRM financial influx for any local government in Bangladesh.
- **City Corporation Model Tax Schedule, 2016** - The City Corporation Standard Tax Schedule assists city corporations across the country in developing tax rates for the mobilized resources provided to the holdings within a city corporation's territory of governance.
- **National Strategy for Paurashava Governance Improvement (NSPGI), 2016-2025** - The National Strategy for Paurashava Governance Improvement provides guidelines for improved governance of local governments with a ten-year strategic timeline for implementation.
- **Bengal Municipal Accounting Rules, 1935** – Specified the list of records to be maintained by Paurashavas including the financial statements, templates for the books of entry and procedures to be followed in maintaining and monitoring accounts.
- **Paurashava Budget (preparation and approval) Rules, 1999** - Provides guidelines for Paurashavas regarding the budget preparation system, including the steps to be performed for budget preparation, key timelines for budget formulation, refers to templates/forms for budget calculation and the basis for calculations.
- **Paurashava Water Supply Model By-laws, 1999** – This document references the billing for water supply revenue collection by Paurashavas.
- **Paurashava Public market Model By-laws, 2003** – This document references the billing for revenue/lease collection from public markets by Paurashavas.
- **Paurashava Tax Assessment and Collection Procedure Rules, 2013** – Empowered the creation of Paurashava Tax Assessment and Collection Committee and specified instructions regarding assessment and levying of fees and taxes at the Paurashava level.
- **Public Procurement Act, 2006 and Public Procurement Rules, 2008** – These documents together with their amendments encompass the key guidelines from the GoB in regards to the processes, rules and procedures to follow when conducting procurement using public funds, and applies both to central government ministries, directorates and agencies as well as local governments.
- **National Strategy for Water Supply and Sanitation (NWSSS), 2014** – Developed by the LGD, the NWSSS specifies as one of its strategies the intention to improve financial management at LGIs and give priority to rationalizing tariff, increase billing and collection efficiencies and take initiatives to increase the number of connections.
- **Institutional and Regulatory Framework for Faecal Sludge Management (IRF-FSM) for City Corporations and Paurashavas, 2017** - The IRF, developed by the Policy Support Unit (PSU) of the Local Government Division (LGD), provides impetus for creating an FSM sub-department within LGIs, and outlines some of the relevant financial aspects of an FSM service chain.

It should be noted however that, in many cases, the above-mentioned policies and guidelines may not always be consistent with each other and may indeed contradict each other as in the case of certain instructions within The Bengal Municipal Account Rules, 1935 and that specified in the Paurashava Budget (preparation and approval) Rules, 1999¹².

¹² JICA (2015), *Operational Manual on Paurashava Budget Formulation, Execution and Monitoring*

1.4 Methodology for Gap Analysis

This Gap Analysis study was conducted utilizing a primarily qualitative approach mixing secondary desk research on PFM documents and strategies with primary field-level consultations in the subsequent stage.

Following project kick-off, LCP had a discussion with SNV's Local City Coordinators who are stationed in each intervention area in order to understand the assignment, the background and expectations from the study. A secondary study was then conducted entailing detailed literature review on current scenario of sanitation sector within and outside Bangladesh. The literature review also focused on identifying the PFM status quo in Bangladesh, and how it related to financial management at the local government levels. Government policies and guidelines, and a range of reports developed by other NGOs and development partners were studied to form the background literature and help develop the basic hypothesis for refining the subsequent gap analysis process.

The next stage of the study was to conduct Stakeholder Consultation & Process Analysis. Using the knowledge gained from the literature review process and consulting with SNV, a stakeholder analysis was performed to identify the target stakeholders at each LGI. A research team from LCP was deployed to the field to consult with relevant personnel from the six different LGIs to gain an understanding of the prevalent PFM practices within the cities. A mix of qualitative consultation utilizing Focus Group Discussion (FGD) with wider FSM/PFM stakeholder within the LGIs was held along with In-Depth Interviews (IDIs) with more prominent stakeholders. Details of the consultation process at LGIs are given Table 1 below.

Table 1: Mode of Consultation at Different LGIs

Area	Departments	Mode of Engagement with LGIs	Specific Objectives
Khulna City Corporation	Conservancy Department Accounts Department Planning Department	IDIs with the Conservancy Officer, Head Clerk, Accounts Officer and Urban Planner.	Understand the FSM Value Chain
Kushtia Paurashava	Conservancy department Accounts Department Mechanical Department Field Service Team	IDIs with In-charge, Conservancy Inspector, Mechanical Sub-Asst. Engineer and Accounts Officer. + 1 multi-departmental FGD	Understanding the operational financial management processes as it related to the four Gap Analysis objectives
Jhenaidah Paurashava	Engineering Department Accounts Department Conservancy Department Admin Sector Tax Department IT Department Private FSM service provider	IDIs with the Executive Engineer, Conservancy Inspector and Accounts Officer. + 1 multi-departmental FGD	
Benapole Paurashava	Administrative Department Accounts Department Tax Department Conservancy Department Secretary Engineering Department	IDIs with Accountant, Tax Assessor and Head Assistant + 1 multi-departmental FGD	

Jashore Paurashava	Accounts Department Conservancy Department Engineering Department Mechanical Sub Department Secretary	IDIs with Accounts Officer, Conservancy Inspector and Sub- Assistant Engineer. + 1 multi-departmental FGD
Gazipur City Corporation	Accounts Department Conservancy Department Mechanical Sub Department Urban Planning	IDIs with Urban Planner, Chief Accounts Officer, Asst. Mechanical Engineer and Chief Conservancy Officer.

Note: For further information about interviewed personnel, please refer to [Annex 1: List of Interviewees](#).

The stakeholder consultation process and the respective identification of gaps and barriers within LGIs for FSM services was structured across the four major PFM objectives as described above (Budget Formulation, Accounting and Financial Reporting, Performance Reporting and Auditing). However, secondary research and stakeholder consultation has indicated that the third dimension of PFM - performance reporting - has very limited adoption in the context of Bangladesh. The following chapter *Analysis of PFM for FSM in the six LGIs* will therefore not explore this dimension in-depth for each LGI.

Having mapped the existing processes and identified the major gaps, comparisons were then done against global best practices in municipal financial management to arrive at recommendations for instituting a PFM model that would be appropriate for recording, monitoring and objectively analysing the performance of FSM services in order to ensure transparency, facilitate decision-making in financial management and improve the financial sustainability of FSM services across all LGIs in Bangladesh.

2 Analysis of PFM for FSM in the six LGIs

Through the stakeholder consultation process, the FSM value chains in the selected LGIs were mapped along with identification of the gaps and barriers within the LGIs for FSM services. Among the six LGIs, Benapole Paurashava and Gazipur City Corporation do not currently offer FSM services to its citizens but have plans to do so in the future.

Of the four LGIs which offered FSM services, Khulna City Council and Jashore Paurashava offered all FSM services spanning the FSM value chain – namely (a) containment, (b) emptying, (c) transport, (d) treatment and disposal/reuse of faecal sludge - while Jhenaidah Paurashava and Kushtia Paurashava had subscribed to a PPP model for certain segments of the value chain. Jhenaidah Paurashava had outsourced the emptying, transportation and treatment segments of the FSM Value Chain to a local NGO, while Kushtia Paurashava had in the past outsourced the re-use segment of the value chain to a private sector partner. The status of FSM service provision across the four LGIs offering FSM services are provided in Table 2 below.

Table 2: Target market for FSM services.

		Khulna	Kushtia	Jhenaidah	Jashore
Area under LGIs' Jurisdiction		45.64 sq. km.	42.79 sq. km.	32.42 sq. km.	14.72 sq. km.
No. of holdings		70,221	32,463	18,618	23,023
FSM Service Inception		2014	2012	2014	2014
Department Responsible for FSM Service Provision	Containment (Permits)	KDA	LGI (Urban Planning)	LGI (Urban Planning)	LGI (Urban Planning)
	Emptying	LGI (Conserv.)	LGI (Conserv.)	AID Foundation	LGI (Conserv.)
	Transport (Fleet)	LGI (Mechanical)	LGI (Mechanical)	AID Foundation	LGI (Mechanical)
	Treatment	LGI (Conserv.)	ERAS	AID Foundation	LGI (Conserv.)
	Disposal/Reuse	Pilot of Fuel Briquette	ERAS	AID Foundation (not active)	LGI (Conserv.)
FSM Fees and Tariffs (2020)		PIT LATRINE & SEPTIC TANKS: <ul style="list-style-type: none"> • Tariff 2,000L: BDT 2,395 1st BDT 2,360 for 2nd onwards • Tariff 5,000L: BDT 4,095 1st BDT 4,060 for 2nd onwards • Tariff 7,000L: BDT 5,295 1st BDT 5,260 for 2nd onwards 	PIT LATRINE <ul style="list-style-type: none"> • Flat Tariff: BDT 580 SEPTIC TANKS <ul style="list-style-type: none"> • Tariff 1,000L: BDT 925 1st BDT 200 for 2nd onwards • Tariff 2,000L: BDT 1,155 1st BDT 300 for 2nd onwards • Tariff 4,000L: BDT 1,385 1st BDT 500 for 2nd onwards 	PIT LATRINE <ul style="list-style-type: none"> • Registration Fees: BDT 825 (2,000L) BDT 595 (1,000L) for 12 months • Tariff 2,000L: BDT 500 1st BDT 400 2nd BDT 400 3rd BDT 400 for 4th onwards • Tariff 1,000L: BDT 400 1st BDT 300 2nd BDT 300 3rd BDT 300 for 4th onwards SEPTIC TANKS <ul style="list-style-type: none"> • Registration Fee: BDT 1,745 (2,000L) BDT 1,170 (1,000L) for 12 months 	PIT LATRINE & SEPTIC TANKS: <ul style="list-style-type: none"> • Tariff 2,500L: BDT 2,300 1st, BDT 1,500 for 2nd onwards

	<ul style="list-style-type: none"> • Tariff 2,000L: BDT 700 1st BDT 600 2nd to 4th BDT 500 for 5th onwards • Tariff 1,000L: BDT 500 1st BDT 400 2nd to 4th BDT 300 for 5th onwards 			
Average volume of service/month (2019)	26 trips	110 emptied containments	115 trips	15 trips

The city specific FSM service overview, the FSM value chain overview and PFM processes as they relate to the provision of FSM services are outlined in the following sections of this report. Within the FSM service chain, the key points of interaction, as relevant for PFM, between customer and LGI are indicated. The identification of these interaction points is important for developing an understanding of the financial exchanges as well as the implementation of transparency and accountability measures.

2.1 Khulna City Corporation

The city of Khulna was established on 8th September 1884 after it was declared as a Municipality in The Calcutta Gazette. After Independence of Bangladesh the Municipality was renamed as Khulna Paurashava by Bangladesh Local Council and Municipal Committee. In 1984, Khulna Paurashava updated to Khulna City Corporation (KCC) on the 100th anniversary of the township¹³. As per the 2011 census, Khulna had a population of 663,342¹⁴, which was projected to rise to 1,190,000¹⁵. There were 70,221 holdings in KCC at the time of this study¹⁶.

2.1.1 FSM Value Chain Overview

The Conservancy Department, also known as the Waste Management Department in KCC, deals with all kinds of waste including solid waste, medical waste and faecal sludge. The Department is the biggest department in terms of permanent employees, currently they have 300 permanent and 300 temporary employees on their payroll. Besides, the Mechanical department is a sub-department of the Engineering Department, which looks after the fuel and repairs of LGI-owned vehicles, including the Vacutugs. Currently the Conservancy department has 4 Vacutugs: two Vacutugs of 2,000 litre capacity and one each of 5,000 litre and 7,000 litre capacities. The Faecal Sludge Treatment Plant (FSTP) is also operated by Conservancy department by a caretaker.

The matrix below summarizes the responsibilities of the various stakeholders in Khulna city who play a role as they relate to different segments of the FSM value chain.

Table 3: FSM Value Chain Responsibility Matrix - Khulna

Value Chain Segment	Details	Responsible
Containment	Checked during building permit by the local authority. Physical check, if needed, of the containment type is done by the Khulna Development Authority (KDA).	Khulna Development Authority (KDA)
Emptying	Done by using a vacuum pump attached to a Vacutug.	KCC: Conservancy and Mechanical Department
Transport	The mechanical truck transports the waste from site to treatment plant.	KCC: Conservancy and Mechanical Department
Treatment	The waste is treated at the treatment plant.	KCC: Conservancy Department
Disposal/Reuse	Currently there is no reuse, only a piloting project on carbonized briquettes.	N/A

Besides KCC, Community Development Committees (CDC), a community-based organization led by majority-female members, also provides mechanical emptying services through 3 different CDC clusters with a fleet of three Vacutugs each, having 1,000 litres capacity that

¹³ Khulna City Corporation Website

¹⁴ Bangladesh Census 2011, Bangladesh Bureau of Statistics.

¹⁵ ADB, 2009, Cities Development Initiative for Asia (CDIA) Study for KCC

¹⁶ Source: Khulna City Coordinator SNV.

were financed by UNDP. CDC service is not included in this analysis as this study is focused on municipal financial management and there is no formal agreement between KCC and CDC, at the time of writing.

2.1.2 FSM Service Chain

KCC offers an on-demand FSM service, which initiates with the request from customer to KCC. As described in below graph and Table 4, the whole process requires multiple stakeholder authorization.

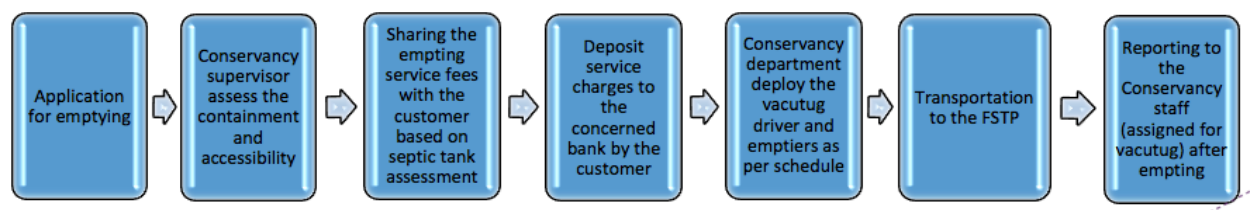


Table 4: Summary of Customer Journey – Khulna

Customer	KCC
<p>Application</p> <ul style="list-style-type: none"> Customers can request service either through the hotline, whereby the Head Clerk or a Conservancy department representative notes down customer information for entry into the digital customer database. Customers can also visit the KCC to apply for the service. An application form is filled in. Customer is asked about the road access to their homes to figure out if the Vacutugs can service the area, and the dimensions of their septic tank. In either case, the customer has to make at least one visit to hand in the deposit slip in person at KCC (see following step). 	<ul style="list-style-type: none"> The application information is uploaded to the customer database by the head clerk, from Conservancy Department. The application is processed and forwarded to the Conservancy Officer
<p>Assessment</p>	<ul style="list-style-type: none"> If customer is new or does not give clear information about vehicle accessibility and containment size, site inspector does an inspection visit of the household. If accepted, the application is then forwarded to the Mayor for his approval.
<ul style="list-style-type: none"> If approved, customer has to make the corresponding FSM tariff payment any of the designated banks of KCC. 	<ul style="list-style-type: none"> Once the payment is made the clerk forwards the application with the bank slip to the Conservancy Department.
<p>Emptying Service</p>	<ul style="list-style-type: none"> Three signed slips are given to the driver, one of which is needed to collect fuel for the service from the mechanical department, the other for leaving the KCC premises with the Vacutug for

		<p>service delivery, and the third for providing to the treatment plant during sludge disposal.</p> <ul style="list-style-type: none"> ▪ Driver goes to the household using the available and appropriate vehicle, depending on the assessment. ▪ Emptying service is usually provided within 48 hours of the request receipt. ▪ Customers can request multiple trips on-site if it is deemed necessary for full emptying of the containment. ▪ Then driver/emptier receives customer signature on a slip confirming the service has taken place. • Driver provides the final cost of the service according to real trips.
Final Payment & Feedback	<ul style="list-style-type: none"> • Customer fills in a feedback form (not regularly used). 	<ul style="list-style-type: none"> • The slip also contains a feedback section, whereby the customer can enter in their ratings and opinions of the service quality.
Transport and Treatment		<ul style="list-style-type: none"> • Sludge is transported to the FSTP and discharged by the driver or emptier under caretaker supervision, who records the unloading amount and time. • Once the service is completed the driver returns the customer slip to the Head Clerk. • The Head Clerk pays BDT 500 in cash to the driver to split between the temporary driver and emptiers as their remuneration.

2.1.3 Public Financial Management for FSM Service - Khulna

Like all other LGIs in Bangladesh, the financial practices of the KCC are governed by the Public Procurement Rules (including the Public Procurement Act, 2005 and Public Procurement Rules, 2008). Alongside this, the Local Government (City Corporation) Act, 2009 also acts to empower participatory decision-making and brings transparency into the Budgeting, Accounting and Reporting, and Auditing components of the KCC's public financial management processes. However, as the next section covers, the strong legal fundamentals do not always translate into robust implementation at the LGI level.

PFM Objective 1: Budget Formulation

The KCC's budget formulation process is mostly driven by service-side (LGI-led) inputs to the budget as opposed to a demand-centric (involving citizen inputs) budget. Apart from this, KCC depends largely on other important stakeholders such as Central Government and Development Partners who contribute to the finances of the LGI through National government grants and Loans/Grants respectively. Service demands, service provision capacities and financial commitments from these wide stakeholder groups are considered during the entire budget formulation process.

Input from Citizens

While general citizens cannot directly participate in the budget formulation process, citizen inputs can be reflected in budget formulation through citizens' elected representatives. Ward Councillors can collate, prioritize and present citizen demands from his/her jurisdiction during the General Council Meeting for budget formulation (explained below). However, whether such

demands are incorporated into the KCC's operations in the next year and are reflected into the budget depends largely on the influence of the Ward Councillor for a given ward.

In addition, KCC has a standing committee for Waste Management. At the time of this report, the chairman of the Committee was the councillor of Ward No. 13, an elected representative, who was selected on the basis of his competency. The Standing Committee, which is convened on a needs-basis or otherwise bi-monthly, is tasked with strategic decisions on the priority services from the Conservancy department based on the demands the ward members have received from their constituent citizens. Although budgetary discussions are not a major agenda for this standing committee, budgetary issues may also be discussed prior to budget formulation. This means that the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle, as identified in Chapter 1.2.1, are partially covered in KCC's processes.

LGI Internal Budget Formulation Process

Every year around April, the Accounts and Finance department initiates the budget formulation process within the LGIs. The Accounts department requests the Head of each KCC department to propose their estimated budget for the following year based on historical costs and projected trends. Such projections are almost always often done arbitrarily by each department by adding on estimated incremental amount based roughly on historical trends. The Accounts department then collects the proposed figures from each department and allocates the budgeted costs from the other departments to the correct line item of the Annual Budget.

Although SNV had introduced customer database in KCC since 2016 for management of FSM services - which collects application information from customers, assessment of the containment by Conservancy department, records service provision, final payment and feedback from customer as well as outputs monthly and annual reports – the system is still not utilized for projecting FSM revenues during budget formulation.

This draft budget is then presented to during the monthly General Council Meeting, which reviews and has multiple meetings to revise the budget. Once the budget is finalized with multiple rounds of inputs and feedback to rationalize the budget, it is then approved, with the highest decision-making authority resting with the Mayor and Secretary. In addition to operational expenditure requirements, any new CAPEX procurement requests have to come through these General Council Meeting, which has the presence of all councillors and department heads at KCC as well as representatives from other agencies such as Khulna Development Authority (KDA), the Roads and Highways Department (RHD), MoAgriculture, MoHFW, the Civil Surgeon's Office among others.

Approval from the Central Government

Once approved by the General Council, the finalized budget is then forwarded to the MoLGRD&C for approval. The MoLGRD&C, as the key dispenser of government funds to LGIs, can request revisions or clarifications to the budget prior to final approval. Once final approval is granted, the budget becomes executable and takes effect from the following Fiscal Year. However, in practice, very few budgets are actually reviewed by the ministry. In most cases, if the ministry does not send any approval paper within three months, then the budget is considered as approved.

Despite attempts to control costs in accordance with the Annual Budget, however, it is often the case that the Annual Budget is revised just before closing the fiscal year, a practice that undermines the fiscal discipline and control functions of budgeting. Hence, the stages "Review Development" (Steps 5 and 6) and Monitor results (Step 7) from the Budget Cycle, as

identified in Chapter 1.2.1, are mostly overlooked at KCC, while the final step ("Adjust as necessary") is performed arbitrarily.

PFM Objective 2: Accounting and Financial Reporting

Accounting and financial reporting standards at the LGIs are informed by the Public Procurement Rules (PPR), 2008 and the Public Procurement Act (PPA) of 2005, and there are no other specialized rules or regulation for financial management at LGIs. However, provided that the aforementioned regulations cover a much wider breadth of institutions and form a generalized guideline for both central government and local government level organizations, LGIs such as KCC have exercised a degree of freedom to develop their own internal accounting procedures and templates.

The KCC Accounts and Finance department is in charge of the financial management affairs within KCC. As is the case for the other LGIs covered in this report, the Accounts and Finance Department follows a simplified single-entry bookkeeping method, and employs a cash-based accounting model that is heavily reliant on journals and cash-book entries, with the Annual Budget (a de-facto projected Statement of Receipts and Expenditures for the Fiscal Year) being the major financial publication of KCC.

Accounting

Revenues generated within the conservancy department are the Holding tax and Conservancy Rate as well as the FSM service Tariffs. Cost comprise of CAPEX and OPEX.

■ Holding Tax and Conservancy Rate

The general citizen pays the holding tax of which 3% to lighting, 7% to holding and 6% to Conservancy. The money is paid to the revenue account which is then transferred to the KCC General Account.

■ FSM Service Tariffs

For the FSM tariff, the customer has to pay a certain amount depending on the size of the Vacutug and trips (refer to Table 5 below). The Tariff and related costs of VAT, Tax, form, ticket and pay order are transferred to KCC, but the Emptier charge is paid in cash by customer to driver/emptier, which is not credited to KCC.

Table 5: Tariff Breakdown Structure - Khulna

Details Emptying Tariff			
Charge per trip of	2 m ³	5 m ³	7 m ³
Total Charge	2,395	4,095	5,295
- Tariff	1,500	2,500	3,500
- VAT 15%	225	375	525
- Income tax 5%	75	125	175
- Form	50	50	50
- Ticket	10	10	10
- Pay order	35	35	35
- Emptier (not credited KCC)	500	1,000	1,000
KCC REVENUE per m ³	750	500	500
Average REVENUE / m ³	583 BDT		

KCC maintains a separate Bank Account for FSM tariff receipt. Aside from the bank statement, detailed financial Records of the FSM Service Tariffs are provided through the FSM Application form. The information is maintained by the Head Clerk using the

customer database. A Cash Book/ Cheque Book is maintained by the Accounts Department but it encompasses all the receipts and spending across the LGI, and there are no specific Cash Book for FSM services.

■ Operating Expenses - OPEX

The operating expense is comprised of the related costs from the operation of Vacutugs, treatment plant, salaries and other expenses. Most of these expenses are paid from the KCC General Bank account, and some repairing costs are taken from the ADP account. SNV contributes with promotional materials and others.

■ Salaries

The single full-time permanent driver receives a monthly salary, while the field service team (consisting of one or two emptiers depending on the size of the task) get a payment on pay-roll basis by KCC. In addition, they get BDT 500 for every provided emptying service directly by customer at the household, which is divided at the discretion of the emptiers and driver themselves. The caretaker at FSTP is paid by Conservancy Department under a monthly salary. In addition to those mentioned above, the Conservancy department at KCC employs an approximate 300 permanent and 300 temporary (also referred to as "Master Roll") staff, only a small portion of whom are engaged in the delivery of FSM services.

Financial Records for salaries are provided through the Daily Attendance Register kept by the Conservancy & Engineering departments, the Monthly Register transferred to the Accounts Department and the Cash Book/ Cheque Book maintained by the Accounts Department.

■ Vacutug Fuel and Repairs

The costs relating to Vacutug fuel and maintenance are not overseen by the Conservancy Department and are instead under the purview of the Engineering department. The Conservancy Department procures 30,000 litres of fuel at a time, and 3,000 to 4,000 litres of fuel are disbursed per instalment.

For repair of equipment, first a mechanic from the Mechanical Department will assess the truck and send a form with the required parts needed to the Sub-assistant, which eventually reaches the Chief Engineer for approval via assistant and executive engineer respectively.

For tracking fuel usage, drivers maintain a logbook for each vehicle and tracks the daily distance travelled. As previously mentioned, since the KCC has its own garage for refuelling, refuelling is done against submission of a slip presented by the driver for each respective trip.

■ Treatment Plant Costs

All treatment plant operational costs, with the exception of the caretaker salary, is officially attributed to costs under the Mechanical section under the Engineering department. Only the caretaker salary, which is outsourced, is shown as an expense attributed to the Conservancy department.

■ Capital Expenditure - CAPEX

For Capital Expenditures on FSM, the spending usually comes from various project allocations. For example, the 7,000l Vacutug truck and FSTP construction was provided

by SNV and the 1,000l truck provided by UNDP under their respective projects, and the 2,000l Vacutug provided by the CRDP project of the LGED under loan from the ADB.

When procuring through central funds, it requires MoLGRD&C approval as well as approval from the Planning Ministry Approval and ECNEC. For GoB projects, the central government approval process takes between 6-9 months and then it can proceed to procurement. In the rare event that CAPEX procurements are made with the Conservancy department's own funds, the process takes much shorter: 3 months.

For approved CAPEX procurements, tenders are publicly circulated and responses invited in accordance with PPR, 2008. Prior to releasing the tenders, the KCC prepares a list of companies, and requests rates from them to get an estimate of the market price. Then tender is called based on the estimated price. The proposals from respondents are then passed on to the Conservancy department and PEC for evaluation. Others Chief officers and members also deliberate on the selection. The Notification of Award is then issued to the winning party and a performance screening/due diligence is done. Work order is issued, quality testing is done. Upon successful delivery/construction to the KCC, an invoice is submitted by supplier who then collects cheque from the KCC.

The financial records needed for FSM CAPEX expenditures were not covered in the course of the primary research of this assignment since CAPEX are infrequent occurrences and the modalities vary greatly depending on the financier (i.e. sourcing from internal resources or through central government or through various donor agencies or development partners).

Financial Reporting

The Annual Budget is the major financial reporting publication from the KCC. It serves as a de-facto projected Statement of Receipts and Expenditures for the upcoming Fiscal Year.

The Annual Budget seeks to identify the key sources of finance, sub-divided into (i) Local Resources Mobilization (incl. taxes, rates, tolls and fees), (ii) National government grants (through Annual Development Program allocations and Special Allocations) and (iii) Loans/Grants from Development Partners.

On the expenditure-side, expenses too are categorized according to the source of finance. For example, under Section 1 (expenditures from National government grants), sub-sections 1.6 and 1.8 exhibit projected spending for the Engineering Department and Conservancy Departments respectively. In Section 2 (expenditures from Local Resources Mobilization), under Sub-section 2.11 (Faecal Waste Management) line-item cost projections related to (A) Treatment Plant Repair and Maintenance and (B) Vacutug Purchase and Repair can be found. Upon commencement of the Fiscal Year, it is meant to serve as a guide for controlling variances in expenditure throughout the year.

PFM Objective 3: Performance Reporting

Budget-actual variance analysis as a tool for performance measurement is underutilized across LGIs. None of the LGIs applied any cost accounting or management accounting methods, focusing instead on financial accounting, which is solely concerned with the reporting of financial transactions and the financial position of the LGI to its stakeholders. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected across the LGIs.

APA

KCC has introduced APA since FY2015-16. The Chief Executive Officer of KCC used to sign the APA with the (Senior) Secretary of LGD. CEO also signs departmental APA with each of the department heads. In the APA, Sanitation and FSM have been included as major activities among others. A team is formed to review the progress against the targets set in the APA and prepare periodic reports. KCC submits the quarterly and yearly progress report to the LGD and upload in its website.

Since FY2017-18, KCC included Faecal Sludge Collection Ration (FSCR) as one of the Performance Indicators under the Strategic Objective 'Planned Environmental-Friendly Urban Development'. In FY2020-2021, the APA set a target of 7% FSCR and projected 9% in FY2021-2022 and 10% in FY2022-2023. Conservancy Department is responsible to achieve this target. In the quarterly progress report (Jul-Sep 2020), it shows that KCC achieved 3% FSCR which is below the average. There is no Performance Indicator for access to safe toilet or disposal/treatment of faecal sludge included in the APA.

Although APA is introduced in KCC to report to LGD regarding performance of mandated services, there is no internal mechanisms to measure operational efficiency (financial or non-financial performance indicators) of the services. This is found for services delivered directly by KCC or outsourced to third party (no contractual binding performance indicators).

Citizen Charter

KCC uploads their Citizen Charter in their website and on the wall of the Nagar Bhaban in Bangla. It describes the services KCC are mandated to provide to its citizens. It includes the services fees, procedures to get services, timeframe, related offices and where to put complaints. However, the charter does not include the details of the FSM services except the fee for renting out the desludging Vacuum Tank which is Tk 1,500 per day. It appears that citizens' charter is not updated, and the citizens can't get relevant information of FSM services from it.

KWASA uploaded their Citizen Charter in their website in Bangla. It describes the services related to water supply, but does not mention sewer yet (network to be constructed soon).

PFM Objective 4: Auditing

In KCC, auditing is performed to ensure compliance with the rules and procedures for public expenditures, particularly to ascertain whether or not the PPA and PPR guidelines are being strictly followed. Several incentives are offered for LGIs to perform audits. KCC being a City Corporation performs both internal and external audits, which are summarized below:

■ Internal Auditing:

In all City Corporations there is a post for an Audit officer. Internal audits are therefore performed through KCC itself by the designated Audit Officer. The function of the Audit Officer is to conduct audits on compliance issues and when the Audit Officer post is filled, they are usually set a target by the LGI to perform compliance audits on a pre-defined number of departments within KCC on a rotational basis. Internal auditing through the Audit Officer is a regular and ongoing process.

KCC also has a Standing Committee of "Accounting and Audit", which counts several councillors as its members. The Committee consists of 4 members: the councillor of Ward 5 is the President of the Committee, while 3 other councillors are members. One of the functions of this committee is to meet after the end of every fiscal year to go over a perfunctory audit of the revenues and expenditure of the LGI for the past against

its planned performance. Although it is termed as an audit, the effectiveness of this audit may be questioned as none of the committee members are known to have specialization or competencies in accounting or auditing. It should be noted that the composition of this committee is approved by the Mayor.

In KCC, there is no involvement by the city council in the audit process, which is considered a gap when comparing to best practices.

■ **External Auditing:**

- **From the Comptroller and Auditor General of Bangladesh:** In KCC, audits by the LRAD of Bangladesh are performed annually. Once LRAD is officially assigned to the audit, a letter is issued containing a requested list of documents along with a pro-forma to the LGI. Once the LRAD receives the documents from the LGI, they receive permission from the Comptroller and Auditor General of Bangladesh office to deploy an Audit Team to the relevant LGI to conduct the audits. Audit teams for larger City Corporation can include Deputy Director, Senior Accounts Officer, Senior Auditor or Audit Superintendents and such audits can take up to two months to perform on-site.

It is understood that a key incentive for conducting such audits externally is due to central government mandates linking successful external audit completion to Annual Development Program (ADP) pay-outs from the central government for the following year.

- **From Independent Auditors:** The only instances where audits from CA firms are conducted are in cases when a development project has been funded by development partners and an external audit specific to that project was mandated as part of the contract.

In the case of external audits from the LRAD or third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.

2.1.4 Summary Gaps in PFM for FSM Service in Khulna

KCC has exhibited some strengths regarding PFM for FSM services. By using various checks and balances involving multiple authorization slips and customer feedback forms, the LGI has been effective to an extent in checking pilferage or unauthorized use of LGI resource is in place without adversely impacting service delivery times.

However, the LGI has also exhibited some major gaps in PFM for FSM services, categorized along the four broad PFM threads, as shown in Table 6 below:

Table 6: Summary of major gaps in PFM for FSM Services - Khulna

PFM Area	Major Gaps Identified
Budgeting	<ul style="list-style-type: none"> ■ Although citizens cannot participate directly in the budget formulation process, there is the legal provision for their ward representatives to highlight demands of the local citizens in the budget formulation process. However, in practice, the Mayor wields significant legislative and executive power and to provide him/her the authority to take all major financial decisions. As a consequence, it cannot be guaranteed the existing setup prevents from politicized budgeting. This means that the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are only partially covered in KCC's processes. ■ Budget formulation at the LGI is still performed at a rudimentary manner, with incremental budgeting (application of a set arbitrary proportional increase based

	<p>on historical trends to the projected incomes and expenditures in the following year) being the standard practice as opposed to the use of a robust income and expenditure projection model. The customer database is not being considered for FSM service projections. This means that the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked at KCC.</p> <ul style="list-style-type: none"> ■ Unrealistic budget formulation often leads to revision of the budget towards the end of the Fiscal Year, which adversely impacts financial discipline. Hence, the final step ("Adjust as necessary") of the Budget Cycle is performed in an arbitrary manner.
Accounting and Financial Reporting	<ul style="list-style-type: none"> ■ Single entry bookkeeping is practiced in KCC, which is an outdated form of accounting that is prone to errors and limits the generation of useful financial statements such as the Trial Balance and the Statement of Financial Position (balance sheet). ■ Cash-based accounting is practiced in KCC as opposed to the accrual-based accounting. Accrual-based accounting is deemed the better choice as it regards transactions as independent of the movement of cash, in line with accepted accounting conventions. ■ FSM services fall under the jurisdiction of multiple LGI departments including most prominently the Conservancy department and the Engineering department. However, due to the largely siloed functioning of the departments, the introduction of management accounting cannot be achieved without harmonizing the financial practices of both these departments within KCC.
Performance Reporting	<ul style="list-style-type: none"> ■ Budget-actual variance analysis is underutilized. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected. ■ KCC has introduced APA since FY2015-16, and progress report is submitted quarterly and yearly to the LGD and upload in its website. Since FY2017-18, KCC included Faecal Sludge Collection Ratio (FSCR) as one of the Performance Indicator. However, there is no Performance Indicator for access to safe toilet or disposal/ treatment of faecal sludge included in the APA. ■ There is no internal mechanisms to measure operational efficiency (financial or non-financial performance indicators) of the services. ■ The Citizen Charters of KCC and KWASA do not include information about FSM services and/or related KPIs.
Auditing	<ul style="list-style-type: none"> ■ While auditing is performed both internally by KCC and externally through the Comptroller and Auditor General's office, external audits through a separate third-party audit firm is not performed. This leaves the room open for tacit collusion between LGI staff and internal auditors or appointed external auditors. ■ In the case of external audits from the LRAD or third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.

2.2 Kushtia Paurashava

Kushtia Paurashava (KPS) was established in 1869. As per the Local Government (Paurashava) Act, 2009 the Paurashava was mandated with the responsibility of education, health and physical infrastructure which also permitted the collection of tax and fees from the municipal holdings. The Class A Paurashava, with an area of 42.79 sq. km, is divided into 21 wards with an estimated population of 238,922. There are currently 165 full time staff working for the Paurashava at present. KPS has at present approximately 32,463 holdings under its jurisdiction.

2.2.1 FSM Value Chain Overview

The Paurashava first started its faecal sludge management services in 2012 with the help from UN-ESCAP and Waste Concern. SNV Netherlands Development Organization has been assisting the Paurashava with the provision of proper FSM since 2014. During the first year of operation, KPS provided free service to the households in order to habituate the citizens to mechanical emptying and also raise awareness regarding the hazards of unsafe desludging. The conservancy department deals with all kinds of waste management, cleaning and FSM services provided by the Paurashava.

While faecal sludge emptying and transportation services are provided by the Paurashava itself, the treatment and reuse/disposal are managed by Environmental Resource Advancement Services (ERAS) under a Service Lease Agreement (SLA). ERAS pays a lease fee of BDT 50,000 per year to the Paurashava. The treatment plant has 2 drying beds with a capacity of 9 m³, which was expanded to 19 m³ in 2020.

Major decisions regarding FSM services are guided by the Standing Committee on Waste Management and the Standing Committee on Water, Health and Sanitation (each standing committee consists of 1 Chairman and 4 Members) that convenes every 3 months. A brief summary of the FSM value chain management is given in Table 7 below:

Table 7: FSM Value Chain Responsibility Matrix - Kushtia

Value Chain Segment	Details	Responsible
Containment	The designs of containment need to be approved by the engineering department before the construction of a building	Paurashava: Design approval by Engineering Department
Emptying	The emptying service is approved by conservancy department, then mechanical unit, under Engineering Department, approves the mobilization of Vacutugs	Paurashava: Conservancy and Mechanical Department
Transport	The Vacutugs are used to transfer the faecal wastes from onsite sanitation to treatment plant. This process is supervised by the conservancy department and the role of Paurashava ends upon dumping the wastes in the treatment site.	Paurashava: Conservancy and Mechanical Department
Treatment	Treatment is dealt with by ERAS	ERAS
Disposal/Reuse	The final reusable products are used by ERAS	ERAS

2.2.2 FSM Service Chain

The role of Kushtia Paurashava in the FSM value chain extends from containment to the transportation of faecal sludge to the treatment site. Upon dumping the sludge in the treatment facility, the primary role for the following steps is taken over by ERAS and they bear the expenses for treatment and reuse/disposal. The customer journey for FSM service in Kushtia is illustrated in the graph and Table 8 below.

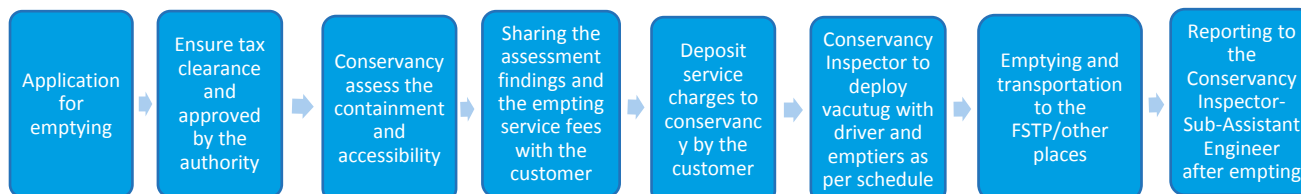


Table 8: Summary of Customer Journey – Kushtia

Customer		Kushtia Paurashava
Application	<ul style="list-style-type: none"> Customer has to go to tax assessor to obtain a tax certificate which ensures all the due taxes under the holding has been cleared Upon obtaining tax clearance, the customer moves to the conservancy department to request for service 	<ul style="list-style-type: none"> The tax certificate is endorsed by the secretary of KPS The application is processed and payment is finalized based on the assessment of the holding
Payment	<ul style="list-style-type: none"> Customer makes cash payment to the conservancy through a printed received by the conservancy department Customer keeps a receipt of the payment and the customer info is forwarded to the field team for service 	<ul style="list-style-type: none"> The second portion of the received copy is provided to the Accounts section of KPS The accounts department deposit the service fee to the dedicated FSM account
Emptying Service	<ul style="list-style-type: none"> Customer is contacted by the service team to confirm the request of service and the provided location Customer shows their copy of the payment slip as evidence of service request and identity After completion of service, the customer signs off the feedback sheet to confirm receiving the service 	<ul style="list-style-type: none"> Conservancy department determines a schedule among the all applications and selects Vacutug Driver, informs the driver of the address and contact number of the customer When providing the emptying service, the driver ascertains that the customer has a copy of their slip
Transport and Treatment		<ul style="list-style-type: none"> Driver and operator dispose of the faecal sludge in the treatment plant ERAS takeover the Treatment process upon dumping of sludge in the treatment plant

2.2.3 Public Financial Management for FSM Service - Kushtia

KPS also has the mandate to follow the Public Procurement Rules (including the Public Procurement Act, 2005 and Public Procurement Rules, 2008). The Paurashava maintains a service register in the Conservancy department and an FSM cash book in the Accounts Department for its FSM service: a step in the right direction in terms of management, still, there is further room for improvements in the existing status quo. During the course of

research, the conservancy inspector did not have an appointed officer and hence visible bottlenecks were witnessed during the field visit.

PFM Objective 1: Budget Formulation

For budget formulation of a fiscal year, the head of accounts issues a letter to the relevant department heads requesting submission of proposed budget for the upcoming budget. The conservancy department usually relies on historic budget figures and the annual expenditures to propose a new figure. This process overlooks major considerations that may lead to miscalculation. Such instances could entail operational bottlenecks due to budget deficit or immediate finance crunch.

Upon receiving the proposed budgets by each department, the cumulative sum is proposed at the general council meeting for review. Upon revisions and finalization, the budget is forwarded to MoLGRD&C for review and approval.

Referring to the Budget Cycle, introduced in Chapter 1.2.1, the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are performed only nominally. Since budget formulation at the LGI is still performed at a rudimentary manner with incremental budgeting the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked. Unanticipated revisions of the budget towards the end of the Fiscal Year are a regular practice, and as a result the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner.

PFM Objective 2: Accounting and Financial Reporting

KPS exercises a degree of freedom when maintaining their own internal accounting and reporting procedures but the process is aligned with the general guideline provided in the Public Procurement Rules and Public Procurement Act. The dedicated accounts and finance department of KPS primarily responds to the financial management while maintaining liaison with all the departments within the LGI.

For FSM accounting and reporting, the revenue receipts are maintained by both the conservancy and accounts department while expenses are recorded by mechanical engineering department and conservancy department based on the dedicated cost heads under each department and are then forwarded to the accounts department for central bookkeeping.

As is the case for the other LGIs covered in this report, the Accounts and Finance Department follows a simplified single-entry bookkeeping method, and employs a cash-based accounting model that is heavily reliant on journals and cash-book entries, with the Annual Budget (a de-facto projected Statement of Receipts and Expenditures for the Fiscal Year) being the major financial publication.

Accounting

The revenue and expenditure bookkeeping are elaborated upon in this section. Revenues for FSM services are generated from FSM service Tariffs and lease fee, and partially from Holding tax and Conservancy Rate. Cost comprises of CAPEX and OPEX.

- **Holding Tax and Conservancy Rate**

A general citizen belonging to KPS pays 7% holding tax, 5% conservancy tax, 3% tax on lightning and 6% on water utilities.

- **FSM Service Tariffs and lease fee**

In terms of revenue, the main earnings from FSM services are received through the service tariffs. KPS currently provides more than 110 emptying services per month. The following Table 9 summarizes the service tariff rate for the FSM service in Kushtia:

Table 9: Tariff Breakdown Structure - Kushtia

Charge per trip (In BDT)	Charge for the first trip				Charges for additional trip		
	1 m ³ (Pit Latrine)	1 m ³ (ST)	2 m ³ (ST)	4 m ³ (ST)	1 m ³ (ST)	2 m ³ (ST)	4 m ³ (ST)
Total Charge	580	925	1,155	1,385	200	300	500
- Tariff	500	800	1,000	1,200	200	300	500
- VAT 15%	75	120	150	180	0	0	0
- Income tax 5%	0	0	0	0	0	0	0
- Form	5	5	5	5	-	-	-
KPS REVENUE/m ³	500	800	500	300	200	150	125
Average REVENUE/m ³	BDT 500	BDT 428			BDT 142		

The LGI also earns a revenue of BDT 50,000 annually from lease payment by ERAS to use the treatment facility. KPS maintains a separate bank account only for FSM tariff receipts and lease fee payments, which was opened on the 31st of October 2018. Since its opening, no withdrawals have been made from this account. The lease payment by ERAS is then transferred from the dedicated FSM bank account to the General Account of the Paurashava.

Respective Financial Records are maintained by the Conservancy Department through the FSM Service Register. A Cash Book/ Cheque Book is maintained by the Accounts Department.

■ Operational Expenses – OPEX

The operating expense is comprised of salaries, the costs of fuelling, operation and maintenance of Vacutugs, and the treatment plant operation. In terms of operational expenditure, the Paurashava disburses all the operational expenses from the General Account. While fuel and repairs of Vacutugs are paid in cheques, the salary of municipal staff are paid either through bank accounts for full-time employees or in cash for master roll staff.

■ Salaries

On an average, the conservancy department incurs an expense of BDT 65,000/month based on the salaries of the FSM service providers. Salaries are the major cost component for the conservancy department and is reflected in the annual cash flow statement accordingly. In the Conservancy department, there are now 7 permanent staff and has around 370 master roll positions. Not all of these staff are involved in the provision of FSM services. The salary of the full-time staff is paid by the accounts department while the contractual staff appointed in the master roll has their salaries disbursed by the conservancy department.

Financial Records are kept through the Daily Attendance Register kept by the Conservancy & Engineering department. The Monthly Attendance Register is transferred to the Accounts Department. The Cash Book/ Cheque Book is maintained by the Accounts Department

■ Vacutug Fuel

The repairs and fuel costs of the Vacutugs are handled by the mechanical department that keeps log of the fuel consumption by each truck and also monitors the maintenance expenses for each of them. In case of fuel expenditure, a driver refuels the truck from a designated station and hands the receipt to the mechanical department. Upon cross-checking with the logbook of the truck, the mechanical engineer approves the procurement and forwards the receipt to the Assistant Engineer, who then forwards it to the executive engineer and following his approval, the cumulative fuel receipts are forwarded to the accounts department. A cheque is disbursed at the end of the month to the fuel station with the Mayor's approval.

Financial Records are provided by through the Vehicle Fuel Logbook, the fuel Requisition Counter-slip. The Cash Book/ Cheque Book is maintained by the Accounts Department.

■ Vacutug Repair and Maintenance

In terms of vehicle repairs, the request for repair is passed from Mechanical Engineer, to the Engineering department to the Secretary and is finally approved by the Mayor. KPS has a contracted garage (the garage has staff present on the Paurashava premises) who is contacted by the Mechanical Engineer to conduct repairs on-demand and then the garage submits invoice to the Mechanical department which is then forwarded to the Accounts department in order to release the bill.

Financial Records are kept by maintaining a Vehicle Repairs Logbook and filing the Bill/ Invoice from the Vendor. A Cash Book/ Cheque Book is maintained by the Accounts Department.

■ Treatment Plant Operations

The FSM treatment plant operations is maintained by ERAS in accordance with the PPP agreement which enables ERAS to treat and reuse the collected sludge. The costs related to treatment plant are afforded by ERAS while promotional and awareness costs are usually paid by SNV via Paurashava Account or directly via SNV Dhaka Account.

■ Capital Expenditure

In case of capital expenditure, the Paurashava has a capacity to spend a maximum of BDT 25,000 solely with the approval of the Mayor. For Capital Expenditure beyond this amount, the proposal needs to be raised in the General Council meeting and for approval. If the funding is designated from the Ministry, it is forwarded to the ministries in Dhaka for approval, following which the fund will be disbursed.

In case of donor funding, a similar approval process is followed but the fund is eventually disbursed by the development agency either through a newly formed joint account between the development agency and the Paurashava or directly in the Paurashava account.

The flow of funds depends on the primary provider of capital for a dedicated project. In cases where the project is directly funded by government, the funds will be received and disbursed from Paurashava's general account. In case of donor funding, the funds will either be disbursed from a newly formed joint account between the donor and the Paurashava, or can directly be disbursed from the donor account, depending on the agreement between the two parties.

The financial records needed for FSM CAPEX expenditures were not covered in the course of the primary research of this assignment since CAPEX are infrequent occurrences and the modalities vary greatly depending on the financier (i.e. sourcing from internal resources or through central government or through various donor agencies or development partners).

Financial Reporting

The annual budget is the major financial publication of KPS which reflects on the projected revenue and the according expenses for the following year. The budget identifies the key sources of revenue through Local Resources Mobilization, Annual Development Program from national government and Loans/Grants from donor agencies and maintains subsequent headers for each stream of revenue. Although section "A) Revenue Calculation (Component-1 – Incomes)" of the Annual Budget has a line item #2.D as Conservancy Rates, no figures were presented in the latest version of the budget during this study, which was for the 2018-19 Fiscal Year. Receipts from FSM services were not covered in the Annual Budget.

The expenditures are segregated into operational and development categories with day to day expenses categorized in the former while major capital expenses categorized under the development category. Major costs relevant to FSM services that was presented in the Annual Budget under the Revenue Component (Form-1 Expenses) included line items #1.H.i (Vehicle Repairs for Waste Management), #1.H.ii (Vehicle Fuel for Waste Management) and under the "Waste Cleaning – Waste collection, removal and management" header of section 3, line item #B showed the combined salary expenses of the cleaners.

PFM Objective 3: Performance Reporting

Budget-actual variance analysis as a tool for performance measurement is underutilized across LGIs. None of the LGIs applied any cost accounting or management accounting methods, focusing instead on financial accounting, which is solely concerned with the reporting of financial transactions and the financial position of the LGI to its stakeholders. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected across the LGIs.

APA

LGD is yet to introduce APA for the Paurashavas. However, a separate monitoring system is being practiced for Paurashavas. The Deputy Director, Local Government (DD-LG) based in the district, conducts assessment based on a template, the Paurashava Performance Evaluation Form, introduced by LGD. This template includes sanitation systems (coverage) and faecal sludge management (coverage). If more than 90% area is covered by sanitation systems, then Paurashava gets 2 points, else zero. Again, for FSM, if the coverage is more than 60% then 2 points, else zero. There is no definition mentioned about sanitation system and FSM system. In addition, LGD collects infrastructure development related information from Paurashavas through DD-LG on a quarterly basis. However, sanitation related information is missing here. LGC collects this information to report against the APA they made at LG level.

Also, there is no internal mechanism to measure operational efficiency (financial or non-financial performance indicators) of the services. This is found for services delivered directly by Kushtia (as emptying and transportation services) or outsourced to third party (no contractual binding performance indicators). In fact, ERAS submits quarterly narrative report to Paurashava on treatment and re-use of faecal sludge, but no measurement of performance is practiced, and lease fee is an annual fix amount without any variation based on performance.

Kushtia Paurashava uploaded their Citizen Charter on their website in Bangla. It describes the general services being provided which include type of services, maximum time to provide the services, required documents to be produced, availability of forms, service fee and process to pay the service fee, contact information of the responsible officer, senior officer to whom appeal can be submitted. The charter includes faecal emptying services, office from where application forms can be collected, responsible officer for providing services (Conservancy Officer) and whom appeal can be submitted (Mayor). However it does not mention service fee for emptying service. No timeframe and fee of the emptying services is mentioned. No performance indicators are mentioned.

PFM Objective 4: Auditing

In KPS, auditing is performed to ensure compliance with APD provided by the national government, transparency on the utilization of project funds by donor agencies and accountability towards the citizens against the revenue generated through LRM.

Internal Audits: As per primary consultations, internal audits are done periodically but do not maintain a perpetual scheduling. The standing committee of Water, Health and Sanitation, consisting of 1 chairman and 3 members, do require to review the financial performance of the FSM service provided by the Paurashava.

External Audits: To receive the Annual Development Program fund from the national government, a Paurashava requires to perform external audits on an annual basis. The audit is performed by the NBR certified auditor who can be chosen from the list of 100 pre-approved auditors shortlisted by the central authority of tax administration in Bangladesh.

Donor Funded Project Audits: A third kind of project auditing is also conducted at the Paurashava level but the scope of the audit is limited to the program components financed by the donor agencies and the audit is conducted by external auditors appointed by the donors themselves.

In KPS, there is no involvement by the municipal council in the audit process, which is considered a gap when comparing to best practices. In the case of external audits, whether from the LRAD or third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.

2.2.4 Summary Gaps in PFM for FSM Service in Kushtia

Based on the analysis across the four broad PFM threads, the following major gaps as shown in Table 10 have been identified in KPS in regard to FSM services:

Table 10: Summary of major gaps in PFM for FSM Services - Kushtia

PFM Area	Major Gaps Identified
Budgeting	<ul style="list-style-type: none"> ■ Budget formulation does not adequately take into account citizen demands/needs and there is no central strategy in regard to planned service provision, meaning that the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are only nominally covered. ■ Budget formulation at the LGI is still performed on the historical budget basis with an arbitrary increment based on personal evaluation. This means that the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked and the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner.

	<ul style="list-style-type: none"> ■ Since the budget does not foresight any unique cost heads for the upcoming fiscal year, deficits may lead to operational bottlenecks that may hinder the service quality.
Accounting and Financial Reporting	<ul style="list-style-type: none"> ■ KPS disburses FSM payments through its general account and does not maintain separate expense headers. This results in lack of clarity regarding the overall financial performance. ■ Trial Balance and the Statement of Financial Position (balance sheet) cannot be prepared for the FSM service due to single entry bookkeeping practices. ■ Cash-based accounting is practiced in KPS as opposed to the accrual-based accounting. Accrual-based accounting is deemed the better choice as it regards transactions as independent of the movement of cash, in line with accepted accounting conventions. ■ During the course of the study, there was no conservancy officer appointed. This means major responsibilities of accounting and reporting were not met at the time of the field visit. ■ Unlike KCC, KPS does not utilize multiple checks and balances during the FSM service requisition and service provision to ensure additional integrity.
Performance Reporting	<ul style="list-style-type: none"> ■ Budget-actual variance analysis is underutilized. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected. ■ There is no internal mechanism to measure operational efficiency (financial or non-financial performance indicators) of the services. In fact, ERAS submits quarterly narrative report to Paurashava on treatment and re-use of faecal sludge, but no measurement of performance is practiced, and lease fee is an annual fix amount without any variation based on performance. ■ Kushtia Citizen Charters includes general information about FSM services. However, no fee or timeframe for service provision and/or related KPIs are mentioned.
Auditing	<ul style="list-style-type: none"> ■ The LGI needs to hire independent audit firms to perform the internal audits per year. This will omit any biases that may occur. ■ Due to a lack of KPIs, the audits usually present the landscape of the financial performance but do not provide insights on the quality of financial management. ■ In the case of external audits from the LRAD or third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.

2.3 Jhenaidah Paurashava

Jhenaidah Paurashava (JPS) was established in 1958 with 9 wards covering an area of 34.42 sq. km. Jhenaidah was promoted to a Class A Paurashava 1991. JPM has 18,618 holdings and the population growth rate is 2.2% in the Paurashava.

2.3.1 FSM Value Chain Overview

JPS holds the distinction of being the first Paurashava in Bangladesh to levy the “Sanitation Tax”. The mayor himself played a big role in the introduction of this 5% Sanitation Tax from the public and 12% Sanitation tax from the government establishments. Before implementing this decision, the JM invited feedback from various ward-level discussion, and through Town Level Coordination Committee discussions. Then it was passed onto the General Council for approval. After approval, the Sanitation tax was imposed on the population. Citizens were also convinced about what they were getting in return from the Paurashava. The Sanitation tax levy began in 3rd quarter of fiscal 2017-18, but is now fully operational in fiscal year 2018-2019.

Manual emptying is not prohibited but discouraged in Jhenaidah. Although they do not inspect septic tanks of households on a regular basis, JPS has imposed penalty following Local Government (Paurashava) Act 2009 to fine holdings if they are found to be having an illegal connection to the drainage network.

Within JPS, the Conservancy department plays the most prominent role in the FSM service provision. The Conservancy department’s major activities include the management of faecal sludge, medical waste and solid waste. The JP operates the FSM service through a PPP model, whereby they have established contractual relationship with an enterprise, AID Foundation, to provide faecal sludge emptying, transport and treatment services.

Since the FSM service has been outsourced, the primary responsibility of the Conservancy department lies in conducting random drives to check illegal dumping, but it is evident that most of these drives come through reports and complaints of people in the vicinity of the dumping. There is also a monitoring team for regular ward-based visits, but this, too, is not done very frequently in relation to septic tank inspections or FSM services. This is because, although on paper supervision is a regular part of their activities, a separate budget is not allocated for supervision. The engineering department is in charge of approving sanitary and non-sanitary designs for new buildings.

JPS had built their faecal sludge treatment plant in 2011 after spending 26 lacs BDT. In Jhenaidah, the treatment plant used to be a dumping station and didn’t even have one percolation bed. After a period of time a drying bed has been added and it has been remodelled to serve as a treatment plant. In doing so, Jhenaidah Paurashava had assistance from the Department of Public Health and Engineering (DPHE) in the design of the treatment plant. Both SNV and BMGF made significant contribution in upgrading the dumping station.

The IT department also has an indirect involvement as they handle database and mapping responsibilities, although these responsibilities have not been fully adopted by the IT department, and are operated by SNV at the moment. Although a simplified excel spreadsheet of customers and households is being maintained in Jhenaidah Paurashava, the Integrated Municipal Information System (IMIS) has also been operationalized in Jhenaidah after a short pilot to offer an even more detailed repository and (geographical) visual representation of beneficiary households and their status of water and sanitation services.

Table 11 below summarizes the responsibilities of the various stakeholders in Jhenaidah who play a role as they relate to different segments of the FSM value chain.

Table 11: Summary of Customer Journey – Jhenaidah

Value Chain Segment	Details	Responsible
Containment	The designs of containment need to be approved by the engineering department before the construction of a building	JPS: Design approval by Engineering Department
Emptying	The emptying service is approved by conservancy department and conducted by Aid Foundation	Aid Foundation
Transport	The Vacutugs are used to transfer the faecal wastes from onsite sanitation to treatment plant. This process is supervised by the Aid Foundation as well	Aid Foundation
Treatment	Treatment is dealt with by Aid Foundation	Aid Foundation
Disposal/Reuse	Aid Foundation has the provision to reuse the treated sludge but they do not reuse the end products at the moment	Aid Foundation

2.3.2 FSM Service Value Chain

JPS has outsourced its entire FSM operations to Aid Foundation other than containment approval. Request for service can be done both via JPS and Aid Foundation and the mode of communication is either through hotline (Phone Number) or offline visit. The customer journey for FSM service in JPS is illustrated in the graph and Table 12 below.

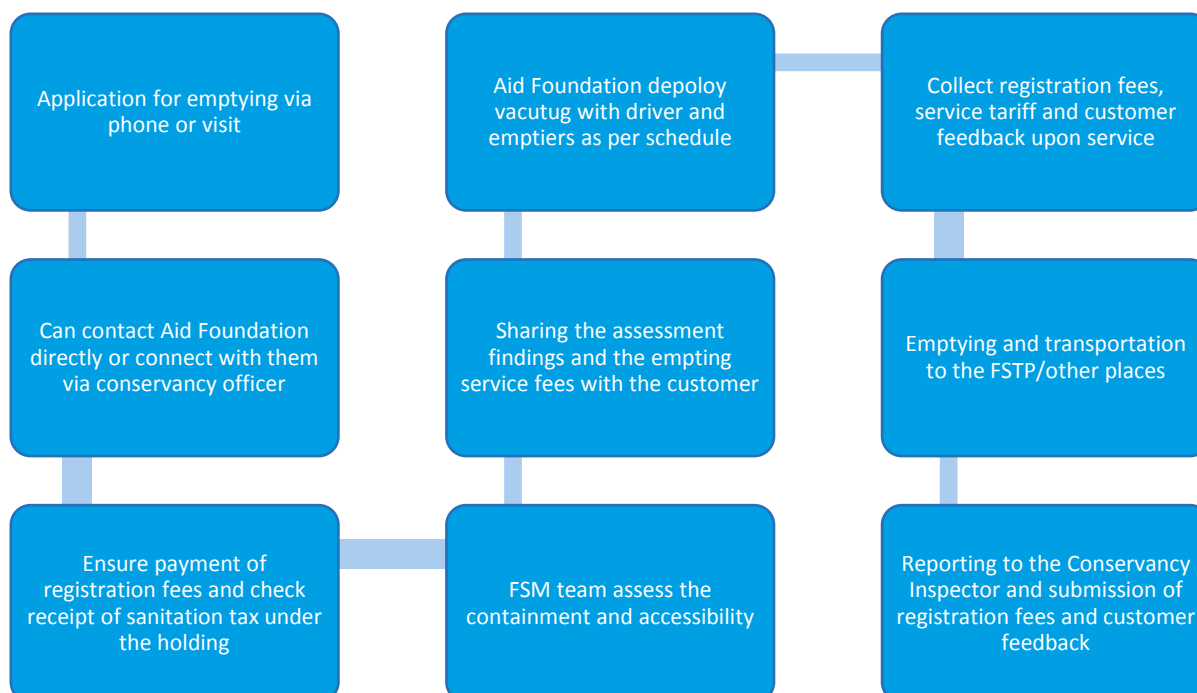


Table 12: Customer Journey - Jhenaidah

Customer	Jhenaidah Paurashava and AID Foundation
Application <ul style="list-style-type: none"> Customer can reach out to either the JPS or Aid Foundation via phone or physical meeting 	<ul style="list-style-type: none"> If a customer contacts the JPS, then the conservancy inspector forwards the request to Aid Foundation FSM team assess the containment and accessibility
Payment <ul style="list-style-type: none"> Customer makes payment of both the registration fee and service tariff to Aid Foundation 	<ul style="list-style-type: none"> JPS receives the payment cheque from Aid Foundation for all the registrations of services done in a month The accounts department transfers the service fee to the dedicated FSM account
Emptying Service <ul style="list-style-type: none"> Customer is contacted by the service team to confirm the request of service and the provided location After completion of service, the customer provides feedback on the quality of service 	<ul style="list-style-type: none"> JPS receives the service feedback form from Aid Foundation
Transport and Treatment	<ul style="list-style-type: none"> Aid Foundation ensures the deposit of sludge at FSTP

2.3.3 Public Financial Management for FSM Service - Jhenaidah

JPS follows the Public Procurement Rules (including the Public Procurement Act, 2005 and Public Procurement Rules, 2008). The JPS maintains service register in the Conservancy department and FSM cash book in the Accounts Department for its FSM service in regard to its financial management practices like all the other local governments evaluated in this study.

PFM Objective 1: Budget Formulation

Budgets are approved at the general council meeting where budgets from all the departments of the JPS are compiled by the accounts department upon receiving the proposals from each designated officer of each unit. The conservancy officer is in charge of the department's budget formulation and usually formulates the budget based on historic allocation of funds for the department. There is a provision to request for additional cash from the general fund in case of emergency needs. However, such a provision would mean that the budget preparation is only considered as a mandate exercise rather than an actual need-based assessment. Upon approval of budget in the general council meeting, the budget is forwarded to MoLGRD&C for review and approval.

Referring to the Budget Cycle, introduced in Chapter 1.2.1, the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are performed only nominally. Since budget formulation at the LGI is still performed at a rudimentary manner with incremental budgeting the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked. Unanticipated revisions of the budget towards the end of the Fiscal Year is a regular practice, and as a result the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner.

PFM Objective 2: Accounting and Financial Reporting

As is the case for the other LGIs covered in this report, the Accounts and Finance section follows a simplified single-entry bookkeeping method, and employs a cash-based accounting model that is heavily reliant on journals and cash-book entries, with the Annual Budget (a de-facto projected Statement of Receipts and Expenditures for the Fiscal Year) being the major financial publication.

The exception in the case of JPS is the addition of a third-party for service provision. The revenue receipts from FSM are maintained by both the conservancy and accounts department. The conservancy department maintains salary of its staff while monthly reports by Aid Foundation breaks down on the cost of FSM operations.

Accounting

Revenues generated in regard to FSM service provision are the Holding tax, Sanitation Tax and Conservancy Rate as well as the FSM Service Tariffs. Cost comprises of CAPEX and OPEX.

■ Holding Tax and Conservancy Rate

A holding under JPS pays 7% holding tax, 7% conservancy tax, 3% tax on lightning and 5% on water utilities.

■ Sanitation Tax

JPS generates Sanitation Tax bill against each household which is mailed to the relevant holding. Citizens can pay the bill through online payment (using Holding ID) through SureCash Wallet, whereby the amount is deposited in the JPS General Account maintained with First Security Islami Bank Limited. In some cases, the bill payment is collected in cash from households, and citizens also have the option to make the payment through any of 3 banks affiliated with the JM.

Sanitation Tax receipts are received in the General Account like the holding and conservancy tax. But receipts from Sanitation tax are then transferred to a separate Sanitation Tax account opened in January 2018. The relevant financial records for sanitation tax are the counter-slips received from affiliated Bank and the Cash Book/ Cheque Book maintained by the Accounts Department.

■ FSM Service Registration Fees

In terms of revenue, the main earnings from FSM services are the registration fees that is shared between the JPS and Aid Foundation. The FSM service tariff belongs solely Aid Foundation. The following Table 13 summarizes the FSM service fees for the FSM service in JPS:

Table 13: Tariff Breakdown Structure - Jhenaidah

Details of Registration Fees				
Charge per first trip	1 m ³ (Pit Latrine)	2 m ³ (ST)	1 m ³ (ST)	2 m ³ (ST)
Total Charge	925	1,850	1,155	2,425
- Tariff	500	1,000	700	1,500
JPS's Share	350	700	350	700
- VAT 15%	75	150	105	225
JPS's REVENUE per m ³	350	350	350	350
Average REVENUE / m ³	BDT 350			

Financial Records of the FSM Service Tariffs are provided through the share of JPS receipts from the FSM registration fee, which is deposited on a monthly basis by AID Foundation to the JM's designated bank account for "Vacutug Services" directly or via a cheque made out to JM, which is also reflected in the monthly report received from AID Foundation and also the IMIS Database.

■ Operational Expenses - OPEX

As the majority of the services are provided by AID Foundation, a major portion of expenses are also carried out through the AID Foundation account. Vacutug repair expense, Vacutug fuel expense, drivers' salaries, emptier salaries, and characteristic test and lastly repair and maintenance cost is expended by AID Foundation.

Other expenses like repair and maintenance of treatment plant, promotional events and promotional communication are carried by JPS, if the total incurred sum exceeds BDT 10,000.

■ Salaries

The Conservancy department has 5 Full-Time staff including 1 Inspector and 4 Supervisors. They also have 110 people on the master roll. However, since a negligible fraction of their time is dedicated to FSM services due to the service outsourcing, the costs are considered to be limited only to monitoring. Within AID Foundation, the salaries and maintenance expenses for faecal sludge treatment plant is BDT 44,000/month and for emptying and transport it is BDT 16,000/month.

The relevant financial records for tracking salary expenses include Daily Attendance Register kept by the Conservancy department, Monthly report received from AID Foundation and the Cash Book/ Cheque Book maintained by the Accounts Department.

■ Vacutug Fuel Expenses

Fuel expenses going towards Vacutug services are borne completely by AID Foundation. The expenditures are made from the FSM service tariff income. Here, the relevant financial records are the monthly report received from AID Foundation.

■ Vacutug Repairs and Maintenance

AID Foundation does small repairs by themselves. But when requiring major expenses (over BDT 10,000), they notify JPS. Although the deed specifies that AID Foundation is to pay for these expenses, JPS does contribute some amount although the decision is up to JPS discretion. Also, because JPS has a formal relationship with the SNV, they can also request contribution from them (AID Foundation cannot directly request SNV as they have no formal relationship). The relevant financial record for this would be the monthly report received from AID Foundation.

■ Miscellaneous Costs

Other costs not covered above, such as Capacity Building of Service Providers Promotional Activities are being borne by SNV at the moment.

■ Treatment Plant Maintenance

Operation and maintenance of the treatment plant costs approximately BDT 15,000 on average per month.¹⁷ This includes costs such as electricity and internet bill of FSTP, salary of FSTP operators and night guard, which are being borne by AID and reflected in their monthly report to JPS. All maintenance costs are supposed to be borne by AID Foundation according to the contract agreement, but AID Foundation often seeks and avails financial assistance from the Mayor and from SNV in the case of large maintenance costs.

For major costs to be incurred by AID Foundation (more than BDT 10,000), AID Foundation issues official letter to the Mayor. If approved, advance payment is made. If necessary, Engineering department can be involved to verify cost estimates (for example in case of repair of Treatment Plant). In both cases, the advance is made from the accounts department, which generates a cheque based on the billing among.

There is no way for AID Foundation to request funds from SNV directly, as AID Foundation maintains relationship with the Paurashava and SNV maintains relationship with the Paurashava. So, all kinds of support requests have to come via the Paurashava. As borne by AID Foundation, these should all be represented in the monthly report received from AID Foundation.

■ Capital Expenditure - CAPEX

For large CAPEX, a project proforma is developed, and JPS initiates a search for donors. They also request official assistance from the DPHE Chief and the Secretary of the Local Government Division of the MoLGRD&C. JPS also explores the possibility of injecting new capital via foreign donors or development partners, if the project is aligned with their priorities.

In many cases, a consultancy team is assigned to study project feasibility. If the feasibility of the new infrastructure is established, and if the parties feel there is a need for the infrastructure, then a design is drawn up based on project policy. The blend of finance is decided upon (grants, loans and principal contribution) at this stage. The approval and processing time taken entirely new projects is much longer than for additional components under running projects, as new projects require fresh budget allocation.

In case of CAPEX shared by multiple parties, the expenses are made either from the Paurashava Bank account, joint account or directly from the donor's account.

The financial records needed for FSM CAPEX expenditures were not covered in-depth during the course of the primary research of this assignment since CAPEX are infrequent occurrences and the modalities vary greatly depending on the financier (i.e. sourcing from internal resources or through central government or through various donor agencies or development partners).

Financial Reporting

The annual budget is the major financial publication of JPS which highlights on the projected revenue and adjacent expenses. Through Local Resources Mobilization, Annual Development Program from national government and Loans/Grants from donor agencies, the budget

¹⁷ Primary Research as mentioned by Aid Foundation representative

identifies streams of revenue. The expenditures are categorized into operational and development segments.

Although section "A) Revenue Calculation (Component-1 – Incomes)" of the Annual Budget has a line item #2.B as Conservancy Rates, no line item for Sanitation Tax receipts was shown in the Annual Budget for 2019-20 Fiscal Year. Receipts from AID Foundation were also not shown under the "Component-1 – Incomes" section of the Annual Budget separately.

PFM Objective 3: Performance Reporting

Budget-actual variance analysis as a tool for performance measurement is underutilized across LGIs. None of the LGIs applied any cost accounting or management accounting methods, focusing instead on financial accounting, which is solely concerned with the reporting of financial transactions and the financial position of the LGI to its stakeholders. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected across the LGIs.

APA

LGD yet to introduce APA for the Paurashavas. However, a separate monitoring system is being practiced for Paurashavas. The Deputy Director, Local Government (DD-LG) based in the district, conducts assessment based on a template, the Paurashava Performance Evaluation Form, introduced by LGD. This template includes sanitation system (coverage) and faecal sludge management (coverage). If more than 90% area is covered by sanitation system, then Paurashava gets 2 points, else zero. Again, for FSM, if the coverage is more than 60% then 2 points, else zero. There is no definition mentioned about sanitation system and FSM system. In addition, LGD collects infrastructure development related information from Paurashavas through DD-LG on a quarterly basis. However, sanitation related information is missing here. LGC collects these information to report against the APA they made at LG level.

Also, there is no internal mechanism to measure operational efficiency (financial or non-financial performance indicators) of the services. This is found for services delivered directly by Jhenaidah or outsourced to third party (no contractual binding performance indicators). In fact, AID Foundation submits a monthly financial statement to Paurashava. This statement is mainly used by the accounts section to calculate the amount Paurashava is supposed to receive. This is not being used as a management tool to measure performance, and there are no contractual binding performance indicators set in the service lease agreement.

Citizen Charter

Jhenaidah Paurashava placed the citizen charter on the wall of Paurashava in Bangla. It describes the services being provided which include type of services, maximum time to provide the services, service fee, responsible officer among others. It includes the specific fee per Vacutug. No FSM related KPIs are included.

PFM Objective 4: Auditing

The deed agreement between JPS and Aid Foundation does not mention auditing by JPS in order to monitor the financial and operational management of Aid Foundation. However, article 1.B.11 suggests that Aid Foundation will facilitate, organize, and participate in monthly meetings with JPS at the first week of every month and submit both operational and financial monthly reports. In JPS, auditing is done at three levels:

Internal Audits: Internal audits are done on a need basis in order to evaluate the financial and operational performance of a certain component and mitigate any ongoing issues.

Through External Auditors: External audits are to be done annually in order to enable the national Annual Development Program Fund. The audit is performed by the NBR certified

auditor who can be chosen from the list of 100 pre-approved auditors shortlisted by the central authority of tax administration in Bangladesh.

Donor Funded Project Audits: Donor funded projects can also be audited by external auditors, recruited by the donor agencies, in order to measure the program success and management.

In JPS, there is no involvement by the municipal council in the audit process, which is considered a gap when comparing to best practices. In the case of external audits, whether from the LRAD or third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.

2.3.4 Summary Gaps in PFM for FSM Service in Jhenaidah

Based on the analysis across the four broad PFM threads, the following major gaps have been identified in JPS (shown in Table 14) in regard to FSM services:

Table 14: Summary of major gaps in PFM for FSM service- Jhenaidah

PFM Area	Major Gaps Identified
Budgeting	<ul style="list-style-type: none"> ■ Budget formulation does not adequately take into account citizen demands/needs and there is no central strategy in regard to planned service provision, meaning that the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are only nominally covered. ■ Budget formulation at the LGI is still performed on the historical budget basis with an arbitrary increment based on personal evaluation. This means that the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked and the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner. ■ Since the budget does not foresight any unique cost heads for the upcoming fiscal year, deficits may lead to operational bottlenecks that may hinder the service quality.
Accounting and Financial Reporting	<ul style="list-style-type: none"> ■ JPS disburses FSM payments through its general account and does not maintain separate expense headers. This results in lack of clarity regarding the overall financial performance. ■ Trial Balance and the Statement of Financial Position (balance sheet) cannot be prepared for the FSM service due to single entry bookkeeping practices. ■ Cash-based accounting is practiced in JPS as opposed to the accrual-based accounting. Accrual-based accounting is deemed the better choice as it regards transactions as independent of the movement of cash, in line with accepted accounting conventions. ■ Unlike KCC, JPS does not utilize multiple checks and balances during the FSM service requisition and service provision to ensure additional integrity.
Performance Reporting	<ul style="list-style-type: none"> ■ Budget-actual variance analysis is underutilized. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected. ■ There is no internal mechanism to measure operational efficiency (financial or non-financial performance indicators) of the services. In fact, AID Foundation submits a monthly financial statement to Paurashava. This statement is mainly used by the accounts section to calculate the amount Paurashava is supposed to receive. This is not being used as a management tool to measure performance, and there are no contractual binding performance indicators set in the service lease agreement.

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- JPS Citizen Charters provides information about FSM services including fee and timeframe for service provision. No other FSM related KPIs are mentioned.
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Auditing

- JPS needs to introduce annual auditing of JPS for better monitoring and management.
 - Due to a lack of KPIs, the audits usually present the landscape of the financial performance but does not provide insights on the quality of financial management
 - In the case of external audits from the LRAD or third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.
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2.4 Jashore Paurashava

Jashore Paurashava (JAS) consists of 9 wards, 73 mahallas and its adjoining other urban area comprising 5 mauzas. The total area of Jashore city is 28.56 sq. km, of which 14.71 sq. km. falls under the jurisdiction of the Paurashava. Jashore Paurashava established in 1864. In 1960, Jashore was reconstituted as Jashore municipal committee under the 1960 Municipal Administration Ordinance. The total number of holdings in Jashore is around 23,023 as per Holding database.

2.4.1 FSM Value Chain Overview

The Faecal Sludge Management System (FSM) of Jashore is overseen by the Conservancy Department, alongside other services such as sweeping, solid waste management and mosquito control. The Mechanical Department also plays a key role as it is responsible for the management of the Vacutug fleet.

With support from the ADB, JAS has been actively seeking to bring in a private sector partner in the provision of FSM services. There was an attempt made to bring in FSM services under the private sector by engaging a private company, Khan Agro. However, negotiations with Khan Agro for taking over the service has stopped in its tracks and it is highly likely that a re-tender will be issued to seek alternative parties for handover of the FSM service responsibility.

Table 15 below summarizes the responsibilities of the various stakeholders in Jashore who play a role as they relate to different segments of the FSM value chain.

Table 15: FSM Value Chain Responsibility Matrix -Jashore

Value Chain Segment	Details	Responsible
Containment	The designs of containment need to be approved by the engineering department before the construction of a building	Paurashava: Engineering Department
Emptying	Done by using a vacuum pump attached to a Vacutug. In Jashore 70.4% (as per APM) of the households are connected to the drain illegally, the service is provided to the remaining households.	Paurashava: Conservancy and Mechanical Department
Transport	The mechanical truck transports the waste from site to treatment plant.	Paurashava: Conservancy and Mechanical Department
Treatment	The waste is separated and categorized. They categorize by size and reusability.	Paurashava: Conservancy and Mechanical Department
Disposal/Reuse	The waste is used to create fertilizer and electricity.	Paurashava: Conservancy and Engineering Department

Despite FSM service provision by JAS, according to estimates from JAS staff, 80% - 85% of household containments within the Paurashava jurisdiction are connected to the drains illegally. But, as per APM (Annual Performance Monitoring) survey, this figure is 70.4%.

2.4.2 FSM Service Chain

JAS offers an on-demand FSM service, which initiates with in-person request for services by the customer to the Paurashava. As described below in graph and Table 16, the whole process requires multiple stakeholder involvement.

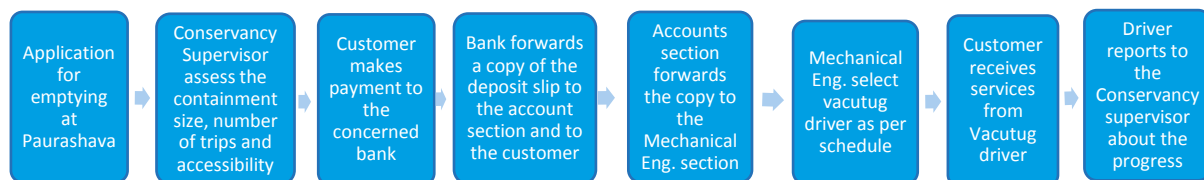


Table 16: Summary of Customer Journey – Jashore

Customer		Jashore Paurashava
Application	<ul style="list-style-type: none"> Customer has to go to the Conservancy Department to procure FSM service and to get approval of the service they need to apply to the Mayor through application Customer makes payment to the designated bank through the slips provided by Account section of JAS 	<ul style="list-style-type: none"> Application receive for approval processing by admin Conservancy official visit the site to assess containment size for measuring quantity of trips and rate The application is processed and forwarded to the Conservancy Officer from accounts section
Payment	<ul style="list-style-type: none"> Customer makes payment to the designated bank through the slips provided by Account section of JAS After payment, the bank slip is provided to the accounts department. The slip is composed of three parts. One part of the slip is given to the customer as a receipt 	<ul style="list-style-type: none"> The second portion of the bank slip is provided to the Accounts section of JAS, which is then attached to the customer's application form and subsequently forwarded to the Conservancy department. The third portion of the bank slip is retained by the bank and at the end of the month, is forwarded to the Accounts section for their records.
Emptying Service	<ul style="list-style-type: none"> Customer shows their copy of the payment slip as evidence of service request at the time of emptying Customer needs to be prepared before emptying as driver requests 	<ul style="list-style-type: none"> Conservancy forwards the application to the Mechanical engineering section. Mechanical section determines a schedule among the all applications and selects Vacutug Driver, informs the driver of the address and contact number of the customer and provides advance payment for emptiers using cash. When providing the emptying service, the driver ascertains that the customer has a copy of their slip.
Transport and Treatment		<ul style="list-style-type: none"> Driver and operator dispose of the faecal sludge in the treatment plant at Jhumjhumpur. There is no way to keep tabs on whether the dumping is not done in the designated areas in the treatment plant i.e. whether dumping is done illegally in outside not since no checks are performed.

2.4.3 Public Financial Management for FSM Service - Jashore

Like all other LGIs in Bangladesh, the financial practices of the JAS are governed by the Public Procurement Rules (including the Public Procurement Act, 2005 and Public Procurement Rules,

2008). Alongside this, the Local Government (Paurashava) Act, 2009 also acts to empower participatory decision-making and bring transparency into the Budgeting, Accounting and Reporting, and Auditing components of the JAS's public financial management processes. However, as the next section covers, the strong legal fundamentals do not always translate into robust implementation at the LGI level.

PFM Objective 1: Budget Formulation

In JAS, citizen participation is ensured through Ward Councillors, who collate citizen demands for services from within their respective jurisdictions and present it during General Council Meetings, where budget formulation decisions are taken. JAS also has a Standing Committee for Conservancy (one out of 14 Standing Committees) which meets every three months. Although the Standing Committee does not regularly discuss budgetary issues, it is within their purview to discuss budgetary allocations for Conservancy services, including FSM.

Every year in the last quarter of the Fiscal Year, the Accounts and Finance department initiates the budget formulation process within the LGI. The Accounts department requests the Head of each JAS department to propose their estimated budget for the following year based on historical costs and projected trends. Such projections are almost always often done arbitrarily by each department by adding on estimated incremental amount based roughly on historical trends. The Accounts department then collects the proposed figures from each department and allocates the budgeted costs from the other departments to the correct line item of the Annual Budget. Once the budget is approved by the General Council, the finalized budget is then forwarded to the MoLGRD&C for approval.

Although SNV has developed a customer database in Jashore for management of FSM services - which is designed to collect application information from customers, capture assessment of the containment by Conservancy department, record service provision, final payment and feedback from customer as well as output monthly and annual reports - the system is still not handover to JAS for operational or being utilized for projecting FSM revenues during budget formulation.

Referring to the Budget Cycle, introduced in Chapter 1.2.1, the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are performed only nominally. Since budget formulation at the LGI is still performed at a rudimentary manner with incremental budgeting the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked. Unanticipated revisions of the budget towards the end of the Fiscal Year is a regular practice, and as a result the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner.

PFM Objective 2: Accounting and Financial Reporting

Accounting and financial reporting standards at the LGIs are informed by the Public Procurement Rules (PPR), 2008 and the Public Procurement Act (PPA) of 2005, and there are no other specialized rule or regulation for financial management at LGIs. However, provided that the aforementioned regulations cover a much wider breadth of institutions and form a generalized guideline for both central government and local government level organizations, LGIs such as JAS have exercised a degree of freedom to develop their own internal accounting procedures and templates.

The Accounts and Finance department in JAS is in charge of the financial management affairs within JAS. As is the case for the other LGIs covered in this report, the Accounts and Finance Department follows a simplified single-entry bookkeeping method, and employs a cash-based accounting model that is heavily reliant on journals and cash-book entries, with the Annual Budget (a de-facto projected Statement of Receipts and Expenditures for the Fiscal Year) being the major financial publication of JAS.

Accounting

Revenues generated in regard to FSM service provision are the Holding tax and Conservancy Rate as well as the FSM service Tariffs. Cost comprises of CAPEX and OPEX.

■ Holding Tax and Conservancy Rate

The general citizen pays the holding tax of which 3% goes to Lighting, 10% to Water, 7% to Holding and 7% towards Conservancy.

The JAS maintains 57 different bank accounts. They have multiple accounts with different bank accounts for specific services' financial management. For Holding Tax collections, the Paurashava has 13 accounts with different banks, and for water they have 11 different accounts with different banks. Their key financial records as they relate to holding tax and conservancy rates include the Counter-slips received from affiliated Bank and the Cash Book/ Cheque Book maintained by the Accounts Department.

■ FSM Service Tariff

For the only active 2,500 litre Vacutug, the tariff rate is BDT 2,300 for the first trip and BDT 1,500 for subsequent trips. For each trip, emptiers receive BDT 800 as their labour costs in the and from subsequent trips emptiers receive BDT 500 from each customer. Once the FSM service is completed, the portion of the slip is forwarded to the accounts department, who use it for reconciliation purpose by checking against the number of slips and amount received in the bank.

The following Table 17 summarizes the service tariff rate the FSM in JAS:

Table 17: Tariff Breakdown Structure - Jashore

Details Emptying Tariff (2,500L or 2.5 m ³)		
Number of Trips	1 st Trip	2 nd Trip
Total Charge	2,300	1,500
- Tariff	1,500	1,000
- Emptier (not credited to JAS)	800	500
JAS REVENUE per m ³ (BDT/ m ³)	600	

The Accounts department makes an entry into the Municipal Accounts System (MAS) software the corresponding line is record #5349 for "FSM Services". The Paurashava had shifted to the digital MAS system in 2004, but it had not been updated since. The software performs a number of other functions (apart from recording FSM services) including trade license records, holding tax payment information, assessment information etc. With assistance from the A2I, and funding from the KOICA, the Korean development agency, the software system in JAS is expected to be upgraded soon. The updated accounting software has already been piloted in Faridpur Paurashava and Mymensingh City Corporation. Records suggest that in the year 2018-19, BDT 1,21,500 was received under the FSM service. The entries are first made in received payments, and then collaged into the financial statements. In the first five months of FY 2019-20, the receipts totalled BDT 52,700.

Costs attributable to FSM services, however, are not easy to track since JAS does not maintain a separate bank account for receipts and expenditures originating from FSM service provision. Though JAS opened a separate bank account for FSM transaction but, FSM expenditures are managed through the JAS General Account, from where most other expenditures are also maintained.

The key financial records that relate to FSM service tariff include the FSM Service Register maintained by the Conservancy Department, the Cash Book/ Cheque Book maintained by the Accounts Department and the Municipal Accounts System (MAS) Software.

- Operating Expenses - OPEX

- Salaries

In the Conservancy department, there are now 8 permanent staff including 5 Inspectors, 3 permanent supervisors, 14 temporary (master roll) supervisors and one driver. In addition, the department has around 500 master roll positions. Not all of these staff are involved in the provision of FSM services.

The driver who operates the Vacutug is on the master roll, receiving a payment of BDT 120/day. In addition, the BDT 800 that is reserved for labour costs from the first trip of customer's FSM service tariff and BDT 500 that is reserved for labour costs from the second trip onwards, is shared between the drivers and the operators. Each trip generally has 1 driver and 2 operators/emptiers present. The amount of BDT 800/ BDT 500 is handed to the drivers with a slip containing customer information and the sharing agreement is informally settled between the drivers and emptiers by themselves.

The salaries under the conservancy department, containing salaries for both permanent staff and those on the master roll, are shown under the expenses in the cashbook. For full-time staff, salaries are paid on a monthly basis using cheque/bank transfer. For the master roll, salaries are paid usually on a monthly basis but sometimes on a weekly basis. Cheques for the master roll salaries are encashed by the cashier and disbursed by the respective departments.

The key financial records for documenting salary expenses include the Daily Attendance Register kept by the Conservancy & Engineering departments, the Monthly Register transferred to the Accounts Department and the Cash Book/ Cheque Book maintained by the Accounts Department.

- Vacutug Fuel

The Vacutug being operated by JAS is towed using a tractor. JAS has 4 tractors and only 1 tractor is used partially for the FSM services. Now a Vacutug has been upgraded by MAWTS which capacity is 2,500 L and it is functioning.

For the fuel procurement, JAS relies on a sole vendor. For all types of fuel procurement (including for the Mayor's vehicle), permission is sought from the Mayor from the Executive Engineer. Once approved, oil is procured from this listed filling station. The Engineering department sends their bills to the Accounts department at the end of the month and the payment to the vendor is settled using cheques.

The fuel bill recorded by the Accounts department is in aggregate form. However, it is possible to find out the fuel consumption according to each vehicle from each vehicle's logbook. Key financial records for tracking Vacutug fuel expenses are the Vehicle Fuel Logbook, the Fuel Requisition Counter-slip and the Cash Book/ Cheque Book maintained by the Accounts Department.

- Vacutug Repairs and Maintenance

The Mechanical sub-department under the Engineering section deals with all vehicle repairs and maintenance. The Engineering department does not keep separate records for the FSM Vacutug, especially as the tractor that is used to transport the Vacutug is also used to perform a range of other cleaning tasks.

For small repairs, the service can be availed without express permission by the Mechanical department from the listed vendor, who provides the service in credit. Generally, expenses up to BDT 5,000 are considered small costs. At the end of the month, the bill is submitted to the Accounts department, who settles payment to the vendor via cheque. In many cases, the engineers themselves make the payment from their own funds, and then adjust accordingly their dues from the vendor when they receive payment from the Paurashava.

For larger expenditures, approval is needed prior to servicing the vehicles. For large repair costs, especially those where costs are higher or parts have to be sourced from Dhaka, payment is taken in advance from the Paurashava to pay the vendor. The requisition for repairs is made by the driver, and with approval from the Mechanical Engineer, Executive Engineer and with Mayor's permission. Once the service is received, the bill is then passed onto the accounts department.

When it comes to repairs, there are no individual logbooks maintained for each vehicle. So, costs related to the tractor used for both FSM and other conservancy tasks cannot be tracked or attributed to FSM service.

Key financial records as they relate to Vacutug repairs and maintenance include the Requisition slip, the Bill/ Invoice from Vendor and the Cash Book/ Cheque Book maintained by the Accounts Department.

■ Treatment Plant Operations

Jashore has the first biomass generation plant among all other municipalities. The biomass plant operates mainly using solid waste, including household organic waste and occasionally, cow excrement. Organic waste is separated from other kinds of waste and organized according to size.

A total amount of BDT 3.55 lakh goes towards salaries of the staff at the treatment plant and this includes salaries of non-manual labour including Data Entry Operators. Including other maintenance costs, the monthly expenditure on the treatment plant is around BDT 5 lakh. However, only a small portion of this cost can be attributed to FSM services as faecal sludge is only treated at the plant and disposed (not reused) and majority of the operations taking place involve solid waste management.

For repairs in the treatment plant, the Mechanic department (under Engineering section) is involved. Regardless of the involvement of other departments, all treatment plant salaries are shown under conservancy.

■ Capital Expenditure - CAPEX

For large Capital Expenditures a proposal needs to be raised in the General Council meeting at JAS for approval. If the funding is designated from the Ministry, it is forwarded to the ministries in Dhaka for approval, following which the fund will be disbursed. In case of donor funding, a similar approval process is followed but the fund is eventually disbursed by the development agency either through a newly formed joint

account between the development agency and the Paurashava or directly through the Paurashava account.

The financial records needed for FSM CAPEX expenditures were not covered in-depth during the course of the primary research of this assignment since CAPEX are infrequent occurrences and the modalities vary greatly depending on the financier (i.e. sourcing from internal resources or through central government or through various donor agencies or development partners).

Financial Reporting

The Annual Budget is the major financial reporting publication from the JAS. It serves as a de-facto projected Statement of Receipts and Expenditures for the upcoming Fiscal Year. The Annual Budget of JAS, like that of Gazipur City Corporation, had a separate component in the Annual Budget for their Water Utilities department.

The Annual Budget seeks to identify the key sources of finance, sub-divided into (i) Local Resources Mobilization (incl. taxes, rates, tolls and fees), (ii) National government grants (through Annual Development Program allocations and Special Allocations) and (iii) Loans/Grants from Development Partners. On the expenditure-side, expenses too are categorized according to the source of finance. For example, in the first component of the budget, under SL# 3.10 (expenditures from Local Resources Mobilization), projected expenditures for "Sanitation Services and Tube Well Establishment" are grouped together. Major capital expenditures are listed in the Loans/Grants from Development Partners section of the budget, with major projects contributing to Sanitation and Waste Management / Infrastructure development initiatives (including FSM) being the Third Urban Governance and Infrastructure Improvement (Sector) Project (UGIIP3) and City Region Development Project (CRDP) projects of the Asian Development Bank (ADB) and SNV's WASH SDG programme.

PFM Objective 3: Performance Reporting

Budget-actual variance analysis as a tool for performance measurement is underutilized across LGIs. None of the LGIs applied any cost accounting or management accounting methods, focusing instead on financial accounting, which is solely concerned with the reporting of financial transactions and the financial position of the LGI to its stakeholders. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected across the LGIs.

APA

LGD yet to introduce APA for the Paurashavas. However, a separate monitoring system is being practiced for Paurashavas. The Deputy Director, Local Government (DD-LG) based in the district, conducts assessment based on a template, the Paurashava Performance Evaluation Form, introduced by LGD. This template includes sanitation system (coverage) and faecal sludge management (coverage). If more than 90% area is covered by sanitation systems, then Paurashava gets 2 points, else zero. Again, for FSM, if the coverage is more than 60% then 2 points, else zero. There is no definition mentioned about sanitation system and FSM system. In addition, LGD collects infrastructure development related information from Paurashavas through DD-LG on a quarterly basis. However, sanitation related information is missing here. LGC collects these information to report against the APA they made at LG level.

Also, there is no internal mechanism to measure operational efficiency (financial or non-financial performance indicators) of the services. This is found for services delivered directly by Jashore (emptying, transportation and treatment of FS) or outsourced to third party (no contractual binding performance indicators). In fact, the Conservancy Section, who is operating the emptying service, is not producing any periodic report.

Citizen Charter

Jashore Paurashava uploaded their Citizen Charter on the website in Bangla. The Citizen Charter is well structured and mentioned the complaint redressal procedure. It describes the services being provided, procedures to get the services, service fee, timeframe and responsible officer. It includes sanitation services in general and under the slum development programme. However, the charter does not mention faecal sludge emptying as one of the services provided by JAS. But does mention the renting out of Vacutugs.

PFM Objective 4: Auditing

In JAS, auditing is performed to ensure compliance with the rules and procedures for public expenditures, particularly to ascertain whether or not the PPA and PPR guidelines are being strictly followed.

Internal Audits: JAS has a Standing Committee of “Accounting and Audit”, which has five members, including two Councillors and an Accounts Officer. One of the functions of this committee is to meet after the end of every fiscal year to go over a perfunctory audit of the revenues and expenditure of the LGI for the past against its planned performance. Although it is termed as an audit, the effectiveness of this audit may be questioned as none of the committee members are known to have specialization or competencies in accounting or auditing.

External Audits from the Comptroller and Auditor General of Bangladesh: The Comptroller and Auditor General of Bangladesh is the Supreme Audit Institution of Bangladesh. They are mobilized at the request of the MoLGRD&C, which issues an “Audit Demand” to the Office of the Comptroller and Auditor General of Bangladesh with list of LGIs where audits are to be performed. In response, the Comptroller and Auditor General of Bangladesh deploys an Audit Officer(s) and deploys them to the relevant LGI to conduct the audits. In JAS, audits by the Local and Revenue Audit Directorate (LRAD) under the Comptroller and Auditor General of Bangladesh are performed annually. It is understood that a key incentive for conducting such audits externally is due to central government mandates linking successful external audit completion to Annual Development Program (ADP) pay-outs from the central government for the following year.

From Independent Auditors: The only instances where audits from Chartered Accountant firms are conducted are in cases when a development project has been funded by development partners and an external audit specific to that project was mandated as part of the contract.

In JAS, there is no involvement by the municipal council in the audit process, which is considered a gap when comparing to best practices. In the case of external audits, whether from the LRAD or third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.

2.4.4 Summary Gaps in PFM for FSM Service in Jashore

Based on the analysis across the four broad PFM threads, the following major gaps have been identified in JAS (shown in Table 18 below) in regard to FSM services:

Table 18: Summary of major gaps in PFM for FSM Service- Jashore

PFM Area	Major Gaps Identified
Budgeting	<ul style="list-style-type: none"> ■ Despite provisions for wider stakeholder participation, the Mayor wields significant legislative and executive power and to provide him/her the authority to take all major budgetary decisions. At the same time, there is no central strategy in regard to planned service provision, meaning that the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are only mostly missing. ■ Budget formulation at the LGI is still performed on the historical budget basis with an arbitrary increment based on personal evaluation. This means that the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked and the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner. ■ Unrealistic budget formulation often leads to revision of the budget towards the end of the Fiscal Year, which adversely impacts financial discipline.
Accounting and Financial Reporting	<ul style="list-style-type: none"> ■ JAS does not maintain individual bank account for receipts of tariffs from FSM services, and instead performs expense operations through the Paurashava's General Bank account. ■ Single entry bookkeeping is practiced in JAS, which limits the generation of useful financial statements such as the Trial Balance and the Statement of Financial Position (balance sheet) ■ Cash-based accounting is practiced in JPS as opposed to the accrual-based accounting. Accrual-based accounting is deemed the better choice as it regards transactions as independent of the movement of cash, in line with accepted accounting conventions. ■ Unlike KCC, JAS does not utilize multiple checks and balances during the FSM service requisition and service provision to ensure additional integrity.
Performance Reporting	<ul style="list-style-type: none"> ■ Budget-actual variance analysis is underutilized. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected. ■ There is no internal mechanism to measure operational efficiency (financial or non-financial performance indicators) of the services. In fact, the Conservancy Section, who is operating the emptying service, is not producing any periodic report. ■ JAS Citizen Charters provides no information about FSM services.
Auditing	<ul style="list-style-type: none"> ■ While auditing is performed externally through the Comptroller and Auditor General's office, external audits through a separate third-party audit firm is not performed across the LGI. This leaves the room open for tacit collusion between LGI staff and internal auditors or appointed external auditors.

2.5 Gazipur City Corporation and Benapole Paurashava

Gazipur was originally established as a Paurashava in 1986. In 2013, it became one of the youngest City Corporations in Bangladesh¹⁸, and with the bifurcation of Dhaka North and Dhaka South, Gazipur City Corporation (GCC) became the largest City Corporation by land area in Bangladesh. Gazipur city has 8 Zones with an area of 321.63 square kilometres. The city's population is 1,592,053 and density is 4,950 per square kilometres as per the population census 2011. As per World Bank feasibility report of 'Development of Integrated Wastewater Management system for Gazipur City Corporation, the population in 2020 was estimated to be 2,338,043 with a density of 7,269 per sq.km.

Benapole, by contrast, is a small second-tier town located at the western frontier of Bangladesh under Sharsha Upazilla of Jashore district and receives prominence because it hosts the largest land-port in Bangladesh at the border with India. Benapole (BPS) is 'A' class Paurashava which has 9 wards with approximately 6,410 holdings.

2.5.1 Status of FSM

At present, neither GCC nor BPS have a functional Faecal Sludge Management system yet. According to interviews with the two LGIs, most households with enclosed containments rely on unsafe manual emptying for servicing, and neither have a treatment plant designed for processing faecal waste. Now in Benapole, a FSTP's construction works has been going on with the support from UGIIP III project.

The GCC does however have a long-term vision. The GCC is evaluating the importance of proper sanitation and sewage system and has commissioned a Master Plan to develop the Gazipur infrastructure to keep pace with the city's projected growth over the next few decades. Under the Gazipur City Development project with assistance from the World Bank and IFC, GCC hopes to establish a PPP-led initiative to develop Gazipur's sewage management system. To this end, consultants have already been appointed for project planning. The goal is to demonstrate a successful PPP city-wide sanitation model that can be replicated throughout Bangladesh and South Asia¹⁹. It is thought that, under the Master Plan, high-density localities under Tongi zone will be under sewage network coverage, while the remaining areas of the GCC will be serviced using FSM coverage once the treatment plant has been established.

2.5.2 Status Quo of Public Financial Management – Gazipur and Benapole

Like all other LGIs in Bangladesh, the financial practices of the two LGIs are governed by the Public Procurement Rules (including the Public Procurement Act, 2005 and Public Procurement Rules, 2008). Alongside this, the Local Government (City Corporation) Act, 2009 or Local Government (Paurashava) Act, 2009 acts to empower participatory decision-making and bring transparency into the Budgeting, Accounting and Reporting, and Auditing components of the LGIs' public financial management processes. The following sub-sections cover different segments of the PFM process in turn:

PFM Objective 1: Budget Formulation

The budget forecasting exercise begins in both LGIs around the beginning of the third quarter of the fiscal year (March), and as observed across all LGIs, uses simple incremental estimations based on historical growth in revenues and expenditures. The Accounts department leads the budget formulation process, issuing estimate requests to the heads of each department, whereby each department provides actual cost figures for the running year

¹⁸ About Us, Gazipur City Corporation.

¹⁹ Urban Planner, Gazipur City Corporation.

plus their estimations for the upcoming year. The draft budget is drawn up based on this information, and shared with the Mayor submitted to general council for approval.

Referring to the Budget Cycle, introduced in Chapter 1.2.1, the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are performed only nominally. Since budget formulation at the LGI is still performed at a rudimentary manner with incremental budgeting the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked. Unanticipated revisions of the budget towards the end of the Fiscal Year are a regular practice, and as a result the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner.

PFM Objective 2: Accounting and Financial Reporting

Accounting and financial reporting standards at the LGIs are informed by the Public Procurement Rules (PPR), 2008 and the Public Procurement Act (PPA) of 2005, and there are no other specialized rule or regulation for financial management at LGIs. However, provided that the aforementioned regulations cover a much wider breadth of institutions and form a generalized guideline for both central government and local government level organizations, LGIs exercise a degree of freedom to develop their own internal accounting procedures and templates.

In both LGIs, the Accounts and Finance department are in charge of the financial management affairs. As is the case for the other LGIs covered in this report, the Accounts and Finance Department follows a simplified single-entry bookkeeping method, and employs a cash-based accounting model that is heavily reliant on journals and cash-book entries, with the Annual Budget (a de-facto projected Statement of Receipts and Expenditures for the Fiscal Year) being the major financial publication.

Gazipur, however, is unique among the other LGIs in that it follows a Zonal Office Structure, whereby each zonal office operates as an almost-self-contained units when it comes to operations. However, services such as that of the Accounts and Finance department are largely centralized and depend on the Head Office for decision-making and approval purposes.

Accounting

Revenues generated in regard to conservancy departments include the Holding tax and Conservancy Rate. Cost comprises of CAPEX and OPEX.

■ Holding Tax and Conservancy Fees

The general citizen of Benapole pays the Holding tax of which 10% goes towards Water, 3% goes towards Lighting, 7% goes towards Conservancy and 7% goes towards Holding. GCC has eight zones and each zone has their own revenue account from which it is then transferred to the City Corporation General Account.

For holding tax and conservancy fees, the relevant financial records are the Counter-slip received from affiliated Bank and the Cash Book/ Cheque Book maintained by the Accounts Department.

Since neither BPS nor GCC have operational FSM services, no FSM tariff is charged from citizens. Neither do the LGIs charge any sanitation taxes.

■ Operational Expenses - OPEX

This section shows operational expenses as they relate to sanitation costs as FSM services were not operational in either LGI:

■ Salaries

The Conservancy department has on its payroll both full-time staff as well as contractual (master roll) workers. Master roll workers are paid on a day-to-day basis depending on their attendance. It is the duty of the Conservancy Inspector to monitor and make entries of attendance against each master roll staff, and compiling the monthly Attendance Sheet. The Attendance Sheet is then passed to the Accounts department, which gets the sheets approved by the Mayor. Once approved, the master roll workers then sign the Salary Register when they collect their payments from the Accounts Department.

In GCC, each zonal office maintains its own Attendance sheets for master roll staff, segregated by Ward number. The consolidated Attendance statement sheet from each zone is sent to the Accounts department at the GCC headquarters for disbursing at the end of the month via cash from the Accounts department.

Financial Records for salaries are provided through the Daily Attendance Register kept by the Conservancy & Engineering departments, the Monthly Register transferred to the Accounts Department and the Cash Book/ Cheque Book maintained by the Accounts Department.

■ Vehicle Fuel

In Benapole, the Conservancy Inspector is responsible for looking after maintenance and refuelling needs of any trucks and vehicles in the Conservancy fleet. The Engineering department is associated with trucks, beam-lifters and garbage trucks for managing non-household waste and dump. Each vehicle has its individual logbook to keep track of distance count and refuelling events.

Both LGIs follow the practice of assigning logbooks to vehicles with details of each trip they perform. In the logbook, drivers have to note down the location from where they started their journey, mark each stop for waste pick up and indicate their final destination for dumping waste. Each vehicle has its own odometer which tracks the total distance covered and is used for tracking daily distance increments, which is noted down by the driver on a daily basis.

GCC Tongi zone has a designated fuel station for collecting fuel and when fuel is purchased from the station, a three-part slip is used. One portion is retained by the Mechanical department, one is kept by the fuel station, which is then sent back to the Accounts department at the end of the month for reconciliation. The Accounts department takes all the copies of log-books and reconciles the bills (dates and amounts) at the end of the month before issuing payment to the fuel station.

For vehicle fuel, the relevant financial records include the Vehicle Fuel Logbook, the Cash Book/ Cheque Book maintained by the Accounts Department and the Fuel Requisition Counter-slips (only for GCC).

■ Vehicle Repairs

For vehicle repairs, the initial requisition comes from the Engineering department and usually for large repair costs, requires approval of requisition from the Secretary, who forwards it to the Mayor for approval. Once the requisition is approved, the Accounts team reviews the voucher and settles the payment post-service via cheque. Relevant financial records for vehicle repairs include the Requisition slip, the Bill/ Invoice from Vendor and the Cash Book/ Cheque Book maintained by the Accounts Department.

■ Capital Expenditure - CAPEX

In terms of capital financial management, the flow of funds depends on the primary provider of capital for a dedicated project. In cases where the project is directly funded by government, the funds will be received and disbursed from Paurashava's General Account. In case of donor funding, the general practice is that funds will be disbursed from a donor account or a joint donor-Paurashava account, if they have one.

For approving capital expenditures, a General Council meeting is held where the Paurashava gets all the expenses approved by the Mayor. Where funding is sourced from Central government funds, the Mayor then sends a request to the MoLGRD&C for final approval.

The financial records needed for FSM CAPEX expenditures were not covered in-depth during the course of the primary research of this assignment since CAPEX are infrequent occurrences and the modalities vary greatly depending on the financier (i.e. sourcing from internal resources or through central government or through various donor agencies or development partners).

Financial Reporting

For both LGIs, the Annual Budget serves as a de-facto projected Statement of Receipts and Expenditures for the upcoming Fiscal Year. The Annual Budget seeks to identify the key sources of finance, sub-divided into (i) Local Resources Mobilization (incl. taxes, rates, tolls and fees), (ii) National government grants (through Annual Development Program allocations and Special Allocations) and (iii) Loans/Grants from Development Partners. Among the two LGIs, The Annual Budget of GCC, like that of Jashore Paurashava, had a separate component in the Annual Budget for their Water Utilities department.

In the case of both GCC and BPS, expenses too are categorized according to the source of finance. For example, in the first component of the budget, SL# 3 relates to Health and Sanitation costs from Local Resources Mobilization – with precision down to the level of major cost categories such as Mosquito Control (#3.5 in GCC and #3.10). However, the budget for Benapole Paurashava has more cost precision as it counts 13 cost heads as opposed to a much wider range of services covered by GCC using 14 cost heads. For both LGIs, this first component relates to operational expenses while the third component for spending from National government grants relates mostly to infrastructural development costs.

PFM Objective 3: Performance Reporting

Budget-actual variance analysis as a tool for performance measurement is underutilized across LGIs. None of the LGIs applied any cost accounting or management accounting methods, focusing instead on financial accounting, which is solely concerned with the reporting of financial transactions and the financial position of the LGI to its stakeholders. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected across the LGIs.

APA

GCC also introduced APA since 2016-17. The Chief Executive Officer of GCC signs the APA with the Secretary of LGD. In the APA, Sanitation improvement has been set as one of the strategic objectives. However, while setting targets GCC limited sanitation to the construction of toilets at household level and in public places to ensure safe sanitation services for the citizens. The indicator to follow is 'the number of toilets constructed'. Neither coverage or accessibility are measured. Access to faecal sludge management has not yet been considered as performance target. A team has been formed to review the progress against the targets set in the APA and prepare periodic reports.

Regarding Benapole, LGD is yet to introduce APA for the Paurashavas. However, a separate monitoring system is being practiced for Paurashavas. The Deputy Director, Local Government (DD-LG) based in the district, conducts assessment based on a template, the Paurashava Performance Evaluation Form, introduced by LGD. This template includes sanitation system (coverage) and faecal sludge management (coverage). If more than 90% area is covered by sanitation system, then Paurashava gets 2 points, else zero. Again, for FSM, if the coverage is more than 60% then 2 points, else zero. There is no definition mentioned about sanitation system and FSM system. In addition, LGD collects infrastructure development related information from Paurashavas through DD-LG on a quarterly basis. However, sanitation related information is missing here. LGC collects this information to report against the APA they made at LG level.

Also, there is no internal mechanism to measure operational efficiency (financial or non-financial performance indicators) of the services. This is found for services delivered directly by LGIs or outsourced to third party (no contractual binding performance indicators).

Citizen Charter

GCC did not finalise their Citizen Charter yet. However, in their website they uploaded the draft versions, which are department wise separate documents. The Citizen Charter of Towns Planning Department includes 'Development Integrated Wastewater Management Improvement for GCC', but nothing is mentioned about the service location, time, fee, payment methods and responsible person.

Benapole Paurashava got a Citizen Charter and it is available on their website. It is in Bangla and includes sanitation in general, but mainly for slums. The Citizen Charter states sanitation in slums will be free of cost and the Slum Development Officer is responsible for this. The Charter also includes the timeframe and fees for building approval. However, it does not mentioned about septic tank or sanitation system.

PFM Objective 4: Auditing

In both LGIs, auditing is performed to ensure compliance with the rules and procedures for public expenditures, particularly to ascertain whether or not the PPA and PPR guidelines are being strictly followed. Audits are performed through the Comptroller and Auditor General of Bangladesh: On occasions, Audit Officers from the Comptroller and Auditor General of Bangladesh are mobilized to conduct external audits at the specific request of the MoLGRD&C, which issues an "Audit Demand" to the Office of the Comptroller and Auditor General of Bangladesh. The Local and Revenue Audit Directorate (LRAD) under the Comptroller and Auditor General of Bangladesh conducts audits annually at GCC, and a frequency of annually or once every two years at BPS. It is understood that a key incentive for conducting such audits externally is due to central government mandates linking successful external audit completion to Annual Development Program (ADP) pay-outs from the central government for the following year.

Both LGIs also have a Standing Committee of "Accounting and Audit" composed of five members, including Councillors and accounts officers. One of the functions of this committee is to meet after the end of every fiscal year to go over a perfunctory audit of the revenues and expenditure of the LGI for the past against its planned performance. Although it is termed as an audit, the effectiveness of this audit may be questioned as none of the committee members are known to have specialization or competencies in auditing.

GCC has a post for Audit Officer, but the post is currently vacant. So, internal audits are not performed at either GCC or BPS. External audits through independent Chartered Accountants were not found to be performed at BPS or GCC, unless they were for a specific development

partner funded project. In such cases, the scope of the audit was limited only to that particular project.

2.5.3 Summary Gaps in general PFM in Gazipur and Benapole

Based on the analysis across the four broad PFM threads, the following major gaps have been identified for general services (as FSM service is not operational) in GCC and BPS (shown in Table 19 below):

Table 19: Summary of major gaps in PFM for general services - Gazipur and Benapole

PFM Area	Major Gaps Identified
Budgeting	<ul style="list-style-type: none"> ■ Budget formulation does not adequately take into account citizen demands/needs and there is no central strategy in regard to planned service provision, meaning that the stages of stakeholder input (Step 1) and needs assessment (Step 4) from the Budget Cycle are only nominally covered. ■ Budget formulation at the LGI is still performed on the historical budget basis with an arbitrary increment based on personal evaluation. This means that the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked and the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner. ■ Unrealistic budget formulation often leads to revision of the budget towards the end of the Fiscal Year, which adversely impacts financial discipline.
Accounting and Financial Reporting	<ul style="list-style-type: none"> ■ Single entry bookkeeping is practiced in GCC and BPS, which limits the generation of useful financial statements such as the Trial Balance and the Statement of Financial Position (balance sheet) ■ Cash-based accounting is practiced in GCC and BPS as opposed to the accrual-based accounting. Accrual-based accounting is deemed the better choice as it regards transactions as independent of the movement of cash, in line with accepted accounting conventions. ■ GCC is unique among the other LGIs as it follows a Zonal Office Structure. Each zonal office operates as an almost-self-contained unit when it comes to operations. However, services such as that of the Accounts and Finance department are largely centralized and depend on the Head Office for decision-making and approval purposes.
Performance Reporting	<ul style="list-style-type: none"> ■ Budget-actual variance analysis is underutilized. The concept of internal performance management and reporting (through Key Performance Indicators, KPIs) is presently neglected. ■ GCC has introduced APA since FY2016-17. Periodic progress reports are prepared. FSM related targets are not included. The included Sanitation indicator is limited to "number of toilets constructed". ■ In BPS and GCC there is no internal mechanisms to measure operational efficiency (financial or non-financial performance indicators) of the services.
Auditing	<ul style="list-style-type: none"> ■ Internal audits are not performed at either GCC or BPS. External audits through independent Chartered Accountants were not found to be performed at BPS or GCC, unless they were for a specific development partner funded project. In such cases, the scope of the audit was limited only to that particular project.

2.6 Summary of Gap Analysis on the PFM for FSM

It can be seen that across the six LGIs, there are many similarities in the broader approaches to the various components of PFM. However, it is also evident that the national policies, and the guidelines issued by the MoLGRD&C leave substantial room for LGIs to decide on their specific PFM processes, procedures and templates. PFM is also not an isolated function of LGIs and operates within the wider stakeholder system with several structural issues affecting the path that a certain LGI follows.

In general, LGIs were found to have a major reliance on external sources of revenue (that is, sources of revenues other than local resource mobilization) including loans/grants from the central government or development partners. This external dependence for critical resources was found to greatly limit the decision-making capacities for LGIs, and hence citizens' priorities were sometimes secondary to national-level priorities, and this applied in the case of services apart from FSM services.

Due to the relatively small contribution of FSM to the overall (with the possible exception of JPS) municipal receipts, FSM does not receive sufficient priority by the LGIs. This also applies to how PFM practices are applied to FSM service. However, given the provision for Paurashavas to levy sanitation tax of up to 12% (as compared to a maximum of 7% that is being charged for conservancy rate), FSM services is expected to take up more prominence in across LGIs and should form an entry point for the recommendations provided in this report.

In addition, the low level of local resource mobilization also meant that despite a well-defined hierarchy and organizational chart, important positions within the Conservancy department were left vacant within the LGIs, with junior staff filling in for undefined periods. One way that LGIs have approached a lack of qualified staff or resource budgetary constraints has been to appoint temporary (or "master roll") staff in vacant positions. The overall lower levels of filled-in positions also contributed to widespread employee overtime (unpaid in the vast majority of cases). These factors together imply that any recommendations offered and eventually implemented at LGIs should be accompanied with extensive training.

This following sub-sections summarily outlines the overall situational gap analysis at the LGIs organized by the PFM objective:

2.6.1 PFM Objective 1 - Budget formulation

Although citizens cannot participate directly in the budget formulation process, there is the legal provision for their ward representatives to highlight demands of the local citizens in the budget formulation process- and cities such as KCC were found to have town level ward committees where councillors welcomed budgetary demands from citizens. However, in practice, the Mayor wields significant legislative and executive power and to provide him/her the authority to take all major financial decisions. As a consequence, it cannot be guaranteed the existing setup prevents from politicized budgeting.

Budget formulation at all of the LGI is still performed at a rudimentary manner, with incremental budgeting (application of a set arbitrary proportional increase based on historical trends to the projected incomes and expenditures in the following year) being the standard practice as opposed to the use of a robust income and expenditure projection model. None of the LGIs studied were found to be using their FSM customer database (which were found to be in varying degrees of readiness) to derive customer demand projections. This unrealistic budget formulation often leads to revision of the budget towards the end of the Fiscal Year, which adversely impacts financial discipline.

What is more, the decisions taken at town level committees and the General Councils were not guided by any overarching strategic priorities or master plans. Referring to the Budget Cycle (Figure 2) the stages of stakeholder input (Step 1) and needs assessment (Step 4) are performed only nominally across all LGIs. The use of incremental budgeting means that the stages "Review Development" (Steps 5 and 6) and "Monitor Results" (Step 7) from the Budget Cycle are mostly overlooked. Unanticipated revisions of the budget towards the end of the Fiscal Year is a regular practice across all LGIs, and as a result the final step ("Adjust as necessary") of the Budget Cycle is performed in an unstructured manner.

2.6.2 PFM Objective 2 - Accounting and Financial Reporting

Gaps analysed according to the second PFM objective have been bifurcated into two as follows:

Accounting

















Single entry bookkeeping was practiced in all the LGIs under this study, which is an outdated form of accounting that is prone to errors. Using a double-entry system of bookkeeping or even a modified form of cash-based accounting would have reduced probability of error and allowed for the generation of useful financial statements such as the Trial Balance and the Statement of Financial Position (balance sheet).

The predominant basis of accounting at all the LGIs was found to be cash-based accounting as opposed to the accrual-based accounting. Accrual-based accounting is deemed the better choice as it regards transactions as independent of the movement of cash, in line with accepted accounting conventions.

Finally, KCC was found to be the only LGI utilizing a set of checks and balances as an attempt to limit unauthorized service provision and pilferage. This practice was found to be lacking in other LGIs and would take on particular importance if a performance-based system is subsequently developed for FSM services at these LGIs.

Reporting

None of the LGIs were found to have developed Profit and Loss accounts, which is essential for tracking the economic sustainability of FSM services. Although cash books were maintained by all LGIs, the incomes and expenses attributable to FSM services were not tracked in a profit and loss statement. The presence of a dedicated bank account at some of the LGIs (KCC, KPS and JPS) did address this to a small extent as they helped to track incoming revenue. But FSM related expenses were not segregated and expended from these bank accounts. Furthermore, neither of the four cities with operational FSM services maintained any form of a balance sheet. Figure 5 below summarizes the status of these four documents across the studied LGIs.

Financial Management Tool	Status of Implementation in LGIs			
	Khulna	Jashore	Kushtia	Jhenaidah
Cash Book	 Municipality wide cash book maintained	 Municipality wide cash book maintained	 Municipality wide cash book maintained	 Municipality wide cash book maintained
Bank Reconciliation	 Maintains separate bank account only for tariff revenues	 No separate account for FSM costs or revenues	 Maintains separate bank account only for tariff revenues	 Maintains separate bank account only for tariff and registration fees
Profit and Loss Statement	 Not maintained at any level of organization	 Not maintained at any level of organization	 Not maintained at any level of organization	 Not maintained at any level of organization
Balance Sheet	 Not maintained at any level of organization	 Not maintained at any level of organization	 Not maintained at any level of organization	 Not maintained at any level of organization

Scale:  Not Practiced At All     Best Practices Maintained

Figure 5: Status of implementation of Cash Book, FSM Bank Account, P&L Statement and Balance Sheet across the LGIs

At the expenditure side of budget formulation, none of the LGIs had offered a high level of precision when deriving cost projections for FSM services in their Annual Budgets. Most LGIs showed aggregate costs for the Conservancy Department or the aggregate costs for the Health and Sanitation line item. Since there was no line item for FSM service costs in particular, the LGIs did not take the necessary steps to derive cost projections individually for FSM services for any given year.

2.6.3 PFM Objective 3 - Performance Reporting

None of the LGIs had an accepted practice of management accounting being performed in any departments. The concept of management accounting, discussed in further detail in the following chapters, is integral to the concept of allocating costs to a particular service and measuring operational efficiency of the particular service for corrective actions, which is envisioned under the broader framework of this assignment.

None of the LGIs studied had made use of budget-actual variance analysis, which is a relatively widely-used and simple tool for performance measurement, and as a best practice it could have helped LGIs to identify variances outside an acceptable range as defined by the planned targets from the management and then undertake further analysis and perform necessary corrective action in order to bring performance back in line with the LGIs' objectives. LGIs. Although LGIs have in place a Standing Committee for Audit and Inspection, this was largely convened for ceremonial and variance analysis with investigation of identified variances was not performed.

APA

KCC and GCC sign APA and report the progress to LGD on a quarterly basis. In the APA, KCC set target FSCR, however no target is set for access to toilet. On the other hand, GCC set targets for construction of household and public toilets, in numbers. As GCC does not provide pit emptying service, they have not set target on this yet. There is no structured data collect tools being practiced by the cities to report on progress against the target.

Paurashavas do not practice any performance management system themselves, rather provide information as required by the LGD through DD-LGD. DD-LG fill-in two sets of formats- one is Performance Evaluation Form covering a wider aspects and the other one is related to infrastructure related information required for LGD level APA.

Citizen Charter

All Cities have Citizen Charters uploaded on their website and available on a board at their office premises except GCC (yet to finalise). GCC and Benapole Paurashava do not have FSM services, while Khulna WASA just initiated their sewerage project. Therefore, nothing is mentioned about FSM or sewer services in their Citizen Charters. Kushtia and Jhenaidah Paurashava mention emptying of Faecal Sludge as one of their services with respective information in their citizen charter. However, only Jhenaidah Paurashava mentions details of fees for emptying services. KCC and Jashore Paurashava do not mention that they provide emptying services, but rather offer renting out of Vacutugs. Both Jashore and Benapole Paurashava follow the same template and include sanitation as one of their services in slums or LICs at free of cost. But did not specifically mention about the type of sanitation services. Overall, the details of the municipal services including FSM are not reflected in the Citizen Charters as intended and are not updated on a regular basis.

2.6.4 PFM Objective 4 - Auditing

Overall, the LGIs were found to have in place certain practices for auditing their annual performance. Larger LGIs such as GCC and KCC had designated Audit Officers, while smaller LGIs claimed that their accountants performed internal audits from time to time. LGIs also had a Standing Committee of "Accounting and Audit", but this is not thought to be effective as

none of the committee members (Mayor and Secretary of the LGIs and councillors) were known to have specialization or competencies in accounting or auditing. Furthermore, across all cities, there was no involvement from the city council or municipal council in the audit process, which is considered a gap when comparing to best practices.

External auditing practices were found to be quite common, thanks to steps by the Bangladesh government to introduce mandatory external auditing and linking successful audit completion to Annual Development Program (ADP) pay-outs from the central government for the following year. However, in most instances this was done by the LRAD under the Comptroller and Auditor General's office – and often in the case of smaller LGIs even this audit was not performed annually (which is the suggested frequency) and only done every 2 or 3 years.

Moreover, there are general allegations widespread tacit collusion between appointed external auditors and LGIs across Bangladesh. Although no evidence of such collusion during the auditing process was found in the course of this study, such practices would greatly undermine efforts to ensure a transparent PFM process. Furthermore, the Audit Report and findings were not found to be publicly available – neither on the LGI websites, nor on the website of the Comptroller and Auditor General of Bangladesh, limiting accountability to the public. Audit Conferences to discuss audit findings were also not a regular practice, limiting accountability to the public.

Allegations of tacit collusion could have been put to rest by employing truly independent Chartered Accountant (CA) firms. However, none of the LGIs studied had a regular external third-party audit in place that was done by external CA firms, although this is considered best practice worldwide, and such audits are even performed by many (not all) private sector companies both small and large in Bangladesh. The only instances where audits from CA firms was found, was in cases when a development project was funded by development partners and an external audit specific to that project was mandated (it only covered the project-specific details and not the entire breadth of the LGI financials).

In the case of external audits, whether it was done by the LRAD or by third-party auditors, there was no practice of audit conferences with public participation. This is considered best practice and allows for greater scrutiny and transparency by citizens into local government affairs.

The next chapter discusses the recommendations offered in light of these PFM for FSM gaps that have been identified in the LGIs.

3 Recommendations for improving PFM for FSM

With the gaps identified, it is possible to compare against the desired best practice outcomes to derive recommendations on how the Public Financial Management processes, as they relate to FSM services within the LGIs, can be improved. In deriving these recommendations, it was recognized that FSM services form a small portion of a LGI's revenue and breadth of operations, hence it is important to be grounded in reality as most LGIs will not be willing or able to implement a grand PFM restructuring scheme that only applies FSM service. Taking this into account, recommendations have been adjusted to be the friendliest for implementation given the status quo, and a flexible model with different options/degrees for implementation that are replicable across various other LGI services (and not just FSM) have been prescribed.

In deriving recommendations, options were considered that would improve PFM across the four PFM dimensions identified earlier. From a budget formulation perspective, this report advocates for a more participatory budget dialogue focused on strategic priorities, and devolving decision-making power to citizens from the current centralized structure. From a financial accounting perspective, key recommendations focus on a transition from single-entry cash-based accounting practice to an interim modified cash-basis accounting, and then to a long-term politically-backed adoption of the double-entry accruals-based best practice. New books of entry and financial statements are also recommended such as an FSM Cash Book and accompanying FSM Cashflow Statement, FSM bank reconciliation statement, a simplified balance sheet showing the long-term assets and liabilities of the LGI, and an FSM Profit and Loss Statement.

The adoption of a refined financial accounting model will become the gateway for the introduction of cost accounting and management accounting practices, which are both forward or future-oriented unlike financial accounting which is predominantly based on historical data. Cost accounting and management accounting practices will begin with the establishment of cost centres and an FSM profit centres for effective overhead allocation via either activity-based costing approach or an interdepartmental transfer pricing mechanism, resulting in a much more accurate picture of the performance of FSM services. This enhanced performance measurement will enable internal decision-making at LGIs in regard to profitability analysis, product pricing, cost rationalization, process improvements, capital budgeting among others, as well enabling better forecasting. The importance of MIS as a catalyst throughout the entire proposed reformation process is also recognized and has been identified as a key recommendation.

Given the diverse groups of stakeholders, each with their dynamic priorities, it will be impractical to enforce all PFM recommendations in one fell swoop. This chapter seeks to highlight the potential avenues for LGIs to engage these stakeholders along a staggered approach involving immediate short-term, mid-term and long-term steps. Figure 6 below sequences the recommended steps according to the four phases of implementation.

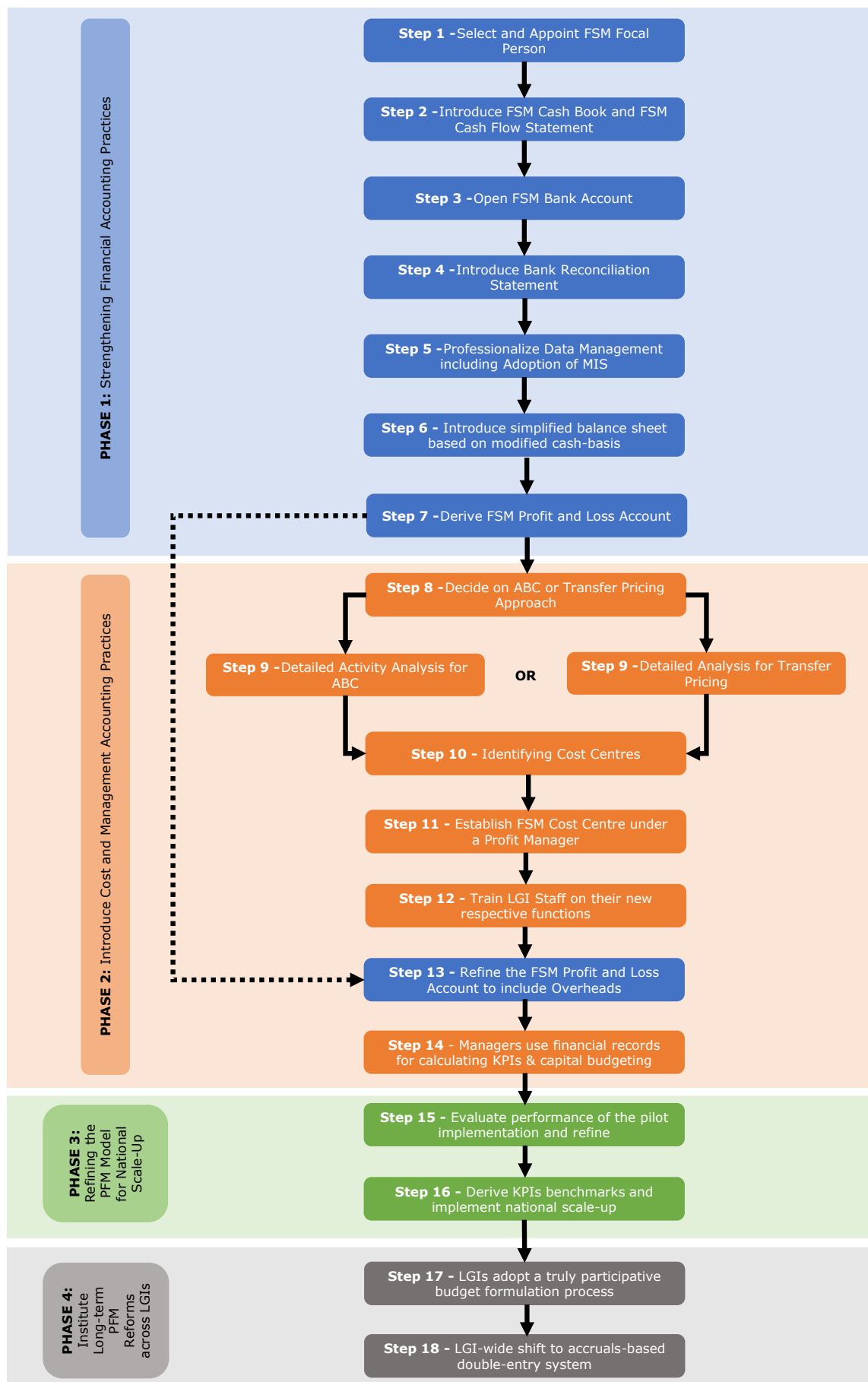


Figure 6: Recommended Steps for Implementing PFM for FSM

It should be noted that all four phases relate to a different mix of components of the four PFM objectives as introduced in earlier chapters. The four sections below elaborate, in chronological order, on the phases that are recommended for LGIs to implement this proposed PFM structure for FSM services.

The first phase deals with how LGIs can strengthen their financial accounting practices, while the second phase elaborates on the steps needed to institutionalize cost accounting and management accounting and further refining financial accounting practices for enhanced performance monitoring and decision-making. The first two phases are recommended to be implemented on a pilot phase across a small number of selected LGIs to test the feasibility of the PFM model. The third phase proposes how the lessons from implementing the first two phases in a limited scale can be used to refine a national PFM for FSM model for national scale-up, while the fourth and final phase deals with institutionalizing long-term reforms (including a major transition to financial accounting best practices) to the overall PFM processes across LGIs.

In chronological order of implementation, the phases and steps are:

PHASE 1: Strengthening Financial Accounting Practices

At the heart of the drive for improving FSM financial management lies the importance of adopting management accounting models to track performance. However, to institute cost accounting and management accounting practices, the first step to have in place is sound financial accounting procedures. These will form the backbone for FSM performance measurement. Steps shown in this section are those to be taken on an immediate basis following conclusion of this study, and revolve around the strengthening of the financial accounting practices being performed at the LGIs.

Step 1. Select and Appoint FSM Focal Person

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

The cost and revenue components for FSM services fall under the jurisdiction of multiple departments such as the Conservancy department and the Mechanical section. In all the municipalities under this study, due to FSM services being a small revenue component under the Conservancy department, the FSM service revenues and costs did not get the level of financial segregation from other affiliated departments. To give FSM financial management the attention it requires, it is recommended that there be selected a designated representative for FSM within each LGI. This person should ideally be someone under either the Conservancy department or the Accounts and Finance section of the LGI, who will be tasked with coordination and monthly financial reporting aggregation for FSM.

It should be noted that after implementation of Step 5 and onwards, this same person will be delegated the formal role of the FSM profit centre manager (explained in further detail below) and have the responsibility of driving FSM-based coordination and cost allocations, performance monitoring, forecasting for budget formulation purposes and strategic decision-making. Hence, the selection of the FSM Focal person should be done in a long-sighted manner.

Step 2. Introduce FSM Cash Book and FSM Cash Flow Statement

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

The cash book is a ledger in which all cash transactions (whether cash received or paid) are primarily recorded according to date. It is both a book of original entry, in which all cash transactions are recorded as soon as they take place in which the cash aspect of all cash transactions is finally recorded, without posting in the ledger as a cash account. The cash book is one of the most important accounting records for local governments using manual accounting systems, as observed across all the LGIs consulted under this study.

However, as described in the previous chapter, the Cash Book maintained by the Accounts and Finance section were consolidated documents and not specific to services such as FSM. Hence, it is recommended that a Cash Book specifically for FSM Services be introduced at all LGIs – to record direct FSM inflows (such as FSM tariffs) and direct FSM outflows (such as emptier fees) - under the curation of the afore-mentioned FSM Focal Person.

As a minimum, the cash book columns should include:

- **Date:** The date of the transaction.
- **Particulars:** The name of the opposite account against which a cash transaction occurred. A narration of the transaction should be written in this column, below the name.
- **Voucher Number:** The voucher number of each item of receipt and payment is also written (cash memo number, payment voucher number, or receipt voucher number).
- **Ledger Folio:** This is the page number of the ledger where the opposite account has been opened. This will make it possible to locate the account from the ledger.
- **Amount:** The amount of the transaction. When cash is received, the amount is recorded on the debit side, and when cash is paid, the amount is recorded on the credit side.

The cashbook (a book of entry) should be aggregated on a monthly basis by the FSM profit centre manager in order to form inputs to the FSM Cashflow Statement (a financial statement), an example of which is shown in Figure 7 below.

Cashflow Statement

	January	February	March	April	May	June	July
Cash In							
FSM Registration Fees	99,000	135,000	180,000	225,000	315,000	315,000	315,000
FSM Service Tariffs	2,310,000	4,725,000	6,300,000	7,875,000	11,025,000	11,025,000	11,025,000
Government Grants (Development Funds)	82,500	112,500	150,000	187,500	262,500	262,500	262,500
Contribution from Development Agencies	110,000	150,000	200,000	250,000	350,000	350,000	350,000
Lease Payment from Private Partner	50,000	50,000	50,000	50,000	50,000	50,000	50,000
	2,651,500	5,172,500	6,880,000	8,587,500	12,002,500	12,002,500	12,002,500
Cash Out							
Purchase of New Vacutug	(2,200,000)						
Opex/Month	1,856,050	3,620,750	4,816,000	6,011,250	8,401,750	8,401,750	8,401,750
Administrative Expenses	46,401	90,519	120,400	150,281	210,044	210,044	210,044
Salaries and Wages	928,025	1,810,375	2,408,000	3,005,625	4,200,875	4,200,875	4,200,875
Promotional Expenses	556,815	1,086,225	1,444,800	1,803,375	2,520,525	2,520,525	2,520,525
Vacutug Fuel	185,605	362,075	481,600	601,125	840,175	840,175	840,175
Vacutug Repairs and Maintenance	39,905	181,038	240,800	300,563	420,088	420,088	420,088
Treatment Plant O&M	49,185	90,519	120,400	150,281	210,044	210,044	210,044
Treatment Plant Rental	92,803	181,038	240,800	300,563	420,088	420,088	420,088
Treatment Plant Utilities	46,401	90,519	120,400	150,281	210,044	210,044	210,044
Net Flow	795,450	1,551,750	2,064,000	2,576,250	3,600,750	3,600,750	3,600,750
(2,200,000)	795,450	1,551,750	2,064,000	2,576,250	3,600,750	3,600,750	3,600,750

Figure 7: Example of a Cashflow Statement for FSM (not indicative)

Step 3. Open FSM Bank Account for Managing Direct FSM Service-related Inflows and Outflows

RELATED PFM OBJECTIVES

- PFM#1 - Budget Formulation
- PFM#3 - Performance Reporting

Of the cities explored under this study, only KCC, KPS and JPS have been proactive in terms of maintaining separate bank account for FSM revenue. JAS, despite having an operational FSM service provision from the Paurashava itself, lacked a separate bank account for FSM revenues. In GCC and BPS, there was no functional FSM service. Although the cash receipts coming into a bank account does not necessarily reflect the revenue generated and the outflows from a bank account does not reflect the expenditures within a period, it is nevertheless a strong alternative to have in place until a full FSM Profit and Loss Account is institutionalized.

It should also be noted that out of the LGIs which found to use dedicated bank accounts for storing FSM revenues, none of the LGIs had used the FSM bank account for withdrawing FSM expenses exclusively. Consistent with the practice of maintaining an FSM Cash Book, the practice of depositing direct revenues and withdrawing direct expenses from the designated FSM account is considered crucial for implementation in the immediate term and should be followed across all LGIs in order to provide a as close an estimate of the gross profits/losses from FSM as possible. Note that at this stage, indirect costs and overheads will not be reflected through the maintenance of a bank account, hence the need to implement FSM Profit and Loss Account at a later stage.

Step 4. Introduce Bank Reconciliation Statement

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

All the LGIs consulted under this study were found to adhere to cash-based accounting, which records transactions at the time of its occurrence or at the time of the exchange of cash. However, cash exchanges in real life situations rarely take place at the time of occurrence of a transaction, which an accruals basis of accounting aims to solve by recording income only when it is earned, even if the money has not yet been received and records expenses when they are incurred, even if they have not been paid for.

Furthermore, unlike a double-entry accounting system, a single-entry system makes it difficult to verify the accuracy of bookkeeping (e.g. lack of a trial balance method), as presently the accounts and finance department across LGIs only have one major point of entry – the Cash Book, where transactions are recorded line by line, in the order of occurrence.

Although it is not a proper substitute for replacing the lack of a combined double-entry and accruals-based method of accounting, performing a reconciliation with the LGI's FSM bank account can act as an additional layer of validation and mitigate errors – effectively a modified cash-based accounting measure. A bank reconciliation statement will not only vouch for the authenticity of transaction records in the cashbook, but will also account for uncleared cheques, deposits in transit as well as any other additional bank interest and charges relating to a certain period – providing an even more accurate estimate of the gross profits/losses from FSM compared to that from the FSM bank account cashflows alone.

Step 5. Professionalize Data Management including Adoption of MIS

RELATED PFM OBJECTIVES

- PFM#1 - Budget Formulation
- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

To help improve the effectiveness of the budget formulation process, LGIs must shift away from practicing simple incremental estimating for revenue and expenditure projections, as it does not consider the reality on the ground. While historical trends over past years and growth projections derived from parametric estimates (e.g. growth of service demand based on growth of holding numbers) can provide a rough estimate, the best quality of estimates can be derived from a comprehensive data-driven picture of demand and supply. This applies in the case of FSM services as it does for any other service offered by LGIs.

Hence, from a budget formulation perspective, having a MIS in place is crucial for forecasting purposes. SNV has promoted an improved system of the aforementioned customer database by introducing GIS-based data, which provides much more functionality. The system, known as Integrated Municipal Information System (IMIS), has already been developed for Jhenaidah Paurashava (launched since end 2019) and Khulna, and soon to be replicated in Jashore, Benapole and GCC. Not only will such a database ensure the accuracy of annual budget formulations, but this can also address the common phenomenon of frequent revision of the Annual Budget seen across LGIs, which adversely impacts financial discipline and reduces staff motivation in meeting targets.

A MIS is also important from a financial accounting, monitoring and performance improvement perspective. A database of detailed customer information and service team information (supply-side information including those of emptiers, drivers, caretakers) can greatly enhance the efficiency of FSM services. Although SNV had already introduced a customer database in KCC, Jhenaidah Paurashava and Kushtia Paurashava, for the time being, they were found to be used only for data entry and limited reporting purposes. The system collects application information from customers, assessment of the containment by Conservancy department, records service provision, final payment and feedback from customer as well as outputs monthly and annual reports but its full potential as a tool for projecting annual demand based on the number of holdings, containment size and projected frequency of FSM service demand, is not being realized to the fullest extent.

An example of the aforementioned Municipal MIS is being developed with KOICA funding in some cities. It has several accounting modules offering digitized record keeping and automated reporting functionality which can greatly increase the efficiency in accounting data management at LGIs. To complement this, SNV's IMIS has a more detailed repository and visual geo-representation of beneficiary households, and by virtue of being linked to holding numbers and building footprints, it can be used for the overall municipal services like water supply, FSM, holding tax and many others, while monitoring the status of the facilities and able to do analysis for planning the service and investments. It is recommended the IMIS to be integrated with this newer version of the Municipal MIS which does not contain GIS-based data, with IMIS complementing with geo-database as a value addition to that product. Indeed, adoption of a multi-purpose database such as the Municipal MIS is more likely to be spearheaded by the central government, and hence can be a more suitable entry point into accurate budgeting formulation for all LGIs across Bangladesh for their FSM services. By virtue of being integrated with the Municipal MIS, IMIS will also have the concerted drive of the MoLGRD&C/central government and KOICA behind the initiative to ensure adoption by LGIs, both large and small, regardless of whether they offer FSM services at present or are planning to in the future.

A digital database can also enhance operational management from the service-side by providing on-demand and periodic reports. This can also add value in terms of long-term projections that are needed for taking decisions regarding capital budgeting (e.g. procurement of new Vacutug, or expansion of treatment plan capacity). Finally, such a database can also add value in triangulation of reported revenues by the LGIs and allow for greater scrutiny of any variances.

Step 6. Introduce simplified balance sheet based on modified cash-based accounting

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

The bank reconciliation statement, introduced earlier, can be interpreted as a modified cash-basis accounting measure that attempts to conciliate cash inflows with gross profits. In essence, modified cash-basis is a method that combines elements of the two major bookkeeping practices: cash-based and accruals-based accounting.

In the same vein, a simplified balance sheet could also be prepared by the LGIs for their FSM-related assets using a modified cash-basis approach. In such a case, the adoption of a modified cash-basis would seek to get the best of both worlds, recording sales and expenses for long-term assets on an accrual basis and those of short-term assets on a cash basis. Short-term items, like a regular monthly utility expense (a bill), are recorded according to the cash basis (as there is a related inflow or outflow of cash), which results in an income statement largely populated with items based on the cash basis. Long-term items that do not change within a given financial year, such as a long-term investment property, plant, and equipment, are recorded using the accrual basis.

Such a simplified balance sheet is only recommended for larger LGIs such as City Corporations and selected Class A municipalities, where the necessary manpower and skills is readily available for maintaining such a modified cash-basis practice. *Table 19* below shows some of the indicative long-term assets and liabilities which could be included in the simplified balance sheet for FSM at the suitable LGIs:

Table 20: Indicative major headers of a simplified balance sheet – to be introduced at more advanced LGIs

Assets		Liabilities	
Long-term Assets	Amount	Long-term Liabilities	Amount
Treatment Plant		Bank Loans	
Vacutugs		Mortgages	
Leased Properties/ Assets		Other long-term debts and liabilities	
Other long-term assets			
TOTAL		TOTAL	

Note that in the simplified balance sheet, asset prices should also reflect additions to represent asset enhancements/ refurbishment and upgradation as well deductions to represent depreciation and amortizations. In doing so, LGIs should determine the optimal methodology for calculating such adjustments, for example, whether or not to calculate depreciation using straight line method or using a unit of production method. On a similar note, the value of liabilities should also include adjustments for interest payments and principal re-payments.

The goal of the simplified balance sheet is to provide a clearer financial picture without dealing with the costs of switching to full-blown accrual accounting, which comes much later (in Step

#18) as it would require significant political backing to institute such a large change in management practices throughout all the LGIs.

Step 7. Derive FSM Profit and Loss Account

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

Reconciled cash inflows and outflows – derived from the combination of the cashbook and bank reconciliation statement - can then be used to develop a de-facto FSM Profit and Loss Account and accompanying Profit and Loss Statement. Since the cash inflows and outflows relate only to direct FSM inflows (such as FSM tariffs) and direct FSM outflows (such as emptier fees), **the net cashflow will be a very rough estimate of the operating profit.** This is because the outflows do not sufficiently capture the overheads costs associated with FSM service provision (such as Vacutug fuel costs, which are tracked by the Mechanical department instead) and also misses out on certain revenue apportionment (such as if a certain portion of Sanitation Tax should be considered a revenue of the FSM department). However, the depreciation and amortization costs derived from adjustments to the simplified balance sheet could be taken into account when calculating profit.

Despite the caveats, the provisional operating profit/loss figures can still be an important decision-making tool for the FSM department and based on this, managers can take necessary steps to improve the service efficiency. The provisional operating profit/loss figure is a financial KPI that has been recommended under this assignment.

PHASE 2: Introduce Cost Accounting and Management Accounting Practices

At present, all the LGIs studied are engaged only in financial accounting practices, which is concerned with providing information to management and external stakeholders, such as investors, or citizens, on the receipts, expenditures, assets, and liabilities of LGIs. In other words, financial accounting is concerned with the reporting of financial transactions and the financial position of the LGI, monthly, quarterly, and at the close of the financial year.

In contrast, cost accounting is focused on cost ascertainment of products and services with a view to providing cost information for managerial uses. Cost accounting is a subset of management accounting, which is more comprehensive in nature and encompasses the process of analysing business costs and operations to prepare internal financial accounts and statements, conducting ratio analysis, statistical analysis and enables a number of other performance analyses to be performed on collected data to aid managers' decision-making process in achieving desired business goals. A shift to a management accounting method by LGIs would overcome some of the main gaps in regards to Performance Reporting (PFM Objective 3) identified in the previous chapter, which requires feeding a steady stream of information to management on the cost of operations that helps with measuring and controlling the costs of their FSM services and operations.

This section recommends a step-by-step approach to operationalize such a management accounting model that offers a degree of flexibility to LGIs:

Step 8. Decide on ABC or Transfer Pricing Approach

RELATED PFM OBJECTIVES

- PFM#3 - Performance Reporting

The operationalization of a management accounting model for PFM services will require significant adjustments to the accounting and financial reporting status quo by institutionalizing either Activity-based Costing (ABC, a cost accounting method) or transfer pricing to ensure all relevant costs associated with FSM services are allocated towards the FSM unit, and that FSM unit's performance as a standalone service is subsequently reported to management. In order to do so, principles of cost-centre accounting (a sub-set of accounting – explained in further depth in Step #10) must first be applied.

There are two different approaches which LGIs can choose from, depending on whether they have the necessary manpower and skills readily available to implement the first-choice, which is Transfer Pricing, or alternatively the second option, which is the Activity Based Costing Approach. The considerations for selecting either of the two approaches are detailed below:

Option A: Activity Based Costing (ABC) Approach (recommended for smaller LGIs)

ABC is a cost accounting method that refines costing systems by focusing on individual activities as the fundamental cost objects. An activity is an event, task, or unit of work with a specified purpose. ABC systems calculate the costs of individual activities and assign costs to cost objects, such as products and services, on the basis of the activities undertaken to produce each one. ABC, as applied in the context of FSM services would see the different FSM services on offer by an LGI as individual cost objects, against which overhead costs will be assigned to.

ABC is the recommended way forward for smaller LGIs and would simply require an initial ABC analysis of FSM services, during which overhead rates will be established for each activity based on current figures. Once these overhead rates are established, these can be used for estimating the total costs of FSM cost objects without the need for collaborating with other departments across the LGI.

The drawback of using the ABC approach is that it is based on historical cost apportionment from the time when ABC analysis was performed and does not necessarily reflect the actual costs incurred in a certain period. For example, if the ABC analysis was conducted in a year of abnormally high or low overhead costs (for example a major Vacutug repair expense from the Mechanical section), this would lead to inaccurate representation of the cost to produce one FSM cost object in the following year. Hence, it is recommended that ABC analysis is performed on a regular basis, ideally annually, to adjust overhead rates applicable for each cost object.

Option B: Transfer Pricing Approach (recommended for larger LGIs)

The transfer pricing approach is a more complex management accounting approach for apportioning and tracking costs to FSM services across multiple organizational units. Transfer price refers to the artificial price used when goods or services (i.e. overheads) are transferred from one segment to another segment within the same organization.

The adoption of a transfer pricing mechanism would require institutionalization of interdepartmental invoicing (discussed in more detail in Steps #9 and #11) to track the revenues and expenditures related to the provision of FSM services across departments. This will require a much greater degree of participation of other departments across the LGIs to track attributable revenues and overheads, which may not be feasible for smaller LGIs which may not have the sufficient manpower or skills required to dedicate to this practice. Moreover, the multiple departments across the LGI which need to be involved may not count FSM service cost tracking as one of their responsibilities. The perception of FSM service as a small revenue component of overall functions of an LGI may also be a restricting factor in the adoption of a

Transfer Pricing Approach. Hence, an LGI-wide responsibility delegation and change management is required when choosing to proceed with a Transfer Pricing Approach.

A Cost Transfer Pricing Approach – It is recommended that the transfer price for any FSM-related expense be set equal to the full cost incurred for the service or product. The full cost includes both an allocation proportion of the fixed overhead costs associated (e.g. a certain fraction of the Mechanical section driver's salary) with generating the service, as well as the variable expenses (e.g. the fuel required by the Mechanical section for an individual FSM service trip). In effect, no mark-ups will be added to the actual costs when generating the transfer price.

The key advantage of the transfer pricing approach is, because it is based on the exchange of actual invoices from departments which incur a cost, that it is much more accurate than an ABC approach, which relies on historical calculations which may or may not have a bearing on the present.

Step 9. Detailed Activity Analysis for ABC or Transfer Pricing

RELATED PFM OBJECTIVES

■ PFM#3 - Performance Reporting

Once LGIs have selected their suitable approach to overheads allocation, the next step is to conduct a detailed analysis on how overheads allocation can be performed at the LGI at an operational level. Here, too, LGIs will have two options to choose from based on their preferred approach:

Option A - Conduct detailed ABC analysis (Activity Based Costing Approach)

Activity-based costing is a refined approach to costing products and services than more traditional department-wide allocation methods (neither of which is practiced at LGIs, at present). It allows overhead costs to be allocated to certain cost objects (types of services/products) based on identified cost drivers, which become the basis of apportioning costs.

ABC involves the following steps:

- **Identification of activities involved in the service delivery process:** In this step, the ABC analysts would identify and map all the activities required to deliver one unit of FSM service, regardless of which LGI department performs the activity.
- **Classification of each activity according to the cost hierarchy:** Although more relevant in the case of production lines, activities can be classified into unit-level, batch-level, product-level, and facility-level types if applicable. Examples of unit-level costs are daily or monthly wage rates of a Vacutug driver, examples of batch-level costs could be refuelling costs if it is refuelling is done once for a set number of emptying trips (i.e. one batch), while examples of facility-level costs could be the rents for a garage.
- **Identification of cost pools and accumulation of total costs of each activity:** In this step, cost pools are identified and their total costs stored for reference later when apportioning costs. This step will be performed concurrently with identification of cost centres (see Step #10 below).
- **Identification of the most appropriate cost driver (allocation base) for each activity:** Once cost pools have been identified, it should be decided that upon the basis of which factor (cost driver) those overhead costs will be apportioned across cost objects.
- **Calculation of total units of the cost driver relevant to each activity:** Once the cost driver is identified, the analysts should calculate how many units of a certain cost drivers are required to deliver one completed unit of a cost object.

- **Calculation of the activity rate/overhead rate:** Dividing the size of the single cost pool by the number of cost objects produced/delivered using that cost pool helps to derive the activity rate or overhead rate i.e. the total cost of each activity per unit of its relevant cost driver. Thus, the activity rate/overhead rate derived is effectively represents the proportion of the product cost which is attributable to overheads costs incurred by other departments.

Due to the necessity of investigating overheads costs across multiple departments, ABC analysis will require assistance of other departments much more than when conducting a Transfer Pricing and Interdepartmental Invoicing analysis. It should also be noted that ABC analysis is a recurring activity and should be performed on a regular basis, ideally annually, to adjust overhead rates applicable for cost objects.

Option B: Conduct transfer pricing analysis (Transfer Pricing Approach)

The steps for performing a transfer pricing approach follows some similar steps to ABC analysis. It, too, requires identification of activities involved in service delivery and identifying the relevant cost drivers. However, a key difference is that transfer pricing does not require the pricing of cost objects, hence it is not necessary to identify total costs (size of the cost pool) and does not require calculation of the overhead/activity rates. However, it does require development of suitable templates for interdepartmental invoices, which will later be used to reflect the actual spending on overhead costs by the other departments within the LGI. If there is a national consensus on a uniform interdepartmental invoice template to be used during the pilot phase, it could be rolled out for use across all LGIs in the later phases.

Performing Transfer Pricing and Interdepartmental Invoicing analysis involves the following steps:

- **Identification of activities involved in the service delivery process:** In this step, the analysts would identify and map all the activities required to deliver one unit of FSM service, regardless of which LGI department performs the activity.
- **Identification all potential cost pools:** In this step, overhead costs (cost pools) are identified. This step will be performed concurrently with identification of cost centres (see Step 9 below).
- **Identification of the most appropriate cost driver (allocation base) for each activity:** Once cost pools have been identified, it should be decided that upon the basis of which factor (cost driver) those overhead costs will be apportioned across cost objects.
- **(Optional) Development of interdepartmental invoice templates specific to LGI:** This is an additional step and is only to be performed if there is no standard national template for interdepartmental invoices that is adopted for all LGIs. The invoices should clearly indicate the "receiving department" (i.e. FSM profit centre), the "lending department" (i.e. cost centres), the nature of the overheads expense, the amount of expenditure and the cost driver ratio applied as a basis of apportioning the overhead cost to the lending department.

Step 10. Identifying Cost Centres

RELATED PFM OBJECTIVES

- PFM#3 - Performance Reporting

The concept of Cost Centre and Profit Centre accounting revolves around the idea that only certain segments or departments within an organization are responsible for generating revenues through products/services (referred to as "Profit Centres", while certain other segments or departments primarily incur costs and do not generate revenue directly ("Cost Centres"). This is not to say that Cost Centres do not serve a financial purpose in an

organization – they indirectly contribute to the organization’s profit through operational efficiency, customer service, or by increasing product value. Examples of cost centres include Human Resources and Accounting departments. In management accounting, the primary function of a cost centre is to track expense and keep costs in line or below budget.

In the context of FSM services, cost centres can extend from more apparent auxiliary departments such as engineering department, which is responsible for fleet management of the Vacutugs despite not receiving any revenues, or more seemingly unrelated segments such as the IT department (which is in charge of maintaining the customer databases) or the Urban Planning department (which inspects newly proposed building construction plans to ensure they have the proper containment facilities). Table 21 below illustrates some potential cost centres alongside the possible operational overheads which may be allocated from them to the FSM unit as identified in the course of primary research:

Table 21: Potential cost centres and their respective operational overheads related to FSM services (not exhaustive)

Operational Overheads – related to FSM Services	Cost Centres (“Lending” Department)
Salaried Staff	Accounts, Urban Planning, IT, Engineering and Conservancy Departments
Master Roll Staff	
Vacutug Repair & Maintenance	Engineering Department
Vacutug Fuel Costs	Engineering Department
Treatment Plant Operation & Maintenance	Engineering Department
Promotional Costs and Events Expenses	Conservancy Department

Identifying cost centres is a task that will be performed concurrently when performing the detailed ABC analysis or conducting transfer pricing analysis, since a dissection of the cost objects into activities, cost pools and then to cost drivers will identify which cost centres are responsible for the respective cost pools.

Step 11. Establish FSM Cost Centre under a Profit Manager

RELATED PFM OBJECTIVES

■ PFM#3 - Performance Reporting

Under management accounting, profit centres are treated virtually as a separate, standalone business, responsible for generating its revenues and earnings. Profit centres are crucial in determining which units are the most and the least profitable within an organization, and assigning an FSM-specific profit centre can function as a bellwether of how the LGI’s FSM services are performing. The analysis of profit centres can introduce transparency in the cost allocation process, can be used to determine the future allocation of available resources and to decide whether certain activities should be curtailed or expanded. It should be noted, however, that profit centres too can incur their own costs, some of which may be attributed towards the products and services produced by another profit centre.

Based on the field level stakeholder consultations, the Conservancy department has been identified as the source of major revenue receipts relating to FSM services. The Conservancy department is primarily responsible for receipts related to variable FSM service tariffs, FSM

registration fees, as well a portion of "Conservancy Rate" portion of the Holding Tax, a fraction of which can be attributed to enabling FSM services. Hence, it is recommended that the FSM profit centre be established under the Conservancy department under all the LGIs.

To give FSM financial management the attention it requires, it is recommended that the Focal Person nominated in Step #1 to represent for FSM within the LGIs be formally tasked at this stage with coordination and monthly financial reporting aggregation for FSM Profit Centre. In management accounting terms, this designation is referred to as a "Profit Manager" and the Profit Manager will have the responsibility of coordinating cost allocations and record-keeping across departments (see implementation of ABC and Transfer Pricing below). This Profit Manager will have decision-making authority related to a number of factors relating to FSM services including profitability analysis, product pricing, cost rationalization, process improvements, capital budgeting as well forecasting. The FSM Profit Manager should be driven by the service's bottom line, as he/she must ensure that their FSM service revenues outweigh the associated costs, and this is responsibility delegation is in line with the National Action Plan for Institutional and Regulatory Framework (IRF) for FSM.

Step 12. Train LGI Staff on their new respective functions

RELATED PFM OBJECTIVES

■ PFM#3 - Performance Reporting

Once an FSM Profit Centre has been established under a designated Profit Manager, its function will be to ensure that the service revenues outweigh the operating expenses for FSM, or keep the operating expenses for FSM under a certain threshold as defined by decision-makers. However, in order to do so, the Profit Manager must have full transparency into the operational expenses, which involves coordinating cost allocations and record-keeping across the various Cost Centres. In order to perform their roles, either only the FSM Profit centre (in the case of ABC approach) representatives or the both the FSM Profit Centre and Cost Centre Representatives (in the case of transfer pricing approach) should be trained.

Both an ABC approach and the Transfer Pricing approach requires that training of the FSM profit manager and other relevant profit centre personnel are conducted to ensure that they are able to maintain the four suggested books of accounts and statements (cashbook & cashflow, bank reconciliation statement and the profit and loss account and statement). Furthermore, profit centre staff should also be trained on how the bottom line from these accounts and statements can be used to derive relevant KPIs, such as the Operating Profit and Net Profit margins, and take the relevant decisions from them.

Profit managers in an ABC system would need to be trained on how to apply the cost of each activity to cost objects based on its activity usage, which was established earlier during Step #9. In the case of ABC approach, although ABC analysis is a thorough process demanding involvement of other cost centres, once ABC analysis has been completed and overhead rates established for the different cost objects, it is no longer necessary to have regular inputs from the other cost centres. Hence, it would not be necessary to train personnel from other LGI departments and cost centres.

However, since it is recommended that ABC analysis is performed on a regular basis - ideally annually - to adjust overhead rates applicable for cost objects - LGIs may choose to train selected personnel from within the Accounts and Finance section to perform this ABC analysis internally on a recurring basis.

For LGIs opting to institutionalize a Transfer Pricing Approach, the following additional step is recommended:

Use of Inter-departmental Invoices - Transfer pricing can be enabled through the use of inter-departmental invoicing. As the Conservancy Department will host the designated Profit Centre for FSM, all FSM-related cost centre invoices will be directed to the FSM focal person within the Conservancy department. An inter-departmental invoicing form will be used to submit an invoice from the cost centres to the FSM profit centre for goods and services (outlined as a visual example in Figure 8 below). It should be completed by the department incurring the relevant expense. It is suggested that invoices are generated and exchanged across departments on a monthly basis.

For billing purposes, departments should thoroughly maintain log-books for both human resources and as well as any other direct FSM expenses. After submission of the invoices, the accounts department should be notified and both the “receiving” and “lending” departments will receive notifications containing billing details pertaining to each month. At the end of each month, the FSM profit centre manager within the Conservancy department will be responsible for drawing up the profit and loss statement for FSM services (explained in further detail in next section).

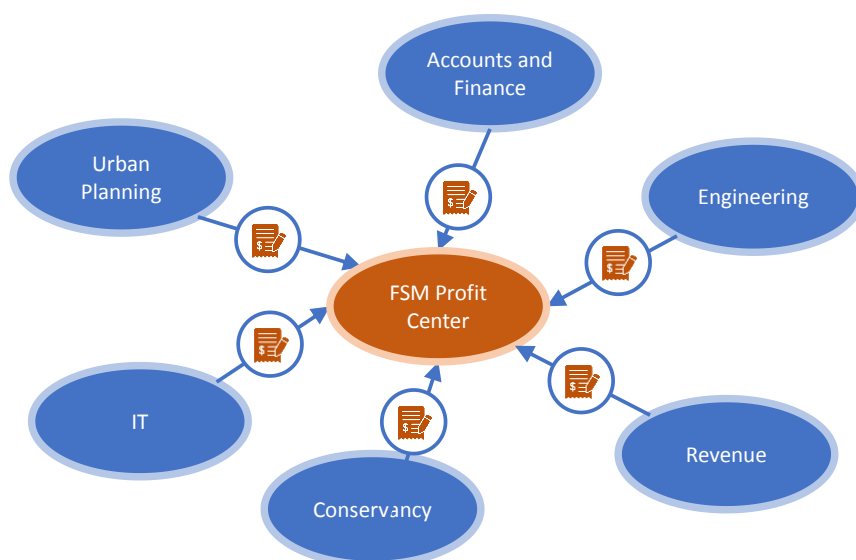


Figure 8: Example Illustration of Invoice Exchange across Departments

The key bottleneck to implementing this transfer pricing model will not be so much about encouraging respective Department Managers to work together and lend staff-time and resources from one department (which is already happening), but to record the individual transactions for the monthly invoice process. In addition to a focal point for FSM within the Conservancy Department, a transfer pricing model should ideally be established with focal points within each of the cost centres to lead the recording, compilation and invoicing of FSM-related costs. The commonly cited lack of manpower within LGIs can be a major bottleneck to activating the transfer pricing model.

To ease the process of resource allocation, transfer pricing guidelines could be developed to guide the focal points within cost centres. The guideline should be done following a thorough human resource assessment process that will clearly identify the proportion of allocation of staff-times for resources within cost centres according to their respective involvement in FSM services. Guidelines should also be developed to ensure that the invoice cost prices are as comprehensive as possible. Case in point, a common depreciation methodology should be settled upon by LGIs to begin attributing vehicular depreciation against the FSM service.

Step 13. Refine the FSM Profit and Loss Account to include Overhead costs

RELATED PFM OBJECTIVES

- PFM#1 - Budget Formulation
- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

Taking the adopted cost or management accounting model for FSM services into account, LGIs should focus on their variety of FSM services as the fundamental cost objects, based on the expenses invoiced from other departments, and compare profitability with the revenues achieved, both from direct FSM service fees and through overhead allocations from other revenue threads.

At the end of the month, although no cash will be exchanged within departments, a reasonable estimate of the revenues generated and costs incurred for FSM service delivery will be derived based on either (a) the pre-determined ABC overhead rates allocation or (b) when Cost Centres will issue inter-departmental cost invoices for FSM services to the FSM Profit Centre manager under the Conservancy department. Conversely, revenues attributed to the FSM services, such as Sanitation tax levied by the Revenue department will be attributed as a revenue to the FSM cost centre.

From these estimates a complete Profit & Loss statement can be developed, where (if applicable) the following indicative heads (as shown in *Table 21*) can be shown for each cost object:

Table 22: Indicative Profit & Loss account major heads

Revenue Heads	Cost Heads
Major Revenues	Operational Expenditures
Holding Tax (Conservancy portion)	Salaried Staff
Receipts from Sanitation Tax	Master Roll Staff
Receipts from Registration Fees	Vacutug Repair & Maintenance
Receipts from Service Tariffs	Vacutug Fuel Costs
Lease Fee Receipts	Treatment Plant Operation & Maintenance
	Promotional Costs and Events Expenses
	Depreciation costs of Vacutugs and TP

The development of a profit and loss account will help derive the operating profits and net profits (EBITDA), from which the operating profit margin and net profit (EBITDA) margin can be calculated, which are both financial KPIs that have been recommended under this assignment.

Step 14. Managers use financial records for calculating KPIs and for capital budgeting

RELATED PFM OBJECTIVES

- PFM#1 - Budget Formulation
- PFM#3 - Performance Reporting

Setting up such a profit centre model along with the maintenance of a dedicated bank account for FSM services can pave the way for a complete picture of the FSM service performance through an FSM Profit and Loss Statement. An FSM Profit and Loss statement would also allow

for ratio analysis and KPI calculations to be performed to benchmark the LGI's FSM performance, and this will form the basis for designing a set of KPIs to be identified later in this assignment.

The rationale behind institutionalizing such a transfer pricing model is to give the Profit Centre Manager full transparency into the revenues and costs attributed to FSM service, which is crucial for the manager in order to take decisions regarding product pricing and setting operating expenses targets for FSM, for which indirect costs and overhead costs must be taken into account to give the true picture. This Profit Manager will have the freedom to perform a number of analyses on the data including cost-volume-profit analysis, leading to drive towards cost rationalization and process improvements.

In addition, at LGIs which are able to prepare a limited balance sheet, the FSM Profit Centre Manager can also perform capital budgeting. Capital budgeting is the process that a business uses to determine which proposed fixed asset purchases it should accept, and which should be declined. This process is used to create a quantitative view of each proposed fixed asset investment (such as payback period, Net Present Value analysis and constraints analysis), thereby giving a rational basis for making a judgment in regard to capital investment and divestment decisions.

PHASE 3: Refining the PFM Model for National Scale-Up

A detailed evaluation of the pilot implementation of Steps 1-14 in a small number of LGIs is suggested. The findings from the pilot implementation will feed into the following recommended steps:

Step 15. Evaluate performance of the pilot and refine

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

Based on the pilot implementation experience, refinements can be carried out in terms of PFM roles and responsibilities, work processes and procedures, templates, KPIs and other organizational process assets to ensure that the PFM model is conducive for adoption across all LGIs. If external expertise is required, LGIs can hire consultants to conduct such a professional evaluation.

The evaluation process should seek feedback from the broader stakeholder groups and, if necessary, the PFM model may be refined over several iterations and piloted again. The evaluation report that will be the output of this process will outline the final recommended PFM model that has been proven to work, and the document will be a key tool for advocacy for the proponents of improving PFM for FSM at LGIs.

Step 16. Derive KPIs benchmarks and Implement National scale up

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

Once the PFM model evaluation has been completed, partnership should be sought between LGIs, members of the FSM Network in Bangladesh and development partners to disseminate the PFM model and seek central government/MoLGRD&C support for the necessary executive authority to mandate LGIs nationwide to adopt it as best practice. Once this is achieved, capacity building can be cascaded down to all LGIs through a national Training of Trainers program, and the necessary financial accounting templates, performance benchmarks on the

recommended KPI targets, standard management accounting analyses can be set through findings from the pilot evaluation phase. Record-keeping, performance monitoring and reporting functions shall be delegated to each individual LGI to ensure a sustainable PFM model for FSM.

Steps 1-14, once refined, should be implemented during the national scale up for all LGIs in PHASE 4.

PHASE 4: Institute Long-term PFM Reforms across LGIs

Long-term steps relate to recommendations that will take place over a longer timeline of beyond 3 years. These mostly encompass major re-structuring efforts or policy-level engagements that require authorization through formal government procedures.

Step 17. Adopting a truly participative budget formulation process at LGIs

RELATED PFM OBJECTIVES

■ PFM#1 - Budget Formulation

Presently, even though some degree of participation is afforded to local citizens, in reality, the decision-making power rests, in most part, with the Mayor. Hence, reflection of citizens' demands during the budget formulation stage depends largely on the influence of citizens' representatives. Thus, in order to facilitate a more participative process, the central government should be involved to delegate more power to local councils/legislative bodies and Ward and Town-Level committees in the budget formulation and approval process, and allow opportunities for citizens themselves to directly participate in this process.

What is more, any such participatory dialogue should be guided by strategic priorities of the LGI, which can be developed independently by the LGIs in the case of more advanced LGIs, or may be cascaded down nationally in the case of smaller LGIs. The APAs assigned to the KCC by the central government is a right step in this direction. These suggested budget formulation practices will need to be similarly institutionalized by the central government through amendments to existing local government acts or through guidelines propagated by the MoLGRD&C.

Step 18. Encouraging LGI-wide shift to accruals-based double-entry system

RELATED PFM OBJECTIVES

- PFM#2 - Accounting and Financial Reporting
- PFM#3 - Performance Reporting

Although it is true that double-entry accrual-based accounting is the state-of-the-art method, (and indeed, according to JICA²⁰, the maintenance of a balance sheet is required of LGIs as per the Bengal Municipal Accounting Rules, 1935), whether such accounting is feasible in a local government context also must be considered since many LGIs in developed countries are not able to meet the rigors needed for a double-entry accrual-based system. If LGIs are deemed to have the fiscal complexity that necessitates a shift completely to double-entry methods, and have the necessary resources competent in financial management, the central government should initiate a top-down phase out of single-entry systems towards a double-entry accounting system.

²⁰ JICA (2015), *Operational Manual on Paurashava Budget Formulation, Execution and Monitoring*

Double-entry systems can reduce errors, strengthen the accuracy of accounts and offer the creation of a much wider range of financial statements that are important for performing ratio analysis and benchmarks against. However, due to its more complex nature, any such initiative should take a staggered approach, beginning with City Corporations, then Class A municipalities and so forth. It also brings with it several complications including estimating the valuations of LGI assets and establishing opening balance sheets, which are difficult to achieve quickly.

It is better, therefore, for LGIs to first build up the capacities of their accounting system through transition to a modified cash-based double-entry system and then enhance the municipal accounting system by shifting to fully an accruals basis. In a gradual manner, the experience of LGIs in preparing accounts using double-entry cash-based accounting and accrual basis will enable them to more comfortably apply more sophisticated financial treatments – such as calculations of current assets, net receipts and payables on a rolling basis that would allow for calculations regarding the current ratio (a financial KPI that has been recommended under this assignment at KPI Development Report), operating cycles etcetera – in order to get a better view of the FSM service's profitability and asset utilization scenario.

4 Conclusion

Having identified the situational gaps and challenges at the LGIs, this study has compared findings against the desired best practice outcomes to derive recommendations on how the Public Financial Management processes, as they relate to FSM services within the LGIs, can be improved. Taking into account the fact that FSM services form a small portion of a LGI's revenue and breadth of operations, the report's recommendations have been adjusted to be the friendliest for implementation given the status quo, and a flexible model with different options/degrees for implementation that are replicable across various other LGI services (and not just FSM) has been prescribed.

The recommended management accounting model begins with the adoption of a refined financial accounting model that is anticipated to become the gateway for the introduction of management accounting practices – beginning with the establishment of cost centres and an FSM profit centres for effective overhead allocation, via either activity-based costing approach (which is a cost accounting method) or an interdepartmental transfer pricing mechanism (a management accounting method), resulting in a much more accurate picture of the performance of FSM services. Through the proposed management accounting, the enhanced performance measurement will enable internal decision-making at LGIs in regard to profitability analysis, product pricing, cost rationalization, process improvements, capital budgeting among others, as well enabling better forecasting. The importance of MIS as a catalyst throughout the entire proposed reformation process is also recognized and has been identified as a key recommendation.

In deriving recommendations, options were considered that would improve PFM across multiple PFM dimensions. From a budget formulation perspective, this report advocates for a more participatory budget dialogue focused on strategic priorities, and devolving decision-making power to citizens from the current centralized structure. From a financial accounting perspective, key recommendations focus on a transition from single-entry cash-based accounting practice to an interim modified cash-basis accounting, and then to a long-term politically-backed adoption of the double-entry accruals-based best practice. New books of entry and financial statements are also recommended such as an FSM Cash Book and accompanying FSM Cashflow Statement, FSM bank reconciliation statement, a simplified balance sheet showing the long-term assets and liabilities of the LGI, and a FSM Profit and Loss Statement.

To implement these suggested changes, 18 immediate, mid-term and long-term steps have been recommended that can be implemented with the active involvement of LGIs and wider stakeholder groups including various other LGI departments, the central government and development partners, each with their dynamic interests and priorities.

The end-goal is a dynamic FSM unit within LGIs, where FSM managers are empowered with the relevant information and decision-making authority to turn FSM units into commercially sustainable services in order to ensure continued FSM in their respective cities. The use of Key Performance Indicators (KPI) is a major tool for such a shift towards management accounting, performance measurement and analysis and this report forms a precursor to the second report under this assignment – the KPI Development Report. The KPI Development Report will be designed to outline and elaborate on indicative Key Performance Indicators as they relate to service efficiency and financial management for provision of FSM services, which will be recommended for adoption and subsequent replication by various tiers of Local Government Institutions (LGIs) Bangladesh.

5 Annexure

5.1 Annex 1: List of Interviewees

Table 23: List of Interviewees

City	SL	Name of Interviewee	Designation of Interviewee
Jhenaidah	1	Ohindronath Biswas	Executive Engineer
	2	Shamsul Alam	Conservancy Inspector
	3	Abdul Mojid	Accounts Officer
	4	Md. Fayzur Rahman	SNV City Coordinator - Jhenaidah
Jashore	1	Robindronath Raha	Accounts Officer
	2	Md. Farukh Hossain	Conservancy Inspector
	3	Kamal Ahmed	Sub-Assistant Engineer (Mechanical)
	4	Sardar Lutful Kabir	SNV City Coordinator – Jashore & Benapole
Khulna	1	Md. Anisur Rahman	Conservancy Officer
	2	Md Anwar Hossain	Head Clerk
	3	Shekih Shoebur Rahman	Budget Officer
	4	Md. Abirul Jabbar	Urban Planner
	5	Md. Irfan Ahmed Khan	SNV City Coordinator – Khulna
Kushtia	1	Abul Kalam Azad	Accounts Officer
	2	Firoz Azam	Sub-Asst. Engineer (Mechanical)
	3	Md Johurul Islam	Conservancy Inspector (In-charge)
	4	Md. Abdul Halim	City Coordinator, SNV-Kushtia
Benapole	1	Rafiqul Islam	Accountant
	2	Md. Mofizur Rahman	Tax Assessor
	3	Abdul Al Masum Rony	Head Assistant
	4	Sardar Lutful Kabir	SNV City Coordinator – Jashore & Benapole
Gazipur	1	Sumana Sharmin	Urban Planner
	2	Golam Kibria	Chief Accounts Officer
	3	Md. Rasel Shahriar	Asst. Mechanical Engineer
	4	Sohrab Hossain	Chief Conservancy Officer
	5	Ruhul Amin Munshi	SNV City Coordinator – Gazipur
	6	Md. Ariful Islam	SNV BCC Advisor

Note: This list is not comprehensive as additional LGI and SNV staff were consulted during the Focus Group Discussion process.

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