

Segment	Description	Purpose
Posted Core Segments (Users to enter all detail data in computer based iBAS++ software)		
4. Economic	Economic segment records the nature of inputs that the budgetary units use in the process of undertaking their activities or delivering operation and services. The economic classification clearly indicates the type of revenues, expenditure, assets and liabilities incurred by government. It is also form the base for structuring financial statements.	To identify the economic nature of the transaction (tax or non-tax receipts, salaries, etc.) and to facilitate accounting, reporting and control in accordance with international standards
Posted Additional Information Segments (Users to enter selected data as required in computer based iBAS++ software)		
5. Mode of Payment	This segment is created to clearly indicate the various financing mechanisms available for donor funded projects.	To identify whether a transaction is reimbursable project aid or direct project assistance
6. Location	Geographic classification is used to capture information on the spatial distribution of revenues and expenditures (e.g., regional distribution of tax collections, subsidies and transfers, etc.).	To identify the location to which a transaction should be attributed
Derived Segments (Pre-defined in computer based iBAS++ software)		
7. Authorisation	Authorisational classification is used for segregation of government spending activities according to charged (authorized by the Constitution) or other expenditure (approved by the national parliament).	To identify whether an expenditure transaction is charged or other expenditure
8. COFOG	Classification of the Functions of Government (COFOG) is a functional classification defined by the United Nations Statistics Division. It applies only to government expenses and net acquisition of non-financial assets into 10 functions (e.g., education, health, energy, environment, etc.).	To identify the purpose of a transaction according to the Classification of Functions of Government (COFOG)
9. Budget Sector	The Budget Sector is a functional classification that classifies the budget in a group of resident institutional units that have similar objectives.	To identify the budgetary objectives and goals according to sector

5.0 The New BACS Structure - Management Aspects

5.1 The new Budget and Accounting Classification System (BACS) has been designed to accommodate both existing needs and to meet the demands put forth by the on-going Public Financial Management (PFM) reforms as well as reform agenda for the foreseeable future.

5.2 The structure of the BACS and the method of coding each segment will provide the following benefits:

- facilitating more accurate financial transaction recording;
- providing complete information for forecasting, appraising and valuing resources and expenditures;
- developing and executing the budget and providing financial information between expending institutions for the same purposes (for example education);
- enhancing transparency through more detailed and meaningful reporting and audit;
- standard internal reports can be built and ad hoc reports developed as required;
- promoting Donor Accounting;
- building modern PFM controls in the budget execution process;
- international standard external reporting according to GFS and IPSAS;
- expanding the scope of the government accounting and financial information system to the entire central government and potentially over the entire general government;
- useful analytical information for inter-regional distribution and comparison of government spending; and

- facilitating transition to accrual accounting, as and when the government decides to move in that direction.

5.3 The iBAS++ is configured to accommodate changes in coding, additional digits within segments and the addition of new segments as required. Moreover, software features in the iBAS++, such as user defaults, drop down lists, 'favourites' and memory of prior (and common) postings, as well as the derivation of some segments, will also simplify the process of users assigning codes to their transactions. To be clear, users will not be required to remember or enter 35-digit coding strings.

5.4 The BACS can be expected to evolve over time. Any errors or issues with the coding will initially be identified through testing regime. Over time, the structure of the BACS can evolve without any restriction. Where possible, changes will be made at the start of each budget cycle, so that the same coding structure is used for budget planning and budget execution.

5.5 At present, Task Force, Finance Division and Minister of Finance have endorsed the proposed Budget and Accounts Classification System (BACS). Now, endorsement of Comptroller and Auditor General and approval of the Hon'ble President have been sought in accordance with the Constitution. Prior to the full implementation, testing and piloting of the new BACS will be undertaken during the 2016/17 budget cycle and training will be provided to future users of the system. However, it is expected that the proposed BACS will be implemented in the context of the budget preparation cycle from the 2017/18 financial year.

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**New
Budget and Accounting
Classification System
(BACS)**

1.0 Introduction

1.1 A Budget and Accounting Classification System (BACS) is a logical framework for classifying the government's financial transactions. It is a 'system of codes' used to plan, record, report, analyse and compare the government's financial transactions. The classification system of a government's transactions is "possibly the most critical element or lynchpin of a well-functioning PFM (public financial management) system."¹

1.2 A chart of accounts has been in use in Bangladesh since 1938. There have been several reviews of the classification structure in 1983, 1988 and 1989. The current 13-digit Classification Chart introduced in 1998. With experience of the current Classification Chart over the last one and a half decades, it is now felt that the system has developed considerable limitations.

1.3 Finance Division, Ministry of Finance, under such a context, as part of the Public Financial Management reform process, has undertaken a comprehensive review of the current Classification Chart.

2.0 Issues With The Current Classification Chart

2.1 The current Classification Chart consists of four levels, namely: legal (1 digit), institution (4 digits), operation (4 digits) and economic (4 digits). **Table -1** outlines the current Classification Chart.

Table - 1: Structure of the current Classification Chart



2.2 As the levels in the current Classification Chart are generally limited to two sub-levels of disaggregation, the overall structure is not capable of capturing fully the financial information required to support the decision-making process. Moreover, current iBAS (integrated Budget and Accounting System)² limits the Classification Chart to 13 digits, which has become too restrictive.

2.3 As a result of the restrictions, the levels are not mutually exclusive. For example, the 'Legal Code' contains economic transactional information; the legal codes and economic codes both identify whether expenditure is funded by way of the Consolidated Fund or by way of the Public Account.

2.4 'Institutional level' contains information relating to both institutional unit and also to Functions. 'Operational Unit level' is severely overloaded with information. Five separate and incompatible financial data elements - Operating Units, Autonomous Bodies, International Agencies, Foreign Governments and Projects can be found in this level.

¹ IMF, Julie Cooper and Sailendra Pattanayak, Chart of Accounts: A Critical Element of the Public Financial Management Framework, Technical Notes and Manuals, August 2011.

² An inhouse Government Integrated Financial Management Information System software, known as integrated Budget and Accounting System (iBAS). iBAS++ is the upgrade version of current iBAS.

2.5 'Economic level' contains information elements, such as organisation, fund and funding source that rightfully belong in other levels. The economic code has also reached its optimal usage. As economic code only goes down to two (2) sub-levels: Revenue and Expenditure analysis and reporting is restricted. Out of the fifteen hundred and ninety (1590) economic codes that are currently available in system, seven hundred and forty-five (745), representing forty-seven percent (47%) of all economic codes, are inappropriate.

2.6 The current Classification Chart has become inadequate due to its inability to report the government's spending programs by location, financing source and function. Even it does not support the automated monitoring of cash flows, funds control and expenditures throughout government.

2.7 Modern reporting standards - International Public Sector Accounting Standards (IPSAS), Government Finance Statistics Manual (GFSM) 2014, Classification of the Functions of Government (COFOG) etc., cannot be accommodated in current Classification Chart.

2.8 The current Classification Chart is not capable of reporting on 'Whole of Government Accounts' (WGA) approach to public finance, i.e. producing reports covering central government, local government, government agencies and state owned enterprises. Over time, this will allow the user to build up a clear and consistent picture of trends and changes in the Government's fiscal position.

2.9 Therefore, based on an in-depth evaluation of the present classification code, discussions with stakeholders and an assessment of international best practice, a new Budget and Accounting Classification Structure has been designed.

3.0 Designing A New Classification Structure - Conceptual Framework

3.1 The aim of the BACS is to meet four fundamental purposes: codifying planned and actual financial transactions, capturing information, transaction analysis and budgetary control. Therefore, the task of any classification system is to identify the core similarities in government operations and organise individual transactions into homogeneous categories. This categorisation, thus, facilitates the analysis of government operations and activities. A sound classification structure follows some basic fundamental principles of classification :

- **Homogeneity** - Each segment should have a unique set of defining characters to which every transaction must comply;
- **Independence** - Each segment has defining characteristics that are different from and independent of the others; and,
- **Comprehensiveness** - Definitions of each segment dimensions are complete and comprehensive.

3.2 In addition, a well-developed classification system has three main characteristics³ :

³ IMF, Bangladesh - Designing A New Budget And Accounting Classification, Prepared by Sandeep Saxena, David Gentry, Kris Kauffmann, and Than Lwin, January 2014.

- It captures multiple attributes required for meeting the divergent internal as well as external reporting requirements;
- It allows appropriate granularity of data required for analytical and control purposes; and
- It is possible to apply the classification codes consistently across the government and over time.

3.3 On the basis of above principles proposed BACS Code structure has been developed to classify transactions in a variety of ways without duplication.

4.0 Developing New Classification Segments- Structural Analysis

4.1 A nine segment hierarchical classification structure is proposed for new classification system. The classification structure is split between 'Posted' and 'Derived' segments. Posted segments are explicitly coded for each transaction and

Table - 2: A diagram of overall classification framework

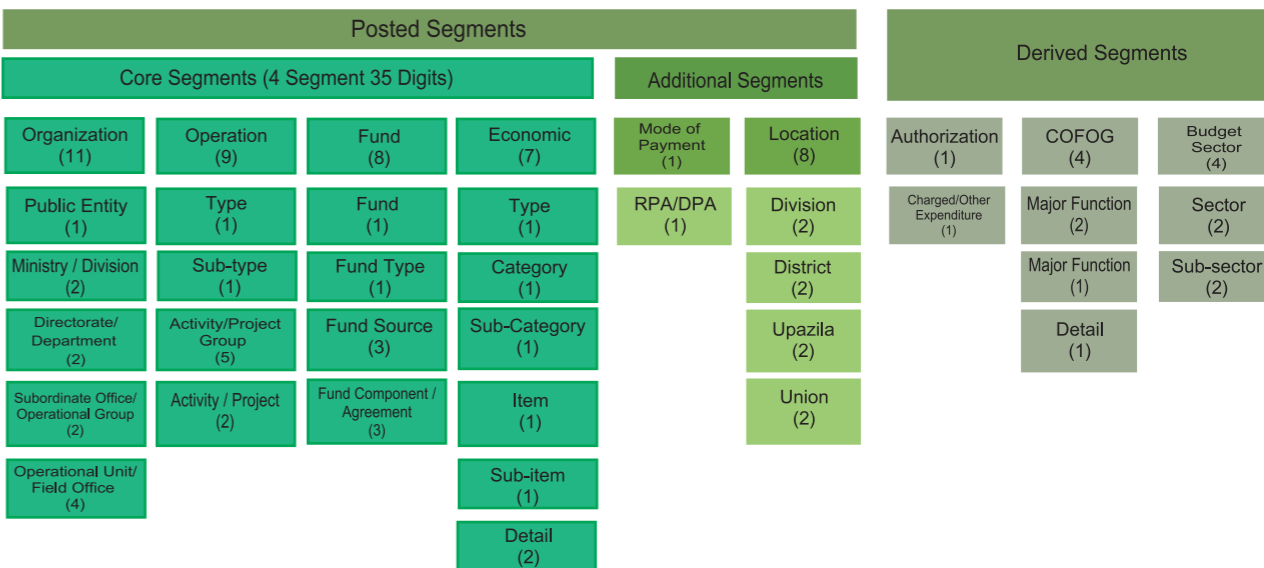


Table- 3: Descriptive facts on nine segment hierarchical classification structure

Segment	Description	Purpose
Posted Core Segments (Users to enter all detail data in computer bashed iBAS++ software)		
1. Organisation	An administrative classification represents various agencies that groups fiscal data according to the administrative unit or body responsible for collecting revenues and/or utilizing funds, (e.g., the ministry of education, health, etc., and at a lower level, schools and hospitals etc.).	To identify the Administrative Unit (Ministry/ Division, Directorate / Department, Operating Unit) responsible for a particular budget or transaction
2. Operation	An operational classification is linked to government's policy objectives. It typically identifies the goals and policies that the government spending is expected to serve (e.g., preventive healthcare for all) and are usually subdivided into homogenous activities (e.g., vaccination) required to meet the goals.	To identify whether a transaction is for development activity or for operating activity ; and, if part of an activity / scheme / project group, to which activity / scheme / project it relates
3. Fund	Fund segment describes inflows derived from multiple sources- government revenues, donor funding, loan proceeds, general budgetary support and each of these can have unique aspects in terms of how spending of these funds is budgeted, authorized and reported on.	To identify the fund in which a transaction is recorded (Consolidated Fund, Public Account) and, within the Fund, identifies whether the Government, a foreign grant or loan funds the transaction

are maintained in the computer based iBAS++ software. Derived segments are not determined by the user of the system but rather assigned by the system based on the coding of the posted segments.

4.2 Within the posted elements, there are four core segments, comprising the Organisation (11 digits), Operation (9 digits), Fund (8 digits) and Economic (7 digits) classifications. The Mode of Payment (1 digit) and Location (8 digits) are additional (non-core) posted segments.

4.3 There are a further three non-posted derived segments: Authorisation (1 digit), Function (COFOG) (4 digits) and Budget Sector (4 digits). **Table 2** sets out the overall structure and the coding space (number of digits are shown in parenthesis) of the new BACS. However, some more detail information about all the nine segments is also given in **Table 3**.