

Capacity Enhancement

BRIEFS

SHARING BEST PRACTICES AND LESSONS LEARNED

PUBLIC FINANCIAL ACCOUNTABILITY IN PAKISTAN

The Impact of PIFRA on Capacity

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This paper highlights the capacity enhancement support provided under the World Bank–financed Pakistan Improvement of Financial Reporting and Auditing (PIFRA) project and six lessons learned to be considered in designing similar projects: (a) address capacity constraints at every level, that is, individual, organizational, and institutional, (b) avoid addressing an entire large country in one project, (c) avoid introducing state-of-the-art technology in an environment of largely unskilled professionals, (d) avoid too many project components, (e) ensure ownership and commitment by the project agency, and (f) ensure collaboration among donors.

Strengthening Pakistan's Financial Accounting, Reporting, and Auditing System

The Government of Pakistan, conscious of the need to improve its accountability systems and processes, is implementing within its financial management reform program the World Bank–supported *Pakistan Improvement of Financial Reporting and Auditing* (PIFRA) project. PIFRA is designed to support introduction of a top-to-bottom government budgeting, accounting, and auditing system. Beginning its first phase in 1997 and still ongoing, PIFRA has reached a satisfactory level of implementation

Based on a diagnostic analysis of the status of accounting and auditing functions, the project was designed to achieve the following overall objectives:

- Improve public sector accounting and financial systems, including budgeting
- Provide the basis for enhancing public sector accountability
- Support improved institutional capacity for economic policymaking and management.

To achieve these objectives, the following components comprise the fundamental ingredients to enhancing public sector accountability:

- *Government budgeting, accounting, and financial reporting.* This component is using a fully automated, integrated, and interfaced financial accounting and budgeting system under a new accounting model. As a result, the federal as well as the provincial finance departments are now preparing government budgets under the new chart of accounts, using the new accounting model devised under PIFRA. The project has also achieved progress in implementing the accounting module in eight pilot sites at the federal, provincial, and district levels, representing about 20 percent of government financial transactions. Capture of about 80 percent of central government financial transactions is expected with full project implementation.
- *Government auditing.* This component is providing guidelines for introducing international auditing standards and capacity building on modern auditing techniques and methodologies, using automated tools for auditing automated accounting systems, including planning and sampling techniques. With the audit manuals already developed, the project is providing the requisite audit software for audit testing and account analysis and will train auditors in use of



the software as well as audit planning and monitoring. Under the new accounting model, Pakistan will adopt the International Public Sector Accounting Standards on cash accounting and also facilitate progress toward accrual accounting by adopting modified cash accounting. This will provide the basis for the reporting framework, against which an audit opinion can be formed. In the meantime, a few of the provinces have begun performance audit implementation, thus, supporting institutionalizing of “value for money” audit practices.

- *Institutional development.* This component covers (a) improvement of training facilities for accountants and auditors, (b) human resource policymaking in financial management, including training of accountants and auditors, (c) project management, and (d) introduction of an automated management information system for the Office of the Auditor General. With introduction of PIFRA, the audit and accounts functions have been divided; as a result, the Auditor General of Pakistan is now no longer responsible for preparation of the accounts he audits.
- *Other policy support for economic management.* This component covers the cost of selected studies on economic and financial issues to lend support to the ongoing macroeconomic, structural, and fiscal reform program in Pakistan. It will also entail revision of government financial rules for consistency with the new accounting model and design of a “comprehensive reconciliation framework” for interfacing PIFRA accounting systems with the banking (State Bank and National Bank of Pakistan) and revenue departments. This component has already improved the professional capacity of economic departments (Finance, Economic Affairs, and Planning) and the Central Bureau of Revenue, producing more reliable and comprehensive macroeconomic data for decisionmaking. Consultants are being recruited to work on the reconciliation framework for public accounts.

To consolidate PIFRA I achievements and sustain and deepen the accountability framework in Pakistan, the Auditor General of Pakistan requested that PIFRA II be designed and appraised by the World Bank. PIFRA II will support the government’s ambitious reform program, including capacity building, automation, transparency, and devolution of power and information. The project contains strong capacity-building components to support the Office

of the Comptroller General of Accounts (CGA) and agencies preparing the accounts at each level of government, as well as the Auditor General’s office. To fulfill outreach and transparency objectives, PIFRA II will provide basic IT knowledge infrastructure and fully involve users of PIFRA information within the various tiers of government.

The salient features of the components of the proposed PIFRA II, apart from continuing implementation of PIFRA I deliverables, are as follows:

- Strengthening government financial management policy and capacity, including building of a highly skilled internal audit staff through training and recruitment and developing a comprehensive set of internal controls, internal audit work programs, and reporting regimes. Successful completion of this component will help achieve adequate financial management across government, ensure easy incorporation of local government financial data into provincial and national accounts to meet devolution needs, and achieve sufficient professional capacity to bring the entire accounting chain to acceptable technical, operational, and quality standards. PIFRA I delivered an internal audit manual; PIFRA II will roll out use of the manual to all government departments with appointment of internal auditors in departments.
- Expanding PIFRA systems implementation and capacity by (a) covering remaining sites, (b) extending the systems network for wider selected access and interface, (c) developing an overall systems and data architecture to ensure compatible information flows among the different layers of the national government, (d) conducting in-depth user training nationally, and (e) building IT capacity by recruiting fixed-term technical professionals. Successful completion of these subcomponents is instrumental to achieving full government financial accountability and transparency.
- Modernizing the Auditor General’s Office by, among others, restructuring, upgrading, retooling, and consolidating professional capacity in financial certification audits and value for money audits. Successful completion of this component would support independent verification and certification of accountability systems and processes used in the Government of Pakistan. The audit manual produced in PIFRA I will support auditor training in PIFRA II.



- Strengthening communication and change management. In tandem with modifications in staffing and systems associated with the project, a communication and change management component shall facilitate consultations with and information for key stakeholders, both inside and outside the government.

Other Nonproject Accountability Enhancement Initiatives

Apart from the project-supported activities that enhance financial accountability described above, numerous other initiatives are in place to entrench good practices in Pakistan's accountability framework:

- The World Bank regularly organizes regional CGA conferences to discuss ways to improve accounting and reporting, including gradual adoption of accrual accounting in the public sector in South Asia Region countries. The first few conferences held along this line have positively influenced the Pakistani authorities to embrace ideas on international reporting standards and contemplate the gradual progression of the PIFRA project toward adoption of accrual accounting in select departments under pilot arrangements.
- A meeting of South Asia regional Auditors General, now being organized, will build capacities of individual countries' Auditors General through sharing of experiences, commitments, and potential exposures in applying international standards on auditing consistent with International Organisation of Supreme Audit Institutions standards. The Auditor General of Pakistan has however begun effective application of the standards in his public sector auditing.
- World Bank country financial management staff are gearing themselves to provide periodical workshops for the Accountants General's staff (provinces), selected CGA staff (federal), selected Auditor General's staff (federal and provinces), directorates general for provincial and district audit staff, and project financial officers; these workshops would cover project accounting, reporting, and auditing guidelines consistent with new Bank policies on World Bank-financed projects. Results from these interventions include the following:

1. Improved ability of project financial officers to prepare project financial management reports and annual accounts for audit in accordance with Bank guidelines
2. Enhanced understanding by auditors of auditing requirements for Bank-financed projects and the specific issues to watch for in doing performance-based auditing
3. Focusing the attention of Accountant General staff on procedures to adopt in integrating and consolidating project receipts and expenditures in the whole of government civil accounts consistent with the guidelines of the Controller General of Accounts.

As part of the capacity enhancement strategies for parliamentary public accounts committees (PPACs) at the federal and provincial levels, the following activities are being programmed:

1. World Bank-supported technical assistance to PPAC secretariats to support their members in designing work plans, procedural guidelines, and reporting standards and accomplishing timely reviews of audited accounts and reports. Regular ongoing sessions between Bank staff and PPAC secretariats are also resulting in concrete actions to clear backlogs of reviews of audited accounts and reports of the federal and provincial governments submitted by the Auditor General of Pakistan to PPACs.
2. Periodic donor-supported in-country seminars, workshops, and study tours for PPAC members and regional enhancement of their capacity and understanding of PPAC roles and responsibilities. One such program, recently carried out for South Asia PPAC members under World Bank auspices, increased PPAC understanding of their invaluable role in the accountability chain.

Lessons Learned

For a variety of reasons, *implementation of new public financial management systems is generally slow*. Actors in the implementation chain tend to resist change, which is sometimes exacerbated by opportunities for illicit advantage offered by weak internal control processes over a large volume of financial transactions.

The PIFRA experience has provided a number of lessons learned for consideration in designing similar projects:

- Capacity constraints needing attention existed at every level: human resource, organizational systems and structures, and the broader “institutional” level (policies, culture, norms, and behaviors). Although slow, PIFRA implementation has been addressing the full range of constraints: skills shortages and weaknesses through improved human resource policies, training programs, and manuals; organizational constraints through new financial and accounting systems and changes in organizational responsibilities (e.g., dividing audit and accounts functions); and inadequate enabling environment through policy support to macro-economic, structural, and fiscal reform programs.
- Trying to address an entire large country in one project was overly ambitious. Implementation was made more difficult by the unanticipated radical devolution of the federal state’s responsibilities to several lower tiers of government.
- Introducing state-of-the-art technology in processing financial information was probably inappropriate in an environment of largely unskilled professionals. A less ambitious approach would have been more realistic.
- The project design had too many components, making difficult and perhaps unachievable demands on management coordination.
- A project should not be anchored in a single institution if that institution is only one of several involved in implementation and lacks own-

ership of or commitment to the objectives of other components.

- When multiple donors are interested in project success, collaborative arrangements with them should exist from the beginning to increase momentum toward effective implementation.

The problems encountered in PIFRA implementation are now being largely averted, partly through intense dialogue among the Bank’s task team and project implementation and management units. The critical phase (registering of implementation successes, including full migration from legacy to PIFRA automated systems at some pilot sites) is now being completed. Collaborative arrangements with other donors—International Monetary Fund, Asian Development Bank, and U.K. Department for International Development—to recognize PIFRA implementation progress as part of their prescribed overall financial management reform agenda with the Government of Pakistan are equally increasing the momentum of project implementation. With full achievement of project objectives and provision of additional support under PIFRA II, it is hoped that Pakistan will soon boast an unparalleled public sector financial accountability system within the developing world.

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