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Draft 5 [Final]

Public Financial Management in Pakistan: Harmonizing Accountability Framework with Contemporary Reality[1]

BY

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Abstract

Pakistan inherited existing accountability framework of public financial management from colonial government which devised it for meeting its own needs. It is fragile and fragmented with overlapping responsibilities, weak accountability, centralized processes and scant information on performance. The paper proposes a modified accountability framework, responsive to needs of the 21st century, that transfers responsibilities of expenditure control, payments and accounting to line ministries and proposes to create positions of provincial auditors general, chief internal auditors, district audit authorities and performance measurement commissions. Auditor General of Pakistan (AGP) would certify financial statements and audit performance of federal government only. A newly created chief internal auditor would conduct compliance audit, presently being done by AGP. Number of public accounts committees would increase, each to review audit reports of a few line ministries. A performance measurement commission would help install system of performance measurement across all governments. The change would require amendments in the Constitution and various laws. Only a government with a bold vision and strong commitment for change can implement the proposed framework.

Key words:

Accountability in Pakistan; Auditor General of Pakistan; Controller General of Pakistan; Internal Audit in Pakistan; Decentralization; Departmentalization; Public Accounts Committees; Performance measurement.

JEL Codes: H43, H50, H61, H63, H72, M41, M42

Abbreviations

AGs	Accountants General (Provinces)
AGP	Auditor General of Pakistan
AGPR	Accountant General Pakistan Revenue
CIA	Chief Internal Auditor
CMU	Change Management Units
DAOs	District Account Offices

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LMs	Line Ministries and Departments
MAF	Modified Accountability Framework
MoF	Ministry of Finance
PA	Performance Auditing
PACs	Public Accounts Committees
PAOs	Principal Accounting Officers
PFM	Public Financial Management
PM	Prime Minister
PMC	Performance Measurement Commission
SBP	State Bank of Pakistan
TOs	Treasury Offices

1. Introduction

HISTORICAL BACKGROUND

The existing structure of public financial management (PFM) is continuation of the system that Pakistan inherited from the British colonial rulers who designed it, mainly, for effective control on taxes collected from the local populace. The colonial government had to control a population of over 600 million with a meagre staff of less than fifty thousand expatriates. The key instrument was centralized administration through a dominant role for Ministry of Finance (MoF) with minimal delegation of powers. Except for routine operations, MoF approved all expenditures. The government undertook development works necessary for its own operations like, for example, railways, telecom, electricity, and post offices. During the last seven decades, except for cosmetic changes, the basic philosophy of the PFM remains intact. It is still being managed dominantly by MoF. Public managers in line ministries and departments (LMs) seek MoF approvals even for many budgeted expenditures.

WHAT ARE DEMANDS OF THE CONTEMPORARY REALITY?

The PFM concepts have undergone tremendous changes since after the World War II. A gist of the latest thinking on the subject is as follows:

(a) All public managers are responsible for financial management and accountable for resources under their control.
(b) The public managers should generate reliable information regularly about results achieved.
(c) The public managers should have internal controls in place for safeguarding public resources.
(d) The public managers should have a mechanism for overseeing the past and foreseeing the future.

(e) The public managers should have systems for collecting and analyzing information for meeting the above requirements.

The existing accountability framework of PFM in Pakistan does not measure up to these developments as discussed in section four of the present paper.

2. Objective

Objective of the present paper is to assess the existing roles of various organizations involved in public financial management in Pakistan and to suggest modifications for strengthening accountability framework. The suggested modifications would require restructuring some of the existing organizations and carving out new organizations. The change would necessitate amendments in the Constitution of Pakistan, in various laws, rules, regulations and standard operating procedures.

The paper focuses on organizational aspects of the accountability framework only. It does not aim to assess performance of the public financial system for which task a more appropriate method is to use the tools developed by Public Expenditure and Financial accountability (PEFA)[3]. Also, accountability can be related to technical competence and expertise of the work force. The paper does not cover this aspect as well. It would require a separate stand-alone review to examine if the inability of the bureaucracy to deliver is due to inexperience or incompetence and training or due to organizational compulsions.

3. Pillars of Public Financial Management in Pakistan

The PFM in Pakistan has following pillars:

MINISTRY OF FINANCE (MoF)

MoF is responsible, mainly, for preparing budget, collecting taxes, arranging funds through public debt and controlling expenditure of line ministries and departments (LMs). Control over expenditure is a remnant of the colonial days, when the PFM was centralized and LMs had minimal authority to spend even the budgeted funds. Besides, MoF is responsible for providing additional funds by re-allocating resources among LMs.

LINE MINISTRIES AND DEPARTMENTS

LMs propose annual budget under guidance of Financial Advisors' organization. The expenditure budget has two main segments: (i) current expenses like salaries, maintenance of assets, travel and communications; (ii) development expenses for new programs. The revenue budget focuses on taxes, and other revenues besides debt and mainly prepared by FBR and MoF itself. After

[3] PEFA was launched in 2001 by seven international organizations (WB, IMF, European Commission, Norwegian Ministry of Foreign Affairs, France Diplomatie, UN Aid, and Switzerland State Secretariat). It has prepared valuable tools around seven pillars of public financial management, across 31 key components with 94 characteristics. Its latest framework was issued in 2016. [See www.pefa.org]

approval of the budget, LMs can spend money on routine expenses but, in many cases, development expenses require approval of MoF. The Accountants General's (AGs) offices make payments and maintain accounts. LMs have a minimal role in payments and accounts.

CONTROLLER GENERAL OF ACCOUNTS (CGA)

CGA is, mainly, responsible for arranging payments and consolidating accounts prepared by district account offices (DAOs) as well provincial accounts generals (AGs). CGA prepares two sets of accounts: (i) Appropriation Accounts, which compare the budget with the actual in respect of revenue and expenditure; (ii) Finance Accounts, which consolidate data on assets, liabilities and public funds such as general provident fund, public deposits, pension funds, *zakah*, etc. CGA is the controlling officer for all account offices in federal, provincial and district governments.

AUDITOR GENERAL OF PAKISTAN (AGP)

AGP is responsible for auditing accounts of federal, provincial, district governments and public sector enterprises. The audit consists of (i) certification of financial statements (ii) compliance with rules (iii) performance of projects. AGP has an elaborate organization at all tiers of the government. Reports of AGP are placed before Public Accounts Committees (PACs) of respect governments and district councils. AGP is controlling officer for the audit staff in all governments.

PUBLIC ACCOUNTS COMMITTEES (PACs)

Federal and provincial legislatures select members to act as PACs. AGP presents his or her reports to respective PACs. Federal or provincial secretaries of LMs respond to AGPs audit reports. PACs have the authority to recommend corrective action or order recoveries but have no executive powers. AGP also presents compliance report on directives of PACs in subsequent meetings.

4. What is Wrong with the Existing Accountability Framework?

Present section of the paper will summarize inadequacies in the existing accountability framework in Pakistan.

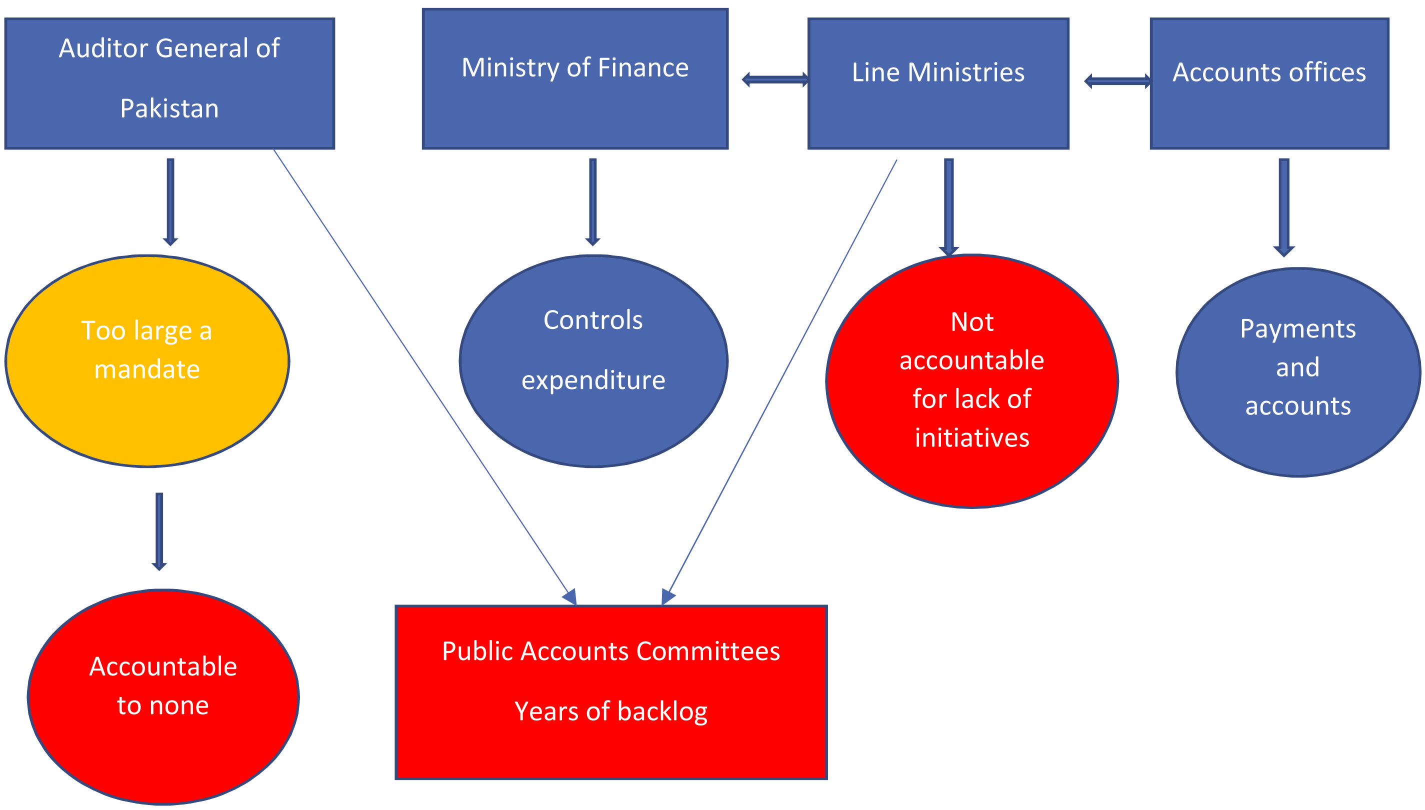
ROLE OF MINISTRY OF FINANCE

The role of MoF as controller of public expenditure was ideal for serving needs of the colonial government but is unresponsive to needs of present-day governments with commitment for socio-economic development. A major weakness is that though LMs can make routine expenditures, they do not have 'full powers' to manage their budgets. MoF retains control of any expenses. This is evident from the large schedule of 'delegated powers' issued by MoF. It expends a lot of resources for dealing with requests from LMs for permission to spend. Financial Advisors Organization, controls LMs on behalf of MoF. The unsaid plea is that if LMs have a free hand, they will play havoc with the pubic funds; it is better to control them centrally. However, there is no empirical evidence to support such assertions. If the theory of irresponsible spending by LMs were valid, there should not be any financial mismanagement to begin with. However, it is on increase, year over year, as is evident from observations of AGP on appropriations accounts published annually. The regime discourages LMs from taking initiatives in public interest. It is better, they feel, to remain complacent with the routine than to run for new errands and deal with MoF. The impact is diluted accountability for resources managed by LMs and cost and time over-runs on most development projects. LMs can easily shift responsibility for their inaction and laziness to MoF.

ROLE OF LINE MINISTRIES AND DEPARTMENTS (LMs)

LMs are responsible for achieving their objectives by spending money according to budget. Heads of LMs are known as 'Principal Accounting Officers' (PAOs). However, the PAOs do not have any clue to

Fig 1: The Existing Accountability Framework



their accounts. Accountant General Pakistan Revenue (AGPR) in federal government and Accountants General (AGs) in provinces make payments and keep accounts. Every month the concerned accounts office sends monthly account to PAOs for signature, which he or she does as a formality, never understanding what is written there and where does the ministry or department stand with respect to the budget. Most PAOs have no formal or informal training about reading and understanding the accounts. They keep a blind faith on accuracy of figures of the account office. As a further drudgery, LMs keep record of their transactions and reconcile them periodically with the account office record. That too is done as a formality and does not add much to the ability of PAOs in managing their budgets. The skeleton accounting and finance staff in LMs that handles budget and accounting matters is unqualified in most of the cases.

ROLE OF CONTROLLER GENERAL OF ACCOUNTS (CGA)

CGA is the controlling officer of all account offices in federal, provincial and district governments. District Accounts Offices record and compile monthly transactions and submit to CGA through respective provincial accountants general. CGA consolidates the accounts and places before AGP for audit. Because of concentration of work relating to all governments, CGA suffers from the problem of span of attention. It is difficult for CGA to conduct administrative inspection of all account offices, ensure adherence to accounting standards, train accounting staff in LMs and ensure quality of information. CGA is not fully independent of AGP, who has the authority of human resource management of the entire Accounts Group personnel, which constitutes senior management of CGA and AGP offices. It creates a situation of potential conflict of interest, when an officer of CGA is transferred to AGP's department and may be auditing the very accounts which he or she had compiled. Theoretical separation of audit and accounts is a mere 'hoax', as one of the senior officers of AGP commented on an earlier draft of this paper.

ROLE OF AUDITOR GENERAL OF PAKISTAN (AGP)

AGP is responsible for auditing accounts of federal, provincial and district governments. The scope of work of AGP is large and challenges the span of attention of AGP. Starting from the federal government, it extends to all five provinces and over 100 districts in the entire country. AGP conducts following types of audits:

(a) ***Financial audit:*** AGP attests accounts of the federal, provincial and district government and expresses opinion on fairness and truth of these accounts. Since the certificate of AGP pertains to the whole of government, it does not hold any specific PAOs responsible for qualifications stated in the audit certificate. At present, AGP does not attest financial statements of individual PAOs.

(b) ***Appropriation audit:*** AGP compares actual expenditure and revenue with budgeted figures and in case of significant variations adds comments. AGP places the audit reports on appropriation accounts before respective legislatures. PACs consider these reports. However, in case of non-observance of the budgetary limits, PAOs can easily shift the responsibility to accounts offices which made the payments.

(c) ***Compliance audit:*** AGP spends a significant amount of its budget on compliance audit. Although named as 'government audit', it is in fact, internal audit. PACs consider and discuss reports of AGP on audit of each LM, where PAOs respond and explain their position. AGP has a resource constraint. It is not possible within the given resources to conduct compliance audit of all organizations in all governments. Consequently, AGP's department audits some organization annually, some biennially, and some triennially. Some organizations are audited once in four or five years also. Because of non-comprehensive audit coverage annually, the accountability mechanism is fragile. If an organization is audited after three years, for example, by the time, PAC reviews its audit report, it would be already 4-5 years when the actual transactions had taken place. The likelihood that most of the persons responsible move away by then is quite high.

(d) ***Performance audit:*** It is an expanded scope audit which focuses on economy, efficiency and effectiveness of resources managed by LMs on projects and programs. AGP started performance audit, on his own initiative, in 1980s and since then has made some progress in developing methodology and training auditors. However, it has several constraints: (a) LMs are not legally obliged to collect performance data. (b) The criteria for PA are largely fluid and determined by auditors in each audit assignment and can become controversial with LMs. (c) Format of the PA reports also varies in each audit. (d) There is no summary opinion issued by AGP on performance of LMs. (e) PACs have, generally, shown lukewarm attitude about performance audit reports of AGP since they do not contain enough 'hot and spicy stuff' for use by politician members of PACs. The efforts of AGP for making performance audit as a going concern have not borne fruit so far.

(e) ***Special audits:*** For some years now, AGP has started conducting 'special audits' as well. Although it is not clearly defined what do they mean by 'special audit', it seems these are audits of important projects or programs not covered by annual plan of a year but require immediate attention. There is no standard methodology or reporting format for such audits.

For conducting these multifarious types of audits, AGP hardly gets enough resources. Even with a team of senior officers, it is difficult to conduct supervision effectively and assure quality of audits at all tiers of governments. Besides, coverage of compliance audits of all organizations and performance audit of all projects and programs remains incomplete. Despite best efforts by AGP, the department is unable to focus effectively on issues of national significance such as energy crisis, anti-terrorism program, water crisis, waste management, forestation, procurement of oil, air planes, weapons, etc. AGP operates under severe resources constraints. But the biggest obstacle is the size of his organization. It has operations in all governments and at all levels. For effective delivery of audit services, its size must be curtailed.

ROLE OF PUBLIC ACCOUNTS COMMITTEES (PACs)

PACs are select committees of the federal and provincial legislatures. Federal PAC has 30 members with representation from sitting government and opposition parties. The province of Punjab has two PACs. However, performance of PACs in controlling waste, fraud, corruption and unauthorized spending has been negligible because of the following reasons:

(a) Members of PACs are politicians with a little background of PFM. They are not well-versed in understanding reports of AGP and replies of PAOs. Even when presented orally in PAC meetings, most of them cannot follow the main point and cannot make a significant contribution, except when there is partisan political interest. There is no arrangement for training members of PACs.

(b) PACs are unable to take any action if, for example, a LM does not implement recommendations of AGP or of PAC.

(c) The tradition of appointing leader of the opposition as chair of PAC backfires if the PAC will consider AGP reports and the accounts of governments which were in power but are now in the opposition. In that case, the opposition party members will have a conflict of interest. The government has not so far been able to find a solution to this situation.

(d) PACs are unable to discuss audit reports promptly. There are long time lags between years of accounts and timing of discussion of audit reports[4]. The effect is that recommendations of PACs are either redundant, time-barred or irrelevant due to events that happened since the transactions took place. One reason for this delay is capacity of PACs in all governments. Except for the Punjab, legislatures of federal and provinces have only one PAC which does not meet everyday and on days when they meet, spend usually 3-4 hours. At this pace, accumulation of arrears of undiscussed audit reports is only normal.

5. Conceptual Foundations of Proposed Transformation

The conceptual foundations of modified accountability framework (MAF) proposed in this paper are as follows:

DECENTRALIZATION OF ACCOUNTS AND AUDIT

Primary pillar of the MAF is decentralization. It requires transferring payment, accounting and auditing functions to provinces, districts, ministries and departments. In the next section we shall discuss how this should be done.

There could be apprehensions that devolution of accounting and auditing functions to provinces would weaken the federation and reinvigorate centrifugal forces that intend to break-up

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[4] For example, a 21st January 2019 notification on PAC website says that the appropriation accounts for the year 2011-12 will be discussed in PAC meeting on 28 Jan 2019.

Pakistan. Extending autonomy to this extent, so the argument goes, would be against the national interest. The apprehension is baseless. It cannot be argued that accounting and auditing functions at the federal level are holding the provinces together. In 1971 these functions were with the federation but still the then East Pakistan broke away. It means these functions are not key to the strength or unity of the nation. These apprehensions could be expression of hidden desires of those who would like to maintain or extend the 'empire of audit and accounts' in the name of national sovereignty. In fact, devolution of these functions to provinces is likely to strengthen the federation through more responsible governments at provincial level.

DEPARTMENTALIZATION OF PAYMENTS AND ACCOUNTS

Second pillar of the MAF is departmentalization of payments and accounts. The colonial rulers had a dim vision for establishing a robust system of accountability. Despite that, they established Department of Military Accounts which is still independent of CGA. After independence, the government departmentalized accounts and payments of some organizations such as Railways, Foreign Affairs, Public Works, Forest, Post office, Telephone and Telegraph departments, etc. It was a move in the right direction. But for unknown and unrecorded reasons, the process came to a halt. The proposed MAF would build on this move to complete the process of departmentalization of accounts and payment functions.

INTERNAL AUDIT AND CONTROL

Third pillar of the MAF is to establish a strong and independent system of internal audit and control under the Prime Minister. The true spirit of internal audit is that the executive branch should have robust control on its financial management. This is possible when the PM controls the entre executive branch through an internal audit function in his office. The internal audit function will replace the present compliance audit by AGP.

PERFORMANCE MEASUREMENT

Fourth pillar of the MAF is performance measurement. The MAF would introduce a strong system of performance measurement, where all LMs would be legally bound to measure and report on their performance in a manner prescribed by a centrally empowered Performance Measurement Commission (PMC). PMC would develop performance indicators for LMs over time and keep them under review. It would also standardize collection and collation of performance data and ensure that LMs get enough resources for compliance with these requirements. All LMs would be legally obliged to follow standards and procedures developed and issued by PMC.

PERFORMANCE REPORTING

Fifth pillar of the MAF is performance reporting. Existing laws relating to accountability do not require LMs to report on their performance on predetermined financial and physical indicators. The MAF would develop a system of performance reporting, which would be legally binding on all PAOs. Performance reports prepared by PAOs would be certified by AGP for truth and fairness.

PERFORMANCE AUDIT

Sixth pillar of MAF would require a drastic change in the practice of performance auditing (PA) by AGP. The MAF would base the PA methodology on performance measurement reports of LMs. These reports would become basis for audit criteria. AGP would certify these reports, like he certifies financial statements of the government. Thus, methodology for PA would get closer to financial audit and make the task of auditors easier. The LMs would also know how they would be judged on their performance. The existing methodology and training curricula for the PA staff would change drastically.

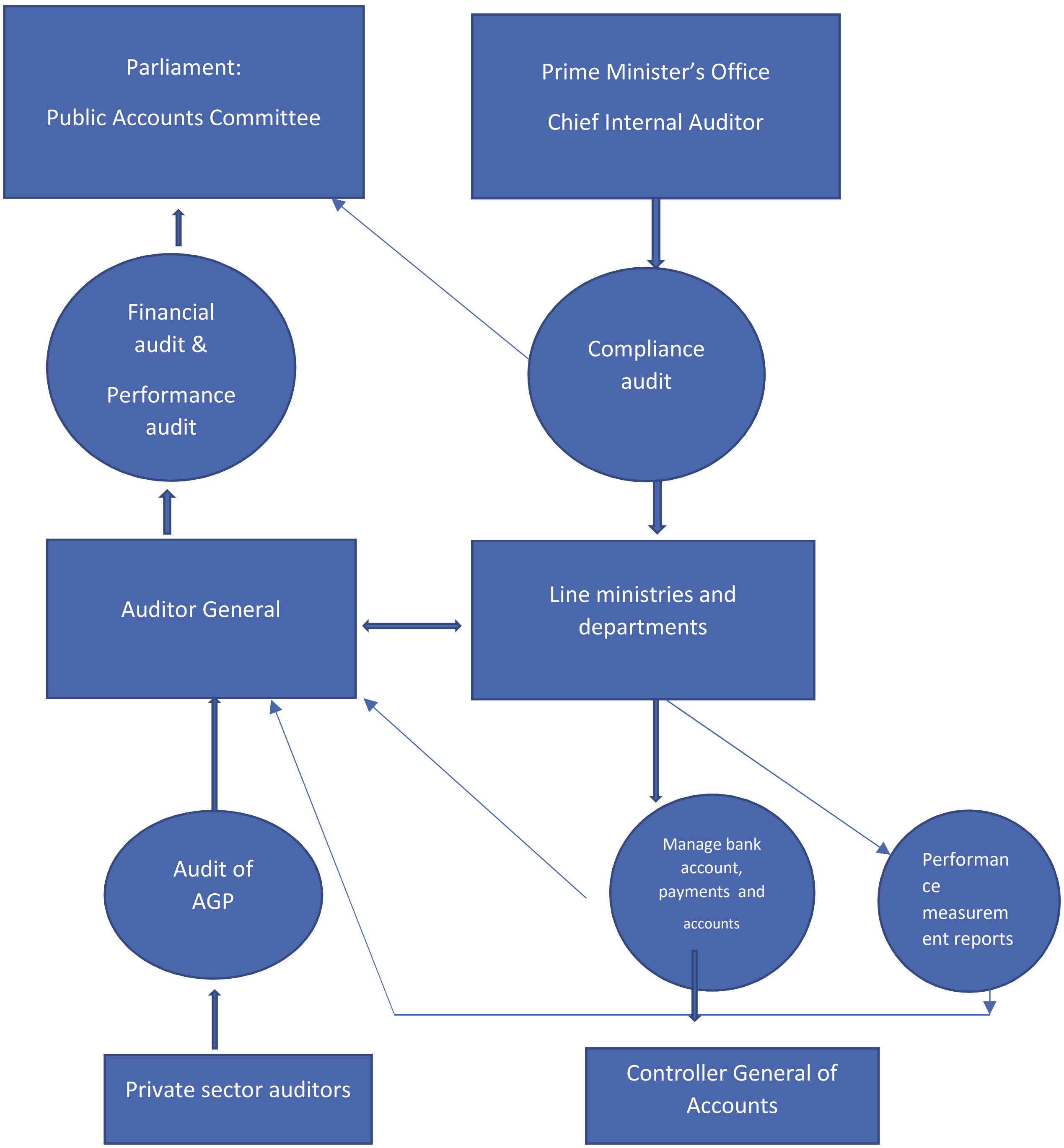
6. Main Features of the Modified Accountability Framework (MAF): New Roles

The MAF would require transforming some existing and creating some new organizations, changing existing and formulating new laws, and amending the Constitution. These are major changes in the existing framework and would challenge imagination and attitudes of those who like to retain the *status quo* with cosmetic changes. Following discussion highlights only important changes and does not capture the entire gamut of activities and functions to be performed by each organization in the new framework.

MINISTRY OF FINANCE (MoF)

LMs would take full control of their budgets and to that extent the role of MoF relating to expenditure control would change. It would focus on preparing monthly and quarterly cash forecasts and transferring funds to LMs' accounts with the State Bank of Pakistan (SBP). The financial advisors' organization (FA Organization) which controls budget preparation and many expenditures of the approved budgets would be dissolved and the staff utilized in the system on other jobs. Other existing functions of MoF would continue as it is.

Fig. 2 Modified Accountability Framework at the Federal Level



LINE MINISTRIES AND DEPARTMENTS (LMs)

LMs will become self-payment-and-accounting units. The PAOs will have dedicated accounting and finance staff responsible for:

(a) Preparing and executing budget with full authority
(b) Control of receipts and payments
(c) Preparing financial statements
(d) Collecting data on performance
(e) Preparing performance measurement reports
(f) Implementing PAC directives

For managing budgets, each PAO will have a bank account with the SBP. The LMs will determine cash requirements considering their operational plans and approved budgets. Accounts and finance staff at present working in various account offices (such as AGPR) would move to LMs and work under the control of PAO, having no connection with CGA. With proper planning, need for hiring additional staff can be optimized.

CONTROLLER GENERAL OF ACCOUNTS (CGA)

CGA will be accounts officer of the federal government only and be responsible for following functions:

(a) Consolidating and publishing annual financial statements
(b) Training of accounts and finance staff in LMs
(c) Inspecting accounts offices in LMs for economy, efficiency, effectiveness and compliance with accounting standards
(d) Managing other functions such as pension and provident funds, etc. as at present.
(e) Provincial Accountants General would perform similar functions in their jurisdictions.

CHIEF INTERNAL AUDITOR

(a) A new office for internal audit of federal government would be created in Prime Minister's Secretariat under Chief Internal Auditor (CIA). National Assembly would define, through a new law, authority and responsibilities of CIA. The officer can be drawn from existing Accounts and Accounts Service Officers[5]. CIA would report directly to Prime Minister (PM).
(b) CIA would take over the existing function of compliance audit performed by AGP along with necessary staff.

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[5] The larger question about the shape and canvas of the present Audit and Accounts Service is out of the scope of the present paper. The question whether there should be one Audit and Accounts Service or two services , one for accounts and the other audit can be discussed at length separately.

(c) CIA staff would conduct internal audit of LMs. Law would require LMs to implement recommendations of CIA who would report non-compliance to PM directly in a formal report.

(d) CIA would track compliance with PM's orders by LMs.

(e) Periodically, the law would require, PM submits CIA's reports with his instructions and status of compliance by LMs to National Assembly, where it would be discussed in detail by the concerned PACs.

(f) All provinces will have a replica of this system where respective legislatures would create positions of Provincial Internal Auditors.

AUDITOR GENERAL OF PAKISTAN (AGP)

Role of AGP would undergo following changes:

(a) AGP would be auditor of the federation only. All provinces will have newly created positions of Provincial Auditors General. Similarly, all districts in a province will have newly created positions of District Auditors. Each province will establish District Audit Authority as administrative body for all District Auditors and District Internal Auditors in a province. For these changes to take effect, constitutional amendments would be required besides, promulgation of new laws for positions of Provincial Auditors General, District Internal Auditors, District Audit Authority and District Auditors.

(b) AGP would be responsible for following functions with respect to the federation only. Provincial Auditors General and District Auditors would perform a replica of these functions:

 (i) Financial audit and certification of financial statements prepared by LMs/ district governments
 (ii) Attest audit of performance measurement reports of LMs and district government department
 (iii) Human resource management including training and certification of auditors for financial and performance audits
 (iv) Issuance of audit standards and audit methodology for all tiers of government
 (v) Administrative inspection of all audit offices under AGP.

PUBLIC ACCOUNTS COMMITTEES (PACs)

The new role of federal PACs would be as follows. A replica of these functions will be instituted by law in provinces and districts:

(a) There would be 4-5 PACs, each with 3-5 members.

(b) Each PAC would focus on selected number of LMs, usually from 7-10 PAOs and examine reports of AGP as well as CIA.

(c) Members of PAC would undergo a short orientation by AGP about effective performance of their functions.

(d) PACs would submit status of implementation of their recommendations to National Assembly regularly.

(e) PACs will devise a mechanism for auditing accounts of AGP.

7. Issues in Implementation

WATCHING THE WATCHDOGS

In the proposed MAF, CIA and AGP will watch LMs over their financial management, operational performance and compliance with regulations. The question arises: who will watch these watchdogs? Following is the suggested mechanism:

Watching Chief Internal Auditor: This would be simple. AGP would audit accounts of CIA. The audit would cover (i) certification of financial statements of the CIA organization, like other LMs; (ii) compliance audit of CIA; (iii) performance audit of the CIA organization. AGP's report on CIA would be placed before the concerned PAC, like any other audit report. CIA would respond to this report like other LMs.

Watching Auditor General of Pakistan: For completing the accountability loop, AGP should also be accountable to some body. The most appropriate forum for accountability of AGP would be legislature itself. Following options are available:

(a) The legislature appoints auditors from private sector who certify accounts of AGP. The audit could also cover value for money aspects. The concerned PAC will review audit reports of the auditors.

(b) AGP would issue periodic reports on performance of the audit department, like other LMs. The performance reports of AGP can be certified by independent auditors from the private sector.

(c) A third option is direct review of the performance of AGP by a select committee of the legislature. The committee members can examine work plans and performance of AGP's department.

(d) Another mechanism is that every three years AGP undergoes a quality assurance review by independent auditors from the private sector. The review should assess if the auditors of AGP followed applicable auditing standards in their professional work. Report of this review should also be placed before the legislature.

Watching Provincial Auditors General and Provincial Internal Auditors: AGP can be appointed as auditor of Provincial Auditors General and Provincial Internal Auditors.

Watching District Auditors: Provincial Auditor General can be appointed as auditor of District Auditor and District Internal Auditor.

INTRODUCING CONTINUOUS AUDITING

Taking advantage of the technology, Chief Internal Auditor would introduce system of continuous auditing. This is a new technique of auditing, where computer screens of LMs are seen by dedicated auditors in the CIA office in real time. As LMs process cases of receipts and payments and make entries in journals and ledgers, concerned auditors in the CIA office review and audit the transactions. Without interfering in the actual process of receipts and payment, the auditors can act to inform LMs about any irregularity or non-compliance with rules for immediate correction in real time. The system of auditing reduces number of errors in receipts and payments and enhances overall health of the financial management.

ESTABLISHING PERFORMANCE MEASUREMENT COMMISSION

A pillar of the MAF is performance measurement by LMs. For streamlining performance measurement and forestalling opportunities for bogus measurement against trivial indicators, a high-powered body of professionals would guide and regulate LMs and prescribe standards for performance measurement. It would include such actions as follows:

(a) Identifying and constantly reviewing performance indicators
(b) Agreeing with PAOs on mechanisms for collection and analysis of data
(c) Standardizing format, scope, language and presentation of performance measurement reports
(d) Training LMs staff in performance measurement and reporting

TRIMMING EXISTING SECRETARIAT OF THE PRIME MINISTER

At present, files received from LMs pass through various tiers in the PM Secretariat before submission, although they had already gone through these tiers in LMs. It is duplication of effort that delays and complicates decision-making. This needs drastic review. The PM Secretariat should be trimmed. It should have only one post of Secretary (BPS-22) with skeleton staff for watching and reporting on compliance with PM decisions and directives. Rest of the work in overseeing files before PM's reviews should be left to the LMs where PAOs and ministers should ensure that summaries are submitted complete and in compliance with applicable regulations. The reform would release resources to be used in the MAF, where necessary.

ABOLISHING TREASURY OFFICES

Existing setup of Treasury Offices (TOs) in all districts is redundant. TOs maintain accounts of government receipts only. This task can be performed by the accounts offices which maintain accounts of expenditure. The TOs organization should be abolished and its staff merged with the existing accounts offices, where accounts of revenue and expenditure and other public funds should be consolidated.

MANAGING CHANGE

State and social institutions are resistant to change. There is an inherent conservatism to human behavior that tends to invest institutions with emotional significance once they are put in place. We can anticipate serious resistance from the present-day operators of the system. The intellectual rigidity for accepting change would express itself in various forms of risks and concerns. Only a visionary leadership with a strong will to change the situation will succeed in changing the existing system.

For implementing the MAF, Change Management Units would be set up across all governments. For example, the federal government will have a Change Management Unit (CMU) which would ensure that all organizations involved in the change process understand implement and maintain the new procedures. CMU would resolve anomalies and assure quality of implementation. Provinces and districts will also have similar CMUs.

The proposed framework will challenge the centuries old sociological system of bureaucracy in this part of the world. The PAOs are attuned to be depending on MoF for their routine operations. They can withstand the pressures from political bosses, ministers and other politicians, on the plea that approvals of MoF will be required, if they sense something inappropriate in their demands. However, once the PAOs get payment authority, it may not be possible for them to resist pressures for the political bosses. This risk is quite real and would require proper changes in rules and regulations for supporting the PAOs against such pressures. It may also be necessary to amend the Civil Servants Act for providing the top bureaucrats with necessary authority and mechanism for handling the political pressures.

MANAGING HUMAN RESOURCES DEPLOYMENT

The present paper presents only bare outlines of the MAF. A detailed study of existing and proposed systems would determine actual staff requirements. Apparently, it seems that most of the staff for the proposed functions is already available under the existing arrangements. For example, the AGP department has senior officers in BPS-21/22 available who can hold positions of CIA, Provincial Auditors General, Provincial Internal Auditors, District Auditors, District Internal Auditors. The junior staff in the existing offices of Accountants General can be transferred to LMs for establishing accounts and finance wings.

Despite that there could be need for additional staff for performance measurement, performance reporting, training of internal auditors, training of LMs staff in performance measurement, etc. At the same time, the proposal visualizes trimming of the PM Secretariat, which would release resources for emerging needs. In brief, a detailed map of resource requirement and deployment plans would have to be prepared as a necessary corollary of the MAF.

COST EFFECTIVENESS OF THE MODIFIED ACCOUNTABILITY FRAMEWORK

The paper present MAF in bare outline. Once the government decides to move in this direction, a supplementary study would be required to work out costs and benefits of the MAF. It may require cutting corners here and there. My hunch is that increase in the cost of accounting and auditing would not be significant as most of the changes are only re-arrangements of the present organizational set-up. Moreover, increase in efficiency of service delivery and effectiveness of government functions would more than compensate for any increase in the initial cost.

8. Changes in the Constitution, Laws and Organizations

The MAF would require fundamental changes in legal and organizational structure of the state. In the following discussion we shall summarize these changes:

CONSTITUTIONAL AMENDMENTS

The Constitutions of Pakistan will require amendment for accommodating following changes:

(a) Restricting jurisdiction of AGP to federal matters only
(b) Restricting functions of AGP to (a) certification of financial statements; (b) performance audit of LMs; (c) human resource management of audit service personnel; (d) setting auditing standards for government audit at all tiers.
(c) Creating positions of provincial auditors general and transferring work from AGP to provinces and districts.
(d) Creating District Audit Authorities in all provinces
(e) Creating mechanism for considering audit reports in provinces and districts
(f) Creating the position of Chief Internal Auditor in federal government, Provincial Internal Auditors and District Internal Auditors in provinces and districts
(g) Creating organization of Performance Measurement Commission
(h) Increasing number of PACs in federal and provincial legislatures

NEW LAWS AND AMENDMENTS IN EXISTING LAWS

(a) Existing laws relating to AGP and CGA would require amendment to accommodate the above Constitutional changes.
(b) New laws will define functions and authorities of Provincial Auditors General, Chief Internal Auditor, Provincial Internal Auditors, District Internal Auditors, Performance Measurement Commission and District Audit Authorities
(c) Rules of Business in federal and provincial governments will change to re-define roles of MoF and LMs.

Summary of Recommendations

Table 1 below summarizes recommendations made in this paper about the Modified Accountability Framework.

Table 1: Summary of Recommendations

Functions	Organizations	Modified Roles
Expenditure control	MoF/ LMs	(a) Expenditure controls transferred to LMs. (b) MoF responsible for routine functions such as arranging funds through taxes, borrowing or sale of services; cash management including monthly and quarterly cash forecasts. (c) Transferring funds on monthly basis to individual bank accounts of PAO of LMs with the SBP.
Accounts and payments	CGA/ LMs	(a) All LMs to become self-accounting units, responsible for managing account with the SBP, payments, preaudit and financial statements (b) Accounts and payment functions of CGA and its subordinate accounts offices transferred to LMs (c) CGA will publish annual financial statements of the federal government only
Internal audit	Chief Internal Auditor under PM	CIA will conduct compliance audit of LMs now being done by AGP and report to the parliament through PM
State audit	AGP	(a) AGP would certify financial statements of federation, CIA, PACs, President, PM and Supreme court. (b) AGP would conduct performance audit of LMs (c) AGP will issue auditing standards for state audit for all tiers of government. (d) AGP will administer all audit offices under his control.
Performance measurement	LMs, PMC	(a) PMC will issue standards and procedures for performance measurement. (b) LMs will collect, collate data on performance. (c) LMs will prepare performance measurement reports. (d) AGP will certify performance measurement reports of LMs

Review of Audit Reports	PACs	(a) Number of PACs will increase, each responsible for 7-10 PAOs only. (b) CIA will also submit his reports to PACs. (c) PAC will review AGP budget before its submission to the parliament. (d) PAC members will undergo orientation sessions arranged by AGP. (e) PACs shall ensure implementation of their directives.

9. Concluding Remarks

The existing system of financial management and public accountability is a remnant of the colonial days. It is weak and unresponsive to accountability requirements of the 21st century, where governments are supposed to be accountable, not only for economy in expenditures but also for efficient and effective delivery of services. Besides, the generally accepted principle of good management that responsibility should co-extend with authority is necessary for holding chief executives of each organization accountable for management of resources.

The present framework of accountability is vague with responsibility and authority being shared by more than one organization for one function. Line ministries and departments are responsible for managing their budget. However, Ministry of Finance controls expenditure, Accountant General makes payments and prepares accounts. Secretary of the Ministry, known as Principal Accounting Officer, has no control over payments and accounts and hardly understands the accounts prepared by the accounts office.

The span of attention of Auditor General of Pakistan (AGP) is diluted because of the large number of organizations to be audited at all tiers of government such as federation, provinces and districts. AGP cannot audit all government and public sector organizations annually because of resource constraints. It is difficult for any person to concentrate effectively for meeting requirements of efficiency for such an extended responsibility. Consequently, the accountability of government organizations is weak and ineffective.

The paper proposes, in bare outline, a Modified Accountability Framework (MAF), which redefines functions of all major organizations relating to public financial management, besides creating some new organizations.

The MAF makes following recommendations:

(a) Transferring payment and accounts functions to LMs along with staff
(b) Creating posts of Auditors General in all provinces
(c) Creating posts of District Auditors in all districts

(c) Transferring internal audit function from AGP to newly created positions of Chief Internal Auditors in federal, provincial and district governments

(d) Creating performance reporting mechanism and integrating it with performance audit conducted by AGP

(e) Creating Performance Measurement Commission to support line ministries in performance reporting

(f) Increasing number of PACs in each legilature (up to seven committees) with 3-5 members in each committee and responsibility for reviewing audit reports of 7-10 departments only

The MAF would require changes in the Constitution of Pakistan, amendments in several laws, creation of new laws and organizations. Its implementation may take 3-5 years and would require extensive work at all levels of the government. Only with strong commitment at the highest political level and support of political parties such a massive program of change can be launched and implemented. But the effort and cost are worthwhile. It will usher an era of strong accountability and responsible government and take Pakistan to front row of the developed countries.

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