

1

INTRODUCTION

1. This assessment of public sector accounting and auditing is generally meant to help implement a more effective public financial management (PFM) through better quality accounting and public audit processes in Pakistan and to provide greater stimulus for more cost effective outcomes of government spending. More specific objectives are: (a) to provide the country's accounting and audit authorities and other interested stakeholders with a common, sound knowledge as to where local practices stand in accordance with international standards of financial reporting and auditing; (b) to assess the prevailing variances; (c) to chart paths for improving the accordance with international standards; and (d) to provide a continuing basis for measuring improvements.

2. As part of the general support program in South Asia for assessment and improvement of public sector accounting and auditing, the World Bank, with the cooperation of member governments, is conducting a Review of Public Sector Accounting and Auditing Practices in member countries. In conducting this assessment, a set of diagnostic questionnaires [developed to be consistent with the context of the PFM Performance Measurement Framework⁶ used by the Public Expenditure and Financial Accountability (PEFA) Program⁷], was used to gather substantial insight into country performance with regard to the external auditing and financial statement reporting PFM indicators. Annex A discusses the methodology used for conducting the assessment in this report.

3. The diagnostic questionnaire was used to gather information on national standards and practices for accounting, financial reporting, and auditing in the government budget sector and in the state-owned enterprise (SOE) sector. Conducted in cooperation with country authorities, the diagnostic questionnaires incorporate the principles contained in the public sector accounting and auditing standards promulgated by the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI). Annex B summarizes the international accounting and auditing frameworks that were used in this assessment. The responses to these questionnaires stimulated further discussions among the World Bank team and senior staff in the offices of the Auditor General of Pakistan (AGP) and Controller

⁶ The PFM Performance Measurement Framework has been developed as a contribution to the collective efforts of many stakeholders to assess and develop essential PFM systems, by providing a common pool of information for measurement and monitoring of PFM performance progress, and a common platform for dialogue.

⁷ The PEFA Program is a partnership among the World Bank, the European Commission, the UK Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the International Monetary Fund, and the Strategic Partnership with Africa. A Steering Committee, comprising members of these agencies, manages the Program. A Secretariat is located at the World Bank in Washington, DC.



General of Accounts (CGA). These discussions examined accounts and audit reports and working papers as a means to jointly explore the quality of processes and products.

4. The maintenance system for public accounts in Pakistan is long standing. Since 1997, the World Bank Project for Improvement of Financial Reporting and Auditing (PIFRA) has supported the comprehensive reform efforts by the Government of Pakistan to streamline its accounting and auditing systems and procedures, while developing the institutional and individual capacities for better public financial management. The initial reforms included some separation of audit and accounts activities through promulgation of legislation relating to separate roles for the Auditor General and the Controller General of Accounts. They also included designing modern accounting and auditing processes and devising a comprehensive human resource management plan. The replacement of inefficient manual and outdated accounting processes in the general government sector by faster and updated computerized programs (using the accounting software package SAP R/3) is underway with a program to computerize all district accounting offices by the end of 2007. Annex C includes excerpts from Pakistan auditing and accounting legislation.

5. The second phase of the PIFRA project, PIFRA II, will help the government to build capacity to improve the accuracy, comprehensiveness, reliability, and timeliness of intra-year and year-end government financial reports at federal and provincial levels.⁸ The PIFRA II will also initiate the process at district and sub district levels thereby strengthening the financial accountability cycle. The project would therefore directly support the commitment of the Government of Pakistan in improving public financial management, accountability, and transparency, and enhance the capacity of public sector managers to meaningfully use credible financial information for better and informed decision-making. It will facilitate public oversight of the use of public monies, and increase the national and international credibility of the national and provincial governments' financial statements and assurance processes.⁹

6. The reform efforts need to include identification of the relevant international standards of accounting and auditing applicable to the public sector and help achieve compliance with those standards. Adoption of International Public Sector Accounting Standards (IPSAS) for accounting and financial reporting and the IFAC-issued International Standards on Auditing (ISA) in addition to the INTOSAI Auditing Standards are important steps in improving the basis for adequate public financial management.

⁸ PIFRA II has 4 core components: (a) financial accounting and budgeting systems, (b) capacity building for the office of the Auditor General of Pakistan, (c) capacity building for the office of the Controller General of Pakistan, and (d) project management.

⁹ Project Appraisal Document, Second Improvement to Financial Reporting and Auditing Project, World Bank, August 5, 2005.

