

Accounts as an Aid to Management – The State (Provincial) Government Experience

by Wazir Ahmad Qureshi

The topic “Accounts as an aid to the management – the state government experience” is not only vast but is of technical nature. My experience as AG of one of the four provinces of Pakistan, leads me to conclude that good accounting is base for good governance and can serve as an aid to effective management of human and financial resources committed to achieve economical and social welfare of the state.

The Constitution of Pakistan provides federal form of government consisting of four provinces: Punjab, NWFP, Sindh, and Baluchistan. Out of Pakistan’s total 140 million population, over 70 million population live in the Punjab province. This is the biggest province of the country. It is divided into 34 districts and 122 tehsils. Lahore, the capital of the Province, is administrated by City District Government. There are three tiers of government system in the province, i.e. Provincial level, District level, and Tehsil level.

You can well imagine the critical role of accounting support to the management of this Province. The accounting issues of this province sometimes become issues of the country. In this scenario, it is easy to understand direct linkage between the public welfare issues of the management and the transparent accounting support provided by the Provincial Accountant General.

The management of the province is committed to provide the maximum benefit to the public within scarce resources. Public spending through management is necessary to overcome the key gaps in the delivery of the quantity and quality of public goods. Better education and health services and improvements in key physical infrastructure (roads, schools, hospitals, urban and rural water supply, farm-to-market roads and irrigation water) will not only further human development but also stimulate much needed private investment in the province.

I feel it is necessary to improve the effectiveness and productivity of public spending not only through a better allocation of resources and a more careful choice of priorities but also through better implementation, more efficient delivery of services and reducing leakage and waste with the help of productive accounting policies, efficient procedures and effective fiscal data. Poor management could include major accounting failures, weak governance, inadequate financial management systems, poor data reliability, and the weak civil service. As a result of these factors the effectiveness of public expenditure can be reduced severely.

Keeping in view social and economic need of accounting function it is concluded that the key processes of **recording, analyzing and reporting** of accounting transactions imply three uses of

accounting as an aid to the management:

- ❖ Documentary function of accounting
- ❖ Control Function of Accounting
- ❖ Communication Function of Accounting

In the light of these professional and legal requirements, the following mission statement of AG office has been developed and adopted as guiding 'light house' for our operational effectiveness:-

“Our Vision is to become a model Accounting Unit and Best Service Provider Institution.

Our Mission is to serve public interest by ensuring prudent use of scarce resources by public managers, to depict true picture of Government Accounts and act as catalyst in enforcing accountability and good governance.”

In order to meet the above three uses of accounting function, and mission statement it is safely stated that our accounting system provide the following:-

- ❖ a sound accounting framework, consisting of accounting policies which meet legal requirements and the financial reporting requirements of users
- ❖ accounting procedures which provide effective internal controls Government accounting transactions, and enables breaches of these controls to be reported
- ❖ a reporting framework which allows useful financial information to be monitored and forecast
- ❖ a financial management environment which assigns proper responsibility and accountability to officers within Government entities, for the expenditures they incur and receipts they collect.

We all know that government plays a key role in the provision of public goods, attracting foreign investment, promoting private sector and facing strategic challenges resulting from globalization. The government is also responsible for social security, education, health, basic infrastructure and strong legal framework for enforceability of contracts and agreements, which is indispensable for promotion of investment and growth. The measure of good or bad accounting can have far-reaching consequences for achieving goals of above activities. It is through good bookkeeping to watch implementation of projected targets.

While these activities involve the use of resources and revenue-raising agencies, a government has to put tax and regulations to avoid the governance failure. But the economic history of the developing countries show that the public sector in developing countries has been characterized by uneven revenue collection, poor expenditure control and management, underpaid civil service.

Transparency

Openness and transparency in accounting is more than the structure and is a part of attitude. The key players who are politicians, public servants and other stakeholders expect that accounting information should be shared among people and it is not the sole property of any individual. It is

public resource like public money. A clear accounting information depicting true application of rules, regulations, economic policies and property rights can make easier for every one to make informed decisions.

Predictability and Reliability

Predictability in accounts through proper budget preparation and execution is the most important aspect of accountability from the perspective of tax-payers, a civil society, and investors. An efficient accounting system is needed for economic and fiscal accountability. Accounting information based on reliable data can enhance fiscal accountability. Without this transactions' cost is high, uncertainties are excessive and transparency is narrow.

Role of Financial and Accounting Managers

- ❖ **to protect the public purse** – to protect against the loss, theft or misuse of public money; to handle collections and disbursements of money prudently and maintain safe custody of cash.
- ❖ **to be accountable to the public** – to provide financial information that explains how funds have been allocated and employed in social, economic and other programs.
- ❖ **to safeguard the assets of the government** – to protect and maintain investments in infrastructure and other assets of the Government, and properly dispose of assets no longer required.
- ❖ **to manage and control the Government's financial position** – to manage and monitor existing public debt, and ultimately strength the overall financial position of the Government.

AG's Mandate

Under Article 170 of the Constitution of Islamic Republic of Pakistan, the accounts of the province are required to be kept in such form and in accordance with such principles and methods as the Auditor-General of Pakistan may, with the approval of the President, prescribe. There is a Provincial Consolidated Fund and Public Account (Article 78, 118) which is operated through State Bank of Pakistan. AG performs all functions on behalf of CGA of the country. In May 2001, the Government of Pakistan enacted a Controller General of Accounts (Appointments, Functions and Powers) Ordinance, replacing from July 1, 2001 the Pakistan (Audit and Accounts) Order 1973. The new Ordinance transfers the responsibilities for the preparation and maintenance of the accounts of the Federation, the Provinces and districts from the Auditor General to a Controller General of Accounts (CGA), who is separately appointed by the president. The CGA has responsibility for laying down principles governing internal financial control for Government and advising on accounting procedures. This changes the previous arrangement whereby the Auditor General handled accounting functions but did not transfer to

the CGA the responsibility for determining the form of the accounts and the principles and methods of accounting. Accountants General in the Provinces and the Accountant General, Pakistan Revenues for the Federal accounts, supports the CGA. The staff members of the District Treasuries were to be merged with the staff of the District Accounts Offices and brought under the AGs. This process has not been fully completed as these staff members are still part of the provincial staff arrangements.

Accounting entities

The Federal and Provincial Governments are separate accounting and reporting entities, each having one Consolidated Fund into which all revenues, borrowings and repayments of loans from the Government are paid, and out of which all public expenditures are made. Each Government also has a Public Account, for moneys received by the Government for which it has a fiduciary responsibility but which it is not at liberty to appropriate for the general services of the Government. Public Account moneys comprise trust accounts (normally established under special laws) and special deposit accounts such as for relief funds, civil and criminal court deposits, welfare funds and development funds.

Each Government maintains separate single accounts with the State Bank of Pakistan for the Consolidated Fund and the Public Account. Single accounts are to be created for each of the new district governments. Spending entities are permitted under certain circumstances to open separate bank accounts (Assignment Accounts, or Personal Ledger Accounts) with the National Bank of Pakistan upon the approval of the Ministry / Department of Finance, and funded from the Consolidated Fund or Public Account. The main users of Assignment Accounts are self-accounting entities and development projects.

Promulgation of LGO (Local Government Ordinance) and Devolution in governance

The legislation governing the organizational structure, management and fiscal powers of local government bodies is contained in the Local Government Ordinances (LGOs) promulgated by the Provincial legislatures. The LGOs identify the regulatory and service delivery functions of district governments and local bodies. The execution of these functions will be financed by (i) taxes levied and collected by the District Governments, (ii) taxes levied by District Governments but collected by central agencies, and (iii) transfers of tax revenue and other grants from the Provinces to the districts. These transfers may be unconditional or conditional – assigned for special functions – and partly based on matching grants. Until a 2002 amendment to the LGO the system of local government had fallen outside the purview of the accounting systems maintained by the Accountants General. Local bodies at the level of TMA (Tehsil Municipal Administration) and Union Councils have been responsible for making their own accounting arrangements. Because of these constraints, TMA and Union Councils accounts are not part of

National Accounting System. Hence no aid element of accounting can emerge for local government management at Tehsil and union level.

The System of Accounting and Reporting

There is a uniform system of accounting and financial reporting for all tiers of government, overseen by the Accountant General Pakistan Revenues (AGPR) for Federal accounts and Accountants General (AG) for the provincial accounts, all reporting to the Controller General of Accounts (CGA). The system has been a manual, single entry, cash accounting process, and replacement by a computerized process is underway for the Federal and provincial levels.

Technology and Automation Regime of Accounting as an aid to management

The existing system of accounting policies and procedures were out-dated. The capacity and accounting skills of the prevalent staff did not match the new concepts of using fiscal data for policy-making decision at highest levels. PIFRA Project has been started with the close cooperation of the World Bank and other agencies. This is a project to improve Financial Reporting and Auditing. The implementation plan covers Budget Wing of Finance Ministry, CGA, four provincial AG offices and District Accounts Offices. The automation solution SAP / R3 by Siemens is being used for this project.

The project after completion will provide assistance in the areas of accounting and financing in shape of following reports:-

- ❖ Timely, Accurate, Relevant and Reliable Financial Reports
- ❖ Consolidated monthly and quarterly accounts
- ❖ Monthly and Fortnightly Cash Forecasting Reports
- ❖ Trend Analysis Reports
- ❖ Appropriation Accounts
- ❖ Annual Finance Account
- ❖ Combined Finance and Revenue Account
- ❖ Investment Reports
- ❖ Public Debt Profile
- ❖ Report on Public Account
- ❖ Report on Net Proceeds of Divisible Pool

NAM (New Accounting Model) will cover the following areas:-

- ❖ Modified Cash Basis of Accounting
- ❖ Double Entry Book keeping
- ❖ Commitment Accounting
- ❖ Fixed Assets Accounting
- ❖ Assets Register

- ❖ New Chart of Accounts

Preparation of Accounts at Provincial and District level Govts.

Preparation of the accounts starts with the DAOs and AG (Main Office) carrying out pre-auditing and accounting functions. The requirements include:

- ❖ Approving checks on both salary and non-salary expenditures by line departments, upon submission by Drawing and Disbursing Officers (DDOs) and Treasury Officers (TOs) of sanctioned requests and supporting vouchers, after ensuring that proposed expenditures are in line with budget allocations and available bank balances;
- ❖ Preparing and sending the following monthly reports: (i) statement of Federal receipts to the AGPR; (ii) statement of Federal expenditures to the AGPR; (iii) statement of Provincial receipts to the Provincial Accountant General; and (iv) statement of Provincial expenditures to the Provincial AG. The reports are based on statements submitted to the DAOs by the Revenue Officers and the DDOs. These statements for each month are submitted in the first week of the following month.

Reconciliation of accounting data with the departments and the bank

- ❖ Enforcing the reconciliation of these accounts with the revenue and line departments of the districts is regular feature as an aid to the management. This enables the departments to keep their budget in limits and accounts transparent.
- ❖ Reconciling monthly bank balances of receipts and expenditures by each DDO with the National Bank of Pakistan enables them to provide these figures to AG Office on annual aggregate level. This exercise is done manually in the departments but the bank branches are computerized.
- ❖ The AGPR and AG prepare monthly accounts of expenditures and receipts by detailed line items using accounts sent by the DAO. In a parallel process, line Ministries and Departments also prepare accounts based on the reports sent by the drawing and disbursement officers. Ministries and Departments are then required to reconcile these expenditures and receipts with the offices of the Accountant Generals each month.

Fiscal Monitoring Committees for 100% Reconciliation of Accounts.

In response to problems with reconciliations, Fiscal Monitoring Committees (FMCs) have been set up by the Federal and all four Provincial Governments with the responsibility of ensuring the reconciliation and preparation of accurate fiscal accounts. Finance ministries, the Accountant General's office, and State Bank representatives are represented in these committees. The reconciliation of expenditures with financing by the State Bank of Pakistan, the National Bank of

Pakistan, and non-bank sources such as the National Savings Schemes is also taking place under the direction of the FMCs.

Accounting Classification for tracking the figures of Expenditures & Receipts

The current manual systems are designed to capture object-wise expenditure (i.e. the expense categories such as salaries, travel, equipment etc.) for each accounting entity. While functional analysis of expenditure can be undertaken from the CGA's accounts at aggregate level for Federal or Provincial Governments (e.g. Education, Health), more detailed expenditure analysis by function must be obtained from accounting records maintained by the line departments.

Adequacy of the Accounting Environment

AG Office is producing two documents for the Government of the Punjab on annual basis, i.e.

- ❖ Appropriation Accounts, and
- ❖ Finance Accounts.

However, the completeness, accuracy and timeliness of these accounting documents has been hampered by the use of largely manual, cash based accounting system, with associated high risk of errors and time lags, and the absence of record of assets, commitments, and information on loan and grant transactions made directly by Donor Agencies. In order to overcome these deficiencies the Government of Pakistan is committed to develop the accounting system through PIFRA Project which is underway.

Manning Issues of the Accounting Staff

The entire accounting infrastructure is manned by Pakistan Audit & Accounts Service whose members are initially inducted by the Federal Public Service Commission. After professional training they work different positions under direct administrative control of the Auditor-General of Pakistan.

In the Provincial set up the structure needs changes in order to merge the Provincial Accounting Staff with the AG's Staff.

Making Internal Controls effective

It is experienced that the system of Internal Controls need strengthen in the Government Departments as well as in the AG Office to overcome the following deficiencies:-

- ❖ Non-compliance of expenditure approvals with budget limits, delegation authorities, and requirements for proper documentation of expenditures;
- ❖ Misclassification of expenditures; and
- ❖ Instances of fraud and misuse in the use of public funds and assets in spite of a reasonably sound framework of rules and regulations.

Use of Finance Accounts and Appropriation Accounts through Provincial Public Accounts Committee (PAC)

Under the legislative scrutiny of public funds PAC is required to examine the accounts showing the appropriations of sums granted for the expenditure of the government. AG at Provincial level and DAOs at district level are required to assist the PACs proceedings. It is required that Appropriation and Finance Accounts of the provincial government must meet the requirement of transparency and accountability. Appropriation Accounts indicate:-

- ❖ “that the moneys shown in the accounts as having been disbursed were legally available for, and applicable to the service or purpose to which they have been applied or charged;
- ❖ that the expenditure conforms to the authority which governs it; and
- ❖ that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by the Finance Department.”

Conclusions

The main features of prevalent system of accounting and financial reporting in the country were developed during the period of colonial administration. During colonial period AG office provided excellent service to the management when the role of government was very limited to law and order and justice. Now the existing system is not matching current requirements. The existing system in the changed environment has shown significant inadequacies in meeting the national and international requirements of fiscal reporting. For example, cash basis accounting either over-estimates or under-estimates the value of each transaction.

Accounting follows the budgeting. The management cannot monitor budgeting without aid of accounting. Good public sector budget execution and monitoring processes aim to achieve transparency and accountability. It is with the help of good accounting through which the stakeholders can get assurance in respect of economy and efficiency recognition in utilization of public resources.

But due to weak and age-old methods and practices of accounting we need to make huge investments in the functioning of Provincial AG office. Budget preparation and execution need modern accounting system and procedures.

But the most important component of the change is the human component. Through proper training and education human component can be targeted for change. Skill and knowledge must be supported through change in attitude, change in vision, change in thinking. And I think such international seminars are a step towards achieving this goal. We must work together for the welfare of the community, prosperity and peace for the people of this region may be through good book keeping and honest accounting.

I take this opportunity to thank and congratulate the World Bank and the government and people of India for this initiative. I congratulate and thank all our professional colleagues of this Region for their close cooperation on these important issues.

I wish best of luck for the management to bring change in attitude and thinking which is more important and precious than accounting procedures and systems. I am hopeful that this change in attitude will open doors for accounting to help the management. Thank you.