

# SAI Pakistan

## COUNTRY FOCUS

Pakistan is a vibrant multicultural country of 140 million people located in a strategically significant region of South Asia. It gained independence in 1947 and is spread over an area of 796,095 square kilometres divided into four provinces. With the stark mountain peaks of the Himalayan range in the north, lush green valleys and arid deserts terminating at the Arabian Sea in the south, it is a country with varying seasons and beautiful scenery.

The Department of the Auditor General of Pakistan (DAGP) is the SAI of Pakistan. It has a long history of being at the centre of public accountability which goes back to the 19th century when the financial codes and manual for public financial management in the region were first drafted. Since the independence of the country, SAI Pakistan has enjoyed a constitutional status that ensures that it can continue to promote transparency in governmental operations.

The Auditor-General of Pakistan is the head of the SAI and is appointed under Article 168 of the Constitution. His reports are laid before the National, Provincial and District legislatures comprising the elected public representatives and are considered in the respective Public Accounts Committees. His mandate, set out in the Constitution and supported by subsidiary legislation, enables him to develop independent and objective assessments of the process of governance, which augment the legislative oversight of the peoples' representatives over governmental operations.

The budget of the Auditor General is classified as "charged" expenditure, that is expenditures not voted upon by the Parliament. This arrangement lends this institution a degree of independence. About 1500 qualified officers assist the Auditor General in the discharge of his responsibilities. The SAI Pakistan is an equal opportunity employer.

Financial assurance provided by SAI Pakistan covers a very broad range of governmental operations. There are three tiers of government (Federal, Provincial and District)

and three types of organizations (those on the central accounting network, self-accounting entities budgeted by the government and public sector entities). Financial assurance is provided at all tiers and for all categories except those entities whose accounts are, by law, audited by private sector auditors.

Regularity and Compliance Audits are conducted under roll over planning for all organizations at all tiers. Performance Audit focuses on outcomes of various projects and programmes with a special emphasis on social sectors.

Training and research are the main tools of the SAI Pakistan to keep abreast of developments in the profession. It has a network of training establishments spread across the country, where public servants are trained in auditing, accounting, and financial management. A large number of officers have been trained abroad attached to the UK National Audit Office (NAO), the US General Accountability Office (GAO) and the Canadian Comprehensive Auditing Foundation. The SAI also participates in workshops and seminars organized by INTOSAI, ASOSAI, the Economic Co-operation Organisation of Supreme Audit Institutions (ECOSAI), the NAO, the Chinese National Audit Office, the World Bank and the IMF. The research operations of the SAI have produced a Public Audit Manual, an internationally recognized Performance Audit Methodology with 13 sector specific Guidelines and a series of Research Papers. 'Performit' a quarterly magazine published by the SAI Pakistan is known in the state auditing circles for its quality.

SAI Pakistan has always been active in international forums. It served on the Board of the UN Auditors for 15 years (1961-76). It has been re-appointed as the external auditor of the Organization for the Prohibition of Chemical Weapons (OPCW) for the term 2006-08 after successfully completing the term for 2003-05. The SAI organizes international seminars and trainings regularly besides mutual cooperation with various SAIs. It is also the permanent Secretariat of ECOSAI.

## Some Developments at SAI Pakistan

Today more than ever, the success of national budgets depend to a great extent on the efficiency of the Accounting and Auditing functions. Public sector audit and accounting practices in Pakistan are currently undergoing major reform aimed at increasing transparency, streamlining accountability and improving overall financial management in line with international standards and practices. These changes are in response to, and complement, broader socio-economic reforms underway in Pakistan, such as the drive for greater accountability of public funds and the need for increased involvement of communities in the allocation and use of spending. The enhancement of local government and the devolution of political power from provincial to local government mean that accountants and auditors will work in a new administrative environment, in which there are greater demands for accountability by the public. Improvements in information technology have also provided the incentive to adopt more cost-effective tools for managing government accounts and providing information to government decision makers, essential for effective and efficient financial management. A diagnostic study in the early 1990s revealed basic weaknesses in the existing Public Financial system that needed to be addressed to ensure good governance through improved public accountability.

The Government of Pakistan (GOP) launched the Project for Improvement of Financial Reporting and Auditing (PIFRA) in 1996, with the assistance of the International Development Association (IDA). Some key legislative changes were introduced, such as separation of the accounting and audit functions, decentralization and devolution of financial management and accountability to local governments via various newly formed agencies. The project (PIFRA) was to work in tandem with these reforms. In order to make the transition from the old system to the new and improved one, major changes were required. A phased plan was adopted for this transition as not only new models for audit and accounts functions were required but also developments in human resource and infrastructure were to be put in place for a modernized and improved Accounting and Auditing setup to emerge on completion of the project.

As a result a New Accounting Model (NAM), in line with international standards, has replaced the century old codes that were in use since the country gained its independence in 1947. The accounting model previously in use within the federal and provincial accounting bodies was cash based for transaction recording and for most of the reporting purposes. The balances were not produced from a double entry accounting system and as such lacked reliability. The modified model adopts a modified cash basis of accounting, which is in line with generally accepted accounting principles. It will record the cash transactions while taking into account commitments, and acquisitions of fixed assets and liabilities during an accounting period.



Secondly, a revised five element Chart of Accounts (COA) was developed to replace the old two element classification code. This measure will bring about transparency in fiscal information as well as making the system IMF/GFS compliant and to finally cater for a full accruals basis of accounting from an initial installation of a modified cash basis accounting model.

These changes affect the financial management of all the four provinces of the country therefore the new paradigm was approved by the President of Pakistan under the umbrella of an Integrated Financial Management System. For efficient recording of transactions and for effective audit, a functional design to implement NAM in an IT Environment

was required. Over a thousand technology requirements were identified and finally a comprehensive design covering modules on Payments, Tax/Capital Receipts, Loans/Grants, Projects, Fixed Assets, Inter-Equity Transactions, Budgets, Cash Flow, Payroll, GP Fund<sup>1</sup>, Commitments, Staff Expenses, Petty Cash and Pensions, feeding into the General Ledger, was built. The IT network/connectivity was to be initiated between the root accounting unit i.e. the District and Tehsil<sup>2</sup> Accounts Offices/Treasury Offices spread all over Pakistan, and respectively attached to each of the four Provincial Accountant Generals and the Controller General Accounts (CGA) and the Finance Department/Ministry of Finance. Within the Province, a Local Area Network (LAN) is used and is presently being switched to a wireless system. The provinces are connected to the centre via a Wide Area Network (WAN). Thus the new SAP based accounting and budgeting system set up under PIFRA I is operating on a Province based centralized architecture with central servers located at the Federal Capital, Islamabad, and each of the Provincial capitals. District Account Offices connect to servers at these offices through remote telecom links. In addition, servers are also located at the Federal Ministry of Finance and each of the Provincial Finance departments. This comprises the Financial Accounting and Budgeting System (FABS).

The output of the CGA and the Department of the Auditor-General of Pakistan (DAGP), comprises the Appropriation accounts and the finance accounts, and the respective audit reports. Besides these the finance managers in the government require analytical reports such as forecasts of the costs, service and repayment of outstanding debt, projection of pension liabilities, etc. These reports require information gathered from different sources, and hence take a long time to produce. With the implementation of FABS, transaction data pertaining to expenditures and receipts will be readily available and may be used for reporting and decision making purposes. The new system will in fact form the key transaction processing layer of the GOP MIS information pyramid.



1 GP Fund: General Provident Fund is the contribution made by employees, it also includes contributions from employers (in this case the GOP) in the form of a rate of interest. A running account of the fund is maintained for each employee on a monthly basis.

2 Tehsils are sub divisions in a district.

These changes will also implement interfaces with other governmental systems such as the National and Central banks and the Central Board of Revenue which are intimately involved in the processing of government receipts and payments. Thus the IT base will allow individual payments and receipts to be recorded in the National Bank/State Bank of Pakistan systems. The new IT base will also allow a multi year budgeting process under a Medium Term Budgetary Framework (MTBF) Programme for the government of Pakistan. Thus government finance managers will have access to a variety of information. The Federal and Provincial budgets are now being successfully prepared according to the new COA using SAP systems. An increasing number of sites (so far 52) have been activated under the Financial Accounting and Budgeting System.

After the separation of the audit and accounts functions the next step was to improve the Audit Systems and procedures. An Audit Manual and a number of specialized audit guides which implement Computer Assisted Audit Techniques (CAATs) and new audit standards have been compiled and tested. Development of software for Computerized Auditing will ultimately result in the acquisition of two types of computer software:

- Software for analyzing and auditing accounting data (CAATs) and
- management information software for planning and monitoring the status of audits (AIMS).

The DAGP has acquired ACL as its CAATs software and ADM Plus for management of its audit function. Training in CAATs and ADM Plus for all levels of auditors is underway. Presently arrangements are being made to install a web portal which will improve communications between the field auditors and their managers as well as various other functions such as an on line library, making updates and audit information available locally and internationally and for facilitating public interaction.

These developments have opened new challenges, as now the auditors have to audit the accounts prepared on ERP systems aided by the use of ACL. In addition a comprehensive IT plan for strategic top down control of audit is being put in place. Strategic Audit Management in the DAGP will provide the basis for top-down control of the Audit Department by the Auditor General of Pakistan and senior management. This will require macro level data for planning Federal, Provincial and District accounts, and budget information which will be provided through the FABS databases. This information will be analyzed to study changes in spending priorities, new organizations in the budget, entities receiving more than the normal budget increase, problems of budget management and expenditure on items beyond a certain threshold level. The other major parameters of the MIS will emerge from the cumulative build up of audit information such as audit plans, organizations covered in one audit year and organizations remaining uncovered, previous audit history of organizations, types of audit observations made by different teams, emerging from different organizations, auditee management response and responsiveness, PAC decisions and their follow-up. This information will link up with Field Audit Office information to provide a comprehensive perspective of audit resources as well as Human Resource and Training information to establish a comprehensive information base. The information base will be converted into an MIS for structured information and will also provide the basis for a decision support system (DSS) to meet unstructured information needs.



For the appropriate operation of information systems discussed above there should be access to an adequate information base. One huge system of databases will emerge from the budgeting and accounting data (of over 100 government sites) including, but not limited to, the data that will be brought on the NAM / FABS systems. The powerful new system of classification / COA (Chart of Accounts), the integration between core accounting systems and the outreach of the network extending to district and sub-district levels will give tremendous breadth and depth to this body of information that will continue to grow with daily transaction processing.

In addition there will be a need to establish counterpart audit databases in the following areas:

- Auditee profiles (on countrywide basis over 100,000 large and small entities may be involved). The development of this database will be facilitated by budget and accounts data discussed above.
- All audit reports from the stage of draft audit reports to the stage of action taken on the directives of the PAC. The audit findings being 'searchable' not only by audit related parameters like reference audit report, year of account etc, but by suitable heads of the classification system, making macro views of audit findings and linkage with budgetary accounting data possible.
- All rules, regulations, policies, relevant laws under which audited organizations operate.
- Comprehensive HR data of all staff of DAGP and related entities like CGA, the Military Accountant General (MAG) and officers on deputation etc including such information as training, audits conducted / supervised, subject specializations etc.

- All DAGP standards, guidance and polices
- All relevant guidance, best practice reference works available elsewhere pertaining to audit
- Details of all courses, workshops, seminars offered by the DAGP internally and through outsourcing
- Archiving of audit-related records, including digital imaging of essential audit evidence
- Database of Audit Plans and operations
- Database of the departmental budgeting and administration going down to Field Audit Office level.

## Infrastructure Base for the Integrated Audit MIS

The four tier information architecture with its linkages with FABS and beyond with various other networks such as of National Bank/State Bank, Central Board of Revenue (CBR) etc., and the audit focused data bases as discussed above taken together are called the 'Integrated Audit Management Information System' (A-MIS). The A-MIS will require host hardware, software, communication network and proper physical premises to house the facilities.

The nerve centre of A-MIS will be Audit House, the Head Quarters of DAGP in Islamabad. The DAGP HQ will undergo change through strategic planning of audit operations and the establishment of linkages between HRM and audit operations.

The nerve centre of A-MIS at Islamabad will have a dual role. It will be central point of the entire audit IT network. It will have on-line linkage with the FABS systems and other government databases that can be linked up such as the Ministry of Finance, Planning Division etc. It will establish a comprehensive computer centre manned by technical IT people. The centre will access and analyze all types of data for top level planning, monitoring and control. At the same time the centre will provide A-MIS access to the local field audit offices like Director Generals Audit Federal Government, or Defence, or Zakat Audit<sup>3</sup>. A comprehensive training centre will be attached to the nerve centre.

Each of the field offices will have their server attached to the central nerve centre and an appropriate sized network of workstations.

Networked to the central nerve centre of A-MIS will be provincial A-MIS nerve centres at each provincial capital. The centres will function under the Central A-MIS and will serve the field offices through main cities like Lahore, Karachi, Peshawar and Quetta. In each case a training unit will be attached and the Field Offices Training Centres (FOTC clusters) will be linked by video conferencing once they are fully operational.

Below this upper network will be the linkages going down to the district and finally the Tehsil level. This network system would operate through the Director General District Audit of each province and will link up to the local nerve centre through that route. Under the four Director Generals District Audit located in provincial head quarters there will be a cluster of Directors of Audit spread out around the province. For field communication at this level dial-up connections or Internet will be used. If there is a requirement due to information flow congestion, the Director General District Audit could be upgraded to the status of a Nerve Centre.

## Some caveats for SAIs aspiring for IT based MIS

The crucial role played by communication and change management can not be emphasized enough for the success of any project, especially one that unleashes reforms as well. The greatest challenges the SAI Pakistan has faced during this reform involving computerization stem from change management issues which need to be institutionalised for a successful transition especially when reform is not driven by a crisis but is a radical change from half a century worth of ancient practices. The reform is further hindered by a social set up where a majority of operations are performed manually, and the electronic media like computerization has to spread more widely. In such a scenario electronic networking to the extent undertaken by PIFRA is only an oasis of activity for which strong linkages have to be developed with rest of the society (especially those it has to interface with) for sustainability. We also face many issues that stem from our political system, which is also evolving thereby generating frequent legal and administrative changes which may disrupt the reform process, which in turn may require updating from time to time. The SAI's problems mainly concern: Communication and propagation of the reform programme and Human Resource Management:

### Propagation of the rationale:

- Understanding of the new system and related changes at all levels
- Inculcating commitment and ownership of the programme at all levels

### Human resource management:

- Preplanning the new job assignments and responsibilities
- Changing the transfer policy of officials to aid the transition

<sup>3</sup> Zakat Audit: Zakat is the Islamic system of taxation on movable and immovable property of Muslims. It is collected by the Department of Zakat, who distribute it to the needy in accordance with Islamic Principles. The federal auditors have to audit this expenditure.

- Setting a system of incentive compatibilities for initiating and then sustaining the adoption of the new practices via rewards and bindings.
- Considering the double work that is often involved in transitions which triggers stress and demotivation.

#### **Socio-political environment:**

- Dealing with cultural resistance and parochialism
- Dealing with provincial disparities
- Dealing with frequent policy changes

#### **Institutionalizing the change:**

- Timely budgetary provisions
- Effective and timely decision making
- Appropriate changes in the system

#### **Timeliness of Training activity:**

- Neither too early nor too late
- Bridging the gap
- Reiterative-learning and constant training

Although the project was phased, coordination problems have cropped up frequently. It has amply made clear the need to have strategic functions ready before each reform/improvement activity is launched. We have dealt with the change management and communication issues by setting up a communications programme which conducts seminars, change management workshops and circulation of documentation about the project, and by developing videos for wide exposure of the project's intentions, activities and achievements, multiple poster materials, newsletters and a variety of project related mementoes. For greater social and cultural acceptability the project has slowed down wherever possible so as to

let the changes be absorbed, thus extending the project time and reducing the agenda of change appropriately. Wide ranging intensive training activity has also helped. We have tried to keep the programme flexible to accommodate any updates or government policy changes like the devolvement plan for local government.

## Summary

The SAI has a tradition of keeping abreast of the changing times and has always met its challenges head on. Although the current initiatives of the SAI are ambitious, in truth these reforms are now demanded by the changing times. As always, its leadership and work force are fully prepared to contribute and participate in all of the modern approaches and they will take on a leadership role in Public Financial Management.

The Project will have very far reaching effects. Radical improvement in public accountability is the major aim of this project, which in turn will impact the whole of public finances since both auditing and accounting functions are covered. We fully expect that this will eradicate corruption, delays and other malpractices from the system.

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## Author

Dr Talat Imtiaz,  
(working as Director  
Commercial Audit  
and Evaluation) in  
collaboration with  
the Department of  
the Auditor-General  
of Pakistan.

