Problems in Implementation of PIFRA's New Accounting Model

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Abstract

Government of Pakistan, with the help of World Bank (WB) introduced project to improve financial reporting and Auditing (PIFRA) in 1996 to comply with the international accounting standards and as a part of it the New Accounting model (NAM) was introduced in order to cope with the pace of advancement in technology and bringing the rules, regulations and procedures in conformity with international best practices. In addition to that formal implementation of International Public Sector Accounting Standards (IPSAS) would facilitate the customization of the financial reporting formats as mentioned in NAM in conformity with relevant IPSAS requirements. Introduction of New Accounting Model, an essential component of PIFRA which provides a platform offering steps towards theoretical as well as practical changes across the country. The study aimed at understanding and assessing the extent to which NAM has been implemented in Pakistan with the introduction of PIFRA because the earlier system of classification and accounting was considered unsatisfactory due to number of technical omissions the modern accounting required.

Most of the structural reforms introduced by the government of Pakistan during the last decades can be seen as aspects of NAM, which, collectively, may be viewed as ways of improving accountability and control in the public sector. Often changes associated with NAM and its parallel systems in other countries like RA in UK are presented as technologies that can be implemented in an organized and coherent manner, resulting in knowledgeable managers making rational decisions based on maximizing the performance of their organization. This study, however, indicates a process of accounting change that is at odds with the seamless, decisive and low (or no) cost process that is articulated in the official Government literature related to NAM. Despite all odds the project brought significant reforms in the accounting system of Pakistan and keeping in view the scope and size of the project implementation of PIFRA and NAM seems to be miraculous in achieving its objectives in such a short span of time. Besides that, the implementation of accrual basis of accounting in various countries is also discussed in detail to assess the need, requirement and significance of accrual accounting in improving the financial reporting in government accounting.

The New Accounting Model sets the national standards of accounting and financial reporting is based on implementing modified cash basis of accounting and will gradually move towards the accrual basis. This requires use of skilled accounting staff to provide appropriate, relevant, and reliable financial information to support the fiscal and budget management, financial decision-making, and reporting processes.

Government of Pakistan with the help of World Bank (WB) introduced project to improve financial reporting and Auditing (PIFRA) in 1996 to comply with the above mentioned international standards and as a part of it the New Accounting model (NAM) was introduced in order to cope with the pace of advancement in technology and bringing the rules, regulations and procedures in conformity with international best practices. In addition to that formal implementation of International Public Sector Accounting Standards (IPSAS) would facilitate the customization of the financial reporting formats as mentioned in NAM in conformity with relevant IPSAS requirements.

PIFRA was part of greater reforms, highlighting the objective to increase the accuracy, completeness, reliability and timeliness of intra-year and year-end Government financial reports at the national, provincial and district levels. It also classified its intended outcomes in terms of internal and external stakeholders. The list of outcomes for internal stakeholders was: re-engineered business processes, prompt processing of claims, improved HR functionality, improved monitoring of budgets, accurate, timely and transparent reports, good governance, improved decision-making processes, cash forecasting systems, and an automated financial management system with greater internal controls, facilitating system-based audit, more visible audit trails, and a high level of accountability. Its impact for external stakeholders was: increased assurance, transparency and accountability in terms of public spending, compliance with international accounting standards, dissemination of information, confidence, reliability and trust for the public. This study will try to offer an insight into the context NAM and PIFRA by highlighting the ills rampant in the budgeting and accounting offices in the public sector of Pakistan.

Hence, PIFRA was offered as a solution to address the issues of the legacy system. The International Development Association (IDA) provided assistance to Pakistan Audit Department in addressing performance issues in three areas: Government financial management, computerization and training. The diagnostic study was part of this assistance. The same study was also mandated to recommend a long-term strategy to improve and integrate Government financial management at both federal and provincial levels. According to a brochure printed by the PIFRA Directorate (PIFRA brochure), the concept of Good Governance was seen as a basis for the entire framework of a deep-seated reform agenda. PIFRA was launched with the vision to “adopt and implement a modern accounting system designed according to recognized accounting principles and standards and based on modern information technology” (ibid). It was also meant to implement a governance structure and legal framework for an independent audit function. Improvement of the professional capacity among elements of the civil service responsible for fiscal management was also part of the vision, as was increased use of the private sector to supplement public sector resources, and the adoption of improved standards for private sector financial disclosure.

1.1. Linkage between PIFRA and NAM

Introduction of New Accounting Model, an essential component of PIFRA which provides a platform offering steps towards theoretical as well as practical changes across the country. It is also a fact that automation aspect of PIFRA was more emphasized and highlighted but NAM was actually there at the very heart of this entire implementation. NAM is in fact the process of shifting from cash basis of accounting to accrual basis of accounting. IFAC PSC defines accrual accounting in the following way in its Handbook of International Public Sector Accounting Pronouncements (IFAC, 2002): A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses (p. 679).

The New Accounting Model is a compendium of 7 books: Accounting Principles Manual, Accounting Policies and Procedures Manual, Chart of Accounts, Accounting Guidelines, Accounting Procedures for Self-Accounting Entities, Book of Forms, and Financial Reporting Manual. Institutional and individual capacities in both the public sector financial management agencies, as well as the executive/service delivery formations were developed through implementation of a comprehensive capacity development program mainly sponsored by PIFRA.

1.2 The Conventional Accounting System

Before the introduction of NAM, the legacy system of accounting was in place that replicated by the new accounting model. A brief look at the legacy system in budgeting and accounting offices at all levels will enable us to appreciate the changes introduced by PIFRA. A study conducted by PricewaterhouseCoopers in 1992-93 (Diagnostic study) is a reliable source, providing ready reference, with which to begin. The PricewaterhouseCoopers study mentions that accounting reports 'failed to cater for the needs of users in terms of timeliness, reliability, completeness and presentation. Reliable financial information plays a pivotal role in the entire financial cycle, which includes planning, programming, budgeting, accounting and auditing.

According to the IMF' report of a diagnostic study on the Government of Pakistan's fiscal reporting system, the objectives of Government financial management should be aggregate control, cash and debt management, appropriation control and financial analysis. Lack of integration between budgeting and accounting data is another issue, as monthly civil accounts did not include budgetary data. Hence, a crucial comparison was missing, which should have been available for fund control and resource allocation. The report also highlighted the causes of this state of affairs: manual accounting operations were inadequate, considering the size and complexity of the Government's operations. Manual procedures led to extensive duplication, inefficiencies and delays in recording, processing and reporting reconciliation of financial information.

In addition to that, there existed a gap between the practical accounting and policies because important accounting data was missing due to absence of linkage with outside data. Besides that the internal control mechanism in the form of reconciliation were also missing. The financial responsibilities were also ambiguous and absence of management place, the financial roles and responsibilities of government were not clear thus lacking an effective reporting system. For instance, executive agencies were responsible for budget control but extensive pre-audit by the Pakistan Audit Department had undermined this responsibility. Effective internal controls over the accounting system were also missing. The focus of functional staff was on the maintenance of records, with over-control in minor transactions instead of systematic and effective control of key issues to ensure integrity of financial records and timely accounting of significant transactions. The department of AGP also lacked computerization to respond to the needs of the organization. Hence, the strategy suggested by the study revolved around long-term comprehensive and integrated computerization. Another critical area mentioned in the report on the diagnostic study was training, all aspects of which were questioned.

A pilot project for automation of various accounting organizations was initiated in 1988 and as a result one Accountant General's (AG) office and four District Accounts Offices (DAOs) were computerized to varying degrees, but this automation had certain drawbacks which were pointed out by the diagnostic study. These were: automation of the accounting function developed with no strategic plan, and the information needs of PAD were not kept in view; very few offices were even partly automated, and there was absolutely no question of integration; there was a lack of standardization, as different IT platforms were used and there were issues over interfacing with each other; there were difficulties in ad hoc reporting and insufficient audit trails; software maintenance was a major issue as the system's was outmoded and inflexible; and a comprehensive set of standards for developing, implementing and maintaining the computerized system was missing. Resultantly, except for few DAOs no timely financial information was available and offices space was wasted with huge stocks of registers and files. Some of the offices were automated for payroll purposes only leaving the rest of the payments and receipts un synchronized resulting in to frequent fraudulent payments. No reliable and timely periodic reports were produced hampering the financial decision making.[1]F

2. Literature Review

The idea behind introducing accrual-based accounting system is the preparation and use of new financial information for efficient and effective decision making at decision maker's level and to increase efficiency at the operational level besides improved accountability. There is a growing trend worldwide that government accounting is moving from cash basis of accounting to accrual-based accounting. This shift in the financial reporting structure was initiated in the later part of 1980s in Australia and New Zealand. The main focus of this accounting system is producing the departmental resource accounts based on main financial reports and to provide a chain of interconnected statements highlighting the resources, financing requirements, financial status and the aims and objectives of departments (Connolly).

Introduction of accrual accounting in accounting system of Pakistan takes precedence from countries like UK and Australia and this is discussed in the literature review. The government accounting system is based on cash based book keeping system instead of commercial system of book keeping. The main reason behind that is nature and scope of the work that include the sovereign functions and description of revenues and expenditures in the budget statements and not just the preparation of profit and loss account (Al-Mashari, 2002). Accrual accounting is the process of recording the expenditure as incurred income as earned during an accounting period which is contrary to the cash accounting system where cash payments and receipts are recorded when received. The accrual accounting principally emphasizes on the use and recording of capital assets. The accrual accounting was introduced in various countries world over like in UK this system was introduced in mid-nineteenth century. However, major reforms were introduced in early years of 1990 in various public sector organizations with the label of resource accounting (RA) in public sector in UK. (Sharma et al, 1999).

The accrual accounting system was also introduced in Sweden both at the local government and central government levels. Initially accrual-based accounting was introduced in various agencies of federal government but subsequently it was decided that a consolidated financial statement will be prepared for whole federal government organizations apart from state owned enterprises. This system was

Information by Javed Khan. AO, AGPR.

introduced in Swedish government as a part of reform agenda to support and improve performance management system. There are many flaws in the cash based accounting considering its relevance for value-for-money. (Paulson)

The need for shift towards accrual accounting was necessitated as a result of Enron corporation failure and as a result Sarbanes-Oxley Act was introduced to overcome the short comings of ledger accounting and to deal with the issues involved with accrual accounting like identification and valuation of assets held by governments. (George et al, 2006).

However, this system is well in use in private sector because there is a strong need for information for financial decision making and provides entity's financial performance which is purely a domain of accrual accounting. On the other hand, in government sector the working and performance is not evaluated on the basis of profit and loss, rather on service delivery, so there seems to be no need for financial information for investment decisions. Thus, the only requirement for financial information in government systems is to ensure accountability and performance evaluation and this feature are common for all governments (Saleh et al, 2006).

This budget focused accounting system is the specific feature in government accounting and in countries like Australia follow single entry accounting standards both in government and commercial entities. However, adherence to institutional standards is the essential for the public sector accounting framework besides use of qualified and competent accounting staff for the provision of accurate, timely and reliable accounting information that is required for efficient fiscal and budget management. PIFRA was introduced by the Auditor General of Pakistan, having the constitutional mandate to prescribe the rules and methods of account in the federation of Pakistan, for computerization of accounts for enabling the New Accounting Model and to bridge the gaps in Pakistan accounting system and to strengthen the public sector accounting to enhance the efficiency and effectiveness of financial decision making (Dawn, 2008). The PIFRA project is supporting the implementation of the New Accounting Model. Institutional and individual capacities in both the public sector financial management agencies, as well as the executive/service delivery formations are being developed through implementation of a comprehensive capacity development program mainly sponsored by PIFRA. The project was introduced in two stages first one was the design stage and second stage included change management. This was done through creation of demand and subsequently implementing it. The demand was created through awareness campaigns signifying the need and importance of a revised system of accounting and auditing along with capacity building of staff. The project was implemented at three levels i.e Federal, Provincial and Tehsil levels and separate servers were installed in the provinces and district accounts offices were integrated with these provincial servers. SAP was introduced as part of PIFRA and to meet the technical needs was a big challenge for Auditor General of Pakistan having a three-tier hierarchy the IDC officers, recruited through CSS, DC officers that include AOs and AAOs and auditors recruited through different procedures. So to train the people belonging to different cadres especially the third one being the actual implementing and operational level was a daunting task and to meet these demand SAP certifications were introduced. SAP has two modules the FI and HR based on the work role performed by the AG offices that include processing of bills and HR related role like preparing LPCs, processing pension cases and maintaining GP fund records. Bill tracking systems were introduced to track the pendency and status of bills.

3. Research Methodology

The primary objective of this research is to know the impact of PIFRA in improving the accounting standards in Pakistan besides knowing the problems in implementation of NAM. The research method for this study is qualitative research which will draw its data both from the literature review of the previous researches done in this field and interviews to be conducted from the concerned persons. The sampling technique in qualitative research focuses on purposive sampling with the aim to select the most productive sample to answer research question. In addition to, that journal articles will be reviewed because they are more precise and focus on a more narrowed down scope of analysis, compared to textbooks. Although textbooks are more general, they tend to be more diverse and provide detailed information on more than one topic area, and so in that regard, they help to turn this dissertation into a more critical piece of work. . Another generally used source to achieve research objectives is through the use of studies conducted by the major organizations like World Bank, IMF, Asian Development Bank and planning commission of Pakistan. Studies conducted by these esteemed institutions are useful, particularly for providing statistical information. They are highly trusted sources of information but a limitation of such studies is that when using information from there, it should not be taken at face value as the results arrived at are heavily dependent upon the methodology used. So, when using their findings, the methods used to arrive there should be questioned and considered. The fourth source of information used in this research is the internet. The benefits related to the internet are rather important, and a couple of its major advantages are; expediency and rapidity. Therefore, the information needed for an in-depth analysis on almost any topic, is easily available. Despite its ever-increasing attractiveness in the modern world, it is imperative to be vigilant and to question the reliability of the information sources online before embedding it into an analysis.

Therefore, not-very-well-known sites are avoided in this dissertation. Another key restraint behind these research methods is that some data may not be relevant due to an ever-changing working environment and economic conditions prevailing in a country. This makes the Data rather irrelevant, having a negative impact on the conclusions. Consequently, to attain the objectives of this research effectively, research is approached with great focus so that only the most relevant, reliant and up-to-date information is selected for analysis. The data used in this study is a mix of primary and secondary data mainly coming from interviews and study of a number of journals; namely the Journal of International Financial Management and Accounting, Journal of Accounting Research, Journal of Accounting and Economics, Journal of Accounting, Auditing and Finance, and so on. Morris (2003)has defined secondary data which is not tailored to suit an individual's particular needs, but 'obtained from published sources.

The topic of this dissertation can be referred to as a theoretical analysis of PIFRA and its impact on Pakistan's economy and its institutions through implementation of NAM; it has the benefit of not relying on external parties to determine the outcome of the study. However, constructing this paper on secondary data analysis has immense benefit as it is considered a lot more independent and reliable than relying on primary data. Another benefit of secondary data is that it is already published and available, meaning that in most cases, it is easily available.

4.1.1. New Accounting Model

PIFRA is supporting the implementation of the New Accounting Model through the implementation of computer accounting hardware and software application to all district accounts offices. This is known as the change management which is explained as follows: “It is essential in the project to have employees supportive to change, therefore it is intended to employ external support of behavioral scientists in this area to improve our communication with the staff, to understand their fears and their expectation in an objective manner, so that the Auditor General of Pakistan (AGP) and his staff make a well-knit team. Consultancies would be needed in this regard to achieve the following: preparing a detailed manpower plan and then reviewing it; preparing job descriptions; developing quantitative performance standards; developing a quantifiable, transparent, output-oriented performance evaluation system and an MIS for HRM functions; preparing a statistical database model for manpower planning to enable the AGP and the field offices to recruit, train, place and promote employees in a proper manner; preparing a 'change model' for the organization, keeping in sight the totality of the project, the changes contemplated and the utilization of available resources”.

The new accounting model (NAM) was introduced in 2000 through an approval by the Auditor General of Pakistan and the Chief Executive of Pakistan. It was initiated by the government of Pakistan with the help of World Bank funded project PIFRA to improve the traditional government accounting system by bringing in a shift towards modified cash basis of accounting, double entry book keeping, commitment accounting and fixed asset accounting as well as accrual accounting of debt and opening of separate bank accounts of public accounts and confidential funds in the SBP. The key objective of NAM was to help produce timely, reliable, relevant, accurate and comprehensive financial report for the decision making to enable effective accountability, better financial governance and cash forecasting, cash management. To achieve the above-mentioned objectives a multidimensional Chart of Accounts along with six books was issued by the AGP. The SAP ERP system was selected to implement the project.

4.1.2. Achievements

All the government receipts and payments under jurisdiction of AGPR/ DAO/ TOs are recorded in the SAP data base system as per COA along with comprehensive additional details. The budgetary management, financial control, cash forecasting, trend analysis and accounts reconciliation and reporting has improved a lot to the extent of AGPR/ AG/ DAO/ TO using SAP system. Online access has been made available to the field audit, CGA and some of the ministries/ divisions/ departments. The salient features of NAM are as follows:

4.1.3. Modified Cash Basis of Accounting

This is a system of accounting using element of both the cash basis and accrual basis of accounting .In the cash basis of accounting a transaction is recognized when there is either incoming cash or outgoing cash resultantly receipt of cash from a customer trigger the recordation of revenue and the supplier payment triggers the recording of an asset or expense. While expenses recorded when the incur disregarding the changes in cash. This modified system of cash basis of accounting establishes a position between the cash and accrual basis having following features:

i. Records short-term items when cash levels change (the cash basis). This means that nearly all elements of the income statement are recorded using the cash basis, and that accounts receivable and inventory are not recorded in the balance sheet.

ii. Records longer-term balance sheet items with accruals (the accrual basis). This means that fixed assets and long-term debt are recorded on the balance sheet, and depreciation and amortization in the income statement.

The modified cash basis of accounting provides more relevant financial information at a generally lesser cost than required to maintain a set of full accrual accounting records compared the cash basis. So, it can be a cost-effective approach to book keeping. This is in fact a double entry accounting system so that the resulting transactions can be used to construct a complete set of financial statement. It is not possible to have a modified cash basis of accounting using single entry system.

4.1.4. Commitment Accounting

Commitment accounting is defined as an obligation for future payment. It arises when an entity issues a purchase order having legal binding. It is pertinent to mention here that only commitments having significant values need to be recorded. The commitments are booked against available funds in any budgeting and accounting system to ensure that the funds are not spent for the purpose not specified. The commitments relating to a particular year will e reversed in order to be scrutinized by the AG offices and Ministry of Finance (MoF). The provision will then be made available in next year appropriation for reinstating commitments valid in the next financial year. There are multiple ways to show commitments like adding cash expenditures or to be shown separately. The expenditure needs to be reported in the main body on cash basis to be adjusted subsequently. Commitment is recognized only when there is a proper authorized obligation to make a payment against the schedule of authorized expenditure.

4.1.5. Fixed Asset Accounting

Another important component introduced by NAM is recording of fixed asset which would help in effective maintenance of assets and monitoring. The availability of list of fixed assets along with their value would be of greater help in assigning responsibility for care and maintenance of assets.

4.1.6. New Charts of Accounts

A new chart of accounts in the form of a manual was introduced providing a detailed coding structure and various elements of chart of accounts replacing the existing chart of classification of the federal and provincial government's receipts and disbursements. This manual provides the means to record details of transactions and supplements the Accounting Policies and procedural Manual (APPM), Financial Reporting Manula (FRM) and Manual of Accounting Principles (MAP). The manual has two sections. The first part deals with explanation of the structure, concepts underpinning the chart of accounts, and guide on usage of the chart of accounts. The second part, being the appendices, shows the detailed account codes.

4.1.7. Asset register

Recording of fixed assets and liabilities is another important feature of NAM or modified cash basis of accounting having much significance for decision making and necessary disclosures in the financial statements. The New Accounting Model (NAM) originally proposed in the PC-I of PIFRA talked about overhauling the entire structure; this was discussed in detail in the fourth aide-Memoire. It was considered that it would be good technical progress towards achieving the main aims of the project, which was to offer an integrated comprehensive accounting system on the basis of fiscal reporting and financial management. The then system of budget classification and accounting has been declared unsatisfactory by a number of technical assistance missions of the IMF and World Bank. According to them, budget classification mixed various classification concepts in a way that did not allow easy fiscal analysis; as it did not integrate the different elements of budget activity in a systematic way. Moreover, the new accounting framework would maintain all technical distinctions between different elements of Government accounting and budget activity, and would allow multiple analytical views covering all dimensions of Government finances. The logic behind its adoption was that it would be a major step forward, bringing the system in line with emerging international standards for Government accounting and fiscal reporting. It would also be consistent with important aspects of the IMF's code of good practices on fiscal transparency and would be easier for the Government to implement GFS (Government Finance Statistics) standards (Tajammal, 2014).

5. Findings and Discussion

Most of the structural reforms introduced by the government of Pakistan during the last decades can be seen as aspects of NAM, which, collectively, may be viewed as ways of improving accountability and control in the public sector. Often changes associated with NAM and its parallel systems in other countries like RA in UK are presented as technologies that can be implemented in an organized and coherent manner, resulting in knowledgeable managers making rational decisions based on maximizing the performance of their organization. This study, however, indicates a process of accounting change that is at odds with the seamless, decisive and low (or no) cost process that is articulated in the official Government literature related to NAM. The real benefits of NAM can be achieved when lower-level managers understand and use such information like the drawing and disbursing officers who either have no access to NAM or not trained to use this system properly. However, “Operational Accountant” participants indicated that this was certainly not yet happening and pointed to recurring problems understanding the NAM information, which was perceived as being difficult to prepare, understand and use. Some participants believed that this complexity merely served to undermine any potential that NAM had to deliver its key objective of improving decision making in, and accountability by, the public sector. In the few situations where mention was made of NAM use, it was alluded to in the context of high-level discussions in departments, rather than in terms of operational managers utilizing it to influence day-to-day decisions. This problem is anticipated by many writers like Aldwani (2001) &Bancraft (1999) who stressed a potential tendency for changes in the public sector to occur at a fairly high level and not impact on lower levels.

It was the inherent concern that by introducing NAM will to lead to increased costs (despite official denials), and that any benefits were likely to be slow to emerge, perhaps this "uncertainty" was seen as necessary by those patronizing this change, although an approach at odds with a rational approach to accounting change. Indeed, it was opinioned that the production of accurate cost information as part of an ex-post evaluation was unlikely to be welcomed by those promoting NAM. This implies a process of understatement, official denial and obfuscation of cost had developed (perhaps deliberately), and this has possibly served to reduce both transparency and informed debate regarding the appropriateness of NAM. For example, Rubin (2000), while commenting on budget reforms, argues that often the only way reformers get proposals accepted is to make exaggerated claims. She is of the opinion that government often use a wide variety of strategies to get reforms accepted, and that some of these strategies include producing difficult-to-substantiate arguments that there is a need for the change which will have future economic benefits. Indeed, Rubin suggests that this can result in the presentation of figures of dubious accuracy and the construction of arguments that is vague rather than elucidating the key decisions. As a result, she argues that the appraisal of any change should possibly be made against the status quo rather than the overstated claims made by the supporters of the change.

These conditions meant that the timetable for implementing NAM was always likely to present challenges to departments; and this proved subsequently. The interviews provided evidence that a number of departments were thriving to meet the elicit points due to, lack of resources, lack of needed information and lack of understanding of the concepts. Besides that, the departments with little accounting system infrastructure prior to devolution were mainly ill prepared to implement NAM. The study of the project revealed following issues in the implementation of the project:

i. Since inception of the project and implementation phase PIFRA has faced many issues and challenges. The first and foremost issue was its vast implementation instead of initially focusing on pilot projects and observing their workings. This was a major shift from legacy system of accounting commonly known as ledger accounting, which was in conflict with the individual interests accustomed with the older systems. This was not just an issue of negative intent but lack of technical expertise and capacity was also a major cause so the implementation faced major resistance at all levels until some technical expertise were developed and several training sessions and workshops were conducted to allay the fares and confusions. Secondly, the software was not in accordance with the needs and requirements of accounting system in Pakistan. So even after having so many SAP certified personnel we have not attained the targets and desired results. [2]

ii. The second most important issue that remained unanswered is self-accounting entities were neither brought in the ambit of PIFRA nor included even after the completion of the project. These self-accounting entities include the Military Accounts department, Railways, Ministry of Foreign Affairs, Pakistan PWD and authorities like ERRA being the largest spending units are not under the domain of PIFRA. [3]

iii. Project accounting is another important issue that remained unanswered and unresolved under PIFRA. Project accounting involves creating of project accounts, maintaining record relating to projects like contracts and change orders,

[2] Information by DR. Attique
[3] Information by Munawar Hussain.

access to project accounts including details regarding transfer of expenses, time management, overhead charges, and review accounts related to projects assets and expenses and variance reports to the management.

iv. Succession planning is also another issue that remained unresolved under PIFRA resulting in to monopolies of consultant firms and making some people indispensable. Absence of succession planning is also a major cause for failure of projects due to lack of project management skills, poor leadership skills and inadequate training in project management. This improper managerial succession not only hinders the proper resource management but also leads to project failure. [4]

v. Asset accounting is also an important issue not covered by PIFRA. Asset accounting is a tool used in many countries to keep record of assets owned covering entire life from issuance of purchase order to its retirement. This helps the financial managers for allocation of resources but this important area remains missing or unutilized under PIFRA.

vi. The chart of accounts introduced under NAM still contains outdated codes, duplications; errors and does not fully meet the needs to obtain desired results.

vii. The line departments have not adopted the COA in true spirit. The transactions of billions of rupees remain unclassified with the title miscellaneous “or “other”. Thus, reliable and relevant information is still missing.

viii. The commitment accounting and asset accounting (the main theme of NAM) are yet to be implemented.

ix. The Pakistan Railways, Pakistan Post Office, National saving centers, Defense services are still outside the preview of NAM. These organizations are maintaining their accounts manually using outdated accounting procedure of British Era commonly known as the legacy system.

The New Accounting Model aimed at overhauling the entire accounting structure in Pakistan considering it a means towards technical advancement and to achieve an integrated comprehensive accounting system for fiscal reporting and financial management.

6. Conclusion

The study aims at understanding and assessing the extent to which NAM has been implemented in Pakistan with the introduction of PIFRA because the earlier system of classification and accounting was considered unsatisfactory due to number of technical omissions the modern accounting required. As discussed earlier the project was envisioned by the World Bank and IMF it was proposed that this new accounting model will ensure the distinction between government accounting and budgeting activities encompassing various facets of government financial systems. Various aspects have been discussed starting from the need for PIFRA, the shifting from traditional accounting to accrual basis of accounting, benefits of accrual accounting and the missing areas which the project failed to implement. The implementation remained slow initially due to resistance put by various segments of the stakeholders involved either due to technical or personal reasons because it is human nature that they are averse to change. Consequently, a number of best practices proposed by the project were not accepted by the project users due to their insistence on maintaining old routines which were bound to change as a result of automation at all organizational level. Then absence of trained staff to run this system efficiently and effectively was another factor that culminated in to poor implementation of the project and despite having a large number of SAP certified personnel the desire results of the project could not have been achieved. There is another view prevailing among the researchers that one possible reason for this failure is excessive certification and over emphasis on higher qualification rather than having necessary technical expertise because this has an adverse effect on the working of the staff resulting due to peculiar working conditions and job structure in government services. This argument gains substance from the aide-memoires of the project as well which stated that in future the induction in the Pakistan Audit and Accounts service will focus on specialized technical requirements besides improving the minimum technical requirements for induction of staff at all levels. Another aspect that needs to be considered is the role of host organization in the implementation of a project. Though World Bank played a significant role in introducing and implementing the project but to lead the project and have proper ownership was the responsibility of management of Auditor General of Pakistan for its continuity and reforms. Despite all odds the project brought significant reforms in the accounting system of Pakistan and keeping in view the scope and size of the project implementation of PIFRA and NAM seems to be miraculous in achieving its objectives in such a short span of time. Besides that, the implementation of accrual basis of accounting in various countries is also discussed in detail to assess the need, requirement and significance of accrual accounting in improving the financial reporting in government accounting.

7. Recommendations

Since the inception of the project, it was emphasized that in order to achieve maximum benefits from implementation of NAM a technical cadre must be there to operate the system. The donor was assured many times by the finance ministry that a technical cadre will be established having a special pay structure but no practical steps were taken showing lack of will and intent on the part of government to properly implement the system and proved to be time consuming tactics merely. Keeping in view certain recommendations are made for future projects:

i. Training need analysis was missing which should have been there to make training more effective tool to implement a mega change in the practices and routines of the Government.

ii. Training in budgeting offices and accounting offices have different dimensions which must be enforced. Moreover, it should be an ongoing activity to make users comfortable with the new system and become agents of change.

iii. Change Management at all tiers of the Government including accounting offices was hardly effective. To derive the maximum boons of the new system, this area needs to be reinforced.

iv. The shortcomings in NAM need to be addressed. For instance, commitment accounting as a concept was introduced but it could never be implemented. The asset register is another area which should have been maintained but it is still not in vogue a strategy needs to be devised to deal with this issue.

v. Financial reporting manual is still not in use by the stakeholders which should be reinforced as the legacy reports cannot be ultimate format for all times to come.

vi. Ownership by the Government at its all levels was non-existent as the entire project was dubbed as the project of the Auditor General. This misperception needs to be dispelled. Hence, this alienation by the Government was a bad omen for the project.

Interviews with:

- Interview with Information by Javed Khan. AO, AGPR.
- Interview with Dr. Attique, Director, Asian Center for organization development.
- Interview with Mr. Munawar Hussain, DG, IT, O/O AGP.

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