

# Public Sector Financial Accountability: The Role of Public Accounts Committee in Pakistan

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### 1. INTRODUCTION

Public Sector Financial Management (PFM) is aimed at an effective resource mobilization and an efficient expenditure management. The strong PFM helps the government to achieve its strategic objective by optimal utilization of its resources. The importance of effective PFM is manifold particularly in the developing countries where most of the expenditure is being incurred by the Public sector and it sets the policy environment for the rest of the economy.<sup>1</sup> The need for Public sector financial management accountability framework is essential to have overall fiscal discipline, promoting strategic economic and social priorities and value guarantee for money. Public sector financial accountability frameworks have been developed by many organizations around the globe such as Open Budget Index, the International Monetary Fund and the World Economic Forum. However, the most comprehensive assessment of public sector financial accountability is developed by the organization of Public Expenditure and Financial Accountability Framework (PEFA). PEFA has defined seven pillars of PFM which includes budget reliability, transparency of public finances, management of assets and liabilities, policy based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting and, external scrutiny and audit.<sup>2</sup> PEFA uses these seven pillars to assess the status of PFM in a country.

The legislatures perform three functions namely representative, legislative and, oversight.<sup>3</sup> In representative system the politicians are answerable to the voters whereas in legislative functions, the

legislature perform the function of legislation. In the oversight function, the legislatures hold the executive accountable for use of public funds and this function is performed by one of the standing committees of the Parliament that is called Public Accounts Committee (PAC). The PAC varies in terms of its structure and procedures in different countries around the globe. In Common Wealth countries, there is a strong correlation between the Auditor General and PAC's. The Auditor General conducts audit of the public funds and submits his audit reports to the parliament, which are scrutinized by the PAC. There is also a variation in different countries in relationship between the legislature and Supreme Audit Institutions (SAI).<sup>4</sup> In this context there are broadly three models namely Westminster model, Courts of Audit Model and, Board or the collegiate model.<sup>5</sup> In Westminster model, there is Uni-model audit agency headed by the Auditor General (India, Pakistan) whereas in Courts Model, the audit agencies have quasi-judicial powers and act as administrative tribunals (France, Turkey). The Board or the collegiate model has

<sup>1</sup>W. Owalla, S. Luanga, "Integrating Quality Management System in the Public Sector Financial Reporting Framework: A Developing Country's Nightmare", IOSR Journal of Business and Management, Vol.16, No.3 (2014), pp. 43-53

<sup>2</sup>Public Expenditure and Financial Accountability Framework, [www.pefa.org](http://www.pefa.org) (accessed on March 22, 2018)

<sup>3</sup>Richard Pelizzo, , Rick Stapenhurst, and David Olson (ed.), Trends in Parliamentary Oversight, (Washington DC : World Bank Institute, 2004), pp.3-5

<sup>4</sup>The term Supreme Audit Institution (SAI) is used interchangeably for supreme audit agency in a country. In some countries, SAI is the institution of Auditor General while in other countries court of accounts or administrative tribunals are called SAI. SAIs are known for public sector auditing.

<sup>5</sup>Carlos Santos, "Why Budget Accountability Fail? The Elusive Link Between Parliaments and Audit Agencies in the Oversight of Budget", Brazilian Journal of Political Economy, Vol.35, NO.3 (July/September 2015), pp. 601-621

similarities to Westminster model except an audit board or boards produces audit reports and submit these to the parliament (Indonesia, Japan, Germany). All these models have one thing in common and that is independence from the executive.

## 2. PAC IN PAKISTAN : INSTITUTIONAL FRAMEWORK<sup>6</sup>

In Pakistan, Parliament performs the Public sector financial accountability function through PAC. The Parliament approves the national budget and authorizes the expenditure to the executive. The Controller General of Accounts compiles the annual accounts, which are audited by the Auditor General of Pakistan (AGP). The AGP under article 170 of the constitution submits his annual audit reports to the President who causes it be laid before the parliament under article 171 of the Constitution. The Parliament of Pakistan refers the annual audit reports to PAC for scrutiny. Rule 203 to rule 205 of Rules of Procedures and Conduct of Business in National Assembly 2007 define the composition, powers and functions of PAC. Broadly, the AGP submits three kinds of reports to the parliament. In Financial attest audit reports, audit opinion is given on the financial statements and state of internal controls of various ministries. Compliance with authority audit reports mentions the level of compliance with rule, procedures and regulations. In performance audit, report of the economy, efficiency and effectiveness of public money spending is expressed. The important issues highlighted in these audit reports include weak internal controls, noncompliance with rules and regulations, over spending,

violation of Public Procurement Rules (PPRA), non-recovery of government dues and, tax evasion. PAC secretariat is headed by additional secretary and have two sections namely PAC section and monitoring and evaluation section. The chairman of Public Accounts Committee is the leader of opposition in National Assembly. The Current PAC in Pakistan (14th) was constituted in August 2013 and held its first meeting in December 2013. It has 29

members and three sub-committees to assist the main committee. There are many issues and challenges, which have affected the performance of PAC. In the analysis part of the report, it has been examined that why the current PAC in Pakistan has not been able to effectively perform legislative oversight function of the executive for public financial accountability. In the last part, few recommendations have been proposed to improve the performance of PAC.

## 3. ISSUES AND CHALLENGES

In this section, the study discusses in detail the issues and challenges faced by the PAC in Pakistan. To begin with, PAC scrutinizes inputs and compliance audits rather than outputs and performance audits. The compliance of rules, regulations and processes is discussed in PAC, which is very limited field of public financial management. It is not questioned that how effectively the expenditure has been incurred. Secondly, there is a huge backlog of audit reports and PAC spends most of its time in discussing the previous year's reports. In 2013, when the 14th PAC was constituted, there was a backlog of 8 years annual audit reports, 14930 outstanding audit findings, 7 annual appropriation accounts reports, and 1006 outstanding annual appropriation accounts of various ministries and divisions. Thirdly, there is no clarity on the role and responsibilities of the Secretaries and the Ministers in public financial accountability system. The secretary of a division is declared as Principal Accounting Officer (PAO) under new system of Financial Control and Budgeting, 2000 and is responsible for exercising propriety in public spending. However, the major policy decisions are taken by the ministers who are not generally held accountable by the PAC for their decisions. Fourthly, the government officials some time uses

<sup>6</sup>The institutional framework for functioning of PAC in Pakistan is provided in the Constitution of Islamic Republic of Pakistan and "Rules of Procedure and Conduct of Business in the National Assembly of Pakistan, 2007 define the role, composition and functions of PAC. [www.na.gov.pk](http://www.na.gov.pk)

<sup>7</sup>Auditor General of Pakistan Annual Report (2015-16) and Annual Audit Report (2016-17), [www.agp.gov.pk](http://www.agp.gov.pk)

<sup>8</sup>Public Accounts Committee Secretariat, National Assembly of Pakistan, [www.pac.na.gov.pk](http://www.pac.na.gov.pk)

<sup>9</sup>Ibid.

government officials exploit the organizational interest while justifying their decision in public interest. Fifthly, PAC does not have any institutional mechanism to implement its directives. The recommendatory nature of PAC directives is not taken seriously by government officials. Sixthly, PAC in Pakistan only performs ex-post oversight of the executive and does not have Parliamentary Budget Office<sup>10</sup> to conduct ex-ante oversight of the executive. Seventh, the political economy of PAC membership also influences the accountability mechanism. Most of the time, the treasury benches members of PAC are not keen to hold their government accountable by the legislature. Last but not the least, as the members of PAC are politicians and do not have enough knowledge of technical issues, which makes it difficult for them to understand the real issues. The technical capacity issues of PAC members and the department of Auditor General affect the process of public financial accountability.<sup>11</sup>

## 4. ANALYSIS

In this section, the study analyses the performance of 14th PAC and examines that how far it has been successful to enforce public sector financial accountability. A comparison of Pakistan PAC has been given with an IDEAL<sup>12</sup> PAC requirements in terms of its structure and processes. In terms of structure, Ideal PAC requires 5 to 11 members whereas in Pakistan, PAC has 29 members, which is probably the highest in any Commonwealth Countries. In ideal PAC requirement, the Chair of PAC is from opposition. PAC in Pakistan has opposition leader in national assembly as chairman PAC. Ideal PAC requires adequate staff whereas PAC in Pakistan does not have qualified staff. The meetings of Public accounts committee in Pakistan are not held in public and have limited participation. The transcripts of PAC meetings are not made publically available. Furthermore, there is no consistency in having annual parliamentary debate on the work of PAC performance reports in Pakistan. It is astonishing that the current main PAC has not submitted a single annual report to the parliament for

discussion. The PAC in Pakistan also lacks systematic monitoring mechanism, which results in repetitive nature of audit observations. In a nutshell, PAC in Pakistan lacks structural and procedural requirement of an ideal PAC.

The careful examination of the performance of current PAC in Pakistan reveals that it has not produced the desired results in terms of public sector financial accountability. The main PAC headed by leader of opposition inherited 8 annual audit reports of various years out of which not a single audit report has been finalized. However, the sub-committees have finalized audit reports of audit year 1998-99, 2003-03, 2007-08 and 1996-97 which have been approved by the main committee and presented report in the National Assembly in 2016-17.<sup>13</sup> The PAC has recovered Rs. 312,582.81 (Millions) in four and half years of its functioning.<sup>14</sup> There has been considerable number of meeting of the main and sub-committees but without any significant results. The PAC has also inquired and disposed of number of complaints of public interest. There are many reasons which have affected the performance of PAC such as repetitive nature of audit observations, lack of ownership of audit reports by the executive and indifference to PAC directives and, absence of effective role of Chief Finance and Accounts Officers in various ministries and division.<sup>15</sup>

<sup>10</sup>In many countries, the legislature performs ex-ante function which enhances its effectiveness in the resource planning and budgeting stage of Public Financial Management. For example UK has established Office for Budget Responsibility (OBR) which helps the legislature in scrutinizing the public expenditure. For details please visit, [www.obr.uk](http://www.obr.uk)

<sup>11</sup>David McGee has argued that capacity building of PAC members and the Auditor General is essential for effective public financial accountability. For details David McGee, *The Overseer--PublicAccounts Committees and Public Spending*, (London: Pluto Press, 2002).

<sup>12</sup>IDEAL PAC requirements has been framed by the World Bank Institute after having interviews with more than 60 heads of PACs in various countries. The results are based on the scorecard given to each question in the survey. For details, Rick Stapenhurst, Vinod B. Sahgal and Riccardo Pelizzo, "Scrutinizing Public Expenditures Assessing The Performance Of Public Accounts Committees", SSRN Electronic Journal (2005), P.31

<sup>13</sup>PAC Secretariat and FAO wing of AGP Office, Islamabad

<sup>14</sup>Data provided by the Accounts Section of PAC Secretariat, National Assembly, Islamabad

## 5. RECOMMENDATIONS

i. PAC in Pakistan needs to broaden its scope and should also discuss the outputs of budgetary allocations and performance of the executive along with compliance to rules and regulation. The AGP can play effective role in this regard by submitting performance reports on all audit entities to the PAC.

ii. Since the audit backlog of previous years is a major factor in poor performance of PAC, there is a need to devise mechanism to clear this backlog. The Departmental Accounts Committees (DACs) and Sub-committees of the PAC can play effective role in this regard.

iii. The role of the secretary and minister also needs to be clearly defined. Presently, only secretary of the concerned division is held accountable whereas ministers are not called in PAC meetings. Practically, the decisions making involves both the minister and the secretary.

iv. There is need to ensure the autonomy of the AGP. Under the constitution, the AGP is a constitutional post but under rules of business its attached department of the Ministry of Finance which indirectly makes it part of the executive.

v. The Principal Accounting Officers (PAOs) also needs to play an effective role by convening more frequent Departmental Accounts Committees meetings, by clearing the PAC directives and, by ensuring that repetitive nature of issues are not presented before the PAC.

vi. The technical and professional capacity building of Parliamentarians, PAC secretariat and the AGP department is *sin qua non* for effective public management accountability. Capacity building courses in advance auditing techniques can help in improving the technical and professional expertise.

vii. Last but not the least, PAC can establish Parliamentary Budget Office on the analogy of the developed countries to ensure ex-ante oversight of the PFM process. The ex-ante oversight will help the PAC to perform its effective role in the resource mobilization process of the Public Financial Management.

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