



## ACCOUNTING FROM A RELIGIOUS PERSPECTIVE: A CASE OF THE CENTRAL GOVERNMENT ACCOUNTING IN ISLAMIC REPUBLIC OF PAKISTAN

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### ABSTRACT

**Purpose** - The purpose of this paper is to describe and analyze the role of religion (Islam) in the development of accounting at the central government in Islamic Republic of Pakistan. **Design/methodology/approach** - It is an empirical paper that is situated within a social constructionist world view philosophical paradigm and that takes advantage of the descriptive and analytical characteristics of the qualitative case study. Islamic concepts, which are suggestive of Islamic accounting, constitute a theoretical framework for this study. **Findings** - The findings of the study indicate that the **role of religion in the development of accounting in Pakistan is minimal or virtually non-existent**. The current accounting system is deemed to be a result of the overall process of hybridization where many institutional and cultural factors may have played the major role in shaping accounting practices rather than the religion of Islam. **Practical implications** - There are cultural (excluding religion), as well as institutional factors, that are beyond the scope of this paper and that may have played a greater role in the (re)formation of the accounting practices as compared to religion. However, the dual nature of the concept of Islamic accounting - that is, (1) the accountability of government to fellow people (public) and (2) to Allah (God) - may play a wider role in the development of need-based accounting practices in central government accounting in Islam Republic of Pakistan. **Originality/Value** - This research is first in its nature to comprehend the role of religion (Islam) in the shaping the Government accounting practices in Pakistan. Hopefully, it has contributed to a better understanding of the concepts of Islamic accounting within a rather alien-empirical context, that is, Islamic Republic of Pakistan where constitutionally Islam is declared as a state religion.

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**Keywords:** Islam, Religion, Accounting, Government, Management control.

## INTRODUCTION

A list of factors, including legal system, economic and political setup, taxation, international factors, business ownership, type of businesses and culture, just to name some, have been discussed in the accounting literature. These factors, varying from one country to another, have been affecting the global wave of government accounting reforms across the world over time. As a result, significant contrasts and heterogeneities prevail in government accounting across the countries which have led to a conclusion that accounting is context-dependent (Carmona and Ezzamel, 2006). However, the role of religion in shaping accounting practices has not received sufficient attention from the academic researchers and practitioners. Having said that, this study seeks to investigate how religion (Islam) does shape the central government accounting in Pakistan.

Pakistan is a Federal Republic, known as Islamic Republic of Pakistan, where Islam is the State religion (Pakistan, 1973). According to the 1973 Constitution, the State cannot make any law which is against the basic principles of the Islamic Law called Shari'ah. Having observed a paucity of accounting development research in Islamic nations Meek and Thomas (2004), this research is intended to contribute to curtailing this vacuum.

The existing government accounting literature is voluminous on discussing the accounting reforms in Western countries. Bearing in mind a profound lack of government accounting in less-developed nations, the context of Pakistan as a developing country was selected as the research setting. While studies exist about e.g. Nepal (Adhikari, 2005) and Sri Lanka (Kuruppu, 2010), there is hardly any research about the development of government accounting in Muslim countries in general and Islamic Republic of Pakistan in particular. As the search for the literature has unveiled, there are studies (Archer *et al.*, 2010; Lewis, 2010; Haniffa and Hudaib, 2010a; Haniffa and Hudaib, 2010b; Wahab and Rahman, 2011) focusing on the concepts of Islam, accounting and its role in the Islamic banks and corporations. However, the relationship between Islam and government accounting is worthy to be investigated.

Pakistan is a developing country which is largely intertwined with international community through various multilateral organizations. Like in other developing nations, the international financial institutions play a significant role in (re)framing financial and accounting institutions in the country. In particular, Pakistan has been following the ongoing global waves of accounting reforms, widely referred to in the literature as New Public Financial Management (NPFM). The remainder of this paper is organized as follows. An overview of the data-capturing techniques utilized in the study is undertaken in section 2. Section 3 sheds light on the concept of accounting in Islam. Empirical findings are first presented in section 4 and then discussed in the penultimate section. Some concluding comments are brought to light in section 6.

## RESEARCH METHOD

The role of religion in the development of government accounting can be better explained through a social constructionist world view. This stance enabled us to actively participate in the research process. This characteristic of the social constructionist approach proved to be beneficial due to the fact that one author of this manuscript possessed the same background, making us familiar with the context under consideration. The data were extracted from reforms' documents, reports of the World Bank, International Monetary Fund, and Asian Development Bank, as well as from detailed qualitative interviews. The data were gathered through two stages, with the first one taking place in July 2010. The data collected at this stage helped us identify reforms' documents. And reveal potential respondents to do interviews with because some documents had coined the names of those officers involved in the reforming process<sup>1</sup>.

The second stage of data collection occurred during a period of March-April 2012. We made six interviews and collected more secondary data. The first respondent approached was a member of the World Bank reform team because his name had been mentioned in the acknowledgment of the report. A 'snowballing technique' was adopted for selecting respondents. We also informally verified the qualification of the respondents while discussing with employees. A few of the respondents were retired. The six respondents were selected from the Controller General of Accounts (CGA), Audit General (AG), and the Project to Improve Financial Reporting and Auditing (PIFRA) and Ministry of Railways. The interview guide was initially inspired by ideas from the institutional theory, emphasizing the interaction of institutions with their context. The documents gathered throughout the first stage helped us accommodate the contextual complexity. For example, to investigate the role of religion was one of the contextual complexities focused in this paper. All the interviews were recorded and the average duration of these interviews were about one hour. The interviews were transcribed and the documents were scrutinized in order to find the impact of religion on the development of government accounting.

## CONCEPT OF ACCOUNTING IN ISLAM

Research about religion and accounting, and their relationship is in a short supply (Carmona and Ezzamel, 2006), "although it is easy to see how the two might be connected" (Lewis, 2001) because accounting is the product of its context (Carmona and Ezzamel, 2006). Religion is an important contextual factor which defines and deeply affects the behavior of its followers within societies, especially in developing Muslim nations like Pakistan, where 96.28% of its population are Muslims. But the studies on the relationship between religion and accounting remained less

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<sup>1</sup> The World Bank (WB), the International Monetary Fund (IMF) and the Asian Development Bank (ADB) mentioned the names of their participants in the acknowledgment section of their reports.

attractive for academics than practitioners, and there have been rather limited scholarly papers, either from a historical perspective or from a contemporary angle. According to [Carmona and Ezzamel \(2006\)](#), “the lack of academic interest in studying accounting in religious institutions is rather perplexing, given the prominence of such institutions in most societies, both spiritually and economically.”

Religion shapes and enforces ethical behavior. For instance, Islam emphasizes on justice, truthfulness, and honesty, and societies which have these values may be characterized by a high level of trust in financial and business affairs. Referring to [Gray \(1988\)](#) and [Perera \(1989\)](#), culture is the determinant of accounting practices. [Hofstede \(1997\)](#) has argued that culture is the collective programming of the mind which distinguishes the members of one group from another, and governs how individuals perceive their responsibilities and carry out their duties. If culture affects accounting practices than religion may also as religion is a significant cultural factor affecting all social institutions including accounting; especially in Islamic societies. The main argument for this is that in Islam the secular cannot be separated from sacred. Religion affects cultural values ([Hamid et al., 1993](#)) and accounting is the product of context ([Perera, 1989](#)). Therefore, investigating the role of Islam in shaping government accounting is deemed promising.

Allah (God) speaks to human beings, according to the teachings of Islam, through His Holy book called Quran which is further explained by the Prophet Muhammad (PBUP). The explanation of Quran given by Prophet Mohammad is called Sunnah. The Islamic law based on the combination of the teachings from Quran and Sunnah is called Shari’ah. God speak through Shari’ah (Quran and Sunnah) to the nations. The national religious scholars, which are called ‘Mullahs’, would need to define national culture, including accounting system in the light of the teachings of Shari’ah which nation will follow. The role of the Islamic religious scholars (Mullahs) is pivotal in the Muslims societies. Their role differs from the role played by the priests in the modern Christian societies. Mullahs have a much broader role because of the fact that in Islam we cannot separate the sacred from the secular and Shari’ah covers all of them. Therefore, Mullahs are required to give their religious judgments and opinions about the social, legal and economic, as well as spiritual aspects of life. In other words, religion is deeply rooted in Muslim societies and defines the basic concepts of life which refine the behaviour of the society and accounting may not be exempted from that sphere. Following Shari’ah is obligatory for all Muslims which provides guidance for Muslims in both areas of life, i.e. sacred and secular. In other words, Shari’ah provides basic guidance and rules for Islamic financial institutions. The Islamic accounting system and theory for Islamic societies could be based on Islamic laws of Shari’ah; along with other national requirements, postulates and principles which do not contradict with Shari’ah. According to [Lewis \(2001\)](#), there can be two approaches to set Islamic accounting principles; (a) establish objectives in accordance with the spirit of Islamic teachings and then compare these established objectives with contemporary accounting thought, (b) compare the objectives of the contemporary accounting with

the Shari'ah and accept those accounting thoughts which are in line with Shari'ah and reject those which are in contrast with Islamic law.

According to [Kamla et al. \(2006\)](#) "Islamic principles are suggestive of a variety of implications for governance and accounting". The Holy Quran and Sunnah, which provide basis for ethical issues, have clearly explained what is true, just and fair, what are Islamic society priorities and preferences, what are the roles and responsibilities of governments and corporations. The accounting standards are also defined, in some aspects, to set accounting policy and practices for institutions in Islamic societies. Some Islamic financial and ethical concepts have direct impact on accounting practices and policies. For example, the institution of Zakah, the prohibition of interest and interest free economic system society, and specific Islamic methods of business.

**The Institution of Zakah:** According to the teachings of Islam, all the wealth belongs to Allah and humans are trustees to use the wealth for the benefit of society. Zakah is one of the basic principles of Islam which is directly related to the accounting and financial matters. Zakah is Arabic word which means 'pure'. Muslims pay Zakah with belief to purify their wealth according to the wishes of Allah. It is a kind of religious tax obligatory to pay who possess certain amount of property. It is a very important financial obligation and Allah ordered 82 times in Quran to pay Zakah. It is a financial prayer which has broader social consequences because the money of Zakah will be paid to the poor. On the other hand, Zakah is considered a significant religious levy which helps eradicate prevalent social problem of poverty. The role of computation is indispensable to offer this financial *ibadah* (prayer). Accounting is the medium to record and report all the wealth during a certain financial year which will determine a fair and proper calculation of payable Zakah. This shows that only advanced accounting and fair reporting practices may ensure fair redistribution of wealth and income through paying of Zakah. The payment of Zakah is obligatory for Muslims which may possess specified amount of wealth. This also indicates that a Muslim country like Pakistan (96.28% Muslim population) may have a homogenous system to meet the needs of the institution of Zakah.

**The prohibition of interest and interest free economic society:** Modern financial and banking system is based on interest oriented investments and earnings which is prohibited in the Shari'ah. Therefore, the conventional financial institutions which are essential for commercial activities in contemporary age are totally antithetical to the Shari'ah. The majority of the population in Pakistan is Muslims and many Muslims who believe in the prohibition of interest may either not using modern financial system or restricted to routine work related to their employment. Shari'ah governs the business activities. It is an Islamic Jurisprudence which provides a framework to make rules and laws to define permissibility of financial transactions, cultural, political and social aspects of life in Islamic as well as non-Islamic societies. In order to meet the challenges of the dynamic world, solution to the contemporary problems can be derived from the Quran and Sunnah through

scholarly interpretations called Fatwa's. Fatwa's are 'common law' and therefore Islamic law "is more a process than a code, and the results of legal deliberations may differ when different methods are employed"<sup>2</sup> in different contexts.

The principles which provide basis for Islamic finance prohibit Maysir (speculation), Gharar (risk, uncertainty) and unethical use of funds which may lead to unfairness in financial transactions. It excludes the involvement of Riba (interest) in financial matters and allows financial transactions which are based on risk sharing. The literal meaning of the Riba is 'an excess' and interpreted as "any unjustifiable increase of capital whether in loans or sales". Therefore any guaranteed increase in capital at maturity is considered riba and prohibited. It is, therefore, important to see how government interacts with international/local financial institutions in borrowing money; and how government lends money to other financial and non-financial institutions. Do taking/giving loans involve interest or there is some other criterion to avoid the involvement of interest (riba)?

**Specific Islamic Methods of Business:** The Islamic principles of social responsibilities in business activities may also suggest the role of advanced accounting practices. According to the teachings of Islam individual is socially responsible for their fellows in the community and cannot enjoy life at the cost of others. Islamic economic system does not allow people to earn their living while exploiting others. According to the Islamic law the welfare of the community is more important than individual, therefore, Muslim must pay Zakah and spent for the good of society. The market should be free and must not be manipulated by powerful business entities in order to ensure fairness in transitions. The vendors should not lie about the weight or quality of goods to hide defects. Hoarding of goods is prohibited when the intention is to force the prices high to earn more profit and exploit others. Muslims are not allowed to invest in trading activities which are prohibited in Islam for example gambling, pornography, tobacco, alcohol, or any other business which are harmful for the society. Such fair and honest business activities may be ensured through modern accounting practices.

## EMPIRICAL FINDINGS

Located in the South Asia, Pakistan was the colony of the British Raj. In 1947, the British decided to leave sub-continent which led to a creation of India and Pakistan as sovereign states in the Indian Sub-Continent. Pakistan is stretched over 796,095 sq km, sharing its geographical boundaries with neighboring countries: China 523 km long border on North, Islamic Republic of Iran 909 km border on West, India 2,912 km on East, and Afghanistan 2,430 km<sup>3</sup> on north and northwest and Arabian Sea on south. The disputed area of Kashmir has caused several wars between Indian and

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<sup>2</sup> <http://www.islamic-banking.com/shariah-rulings-finance.aspx> extracted on 14.05.2012.

<sup>3</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html> Retrieved date; April 20, 2010.

Pakistan, demands for political solution since independence 1947. Until 1971, West Pakistan and East Pakistan, separated by 1000 miles of Indian's territory, worked together. In 1971, East Pakistan declared itself as independent country Bangladesh. The functions of the federal and provincial governments are clearly specified in the 1973 constitution. The federal government has exclusive responsibility for some functions while others can be performed either by the federal or provincial governments. The government accounting is a federal subject and centrally controlled by federal government through Controller General of Accounts (CGA).

**Tracing Back Accounting History in Sub-Continent:** Accounting history in the subcontinent can be traced back to an ancient time. Gladwin 1796 as in [Scorgie and Nandy \(1992\)](#) suggested that in India (South Asia) the Hindu method of accounting was replaced by the Persian method in 1583 and had been used for both private and public accounting purposes. He did not describe whether the Hindu or Persian method of accounting was 'double entry'. Hamilton 1798 cited in [Scorgie and Nandy \(1992\)](#) argued that the Bengali traders were using double-entry system of Hindu method. According to [Nigam \(1986\)](#) the Hindu accounting system was double-entry which was also introduced in Italy when the Hindu exporters went to Italy for trading purposes. But [Nobes \(1987\)](#) argued that Lall Nigam could not provide any physical support to his claim about the Hindu double entry accounting system. However, according to [Scorgie and Nandy \(1992\)](#), Indians were using bilateral forms for accounting purposes and may not be double-entry system.

According to [Saeed \(1993\)](#), formal accounting system in India had been practiced in the middle of 19<sup>th</sup> century during the British rule over Indian subcontinent. The British maintained a separate accounting system for the maintenance of civil accounts and the accounts for the defense as elucidated by the respondent:

*Actually the British accounting system was a dual in nature i.e. the British army which was deployed in India were maintaining separate accounts, and rest of the civil sector accounts were prepared separately. Pakistan has implemented the British accounting system across the country. The accounting system practiced since independence is based on the 'account codes volume I-IV' of the British times accounting procedures. Ministry of Defense has its own account code and it has same procedures which traditionally opted from the British and has not changed.*

They introduced the Companies Acts of 1850 and 1857 requiring companies to submit their accounts including half year audits and reports of auditors. In 1883, British enacted companies Act of 1883 having detailed audit guidelines for the appointment, duties and remuneration of auditors. In 1913, the British government introduced the Companies Act 1913<sup>4</sup>. The companies Act 1913 mandated every company to maintain their accounts including: (1) Sales and purchases of

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<sup>4</sup> In South Asia (older term India) private sector accounting was the foundation for the public sector accounting because for the first one hundred years (1775-1875) it was East India Company how was running the affairs of the government. After



company, (2) receipts and payments (3) assets and liabilities. Under this law only those person can act as auditor who have the provincial government issued auditor's certificate. The central government has also the right to issue such auditor's certificates to the members of professional bodies as institute of Chartered Accountants of Scotland (ICAS), the Institute of Chartered Accountants in England and Wales (ICAEW), and Institute of Chartered Accountants of Ireland (ICAI), recognized as qualified auditors. No examination was mandatory for obtaining these practitioner's certificates. In 1918, the Government of Bombay started Government Diploma in Accounting. In 1932, the Government of India formalized rules for the examination and training requirements for those interested in obtaining license to audit.

**Accounting Developments in Islamic Republic of Pakistan:** After independence in 1947, Pakistan adopted the company's act 1913 and audit rules 1932 (Saeed, 1993). In 1952, the practicing accountants, in order to develop professional accounting institutions and to secure their interests, raised and discussed the accounting problems with government, and for the first time in Pakistan they formed a private institute of accounting called Pakistan Institute of Accountants (PIA). These negotiations resulted into the formation of Institute of Chartered Accountants of Pakistan (ICAP) in 1961. The formation of ICAP is the major development in accounting profession since independence. The persistence pressure from Pakistan Institute of Accountants (PIA), and the government itself realized the stature and importance of the accounting profession, the government in 1966 established Institute of Cost and Management Accountants of Pakistan (ICMAP) in order to regulate the cost and management accountants' profession. According to Ashraf and Ghani (2005) until 1971 the financial reporting requirements of the company's act 1913 remained in force even though the Third Schedule to the Companies Act was undeveloped and incomplete.

In 1970, the government established the Securities and Exchange Authority, a semi-autonomous organization, with task to improve the financial reporting procedures in the country. They, for the first time, mandated listed companies to publish semiannual accounts. "Equally important was the requirement to disclose transactions between the associated companies describing the aggregate sales, purchases, and balance transfers" Ashraf and Ghani (2005).

Pakistan also joined the International Accounting Standard Committee (IASC) in 1974. Institute of Chartered Accountants of Pakistan (ICAP) recommended to their corporate customers to prepare their financial reports in conformity with international accounting standards because Pakistan did not have their own national accounting standards. The listed companies were not bound to prepare their financial reports in conformity with the international accounting standards, International

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the 1875 Mutiny war, the India was directly ruled by the Queen of the Britain. Therefore, the description of the private sector accounting is very important to understand how public sector accounting developed in Pakistan.



Financial Reporting Standards (IFRS) until the introduction of the Companies Ordinance 1984 (ibid). Unlisted companies were still not following these standards.

According to the country corporate environment the Companies Ordinance 1984 required some critical issues like, (1) disclosure of the chief executive, directors, and auditor's remunerations, (2) regulating transactions, and (3) directors were required to disclose in the company accounts of a) any commitments and material changes affecting the company's financial position, b) any changes occurred during the financial year relating to the nature of business of the company and its subsidiaries, unless regulatory authority, Securities and Exchange Commission of Pakistan, exempts, c) complete explanation about the auditor's report regarding their observation, reservation, adverse remarks, qualification, d) Information, in the prescribed form, about the pattern of holding shares, earning per share, e) Justifications for losses and appropriate future prospects for profits. According to the amendments of 1999 in the company ordinance 1984, the directors were required to disclose information about 'default on payments of debt' and also its 'reasons'. According to [Ashraf and Ghani \(2005\)](#) the financial reporting system of the listed companies improved during 1990s as new accounting standards issued by International Accounting Standards Board (IASB). The Securities and Exchange Commission of Pakistan (SECP) adopted these standards by the recommendation of Institute of Chartered Accountant of Pakistan (ICAP).

Code of Corporate Governance 2002 is another major development in financial reporting system of Pakistan. Several features of it refer to financial reporting issues including: conformity with IFRS in the preparation of financial statements, information about internal control design, implantation and monitoring, directors view about the ability of the corporation, data about next year financial activities, explanation about non-declaration of dividends, and names of shareholders including institutional shareholders, details of directors, and details about associated companies. In the constitution 1973, the Auditor General of Pakistan (AG) is given the responsibility of preparing and maintaining both audit and accounts of the government. The World Bank financed the 'project for Improvement to Financial Reporting and Auditing (PIFRA), in 1997, initiated substantial changes in the government accounting practices. The government of Pakistan initiated huge changes in the accounting system of Pakistan issuing the Auditor General's Ordinance 2001 and Controller General of Accounts (CGA) Ordinance 2001. These ordinances have transferred the responsibility for the preparation and maintenance of the accounts of the federation, provinces, and districts from the Auditor General<sup>5</sup> to the Controller General of Accounts (CGA) ([Bank, 2003](#)). Despite all these institutional changes in accounting and financial reporting Pakistan is using cashed base single-entry bookkeeping system as [Mehboob \(2008\)](#) mentioned in one of the leading English newspaper of the country;

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<sup>5</sup> Earlier both audit and accounts functions are performed by Auditor General of Pakistan regulated in the Constitution of Pakistan 1973.

*“It is essentially understood to be cash based system using single bookkeeping.”*

This showed that either the accounting reforms has not been implemented and remained symbolic or may have produced unintended consequences.

Presently, the New Accounting Model (NAM), following the guidelines of IFAC’s for government financial reporting, is being implemented with the use of SAP/R3 application (Narayan and Godden, 2000). The web page of the PIFRA and NAM indicate that the Pakistan emphasis on the qualitative characteristics i.e. timely, accurate, relevant, and reliability in recording government accounts as identified in the guidelines of IPSAS. However the over emphasis on producing timely reports undermined other important characteristics. According to respondent:

*The biggest problem which we have in our country is that the qualitative characteristics i.e. reliability, compatibility, consistency, and reliance of financial information; which IFAC issued after the experience for centuries and which are of central importance in any accounting system; are of secondary importance. In the government accounting of Pakistan, production of timely reports, which is a sub component of these characteristics, got top priority and the other characteristics got secondary importance. For example, if the previous audit general made accounts on 10<sup>th</sup> of each month; the new audit general will be considered efficient only if he makes accounts on 8<sup>th</sup> of each month. We have 2000 users of the system. Out of these 2000 about 900 are accounting units. They insist to make accounts on 8<sup>th</sup> of each month although the accounts from all accounting units are not received.*

The reforms discussed above can are encapsulated in the following table:

No	Reforms	Date
1	Companies act	1850, 1857, 1883, 1913
2	Government Diploma in Accounting	1918
3	Formation of rules for examination to obtain license to Audit	1932
4	Adoption of Act of 1935 and independence Act 1947	1947
5	Pakistan institute of Accountants	1952
6	Institute of Chartered Accountants of Pakistan	1961
7	Institute of Cost and Management Accountants of Pakistan (ICMAP)	1966
8	Securities and Exchange Authority	1970
9	Pakistan became member of IASE	1974
10	Companies ordinance	1984
11	Adoption of IFRS standards for listed companies	1990
12	Formation of Audit General of Pakistan in constitution	1973
13	project to Improve Financial Reporting and Auditing	1997
14	Controller General of Accounts ordinance	2001
15	<b>New Accounting Model</b>	<b>2004</b>

The New Accounting Model has detailed codes (chart of accounts) for recording the transactions of central government. This constitutes the government accounts which are the detailed picture of the

state budget spent over the fiscal year started on June 1 and ends July 31 of each year. The ‘chart of account’ book shows that the government of Pakistan is doing businesses which are forbidden in Shari’ah. For example, the current accounting system have codes for recording tax revenue which the government of Pakistan is getting from business of ‘tobacco all sorts’ and ‘spirit and fermented products’. The ‘major object’, ‘minor object’, and ‘detailed object’ of these transactions are given in the following table extracted from ‘B=Tax Revenue’ of chart of accounts book;

**Table-B=Tax Revenue**

X	Major object		Minor object		Detailed object
Code	Description	Code	Description	New	Description
					Spirit and Fermented products (B02601-10)
B02	Indirect Taxes	B026	Provincial Excise	B02601	Malt Liquors-Duty on bear Manufactured Pakistan
				B02602	Foreign Liquors-Duty on Spirits manufactured in Pakistan and classed as foreign spirits
				B02603	Incense fee for the generally sale of foreign liquor whether imported on manufactured in Pakistan
				B02610	Others

**Source:** Chart of Accounts August, 2010, p. 146.

The official documents i.e. ‘Handbook of Accounting Guidelines and Chart of Accounts’ have described guidelines to record interest received on loans which the Central government is giving to the financial, non financial institutions or provincial governments. These have also described methodology to record interest payments which the Federal governments is paying against the loans taken from the indigenous and multilateral financial institutions like the International Monetary Fund, the World Bank, etc. The study also found the involvement of interest in the business activities which the central government of Pakistan is doing. They also record the interest receipts and interest payment in their accounting system as shown in the “Chart of Accounts<sup>6</sup>” book (Pakistan, 2010). The recording of interest is indicative of violation Shari’ah as it strongly prohibits both taking and payment of interest. The ‘chart of account’ book consists of the codes for recording all types of interest the central government is receiving and paying on both indigenous and foreign loans. These are also indicative that the central government is involved in business activities which are against the essence of the Shari’ah.

<sup>6</sup> “Chart of Accounts” is classifying the accounting transactions into ‘major object’, ‘minor object’ and ‘detailed object’. It provides detail guidelines to record a transaction correctly.

## DISCUSSION

The government accounting in Islamic Republic of Pakistan follows the philosophy of non-commercial system of bookkeeping. The current government accounting is deemed as a result of series of financial and accounting reforms which have been taking place around the globe. Moreover, as it is also found, there is no uniform accounting system at the central level of government. For instance, it was discovered during the initial data collection stage that the ministry of defense and the civil accounts were maintained differently and public had no access to the accounts of the military. This is against the concept of Islamic accounting because, according to the Islamic principles, people should have access to the accounts of those institutions which utilize public funds. Moreover, the researchers have browsed the web pages of public sector universities, offering business administration degrees, and have found that they do not offer a course in Islamic Accounting. The training institutes for the public accountant i.e. Audit and Accounts Training Institute and Pakistan Institute of Public Finance and Accountants (PIPFA) also do not have any course in Islamic accounting. The absence of Islamic Accounting courses in universities and training institutes means that the Government accounting does not adhere to Islamic Law of Shari'ah. Therefore, there is no need to teach Islamic Accounting at universities and training institutes.

The findings of the study also show that different accounting systems were maintained during the British government. The accounting system inherited from the British was according to the needs of the imperial times and represented the rulers; not the people because there was an authoritarian government. It was not a democratic government. Therefore, the active participation of the public values hindered in the public policies. It is evident that the accounting system the British introduced in India was not an Islamic accounting system. The empirical understanding of the central level government accounting of Pakistan indicates that it is very difficult to categorize or conceptualize it as Islamic accounting because of such heterogeneous accounting systems at the central government level. Theoretically, Islamic accounting can be homogenous (at least in national level) at all levels of government because of the homogenous and unique type of the institution of Zakat, the prohibition of interest and interest free economic system society, and specific Islamic methods of business. Public institutions of Islamic societies based on the Islamic financial law of Shari'ah result to homogenous accounting system.

That is why the *role of religion in the development of accounting in Pakistan appears to be minimal or virtually non-existent*. The current accounting practices are deemed as the result of the overall process of hybridization where many institutional and cultural factors may have played the major role in shaping accounting practices rather than the religion of Islam. The accounting practices instituted in Pakistan at the time of independence 1947 were not amended to accommodate the requirements of the newly created Muslim state. It was the accounting system of

the authoritarian government ruling over the Sub-continent from the distant place of England. The reforms initiatives introduced with the passage of time were also initiated by international financial institutions and community. The accounting system inherited was un-Islamic and the global waves of accounting reforms (which Pakistan is following afterward) were initiated by multi-lateral financial institutions. Pakistan has been taking loans and technical assistance from the developed Western non-Muslim countries and financial institutions to introduce and implement accounting reforms. Therefore, the politics of reforms at the implementation stage led to a rather hybridized accounting system.

There had been fundamental structural changes in the civil accounts but the accounts of other ministries are still maintained, with very minor changes, in the same colonial style as transferred from the British government. Since, these institutions have their own accounting and audit systems at central level, hence the parliamentary public account committees seem ineffective to overview the accounts of the military and judiciary as stated by the chairman of the parliamentary public account committee<sup>7</sup>. This led us to ask a question as to why the civil accounts are the central focus for reformers than the other institutions. This also limits the implication of Islamic accounting concepts of fairness, openness and honesty in business activities. The government accounts should be available to the general public, regardless of the civil or military accounts, to ensure the economic as well as social responsibility of the public organizations as emphasized in the concepts of Islamic accounting because public institutions utilize public money collected through taxation. Therefore, the dual nature of the concept of Islamic accounting, i.e. accountability to fellow people (public) and also to Allah (God), can play a greater role in the development of reliable accounting system in central government accounting in Islam Republic of Pakistan. The accounts of the government are incomplete; thus, the figures presented in the government accounting reports do not show the real accounts as stated by the respondents during the interviews. For example, the previous government (2002-2007) accounts showed \$ 17 billion reserves, which are highly criticized by the newly elected government in public debates and TV shows. Therefore, it also raised a question about the reliability and fairness of accounting information. To what extent is accounting information reliable for decision making? However, according to the concept of Islamic accounting, the government accounts must provide a true financial picture and the public should have access to these information in order to evaluate the performance and fairness of character of their elected representatives. According to Hameed (2000) (1), Islamic Accounting is “accounting process of providing appropriate information to the stakeholders of the organization.” The successive governments had also been facing immense international criticism for accountability as the International Transparency reports showed a decreasing ranking in terms of transparency and accountability<sup>8</sup>. On the other hand, the concept of trust emphasized in the Islamic law for financial

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<sup>7</sup> [http://www.bbc.co.uk/urdu/pakistan/2010/02/100210\\_na\\_pac.shtml](http://www.bbc.co.uk/urdu/pakistan/2010/02/100210_na_pac.shtml) retrieved date: 17/02/2010.

<sup>8</sup> <http://www.transparency.org.pk/report/ncps%202010/press%20release%20embargo.pdf> retrived date 12.10.2011

dealings is also undervalued because, according to [Ather and Ullah \(2009\)](#), Islamic accounting is “the branch of accounting which sets its goals and performs all of its activities to achieve those goals ethically and objectively within the limits and boundary of Islamic Shari’ah is called Islamic Accounting.” This information may not be restricted only to financial information. All these will enable the stakeholders that the organization is working according to the Islamic Shari’ah. The concepts of Islamic accounting and business also ensure that the entity is fulfilling its socioeconomic objectives in order to appraise its own accountabilities to Allah. All these characteristics of Islamic accounting are missing in the accounting practices at the central government of Pakistan.

The concepts of interest free society and characteristic of specific Islamic method of business are also questioned during this study because like other developing countries, Pakistan has been taking loans and financial support from the international financial institutions (World Bank, International Monetary Fund, and Asian Development Bank) which involve interest and they record it as ‘interest payment’. The government also gives loans to provincial governments and other institutions, hence, the government also receives interest and it is recorded as ‘interest receipt’ in the accounting system. Having said that, the accounting system which has provision for recording ‘interest receipt’ and ‘interest payment’ contradicts with the Shari’ah rules of prohibition of interest. As mentioned earlier, the ‘chart of accounts’ book consists of codes, which provides guidelines for record transactions. In order to ensure correct recording of transactions, each transaction is divided into ‘major object’; ‘minor object’ and ‘detailed object’. For example, if revenue is collected from indirect taxes then one can record it under the code of B02 which is its ‘major object’ for recording revenue which comes from indirect taxes. Next step is to find what type of indirect revenue is collected. This can be found under the ‘minor object’, here in this example; it is ‘provincial excise’ for which code is B026. Further detail of the transaction can be found under the ‘detailed object’ to correctly record transaction. The ‘detailed object’ of the above table shows that the central government accounting of Islamic Republic of Pakistan is recording transactions which are against the Shari’ah. Alcohol and its related business are forbidden in Shari’ah. Therefore an accounting system which records the transactions of such business cannot be called an Islamic accounting system.

## CONCLUSION

The involvement of interest, incomplete accounts, non-reliability of accounting information, and non-transparent accounting reports contradicts with the Islamic law of Shari’ah. The non-recording of Zakah, involvement of interest, and recording transactions from business which are prohibited in Shari’ah show that the current accounting system violates the Islamic Law of Shari’ah. This has led us to a conclusion that the role of religion in shaping central government accounting in Islamic Republic of Pakistan is virtually non-existent. This indicates that there is a need for a multi

perspective studies to give a deeper understanding of the development of accounting practices at central government level of Islamic Republic of Pakistan. This opens new research avenues to investigate why the role of religion in shaping government accounting in Pakistan is non-existent? How has the central government accounting in Islamic Republic of Pakistan been developed since independence 1947? The notion of the policy objectives, cultural perspectives, economic and political conditions of the country, institutional structure, and the role of transnational organizations in the implementation of accounting and financial reforms have been so far largely neglected, which all may become captivating topics for future research.

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