

Manual of Accounting Principles

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1 Overview - purpose and scope of the Manual

1.1 Purpose of the Manual

1.1.1.1 The purpose of this Manual is to:

- set out the accounting principles to be used in accounting for the transactions of centralised and self accounting entities within the control of the Federal and Provincial Government. It excludes exempt entities as defined in Schedule two of this manual
- outline the roles and accountability of specified organisations and officers of the centralised accounting and self accounting entities

1.1.1.2 This manual will cover the Principles, Policies and Procedures in relation to Centralised Accounting Entities and will only lay down the Principles for Self Accounting Entities because the Policies and Procedures for Self Accounting Entities are covered by their individual rules and regulations.

1.1.1.3 This Manual defines the framework within which accounting transactions are to be treated and recorded, and accounting and financial responsibilities are to be assigned.

1.1.1.4 Detailed accounting policies and procedures are contained in the Accounting Policies and Procedures Manual. Reference should be made to the Accounting Policies and Procedures Manual, Financial Reporting Manual, Chart of Accounts, Manual of External Reporting Requirements in determining the rules and procedures for the treatment and recording of specific transactions.

1.1.1.5 Documents relevant to accounting and financial management of centralised accounting and self accounting entities include:

- Chart of Accounts
- Delegation of Financial Power under the Financial Rules
- Rules of Business
- Accounting Policies and Procedures Manual
- General Financial Rules
- Federal/Provincial Treasury Rules
- Financial Reporting Manual
- Manual of External Reporting Requirements

1.2 Structure of the Manual

- 1.2.1.1 This Manual is in three parts.
- 1.2.1.2 The first part of this Manual, comprising section 1, provides an overview of the purpose and scope of this Manual.
- 1.2.1.3 The second part of this Manual, comprising sections 2 and 3, sets out the accounting principles to be used by centralised accounting and self accounting entities and upon which the detailed policies and procedures contained in the Accounting Policies and Procedures Manual are based.
- 1.2.1.4 The third part of this Manual, comprising sections 4 and 5, outlines the financial and accounting responsibilities of specified organisations and financial officers
- 1.2.1.5 There are two Schedules attached to this Manual.
- 1.2.1.6 Schedule 1 is a list of all self accounting entities.
- 1.2.1.7 Schedule 2 is a list of all exempt entities.

1.2.2 Reader guidance

- 1.2.2.1 The organisation of the sections, headings and sub headings is shown in the Table of Contents at the front of this Manual.
- 1.2.2.2 The layout of each page within this Manual is standardised. The title of the Manual and the name of the chapter are displayed in the top left and right corners of each page respectively. The footer for each page contains the issue date, page number and file reference.
- 1.2.2.3 Each section of this Manual has the principles appearing at the front of the section. Any detailed or additional explanation and guidance is contained in the “Explanatory notes” subsection. Principles should not be interpreted without first making reference to the explanatory notes.

1.3 Authority, applicability, distribution and maintenance of the Manual

1.3.1 Authority

- 1.3.1.1 This Manual is issued to set out the accounting principles in accordance with which the accounts of the federation and the provinces shall be kept, in pursuance of article, 170 of the Constitution of Islamic Republic of Pakistan.

1.3.2 Effective date

- 1.3.2.1 The effective date for application of this Manual is the date of issue of the Manual by the Auditor-General.
- 1.3.2.2 All accounting entities will have up to two financial years (commencing from 1 July subsequent to the effective date of release) to be in full compliance with this Manual.

1.3.3 Coverage

Accounting entity

- 1.3.3.1 An accounting entity is any unit of Government (eg. ministry, division, and department), whose principal source of funding is an appropriation from the Federal and Provincial Governments, which prepares input to the accounting system and which is not defined in Schedule 2 of this Manual.
- 1.3.3.2 There are two types of accounting entities, namely centralised accounting entities and self accounting entities.

Centralised accounting entities

- 1.3.3.3 A centralised accounting entity is any accounting entity for whom the Accountant-General has primary responsibility for the accounting and reporting function of that entity.
- 1.3.3.4 Unless specifically stated otherwise the term accounting entity will include all centralised accounting entities.

Self accounting entities

- 1.3.3.5 A self accounting entity is any accounting entity for whom the Principal Accounting Officer has primary responsibility for the accounting and reporting functions. A list of these entities is contained in Schedule 1 of this Manual.
- 1.3.3.6 Unless specifically stated otherwise, the term accounting entity will include all self accounting entities.

Exempt entities

- 1.3.3.7 An exempt entity is any entity defined in Schedule 2 of this Manual.

1.3.3.8 The term accounting entity excludes exempt entities.

1.3.4 Compliance

1.3.4.1 Compliance with the Manual is mandatory for all accounting entities.

1.3.4.2 In the event that a guideline in this Manual conflicts with other Manuals, directives or practices, other than those amending this Manual, the guidance in this Manual will prevail.

1.3.4.3 Accounting entities are not authorised to implement accounting principles in conflict with, or contrary to, those set out in this Manual.

1.3.4.4 Sections 5 and 6 covering the “Organisation of Financial and Accounting Responsibilities” and the “Financial and Accounting Responsibilities of Financial Officers” provide specific guidance as to the accounting and financial management responsibilities of key organisations and financial officers.

1.3.4.5 The guidance contained in sections 6 and 7 are in addition to, and in no way negate or replace those responsibilities and accountabilities contained in the Delegation of Financial Power under the Financial Rules, the Authorities Manual, the Rules of Business and any other directives issued by a competent authority.

1.3.5 Distribution, maintenance and update

1.3.5.1 The Auditor-General of Pakistan will be responsible for:

- the initial issue of the Manual to all Principal Accounting Officers of accounting entities
- the maintenance and update of the Manual, including distribution of any updates or amendments to all Principal Accounting Officers of accounting entities

1.3.5.2 For all accounting entities, the Principal Accounting Officer will ensure that:

- initial copies of the Manual are distributed to all finance and accounts officers within the accounting entity
- all subsequent updates and amendments of the Manual are distributed to all finance and accounts officers within the accounting entity

1.3.6 Explanatory note

Statutory and legal requirement for compliance

1.3.6.1 Compliance with the directives and principles contained in this Manual are mandatory as the principles and directives contained in this Manual have been issued under the Pakistan (Audit and Accounts) Order 1973.

1.3.6.2 The Pakistan (Audit and Accounts) Order 1973, provides that the Auditor-General will be responsible for keeping the accounts of the Federation and of each Province, other than certain specified entities. The Order is issued subsequent to Article 170 of the Constitution of the Islamic Republic of Pakistan which states that “the accounts of the Federation and of the Provinces shall be kept in such form and in accordance with such principles and methods as the Auditor-General may, with the approval of the President prescribe”.

Note: The Pakistan Audit and Accounts Order 1973 will be substituted by “Pakistan Audit and Accounts Act” when passed by the Parliament.

2 Accounting concepts

2.1 Consolidated Fund and Public Account

2.1.1 Introduction

2.1.1.1 The purpose of this section is to define and detail the principles upon which the Consolidated Fund and Public Account are established and operate.

2.1.2 Certain funds and accounts to be kept by Governments

2.1.2.1 Each Provincial Government and the Federal Government will maintain a Consolidated Fund and a Public Account.

2.1.3 Consolidated Fund

Definition

2.1.3.1 All moneys received, all loans raised and all moneys received in repayment of any loan by the Government, will form the Consolidated Fund of the Government.

Schedule of Authorised Expenditure

2.1.3.2 No expenditures will be met from the Consolidated Fund unless specified in a duly approved "Schedule of Authorised Expenditure".

2.1.4 Public Account

Definition

2.1.4.1 The following moneys will form the Public Account:

- received by or on behalf of the Government, other than those belonging to the Consolidated Fund
- deposited with the Supreme / High Court or any other court established under authority of the Government

Expenditure from and receipts to the Public Account

2.1.4.2 All receipts and withdrawals from the Public Account will be regulated by Act of Parliament or in the absence of such an Act, shall be determined by rules made by the President / Governor.

2.1.5 Explanatory note

Constitutional requirements

2.1.5.1 Articles 78 and 118 of the Constitution of the Islamic Republic of Pakistan provide that each Provincial Government and the Federal Government will maintain a Consolidated Fund and Public Account.

2.1.5.2 The Constitution further provides that:

- all moneys received by that Government, all loans raised by that Government and all moneys received by it in repayment of any loan will form part of that Fund
- all other moneys, other than those belonging to the Consolidated Fund will form the Public Account

2.1.5.3 Articles 83 and 123 determine that no expenditure may be incurred upon the Consolidated Fund unless it has been duly authenticated. Expenditure is deemed to be duly authenticated if, and only if:

- it has been specified in the “Schedule of Authorised Expenditure” (the Schedule being the grants made or deemed to have been made by the National / Provincial Assembly, in accordance with Articles 82 and 122)
- the Schedule has been signed by the Prime Minister / Chief Minister
- the Schedule has been laid before the National / Provincial Assembly.

2.1.5.4 The “Schedule of Authorised Expenditure” is valid for that financial year only (Article 80 and 120).

2.1.5.5 Articles 79 and 119 state that all receipts into and withdrawals from the Public Account require an Act of Parliament or in the absence of such an Act, rules made by the President / Governor.

Consolidated Fund - role and function

2.1.5.6 The Consolidated Fund is the operating account of the Government, the balance of which is available for appropriation against the general operations of Government.

Public Account - role and function

2.1.5.7 The Public Account consists of those specific purpose moneys for which the Government has a statutory or other obligation to account for, but which are not available for appropriation against the general operations of Government. The Public Account will therefore consist of a series of accounts, each of which will have specific rules governing its operation.

Consolidated Fund - modified cash, accrual accounting and the Schedule of Authorised Expenditure

2.1.5.8 It is a requirement of the Constitution that no expenditure from the Consolidated Fund shall be deemed to be duly authorised unless it is specified in the Schedule of Authorised Expenditure.

2.1.5.9 The Constitution also requires that the Schedule of Authorised Expenditure lapse with the passing of each financial year.

2.1.5.10 However, as expenditure can only be charged against the Consolidated Fund when a cash payment is made. This in no way precludes commitments and accruals being recognised and brought to account, as they are recognised against a non-cash or accrual item eg. commitments or creditors, not against the Consolidated Fund (until such time as the cash payment is made).

2.1.5.11 While the Constitution does not preclude the bringing to account of accruals or commitments, it does prevent the accruals or commitments from being paid against a prior year's Schedule of Authorised Expenditure. For this reason, entities with accruals or commitments from a previous period should ensure that they have allowed for the payment of these accruals and commitments against that year's Schedule of Authorised Payments.

2.2 Accounting Model

2.2.1 Introduction

2.2.1.1 The purpose of this section is to outline the accounting model for the application of the accounting policies contained in section.

2.2.2 Accounting elements

2.2.2.1 Revenues, expenses, assets, liabilities and equity will be recognised in accordance with the principles set down in section 3.3 and as detailed in the Chart of Accounts Manual.

2.2.3 Revenues

2.2.3.1 All revenue will be accounted for on an as received basis, in accordance with the definitions laid down in section 3.3.5 and the directives contained in the Accounting Policies and Procedures Manual.

Example

2.2.3.2 A tax assessment is issued on 2 August and the payee makes payment on 1 September. In this example the revenue would be recognised not upon the issue of the assessment on 2 August but upon the receipt of the cash from the payee on 1 September.

2.2.4 Expenditure and commitments

Expenses

2.2.4.1 All expenses will be accounted for on a cash basis or on a committed basis in accordance with the definitions laid down in 3.3.6 and the directives contained in the Accounting Policies and Procedures Manual.

Commitments

2.2.4.2 Commitments will be recognised when and only when there is a properly authorised obligation to make a payment against the Schedule of Authorised Expenditure, for which the amount of the transaction is known and the supplier has been nominated, not when the cash is paid.

2.2.4.3 Commitments should not be entered into where the total value of the commitment will result in total expenditure in excess of the Schedule of Authorised Expenditure.

2.2.4.4 Commitments will be reversed when and only when any of the following conditions are met:

- the cash payment is made

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- the authorisation to make the payment lapses ie. end of financial year
 - the obligation to make a future payment ceases to exist

2.2.4.5 All commitments will lapse in accord with the Schedule of Authorised Expenditure to which they relate ie. at the end of the financial year. Commitments lapsing at year end and validated for the next financial year should be reinstated with the commencement of the following year's Schedule of Authorised Expenditure.

2.2.4.6 Commitments will only be recognised when the value of the commitment exceeds the threshold criteria set down in the Accounting Policies and Procedures Manual.

Example

2.2.4.7 An entity enters into a commitment to purchase a photocopier on the 2 March but makes payment on 6 April. In this example the commitment would be recorded against the appropriation on 2 March. With the making of the payment on 6 April, the commitment would be reversed and the expense recognised.

2.2.4.8 Explanatory Note

An authorised obligation means that a legal requirement exists to honour the terms of the contract.

Commitments relate to authorised obligations to make payments against the current Schedule of Authorised Expenditure. Where there is a authorised obligation to make payments against a future Schedule of Authorised Expenditure, such obligations will be recognised as Deferred Liabilities in accordance with the directives laid down in Chapter 11 of the Accounting Policies and Procedures Manual.

2.2.5 Assets

2.2.5.1 All assets will be accounted for on a modified cash basis in accordance with the definition laid down in section 3.3.2, and the directives contained in the Accounting Policies and Procedures Manual

Example

2.2.5.2 There is a three year development plan to construct a new building, with Rs 1 million worth of expenditure being incurred each financial year. In this example the Rs 1 million would be recognised in accordance with the principles on expenses eg. Rs 1 million in 19X1, Rs 1 million in 19X2 and Rs 1 million in 19X3. However, upon completion of the building, the building would be recorded in the asset register of the entity responsible for the asset at the constructed cost of Rs 3 million. Certain

entities may choose to record the expenditure against a work-in-progress memorandum ledger.

2.2.6 Liabilities

2.2.6.1 All liabilities, other than commitments (which will be accounted for on a modified cash basis), will be accounted for on a cash basis, in accordance with the definitions laid down in section 3.3.3 and the directives contained in the Accounting Policies and Procedures Manual.

Example

2.2.6.2 An entity enters into a three year lease with payments of Rs 10,000 each financial year. In this example the payments of Rs 10,000 against the current Schedule of Authorised Expenditure would be recognised as a commitment upon receipt of the invoice and an expense upon making the payment. The payment against future Schedule of Authorised Expenditure (ie the balance of Rs 20,000) will be recognised as Deferred Liabilities.

2.2.7 Equity

2.2.7.1 Unless otherwise specified, the Government of Pakistan is the sole holder of the residual value of all accounting entities.

2.2.7.2 Equity will be accounted for in accordance with the definitions and directives laid down in section 3.3.4

Example

2.2.7.3 A self accounting entity is to be wound up. All assets are to be sold or transferred and any commitments are to be paid. In this example, any residual from the sale of assets less commitments would be payable to the Government of Pakistan ie. the Consolidated Fund.

2.2.8 Double entry book keeping

2.2.8.1 All accounts will be maintained on a double entry basis in accordance with the definition laid down in section 3.3.7.18 and the Accounting Policies and Procedures Manual.

2.2.9 Classification of transactions

2.2.9.1 All transactions will be classified in accordance with the Chart of Accounts as outlined in Chart of Accounts.

2.2.10 Explanatory note

Modified cash basis of accounting

2.2.10.1 The modified basis of accounting, records transactions on a cash basis but also takes into account the commitments, acquisition of fixed assets, and incurrence of liabilities during an accounting period.

Adoption of a modified cash basis of accounting in Pakistan

2.2.10.2 The accounting system of the Government of Pakistan is based on a centralised system of accounting and reporting, with primary focus on ensuring due control over, and reporting against appropriations.

2.2.10.3 So long as the primary accountability of accounting officers remained solely against appropriations, a cash basis of accounting was sufficient. However, the need to ensure the efficient and effective allocation of resources in addition to monitoring and ensuring due control over appropriations, has been revised in favour of a modified cash basis with the capacity to move to a full accrual system if and when appropriate.

2.2.10.4 An initial step in this reform process is the memorandum recording of certain assets, liabilities and commitments.

Accounting elements

2.2.10.5 An accounting system is simply a means of collecting, aggregating and reporting on financial transactions. The core to any accounting system is the accounting elements (assets, liabilities, revenues, expenses and equity) as these form the basis upon which transactions are classified, recorded and reported upon.

2.2.10.6 The Government of Pakistan has adopted a modified cash basis of accounting, however, the accounting elements (as defined in section 3.3 Accounting Elements) are based on accruals concepts of accounting. While the modified cash basis of accounting makes limited use of these definitions, particularly in terms of the overall reporting structure, the adoption of principles founded in a full accruals system is seen as an essential first step in moving towards a resource based management system and the introduction of a computerised general government accounting and reporting system.

2.2.10.7 Listed below are specific references to provide guidance in determining the principles upon which the cash based model has been modified. Detailed explanations on specific transaction treatment, including reporting and accounting are contained in the Accounting Policies and Procedures Manual.

Government as owner and funder of services

- 2.2.10.8 The Government of Pakistan has two distinct roles within the modified cash model. The first is as the owner of all accounting entities (section 3.3.4 Equity). The second role is as the funder of services. This distinction is important in determining the entity / Government relationship.
- 2.2.10.9 As the owner of the equity the Government of Pakistan holds title to the residual value of the accounting entity should the entity cease to operate. In addition, it also has some say on the structure and operation of the entity.
- 2.2.10.10 As the funder of the services the Government is responsible for representing the public in defining the needs of the community and ensuring value for money in the provision of services. Defining these needs and deciding the appropriate levels of funding is the purpose of the appropriation and budgeting cycle.

Accounting for commitments

- 2.2.10.11 The primary basis for transaction accounting and reporting is cash based. It is not of itself sufficient to ensure due and proper control over expenditure, particularly in terms of ensuring the matching of expenditure on significant items against appropriations. For this reason the cash basis of accounting has been modified to account for certain expenditure on a commitments basis.
- 2.2.10.12 Accounting for commitments requires that transactions be recognised in the books of accounts as and when there is a properly authorised obligation to make a future payment, for which the amount of the transaction is known and the supplier has been nominated.
- 2.2.10.13 As the principal reason for recognising commitments is the matching of the obligation to make a future payment against the appropriation, thereby ensuring proper control over the Schedule of Authorised Expenditure, it follows that entities should not enter into commitments that would result in the total accumulated expenditure to date plus outstanding commitments, exceeding the amount specified in the Schedule of Authorised Expenditure.
- 2.2.10.14 As a commitment is made against a particular Schedule of Authorised Expenditure, the commitment must lapse with the ceasing of the Schedule of Authorised Expenditure. Since the liability for payment does not necessarily lapse, it will be necessary for the commitment to be reinstated against the following year's Schedule of Authorised Expenditure.
- 2.2.10.15 As at year end, all outstanding commitments will be disclosed. Details of disclosure requirements and the directives for reinstatement are contained in the Accounting Policies and Procedures Manual.

Recording of physical assets

- 2.2.10.16 The Government, through the development program, makes substantial investment in the community in the form of infrastructure and other assets. Government entities are given responsibility for the development, management and maintenance of these assets. For this reason it is important that the Government maintain proper records of the assets and monitors the entity responsible for the care and maintenance of the assets. For this reason assets will be expensed, that is charged against the current years' appropriation, upon purchase and recorded in an asset register as a memorandum record. The asset registers will record assets by category and will be used to report on the assets on a regular basis.

Supplementary information to be maintained

- 2.2.10.17 The base for transaction recognition and reporting is modified cash this necessitates that certain assets and liabilities be recorded and reported.
- 2.2.10.18 The primary responsibility for maintaining the necessary records, such as asset registers and schedules of liabilities, rests with the entity charged with the responsibility for the day to day management of the asset or liability. As part of that responsibility the entity has an obligation to maintain appropriate records and provide the proper information to enable the reporting on the management of those assets or liabilities to other users eg. the Government of Pakistan.
- 2.2.10.19 The form and content of the supplementary information will be determined by the Ministry / Department of Finance and / or the Auditor-General.

Appropriations as revenue

- 2.2.10.20 Within the modified cash basis of accounting, appropriations will be recognised as revenues to the entity upon receipt of the notification of release from the Ministry / Department of Finance in accordance with the directives laid down in APPM.

Taxes not to be recorded as revenues of the collecting agency

- 2.2.10.21 Taxes, fees and fines collected on behalf of the Government will not form revenues of the collecting agency (section 3.3.7.7), unless otherwise specified by the Government.

Expenditures of entities not to be met direct from Consolidated Fund Revenue

- 2.2.10.22 Taxes, fees and fines collected on behalf of the Government are to be paid into the Consolidated Fund.

Revenues and expenditures to be shown gross

- 2.2.10.23 The netting off of expenditures and revenues is not permitted. All revenues and all expenditures will be shown on a gross basis.

2.2.10.24 Explanatory Note

Any receipts received by the Government Office are not revenues on part of the collecting entity and will not be retained to meet departmental or other types of expenditure, unless otherwise permitted by the Government.

Notwithstanding the above, a refund received by the Government for goods or services purchased represents a reduction in the original expenditure incurred by the Government. Refunds received must not be considered as revenue.

2.3 Internal Control

2.3.1 Introduction

- 2.3.1.1 The purpose of this section is to provide general principles regarding internal control as they relate to the accounting procedures of all accounting entities.
- 2.3.1.2 Detailed application of the mandatory internal control procedures is contained in the Accounting Policies and Procedures Manual and as noted in Government Finance Regulation 13.

2.3.2 Definition

- 2.3.2.1 The term internal control system refers to the policies and procedures adopted by the entity to assist in achieving, as far as practicable, the financial management and accountability objectives of the Government.
- 2.3.2.2 The Principal Accounting Officer in conjunction with the Internal Audit Officer will be responsible for ensuring that a proper system of internal control exists within the entity. This includes ensuring:
- the orderly and proper conduct of its function
 - adherence to accounting policies and procedures
 - stewardship of assets
 - prevention and detection of fraud and error
 - accuracy and completeness of accounting records
 - timely and proper preparation of accounting information.

2.3.3 Explanatory note

- 2.3.3.1 The following objectives are essential in the establishment of proper internal control:
- all transactions are executed in accordance with the rules and regulations issued by the Government
 - all transactions and other events are promptly recorded in the correct amount, in the appropriate accounts and in the proper accounting period so as to permit preparation of accounting information in accordance with the accounting policies and procedure
 - recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken regarding any differences

2.4 Budgeting

2.4.1 Introduction

- 2.4.1.1 The purpose of this section is to set out the principles for the authorisation of the annual budget of the Government of Pakistan.
- 2.4.1.2 For detail budgeting process and procedures refer to chapter 3 – Budgetary Control of the APPM.

2.4.2 Budgeting

Submission of estimates

- 2.4.2.1 Accounting entities will prepare and submit budget estimates in accordance with the procedures set out in the Accounting Policies and Procedures Manual and Government Finance Regulations as prescribed by the Ministry of Finance.

Annual budget statement

- 2.4.2.2 The Government will, for each financial year, prepare a statement of the estimated receipts and expenditure of the Government.

Budget statement disclosure

- 2.4.2.3 The annual budget statement shall show separately:
- the sums to meet expenditure described by the Constitution as expenditure charged upon the Consolidated Fund
 - the sums required to meet other expenditure proposed to be made from the Consolidated Fund
- 2.4.2.4 The annual budget statement shall distinguish expenditure on revenue account from other expenditure.

2.4.3 Explanatory note

The Budget

- 2.4.3.1 The budget is the principal document by which the Government sets out its financial plan for the following financial year, namely how much the plan will cost (ie. expenditure) and how much and in what way, money will be raised to finance the expenditure (ie. revenue).
- 2.4.3.2 The budget consists of a number of documents:
- Annual Budget Statement - summary of the overall budget position (revenue and expenditure)

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- Schedule of Authorised Expenditure - detailed estimates of Consolidated Fund - current expenditure and detailed estimates of Consolidated Fund - development expenditure
 - Finance Act - the legal instrument through which the budget becomes an act of law. The Finance Act also makes the necessary amendments to existing legislation required by the budget eg. amendments to tax rates, introduction of new taxes etc.

The budget cycle

2.4.3.3 The budget cycle consists of six phases:

- setting of budget policy and initiatives - Cabinet will meet to determine budget policy, initiatives and priorities. The budget policy, initiatives and priorities will then be communicated to the Ministry of Finance, who will then communicate these to ministries and departments via the financial advisers
- preparation - the preparation of the budget papers commences in October of each financial year with the preparation and submission of entity estimates/bids and the subsequent review and consolidation of those submissions by the Ministry of Finance
- authorisation - this phase commences with the submission of the annual budget to the Assembly and is completed when the entity gains control over its appropriations
- implementation - the next step in the cycle is for the entity to implement the activities for which it has been funded. The recording and control of these activities is the subject of the accounting system
- reporting - reporting is the first step through which individuals within the entity and the Minister are held accountable for the implementation of the budget. This step involves both internal and external reporting (refer to section 3.5)
- performance review - this phase incorporates both internal and external review and together with the reporting phase covers most of what is referred to as accountability. The principal offices concerned with the review of performance are the Auditor-General's office and the Public Accounts Committee

3 Accounting Policies

3.1 Accounting period

3.1.1 Introduction

3.1.1.1 The purpose of this section is to define the accounting period.

3.1.2 Accounting period

Definition

3.1.2.1 “Accounting period” will be the financial year commencing 1 July and ending 30 June, and will consist of twelve monthly periods.

3.1.3 Explanatory note

3.1.3.1 Article 260 of the Constitution of the Islamic Republic of Pakistan defines the financial year as being “a year commencing on the first of July”. This definition has been adopted for the purposes of this Manual and the Accounting Policies and Procedures Manual.

3.2 Accounting records

3.2.1 Introduction

- 3.2.1.1 The purpose of this section is to define the accounting records and determine the rules for the keeping and maintenance of those records.

3.2.2 Definition

- 3.2.2.1 “Accounting records” are any book of account upon which transactions are recorded or any other document issued or used in the preparation and processing of the transactions of accounting entities.
- 3.2.2.2 “Books of account” are any account, deed or any other document or record however compiled, recorded or stored whether in written form, printed form, microfilm, or electronic form.

3.2.3 Making of proper entries

- 3.2.3.1 In the preparation and processing of transactions and in all accounting and related entries, pencil will not to be used. All entries will be inked.

3.2.4 Errors omission and corrections

- 3.2.4.1 Erasures (including the use of correction fluids or chemicals) are not permitted in any books of account.
- 3.2.4.2 Correction of errors will be made by reversing the original entries in full and posting the correct entries, a cross reference between the original entries and the correcting entries will be included. Where the correction is made in a manual system the officer making the correcting entry should initial and date the cross reference.

3.2.5 Maintenance of accounting records

- 3.2.5.1 Books of account will use pre-numbered pages and primary books of accounts eg. cash books and ledgers, are to be bound.
- 3.2.5.2 Under no circumstances are pages to be removed from any primary book of account.
- 3.2.5.3 All electronic records will be backed up on a regular basis (preferably daily and at least weekly).
- 3.2.5.4 All backups will be stored in a secure location.
- 3.2.5.5 Periodic backups (monthly) will be made and stored at a secure off-site location.

3.2.6 Minimum periods for retention

- 3.2.6.1 All accounting records will be retained either in their original form or suitable substitute for a period of ten years from the date of certification of the latest entry by audit or review by the PAC (whichever is latest). Some records may be destroyed after a period of ten years.

3.3 Accounting elements

3.3.1 Introduction

- 3.3.1.1 The purpose of this section is to establish definitions of the elements for the classification of transactions (namely assets, liabilities, equity, revenues and expenses).
- 3.3.1.2 The Federal and Provincial Government operates on a modified cash basis of accounting. The “definition” and “recognition criteria” for the accounting elements listed in this section are based upon a full accruals concept. For this reason the “Application” paragraph for each element provides guidance on the interpretation of the definitions in a modified cash model.

3.3.2 Assets

Definition

- 3.3.2.1 “Assets” are future economic benefits controlled by the entity as a result of past transactions or other past events.

Recognition criteria

- 3.3.2.2 An asset will be recognised when:
- it is probable that the future economic benefits will occur
 - the asset possesses a cost or other value that can be measured reliably

Application

- 3.3.2.3 All assets will be expensed, that is charged against the current years’ appropriation, at the time of purchase
- 3.3.2.4 Expenditure which relates to physical assets will be recorded as memorandum items in an “Physical Assets Register” in accordance with the definitions and directives laid down in section 2.2.4 Expenditure and commitments.
- 3.3.2.5 Expenditure which relates to financial assets will be recorded as memorandum items in an “Financial Assets Register” in accordance with the definitions and directives laid down in section 2.2.4 Expenditure and commitments.

3.3.3 Liabilities

Definition

- 3.3.3.1 “Liabilities” are future sacrifices of economic benefits that the entity is presently obliged to make as a result of past transactions or other past events.

Recognition criteria

- 3.3.3.2 A liability will be recognised when:
- it is probable that the future sacrifice of economic benefits will be required
 - the amount of the liability can be measured reliably

Application

- 3.3.3.3 Liabilities will be recognised on a cash or as committed basis, with the commitment or expense being made against the appropriation given for that expenditure.
- Current liabilities are the obligations payable at the demand of the creditor and those part of other obligation whose liquidation is expected within one year of the reporting date
 - Long term liabilities are the obligation which are expected to be liquidated after a period of one year of the reporting date
- 3.3.3.4 Commitment will be recorded as memorandum items in the commitments section of the “Budget Head Register” in accordance with the definitions and directives laid down in section 2.2.4 Expenditure and commitments.
- 3.3.3.5 Liabilities other than commitments will be recorded as memorandum items in a “Liabilities Register” in accordance with the definitions and directives laid down in section 2.2.4 Expenditure and commitments.

3.3.4 Equity

Definition

- 3.3.4.1 “Equity” is the residual interest in the assets of the entity after deduction of its liabilities.

Application

- 3.3.4.2 Equity will be recognised in accounting records as per codes stated in the Chart of Accounts Manual and procedures laid down in the APPM.
- 3.3.4.3 All transfers of equity will be accounted for on a cash basis and will be treated as revenues to the receiving entity and as expenses to the contributing entity.

3.3.5 Revenues

Definition

- 3.3.5.1 “Revenues” are increases in economic benefits in the form of increases or enhancements of assets or decreases of liabilities that, other than those relating to contributions by the Government as owner, result in an increase in equity.

Recognition criteria

- 3.3.5.2 An item of revenue will be recognised when:
- it is probable that the increase of future economic benefits related to the increase in assets and/or decrease in liabilities will occur
 - the increase in future economic benefits related to the increase in assets and/or decrease in liabilities can be measured reliably

Application

- 3.3.5.3 Revenues will be recognised on a cash basis (ie. as and when the entity gains control over the cash). In addition to this where the future revenue of a Government can be estimated, this information will be disclosed in the accounts by the way of a note.

3.3.6 Expenses

Definition

- 3.3.6.1 “Expenses” are decreases in future economic benefits in the form of reductions in assets or increases in liabilities of the entity that, other than those relating to distributions by Government as owners, result in a decrease in equity.

Recognition criteria

- 3.3.6.2 An expense will be recognised when:
- it is probable that the decrease in future economic benefits related to the reduction in assets and/or increases in liabilities will occur
 - the decrease in future economic benefits can be measured reliably

Application

- 3.3.6.3 Expenses will be recognised on a cash or as committed basis, with the expense or commitment being made against the appropriation given for that expenditure.

3.3.7 Explanatory note

Definition of accounting elements

- 3.3.7.1 The purpose of the accounting model is to portray the financial effects of transactions. In order to do this it is necessary to group the transactions into broad classes according to their economic characteristics. These broad classes are to be referred to as the accounting elements, namely assets, liabilities, equity, revenue and expenditure.
- 3.3.7.2 Details regarding the classification of the accounting elements are contained in chapter 4 Chart of Accounts.

Financial assets and liabilities

- 3.3.7.3 The term financial assets and liabilities refers to those assets and liabilities consisting of cash and cash equivalents. Cash equivalents are items readily converted into cash eg. bearer bonds.

Recognition of accounting elements

- 3.3.7.4 Subsequent to determining the broad classes, it is necessary to specify the criteria that need to be met before the accounting elements can be recognised in the books of account. The underlying assumption in determining the criteria for recognition is there exists a present obligation or an expectation that economic benefits will flow to or from an entity. Recognition is then based on there being sufficient certainty that the flow of economic benefits to or from the entity will occur.

Economic benefits

- 3.3.7.5 The term economic benefits refers to the potential to increase or decrease the flow of cash or cash equivalents of the entity. However, a modified cash basis of accounting precludes the accounting for “potential” flows, other than commitments, and instead requires the actual cash to be accounted for.

Control and present obligations

- 3.3.7.6 The term “control over the future economic benefits” is defined as the capacity of the entity to enjoy the benefits and deny or regulate the access of others to the benefits.
- 3.3.7.7 Where an entity acts as an agent the revenues or expenses should not be recorded in the primary books of account other than as a matter of stewardship. For example, an entity collecting taxes will not normally control the future economic benefits embodied in the tax collections and as such would not recognise the taxes as revenues of the entity. The entity may however recognise “taxes collected on behalf of the Government” as subsidiary information on the overall performance of the entity.

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- 3.3.7.8 The term “present obligations” is defined as a duty or responsibility of the entity to act or perform in a certain way. An obligation implies the involvement of two separate parties, namely the entity and a party external to the entity.

Occurrence of past transaction or other past event

- 3.3.7.9 The term “occurrence of past transaction or other past event” refers to the requirement that, in order for an accounting element to be recognised in the books of account, it must have been the result of a transaction or other past event giving the entity control over the future economic benefits or giving rise to a present obligation upon the future economic benefits.

Prior Year Adjustments

- 3.3.7.10 Receipts and Expenditure which occurs in the current year, relating to previous years due error or omission are referred to as Previous Year adjustments.

Previous year adjustments will need to be made against the Schedule of Authorised Expenditure in the current year with the permission of the Auditor-General routed through the administrative/department and will be shown by way of note accompanying the Financial Reports.

- 3.3.7.11 Prior year adjustments that relate to misclassification without any impact on the cash balance of either the Consolidated Fund or Public Account and with the permission of the Auditor-General routed through the administrative ministry/department will be shown by way of note accompanying the Financial Reports.

- 3.3.7.12 Detailed directions on the disclosure of prior year adjustments for reporting purposes are contained in the Accounting Policies and Procedures Manual.

Probability

- 3.3.7.13 The term probable means that the chance of the future economic benefits or sacrifice of economic benefits arising is more likely rather than less likely.

Reliable measurement

- 3.3.7.14 For an accounting element to meet the recognition criteria it must possess a cost or other value that can be measured in a manner that accurately and faithfully represents the transactions that have occurred.

Contributions by owners and distributions to owners

- 3.3.7.15 Contributions by owners and distributions to owners are non-reciprocal transfers between an entity and the Federal and Provincial Government acting in its capacity as owner.

- 3.3.7.16 Distributions to owners are made at the discretion of the ownership group or its representatives after satisfying restrictions imposed by legislation or by agreements with other entities. Generally, an entity is not obliged to transfer assets to owners except in the event of the entity being wound up (paragraphs 2.1.10.8 to 2.1.10.10 *Government as owner and funder of services*).
- 3.3.7.17 Within a modified cash basis of accounting contributions by owners are recognised within the books of accounts as revenue, to the receiving entity and as an expense to the contributing entity.

Double entry book keeping

- 3.3.7.18 The adoption of accounting elements, as defined above, necessitates the adoption of a double entry book keeping system. For example the recognition of revenue occurs simultaneously with the recognition of increases in assets or decreases in liabilities.

Generally Accepted Accounting Principles (GAAP)

- 3.3.7.19 The accounting principles set out in this Manual are generally consistent with those set out in the “Framework for the Preparation and Presentation of Financial Statements” issued by the International Accounting Standards Committee, in so far as that framework addresses the definition and recognition of accounting elements.

3.4 Banking

3.4.1 Introduction

- 3.4.1.1 The purpose of this section is to set out the principles for banking by accounting entities.

3.4.2 Banking

State Bank of Pakistan to be the sole banker

- 3.4.2.1 Government will only bank with the State Bank of Pakistan or its authorised agent/s under the authorised agreement.

Operation of bank accounts

- 3.4.2.2 Government will not open or operate bank accounts outside of those authorised by the Ministry of Finance.

Bank accounts are to be operated by authorised officers only.

- 3.4.2.3 All banking transactions will be conducted in accordance with the principles laid down in the Accounting Policies and Procedures Manual and / or the Federal / Provincial Treasury Rules as issued by the Ministry of Finance or the Auditor-General.

Withdrawals from bank accounts

- 3.4.2.4 All payments will be made by cheque, transfer or direct debit unless otherwise authorised by the Ministry of Finance or the Auditor-General.
- 3.4.2.5 Only official Government issued cheques will be used when making payments by cheque unless otherwise specifically authorised by Government
- 3.4.2.6 All cheques and direct debits will be authorised in accordance with the policies and procedures set out in the Accounting Policies and Procedures Manual and / or the Federal / Provincial Treasury Rules as issued by the Ministry/Department of Finance.

Deposits to bank accounts

- 3.4.2.7 All cash receipts will be deposited in branches of the State Bank of Pakistan or the National Bank of Pakistan or their specifically authorised agents.
- 3.4.2.8 Cash receipts will be deposited on the day of the receipt, unless otherwise authorised by the Ministry of Finance.
- 3.4.2.9 Government department should keep the cash transactions to the minimum level.

3.4.2.10 All cash receipts will be retained in a secure location until such time as the monies are deposited.

3.4.2.11 All deposits will be accounted for in accordance with the policies and procedures set out in the Accounting Policies and Procedures Manual.

Reconciliation of bank accounts

3.4.2.12 At the close of each month, the entity will reconcile its books of accounts with the bank records. This reconciliation is to be performed in accordance with the policies and procedures set out in the Accounting Policies Procedure Manual, GFR and Federal / Provincial Treasury Rules.

3.5 Reporting

3.5.1 Introduction

- 3.5.1.1 The purpose of this section is to set out the principles for reporting by accounting entities.
- 3.5.1.2 The timing and format of various periodic reports are set out in the Financial Reporting Manual.

3.5.2 Reporting

Preparation of financial reports

- 3.5.2.1 Financial reports will be prepared in the format and manner prescribed in the Accounting Policies and Procedures Manual.

Purpose of financial reports

- 3.5.2.2 Financial reports will be prepared in a manner that will communicate comprehensive, relevant, reliable, understandable and comparable information in a timely manner about a reporting entity to meet the needs of the users of those financial reports.

3.5.3 Explanatory note

Purpose of financial reports

- 3.5.3.1 Financial reports are a means of communicating relevant and reliable information about a reporting entity to users. The objective of those financial reports is to meet the needs of those identified as the users of the financial reports. Those needs depend, in turn, on the activities of reporting entities and the decisions users make about them.
- 3.5.3.2 Financial reports serve two broad purposes the first is to assist users in the allocation of resources. The second purpose is to provide a mechanism to enable an entity and the Government, as the owner of that entity, to discharge their joint accountabilities.

Users of financial reports

- 3.5.3.3 Given the purpose of financial reports, it therefore follows that there are three broad groups of users of financial reports:
- the Federal and Provincial Government, and the Provincial Governments as providers of resources
 - the public as the recipient of goods and services

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- the Public Accounts Committee, the Federal and Provincial Government and the public, as parties performing a review or oversight function

Objective of financial reports

3.5.3.4 The objective of financial reports is to meet the needs of the users of those financial reports, namely:

- to provide information about the financial position, performance and changes in financial position of the reporting entity
- to discharge the accountability of the entity for stewardship of the resources entrusted to them

Qualitative characteristics of information

3.5.3.5 The qualitative characteristics of information are defined in the International Accounting Standards Committee's "Framework for the Preparation and Presentation of Financial Statements", these characteristics are summarised in the following paragraphs.

3.5.3.6 There are five qualitative characteristics to be considered in the collection and reporting of financial information to be provided to users, these are:

- understandability - the information must be readily understood by users with a reasonable knowledge of the activities of the entity, its economic environment and accounting framework
- relevance - to be useful, information must be relevant to the decision making needs of the users. It should help users in making predictions about the outcomes of past, present or future events and / or confirm or correct past evaluations. The information should also assist users to assess the rendering of accountability of the entity
- reliability - users must be capable of depending on the information contained in the financial reports to represent faithfully and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent. It should be noted that the Federal and Provincial Government does not comply with GAAP in that legal form takes precedence over economic substance
- comparability - users must be able to discern and evaluate similarities in, and differences between, the nature and effects of transactions and events, at one time and over time
- materiality - all financial information should be assessed as to whether its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements

Constraints on relevant and reliable information

- 3.5.3.7 Financial information which is relevant and reliable may lose its relevance if there is undue delay in the reporting of the information. Thus, the time available to gather and report financial information is a major constraint. In balancing the two the overriding consideration is how best to meet the needs of users.
- 3.5.3.8 The Manual of Accounting Principles sets out the broad principles and objectives to be followed in the preparation of financial reports. The Accounting Policies and Procedures Manual details the procedures to be followed in the preparation of accounts eg. closing of accounts, year end adjustments etc. and prescribes the form, content and timing for the preparation and submission of reports.

3.6 Inter entity transactions

3.6.1 Introduction

- 3.6.1.1 The purpose of this section is to set out the principles for accounting for inter entity transactions by accounting entities.

3.6.2 Inter entity transactions

Definition

- 3.6.2.1 Inter entity transactions are accounting transactions performed by one Province or the Federation but belonging to budget of a different Province or the Federation.
- 3.6.2.2 Inter entity transaction of all those entities maintaining the same bank account should be made through book adjustment and those entities having different bank account should be made through cheques.

Accounting treatment

- 3.6.2.3 Inter entity transactions will be recognised in the accounts of the receiving entity only and will not form revenues or expenses of the incurring entity.
- 3.6.2.4 All inter entity transactions are to be accounted for in accordance with the policies and procedures contained in the Accounting Policies and Procedures Manual.

4 Organisation of financial and accounting responsibilities

4.1 Financial and accounting responsibilities of the Public Accounts Committee

4.1.1 Responsibilities

- 4.1.1.1 The responsibilities referred to below incorporate both the Public Accounts Committee and the Provincial Public Accounts Committee.
- 4.1.1.2 The Public Accounts Committee is responsible for examination and reporting as detailed in the consolidated financial statements prepared by the Auditor-General.
- 4.1.1.3 The responsibilities of the Public Accounts Committee are governed by the Rules and Procedures of the National Assembly.
- 4.1.1.4 The Public Accounts Committee are required to submit their findings and recommendations to Parliament and to the Principal Accounting Officer of the concerned entity for actioning.

4.1.2 Constitution

- 4.1.2.1 The Public Accounts Committee is constituted from the members of the National Assembly.

4.1.3 Accountability

- 4.1.3.1 The Public Accounts Committee reports to Parliament, however, there are no legislative powers covering the accountability of the Public Accounts Committee to Parliament.

4.2 Financial and accounting responsibilities of the Auditor-General's Office

4.2.1 Responsibilities

4.2.1.1 Responsibilities of the Auditor-General's Office include:

- certify the accounts of the entities other than those specified in Schedule 2 of this Manual
- report the result of the examination to the Government
- supply financial information on an as required basis to the Federal or the Provincial Governments or their representatives
- submission of the annual accounts of the Federation and each Province to the President or the Governor as the case may be
- preparation and submission to the President, General Financial Statements incorporating the summary of the accounts of the Federation and all Provinces
- keeping the accounts of the entities other than those specified in Schedule 2 of this Manual
- supplying the financial information as and when required to the Federal and Provincial Governments or their representatives
- monitoring the working of the Accountant-General of Pakistan Revenue and Provincial Accountants-Generals

4.2.2 Legislative requirements

4.2.2.1 The operations of the Auditor-General are governed by the Constitution of Islamic Republic of Pakistan and the Pakistan (Audit and Accounts) Order, 1943.

Constitutional requirements

4.2.2.2 The Auditor-General will, in relation to the accounts of the Federation and of the Provinces and the accounts of any authority or body established by the Federation or a Province, perform such functions and exercise such powers as may be determined by or under Act of Parliament and, until so determined, by Order of the President

4.2.2.3 The accounts of the Federation and of the Provinces shall be kept in such form and in accordance with such principles and methods as the Auditor-General may, with the approval of the President, prescribe.

4.2.2.4 The report of the Auditor-General in relation to the accounts of the Federation and Provinces shall be submitted to the President or Governor as the case may be.

Pakistan (Audit and Accounts) order, 1943 requirements

4.2.2.5 The Office of the Auditor-General will:

- be responsible for the audit of all transactions of the Federation and Provinces
- be responsible for supplying information on financial matters as required by the Federal or Provincial Government
- have authority to inspect Government treasuries and other offices responsible for keeping subsidiary accounts
- be responsible for keeping the accounts of the Federation and of each Province
- prepare for the Federation and for each Province an appropriation showing the annual receipts and disbursement, and submit these accounts to the Federal or Provincial Governments
- comply with the order of the President for the accounts of the Federation and the Governors for the accounts of the Provinces
- prepare and submit annually to the President a Consolidated General Financial Statement

4.2.3 Accountability

4.2.3.1 Office of the Auditor-General is accountable to the President of Pakistan.

4.3 Financial and accounting responsibilities of the Accountants-Generals' Offices

4.3.1 Responsibilities

4.3.1.1 Responsibilities of Accountants-Generals' Offices in respect of centralised accounting entities include:

- keeping the accounting records of their transaction
- performing pre-audit(validation) function on their payments

4.3.1.2 Other financial and accounting responsibilities of the Accountants-Generals' Offices include:

- preparation and submission to the Federal and Provincial Governments of consolidated monthly and consolidated quarterly accounts for the Federation and for each Province
- preparation for each financial year, of half yearly and annual financial statement of the Federal and each of Provincial Governments and the Consolidated Financial Statements of the Republic for submission to the Auditor General of Pakistan.

4.3.2 Accountability

4.3.2.1 Accountants-General' Offices are accountable to the Auditor-General.

4.3.3 Explanatory note

4.3.3.1 For the Federal Government, the office of the Accountant-General of Pakistan Revenue performs the above responsibilities with the assistance of:

- Accountant-General of Pakistan Revenue office in Islamabad
- Federal treasury office in Islamabad
- Sub-Offices of Accountant-General of Pakistan in each Province
- District Accounts Offices at district level

4.3.3.2 For the Provincial Government, Accountants-General perform the above responsibilities with the assistance of:

- Treasuries in various locations
- District Accounts Offices at district level

4.4 Financial and accounting responsibilities of the Ministry of Finance - Finance Division (Federal) / Department (Provincial)

4.4.1 Responsibilities

4.4.1.1 Responsibilities of Finance Division/Department in respect of government accounting of the entities other than those specified in Schedule 2 include:

- compilation and sanction of annual budgets and supplementary budgets
- advising Government on policy matters relating to the accounts and financial matters of the Government
- monitoring overall budget performance for the Government
- prescribing detailed policies and procedures in relation to specific accounting and financial areas eg. purchasing, insurance etc.

4.4.1.2 Other financial and accounting responsibilities include:

- management of domestic and foreign borrowing, including aid and grants

4.4.2 Accountability

4.4.2.1 Finance Division is accountable to the Finance Minister.

4.5 Financial and accounting responsibilities of the Central Board of Revenue

4.5.1 Responsibilities

4.5.1.1 Responsibilities of the Central Board of Revenue include:

- assessment and collection of Federal Government taxes
- recording and reconciliation of revenue collections

4.5.2 Accountability

4.5.2.1 Central Board of Revenue is accountable to the Finance Minister.

4.5.3 Explanatory Note

4.5.3.1 The Central Board of Revenue is in the process of becoming a self accounting entity. Once this has occurred the Manual of Accounting Policies will be revised accordingly.

4.6 Financial and accounting responsibilities of the State Bank of Pakistan and its agent/s

4.6.1 Responsibilities

4.6.1.1 The State Bank of Pakistan and its agent, National Bank of Pakistan are the Government's Banker.

4.6.1.2 The responsibilities of the State Bank of Pakistan and its agent, the National Bank of Pakistan in respect of government accounting include:

- making collections on Government account
- making disbursements on approved claims
- maintenance of records of all transactions described above
- preparation and submission of statements of transactions (in such form as may be specified)
- managing the Government's cash balances in accordance with the Government's specific instructions
- periodic reconciliations of transactions with Accountants General's Office and Accountant General Pakistan Revenues
- periodic reporting to Accountants General's Office, Accountant General Pakistan Revenues and Ministry of Finance

4.6.2 Explanatory note

4.6.2.1 The State Bank of Pakistan fulfils the role of the Central Banker, having overall responsibility for the management of the Government's banking. The National Bank of Pakistan takes primary responsibility for the majority of the transaction processing of Government.

4.7 Financial and accounting responsibilities of centralised accounting entities.**4.7.1 Responsibilities**

4.7.1.1 The financial and accounting responsibilities of centralised accounting entities are organised such that:

- the primary books of accounts are maintained and reported on by the Accountants-General's Offices
- the Accountants-Generals' Offices perform the pre-audit function
- all other financial and accounting responsibilities remain the responsibility of the Principal Accounting Officers

4.7.2 Determination of entities to be included in Schedule 1 & 2 of this Manual.

4.7.2.1 The Auditor-General of Pakistan in consultation with Ministry of Finance will determine the entities to be included in Schedule 1 & 2

4.8 Financial and accounting responsibilities of Schedule 1 entities

4.8.1 Responsibilities

4.8.1.1 The financial and accounting responsibilities of Schedule 1 entities are organised such that:

- the Head of Organisation is responsible for maintaining primary books of accounts
- they are responsible for conducting their own pre-audit
- the entities have delegated powers and responsibilities to independently account for expenditure and receipts, and to make their own payments and operate their own assignment accounts
- periodic reports are prepared and submitted to the Accountants General's Office

4.8.2 Determination of entities to be listed in Schedule 1

4.8.2.1 The Auditor-General of Pakistan in consultation with the Ministry of Finance will determine the entities to be included in Schedule 1.

5 Financial and accounting responsibilities of Administrative Financial and Accounts Officers

5.1 Financial and accounting responsibilities of financial officers

5.1.1.1 The term financial officer has been used in generic sense to describe all officers having accounting or financial responsibility .

5.2 Financial and accounting responsibilities of Principal Accounting Officers

5.2.1 Position

5.2.1.1 There will be a Principal Accounting Officer for each Ministry/Division/Department other than entities in Schedule 1 and 2 of this Manual. In the case of Schedule I entities the Head of Organisation will assume the responsibilities of the Principal Accounting Officer.

5.2.2 Definition

5.2.2.1 The Principal Accounting Officer is the senior accounting officer within the entity other than for entities in Schedule 1 and 2 of this Manual. In the case of Schedule 1 entities the Head of Organisation will assume the responsibilities of the Principal Accounting Officer.

5.2.3 Responsibilities

5.2.3.1 Responsibilities of the Principal Accounting Officer includes:

- ensuring compliance with the Manual of Accounting Principles and Accounting Policies and Procedures Manual and any other financial and accounting directives issued by the Government
- application of appropriate accounting policies
- preparation and monitoring of the entity's appropriation
- exercising delegation of financial responsibility
- authorisation and reconciliation of expenditure
- due diligence in provision of accounting information
- application of internal control within the entity
- safe custody of assets
- proper use of resources

5.2.4 Accountability

5.2.4.1 The Principal Accounting Officer is responsible to the Minister concerned and to the Public Accounts Committee in relation to under and over expenditure on Budget. The head of Organisation in Schedule Accounting entities is responsible to the Minister concerned through the Secretary of the Ministry/Division concerned.

5.2.5 Explanatory note

5.2.5.1 The Principal Accounting Officer will be the Secretary in the centralised accounting entities and the Chief Executive Officer in the self accounting entities. The Principal Accounting Officer may delegate to the Controlling Officer.

5.3 Financial and accounting responsibilities of the Financial Adviser

5.3.1 Position

5.3.1.1 For each accounting entity within the Federal Government only other than entities specified in Schedule 2 of this manual there will be assigned a representative of the Finance Ministry who will be designated as the Financial Adviser.

5.3.2 Definition

5.3.2.1 The Financial Adviser will be responsible for advising the Principal Accounting Officer in the application of Government policies.

5.3.3 Responsibilities

5.3.3.1 Responsibilities of Financial Adviser include:

- to provide financial advice to the Principal Accounting Officer on the application of Government accounting policies
- to assist the Principal Accounting Officer in the scrutiny of budget proposals and submissions
- to represent the Ministry of Finance in important assignments, projects and matters relating to the management of that entity

5.3.4 Accountability

5.3.4.1 The Financial Adviser is responsible to the Finance Secretary

5.3.5 Explanatory note

5.3.5.1 For entities that do not have their own Financial Adviser, the Financial Adviser attached to the relevant Ministry / Division / Department will be considered to have an office in the attached entity of that Ministry / Division / Department.

5.4 Financial and accounting responsibilities of Finance and Accounts Officers

5.4.1 Position

5.4.1.1 For each entity other than entities specified in Schedule 2 of this manual there will be a Finance and Accounts Officer/s.

5.4.2 Definition

5.4.2.1 The Finance and Accounts Officer will be responsible for advising the Principal Accounting Officer on all financial, budgetary and accounting matters and recording of financial transactions within the entity.

5.4.3 Responsibilities

5.4.3.1 Responsibilities of Finance and Accounts Officers include:

- co-ordination and internal scrutiny of budget estimates
- ensuring development schemes are prepared in accordance with the prescribed financial procedures and policies
- advising the Principal Accounting Officer on all financial, budgetary and accounting matters related to the entity
- ensuring proper maintenance of accounting information including reconciliation
- exercising internal checks on irregularities, waste and fraud
- ensuring application of all accounting and financial rules and regulations issued by the Government
- co-ordination with Financial Adviser

5.4.4 Accountability

5.4.4.1 The Finance and Accounts Officer is accountable to the Principal Accounting Officer.

5.5 Financial and accounting responsibilities of Internal Audit Officer**5.5.1 Position**

5.5.1.1 There will be an Internal Audit Officer for each centralised accounting entity and each self accounting entity.

5.5.2 Definition

5.5.2.1 The Internal Audit Officer is responsible for reviewing the effectiveness of systems of internal control and reports to the Principal Accounting Officer.

5.5.3 Responsibilities

5.5.3.1 Responsibilities of the Internal Audit Officer include:

- auditing of major transactions within the entity
- assisting the Principal Accounting Officer in developing and maintaining a system of internal control within that entity
- reporting compliance with the financial policies and procedures
- reporting on the proper accountability of the entity's assets and liabilities

5.5.4 Accountability

5.5.4.1 The Internal Audit Officer will be responsible to the Principal Accounting Officer.

5.6 Financial and accounting responsibilities of Project Director

5.6.1 Position

5.6.1.1 The Principal Accounting Officer will assign a Project Director to each project.

5.6.2 Definition

5.6.2.1 The Project Director will be responsible for the performance and financial and accounting function of the project to which the Project Director is assigned.

5.6.3 Responsibilities

5.6.3.1 Responsibilities of the Project Director include:

- ensuring compliance with financial and accounting policies and procedures issued by the Auditor-General and the Ministry of Finance.
- ensuring proper recording of financial transactions
- ensuring compliance with the objectives of that project
- authorisation and monitoring of expenditures
- prompt full and accurate reporting of financial information
- ensuring compliance with the limits of authorities
- furnishing the Auditor General with a copy of the monthly accounts.

5.6.4 Accountability

5.6.4.1 The Project Director is responsible to the Principal Accounting Officer of the controlling entity.

5.7 Financial and accounting responsibilities of Auditor-General of Pakistan

5.7.1 Position

5.7.1.1 As required by the Constitution of the Islamic Republic of Pakistan there is an Auditor-General.

5.7.2 Definition

5.7.2.1 The Auditor-General is appointed by the President and performs such functions and exercises such powers and prepares such reports in relation to the expenditure and accounts of the Federation and Provinces as may be determined by an Act of Parliament and, until so determined, by the President.

5.7.3 Responsibilities

5.7.3.1 Responsibilities of the Auditor-General include:

- responsibility for the audit of all transactions of the Federation and Provinces
- reporting to the President on the accounts of the Federation and to the Governor on the accounts of the Provincial Governments

5.7.3.2 In addition to the responsibilities outlined above in 8.7.3.1 there is a further responsibilities for supplying information on an as required basis to the Federal and Provincial Governments. These responsibilities include:

- keeping the accounts of the entities other than entities specified in 2 of this manual and reporting on the accounts of the said entities.
- preparation and submission to the Auditor-General of the consolidated General Financial Statements
- supplying the requested information to the Federal or Provincial Governments or their representatives
- managing the workings of the Accountant-General of Pakistan Revenue and the Provincial Accountant-Generals
- responsibility for the audit of all transactions of the Federation and Provinces
- reporting to the President on the accounts of the Federation and to the Provincial Governments or their representatives.

5.7.4 Accountability

5.7.4.1 The Auditor-General is responsible to the President of Pakistan.

5.7.5 Explanatory note

5.7.5.1 The Constitution of the Islamic Republic of Pakistan states general provisions for the terms of office of the Auditor-General and empowers Parliament and the

President to determine the terms and conditions of service, the term of office and powers and function of the Auditor-General.

5.7.5.2 The specific terms, conditions and powers are contained in the Pakistan (Audit and Accounts) Order 1973, issued by the President.

5.8 Financial and accounting responsibilities of Accountants-General

5.8.1 Position

5.8.1.1 For the Federation there will be an Accountant-General Pakistan Revenues. For the Provinces there will be Accountants-General.

5.8.2 Definition

5.8.2.1 The Accountant-General is the head of an office of audit and accounts, or of accounts. It includes Accountant-General of Pakistan Revenues, Provincial Accountants-General, District Accounts Offices and Treasury Offices.

5.8.3 Responsibilities

5.8.3.1 For all entities other than entities specified in Schedule 1 & 2 of this manual the Accountant-General is responsible for:

- keeping the accounting records of their transactions
- performing the pre-audit (validation) function on payments
- preparation and submission of civil accounts to the Federal and Provincial Governments in the manner specified by the Auditor-General
- preparation and submission of annual accounts of the Federal and Provincial Government to the Comptroller-General
- preparation of bank reconciliation

5.8.4 Accountability

5.8.4.1 The Accountant-General is responsible to the Auditor General of Pakistan.

6 Schedule 1 - Self accounting entities

6.1 Schedule of self accounting entities

6.1.1.1 Self accounting entities are defined in sections (as per 1.3.3.5) as any accounting entity for whom the Principal Accounting Officer has primary responsibility for the accounting and reporting functions (ie as opposed to the Auditor General's office).

6.1.1.2 Examples of self accounting entities are:

- National Savings Organisation
- Pakistan Mint
- Food Wing of the Food and Agriculture Division
- Pakistan Public Works Department
- Ministry of Foreign Affairs
- Geological Survey of Pakistan
- Pakistan Railways
- Forest Department
- Ministry of Defence

7 Schedule 2 - Exempt entities

7.1 Schedule of exempt entities

7.1.1.1 Exempt entities are defined as those which fall outside the responsibility of the Auditor General of Pakistan for accounting and reporting purposes.

7.1.1.2 Examples of exempt entities are:

- Water and Power Development Authority (WAPDA)
- Oil and Gas Development Authority (OGDA)
- National Highway Authority (NHA)
- National Mass Transit Authority (NMTA)
- all Government Corporations, listed companies and other entities required to prepare reports under the Companies Ordinance, 1984.