Handbook of Accounting Guidelines
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1 Introduction

1.1.1 This handbook provides an introduction to the accounting systems and processes of the Government of Pakistan. It is intended as a general introduction to the subject for use by Government employees or anyone interested in understanding the legal and accounting framework under which the Government of Pakistan operates.

1.1.2 The first three chapters describe the legal provisions relating to Government financial management, including discussion of key Constitutional provisions and the budgeting process. The remaining chapters provide information on the accounting framework, including policies, procedures, roles and responsibilities.

1.1.3 It should be noted that this handbook itself does not constitute actual policy or procedure issued under the authority of the Auditor-General. It is intended to be a summary of the Government accounting and financial management environment, with detailed policies and procedures obtained from a more comprehensive set of manuals.

- Manual of Accounting Principles
- Accounting Policies and Procedures Manual
- Financial Reporting Manual
2 Overview

2.1.1 The Government of Pakistan plays a central role in the economic and social well being of the nation. As a result, members the general public, as taxpayers and users of public services, have a right to know of the financial implications of policies and other actions of Government that affect them.

2.1.2 The National and Provincial Assemblies, as representatives of the public, expect and demand that taxpayer’s money be spent for the intended purposes, in accordance with legislative requirements.

2.1.3 Within Government, managers are established with the responsibility for delivering services and other policy outcomes, in accordance with legislative requirements. These managers should expect to be held accountable for their performance in delivering these outcomes. Other financial management responsibilities of Government are:

- to protect the public purse - to protect against the loss, theft or misuse of public money; to handle collections and disbursements of money prudently and maintain safe custody of cash
- to be accountable to the public - to provide financial information that explains how funds have been allocated and employed in social, economic and other programs.
- to safeguard the assets of the Government - to protect and maintain investments in infrastructure and other assets of the Government, and properly dispose of assets no longer required
- to manage and control the Government’s financial position - to manage and monitor existing public debt, and ultimately strengthen the overall financial position of the Government.

2.1.4 In order to fulfil all of these responsibilities, the accounting system of the Government must provide:

- a sound accounting framework, consisting of accounting policies which meet legal requirements and the financial reporting requirements of users
- accounting procedures which provide effective internal controls Government accounting transactions, and enables breaches of these controls to be reported
- a reporting framework which allows useful financial information to be monitored and forecast
- a financial management environment which assigns proper responsibility and accountability to officers within Government entities, for the expenditures they incur and receipts they collect.
2.1.5 This manual provides an overview of the Government financial management framework, which covers:

- the legislative framework
- the budget process
- the accounting framework
- accounting records and systems
- core accounting processes and controls
- other relevant aspects of Government financial management.
3 The Legislative Framework

3.1 The Constitution of Pakistan

3.1.1 The Constitution of Pakistan provides the legislative framework for financial management in the Federal and Provincial Governments.

3.1.2 Financial procedures of the Federation are covered in Articles 78 to 88 of the Constitution and Articles 118 to 127 for the Provinces. The functions and powers of the Auditor General are also covered in Articles 169 to 171.

3.1.3 Under Article 78 (1) and 118(1), the Federal / Provincial Consolidated Fund shall consist of

- all revenues received,
- all loans raised and
- all moneys received in repayment of any loan, by the Federal / Provincial Government.

3.1.4 Under Articles 78(2) and 118(2), the Public Account shall consist of:

- all other moneys received by or on behalf of the Government
- all other moneys received by or deposited with the Supreme / High Court or any other court established under the authority of the Federation / Provinces.

3.1.5 Articles 79 and 119 provide that the custody, payment and withdrawal of Federal/Provincial Consolidated Fund moneys and all other moneys received on or behalf of the Government in the Public Account, shall be regulated by an Act of Parliament or Presidential order.

3.1.6 Under Articles 80 and 120, the Federal / Provincial Government will produce an Annual Budget Statement disclosing separately sums charged upon the Consolidated Fund, and sums required to meet other expenditure. The Annual Budget Statement is also required to distinguish expenditure on revenue account from other expenditure.

3.1.7 Articles 81 and 121 set out those items that shall be expenditure charged to the Federal / Provincial Consolidated Fund, including the remuneration of the President and the Judges of the Supreme Court.

3.1.8 Articles 83 and 123 provide that the Annual Budget Statement will, after passing through the Assembly, be authenticated by the Prime Minister/Chief Minister and laid before the Assembly, thereby becoming the “Schedule of Authorised Expenditure”. No
expenditure from the Consolidated Fund shall be deemed to be duly authorised unless it is specified in the Schedule of Authorised Expenditure.

3.1.9 The position of Auditor-General is established under Article 168 of the Constitution of Pakistan, along with the terms and conditions of service. Under article 169, the functions and powers of the Auditor General in relation to the accounts of the Federation, Provinces and other bodies are defined.

3.1.10 The Constitution does not prescribe an accounting methodology, but in Article 170, specifically delegates this responsibility to the Auditor-General and requires that “the accounts of the Federation and the Provinces 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”.

3.2 Audit and Accounts Order

3.2.1 The Pakistan (Audit and Accounts) Order, 1973 provides further indication as to the types of accounts to be maintained by the Auditor-General.

3.2.2 Under Article 9, the Auditor-General is responsible for keeping the accounts of the Federation, and of each Province, unless otherwise exempted by the President or Governor. This responsibility does not extend to the accounts of the Federation relating to Defence and Railways unless otherwise required by Presidential order.

3.2.3 Under Article 9(4), the Auditor-General is required to prepare accounts (including appropriation accounts) showing the annual receipts and disbursements for the purpose of the Federation and of each Province, for submission to the Federal or Provincial Government as the case may be.

3.2.4 The Auditor-General is also required, under Article 10, to prepare an annual General Financial Statement. The Statement is to contain, for the Federation and all the Provinces, particulars of their balances and outstanding liabilities and containing such other information as to their financial position as the President may direct.
4 The Budget

4.1 Introduction

4.1.1 As mentioned above, the Constitution requires that an Annual Budget Statement be laid down before the National / Provincial Assemblies each year.

4.1.2 The budget is an important economic and social document, identifying how much revenue the Government intends to raise and how it will raise it. It also shows how the Government plans to meet its social and economic priorities by setting out how much it will spend in each of the various sectors, such as Defence, Health and Education. Another important component of the Annual Budget is the annual provision for debt servicing, being the interest and other recurrent charges arising from the Government’s borrowings.

4.1.3 The budget process is regulated by the Finance Division in the Federal Government and the Finance Department in each of the Provincial Governments. Budgetary procedures are addressed in more detail in Chapter 5 of the Accounting Policies and Procedures Manual, and detailed instructions issued by MoF / FD.

4.2 General budget classification

4.2.1 The estimates provided in the Annual Budget Statement must be shown in accordance with Constitutional requirements, that is to separately show charged and voted expenditures; and to distinguish between expenditure met from revenue from other expenditures in the Consolidated Fund.

4.2.2 Within these overall requirements, spending entities are required to prepare estimates in a prescribed format. For expenditure, separate estimates are prepared for non-development and development expenditures. This detail is provided by grant number and according to the object and functional classifications laid out in the Chart of Accounts.

4.2.3 Non-development expenditures refer to the on-going administrative operations within a ministry or department, in fulfilling its policy objectives. These include salaries and allowances of officers and staff. There are two types of non-development budgets:

- **permanent budget**: previously approved non-development expenditures that are continuing. These include permanent staffing establishments, travelling, fixed allowances and contingent expenditure

- **temporary budget**: new items of non-development expenditure such as temporary additions to existing establishments or continuing temporary items.
4.2.4 Development expenditure refers to activities that typically involve the construction or improvement of infrastructure and other assets or the development of human resources.

4.2.5 Forecasts of revenue shall be prepared by those entities responsible for administration of those revenues, on the basis of expected collections. This includes tax authorities such as the Central Board of Revenue in the Federal Government and the respective Excise and Taxation Departments in the Provinces.

4.3 **Budgetary Procedure**

4.3.1 Although the timing of the budget process may change from year to year, the primary stages of the budget cycle remain largely the same. These stages are summarised as follows:

4.3.1.1 *Setting of budget policy and initiatives* - the Cabinet meets at an early stage of the current financial year to determine budget policy, initiatives and priorities for the following years budget. At this stage the broad economic thrust of the budget will be determined in light of the prevailing financial position of the Government, and the planned size of the deficit or surplus. If there is a deficit, consideration is then given on how it will be financed.

4.3.1.2 *Preparation:* Based on the parameters set by Finance Division, ministries then prepare and submit their own budget estimates, through the Financial Advisers. These officers co-ordinate the budget of the ministry and its various attached departments, with the Finance Division / Department and various other bodies as required.

4.3.1.3 *Authorisation:* this stage involves submission of the Annual Budget Statement before the National/Provincial Assembly for approval, as required under the Constitution. The approved budget is referred to as the ‘Schedule of Authorised Expenditure’, which is then authenticated by the Prime Minister / Chief Minister.

4.3.1.4 *Implementation:* the next stage is the communication of the approved budgets to the spending ministries and departments, and the incurring of expenditure by those entities, in accordance with accounting policies and controls.

4.3.1.5 *Reporting and monitoring:* throughout the year, expenditures and receipts are progressively monitored against budget estimates.

4.3.1.6 *Review:* from time to time the Government will review actual expenditures and receipts and the achievement of policy objectives. Where necessary, supplementary and excess budgets may be prepared and authorised for major changes to the annual budget.

4.3.1.7 The budgetary cycle is represented in the following diagram.
Overview of the Budgetary Cycle

- Preparation
- Authorisation
- Implementation
- Reporting and Monitoring
- Policy Setting
- Review

MoF
Spending Ministries

Cabinet
National Assembly
President

PAD
Spending Ministries
Public Accounts Committee

MoF
Spending Ministries
5 The Accounting framework

5.1 Introduction

5.1.1 This section discusses the accounting framework in which the Government of Pakistan operates.

5.1.2 The accounting framework consists of accounting principles, policies and procedures for the GoP. The framework prescribes a particular basis of accounting, which is relevant and applicable to Pakistan, but also adopts, where applicable, the accounting concepts laid down in Generally Accepted Accounting Principles (GAAP).

5.1.3 The accounting framework integrates the accounting principles with the financial reporting requirements, the chart of accounts and the detailed accounting procedures. These linkages are shown in the following diagram:
5.2 Manual of Accounting Principles

5.2.1 The Manual of Accounting Principles defines the concepts of the accounting framework, based on the chosen basis of accounting, and where appropriate, Generally Accepted Accounting Principles (GAAP). These concepts include:

- definitions of accounting elements, i.e. assets and liabilities, revenues and expenses
- recognition rules for assets and liabilities
- treatment of expenditures, on a cash and commitments basis
- treatment of receipts
- general concepts, such as the reporting period, materiality, double entry book-keeping and the maintenance of accounting records
- chart of accounts structure.

5.2.2 The Manual of Accounting Principles also sets out the key financial and accounting responsibilities in the Government, based on Constitutional requirements and existing administrative arrangements. These include the responsibilities of the following:

- Public Accounts Committee
- Auditor-General
- Comptroller-General’s office
- Accountant Generals offices
- Ministry of Finance/Finance Division
- Central Board of Revenue
- State Bank of Pakistan and its agents.

5.2.3 The Manual of Accounting Principles is applicable to all accounting entities, being any unit of the Government (e.g. ministry, division or department), whose principal source of funding is an appropriation from the Government of Pakistan. This includes entities referred to as ‘self-accounting entities’, that are listed in Schedule 1 of the Manual. Certain entities are specifically exempted from compliance and these are listed in Schedule 2 of the Manual.

5.3 Basis of Accounting

5.3.1 This section provides a summary and comparison of the various methods of accounting, including the modified cash model, which is applicable to the Government of Pakistan. The models discussed in turn are:

- cash accounting
- modified cash accounting
- accrual accounting.
5.3.2 Cash Accounting

5.3.2.1 Cash accounting is a system of accounting that records cash payments and receipts as they are made, on a day to day basis. This form of accounting is necessary so that a record of expenditure against the Consolidated Fund is maintained, up to the amounts specified in the Schedule of Authorised Expenditure.

5.3.2.2 Under cash accounting, receipts and payments recorded in the books of account result in a corresponding increase or decrease in the cash balance of the Government.

5.3.2.3 Cash accounting, while useful for measuring cash transactions against budget, imposes limitations on the usefulness of financial information being produced:

- the timing of cash inflows and outflows for many entities has no direct relationship to its actual financial performance during the reporting period
- cash accounting provides little or no indication of an entity’s financial position (apart from the cash position) at the end of the period
- obligations to make future payments, such as commitments, are not properly identified against budget, thus increasing the risk of overspend.

5.3.3 Modified Cash Accounting

5.3.3.1 The modified cash model follows the cash accounting model for recording day to day transactions. Receipts and payments continue to be recorded on the basis of collections received and payments issued. In addition, modified cash accounting provides for the systematic recording of the following items, for inclusion in the Financial Statements:

- commitments
- fixed assets
- financial assets and liabilities.

5.3.3.2 Modified cash enables the Government to obtain a better understanding of its financial position by recording assets and liabilities. It also improves control of expenditures against budget, by recording commitments.

5.3.3.3 For public sector entities, modified cash accounting is considered a logical progression from cash accounting into more advanced models, such as accrual accounting.

5.3.4 Accrual Accounting

5.3.4.1 Accrual accounting is a model used to measure the actual financial performance of an entity over a reporting period by recognising expenses and revenues.

5.3.4.2 In accrual accounting, expenses are recognised when the benefits, inherent in assets, controlled by an entity have been consumed, which is not necessarily linked to the making of a payment. For example, consumable goods received and used up in
one reporting period can constitute expenses, but might not be paid until a future period.

5.3.4.3 Similarly, in accrual accounting, revenues are recognised when it is probable that future benefits will be realised and the amount can be reliably measured. For example, demand notices issued can constitute revenue, but might not be collected until a future reporting period.

5.3.4.4 Accrual accounting is applicable to most private sector organisations, where measurements of profits, assets and liabilities are imperative. The accrual accounting methodology is adopted in International Accounting Standards (IAS) and General Accepted Accounting Principles (GAAP).

5.3.4.5 Accrual accounting is also useful for public sector financial management, although with a greater emphasis on achieving value for money and program outcomes, than profit. Internationally, few Governments have, at this stage, adopted full accrual accounting, although many produce accrual based financial statements to supplement the required cash based reports.
5.3.5 Summary of accounting models

5.3.5.1 The following table is a summary of the three accounting models discussed in the previous section:

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<th>Accrual Accounting</th>
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<td>to control cash and commitments against budget</td>
<td>to measure financial performance through changes in net assets,</td>
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<td>cashflow statement</td>
<td>cashflow statement</td>
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5.3.6 Choice of accounting model

5.3.6.1 The Government of Pakistan has traditionally used the cash accounting model, with some periodic modifications made to produce a balance sheet at year end, and in some entities, to record commitments.

5.3.6.2 In many ways the choice of accounting model is based on the responsibilities placed on managers controlling the resources of Government. Where accountability is placed upon measurements of cash received and disbursed, the cash accounting model is sufficient; however where managers have a broader set of accountabilities, the modified cash or accrual model is more appropriate.

5.3.6.3 Provided cash control of the Budget, as required under the Constitution, is not compromised, the Constitution itself does not preclude the adoption of modified cash or accrual accounting. In fact the Audit and Accounts Order requires some form of reporting of assets and liabilities, although it does not prescribe the methodology for doing so.
5.3.6.4 Government of Pakistan shall be adopting the modified cash accounting model initially in order to standardise and control the recording of assets, liabilities and commitments.

5.4 Features of modified cash accounting

5.4.1 Commitments

5.4.1.1 A commitment is defined as an obligation to make a future payment, and arises when an entity issues a legally binding purchase order or enters a contract for the provision of goods or services. However only those commitments, which are of significant value, need be recorded, (i.e. up to a threshold set in Rupees or as a percentage of a budget head).

5.4.1.2 In the accounting and budgeting system, commitments are booked against the funds available in a particular budget head, so that the funds can not be spent for another purpose.

5.4.1.3 At the close of the financial year, all outstanding commitments relating to that year, would be reversed, and duly scrutinised by the AG / MoF. Provisions would then need to be made in the next year’s appropriation to allow for the reinstatement of any commitments valid in the next financial year. These carried-over commitments may require a supplementary budget as they would not have been anticipated at the time of preparing the original budget, or they could be accommodated by a readjustment of the original budget.

5.4.1.4 Commitments can be shown in financial reports in more than one way; they can be added to cash expenditure or shown separately. To avoid complication, expenditure should be reported in the main body of the accounts on a cash basis, and then adjusted for outstanding commitments at the end of the reporting period, after the overall cash position has been shown in the main body of the report.

5.4.1.5 Commitment accounting provides managers with a tool to measure and forecast spending performance against budget and avoid overbooking of expenditure in a particular period.

5.4.2 Fixed Assets

5.4.2.1 Fixed assets mainly consist of assets that are physical in nature, such as plant and equipment. They are also characterised by their strategic or long-term value, by having a useful life exceeding one year.

5.4.2.2 Control of fixed assets is an important feature of financial management. It involves accurate reporting of asset purchases, disposals and transfers as well as avoiding losses through theft and misuse of those assets under an entity’s control.

5.4.2.3 Given the importance of asset management, all GoP entities that own or control assets must keep a fixed asset register. Asset registers usually contain details such as
cost, location, date of purchase and category. Asset data falling outside the financial requirements may also be recorded by interested parties.

5.4.2.4 Under the modified cash accounting model, all payments relating to the acquisition, construction or improvement of fixed assets, while still recognised on a cash basis, will be debited to ‘asset purchase’ accounts in the ledger, identified through coding of the object element. The data in these accounts will form the basis for a year-end journal voucher which will update the various asset accounts in the General Ledger.

5.4.2.5 Initially the valuation of assets in the asset registers will be on an historical cost basis, i.e. the actual cost in Rupees, recorded at the time of purchase or construction. There are several other methods of valuing fixed assets, including fair market value, depreciated replacement cost and current cost. These valuations can give a more appropriate valuation of assets or asset classes for management purposes but are more appropriate for accrual accounting where depreciation is used.

5.4.3 Financial Assets

5.4.3.1 In addition to fixed assets, the other class of assets to be reported in the financial statements at year-end are financial assets. Financial assets are defined as cash or any other assets, which are readily convertible to cash. They include:

- cash
- current assets
- other assets.

5.4.3.2 Under the modified cash model, a Financial Assets Register will be maintained to record detailed information on financial assets where required, including loans and advances provided by the Government and its investments. This register will be held at the AGPR and AG offices and be updated directly from the General Ledger or as periodically advised from the concerned agencies.

5.4.4 Liabilities

5.4.4.1 The major classes of liability to be reported in the balance sheet under the modified cash accounting model are as follows:

- public debt
- deferred liabilities
- current liabilities

5.4.4.2 Under the modified cash accounting model, the coding of ledger transactions involving public debt and other liabilities will be such as to allow journal entry vouchers to be produced at year-end, updating the various liability accounts.

5.4.4.3 In addition, a Liabilities Register will be maintained to record details of liabilities, supporting the information provided in the financial statements. This register will be
held at the AGPR and AG offices and be updated directly from General Ledger transactions or as advised periodically from the concerned entities. This register should be reconciled on a monthly basis to the detailed information on public debt provided by EAD / MoF.

5.4.4.4 A summary of the relationship between the various registers described above and the primary transaction recording and reporting process is provided in the following diagram:

5.4.5 Receipts

5.4.5.1 Generally Accepted Accounting Principles (GAAP) permit accruals of receipts (i.e., revenues) only if the amounts are definitely known and there is no uncertainty about collection. Because of this constraint, Government receipts from taxation and other sources are normally recorded on a cash basis (i.e., as collected).

5.4.5.2 While receipts should be accounted for on a cash basis, additional useful information on anticipated revenues could be provided through memorandum accounts of tax demands outstanding. For all taxes where demand registers are compiled, the tax authorities should report the balances regularly to AG / AGPR to enable these entries to be made. Financial reports would then show expected receipts as a note.
5.5 Financial Reporting Manual

5.5.1 The Financial Reporting Manual sets out the key financial reporting requirements of the Government, including a profile of each report to be produced and sample formats. The following is an overview of the financial reporting requirements:

5.5.2 Annual Requirements

5.5.2.1 On an annual basis each AG office and the AGPR office shall produce separate financial statements for the Provincial Governments and the Federal Government respectively. These reports shall be submitted at the end of each financial year to the following key recipients, through the Auditor General.

- President / Provincial Governors
- Finance division / Department
- National / Provincial Assemblies
- Public Accounts Committee.

5.5.2.2 These Financial Statements are the responsibility of the Auditor-General, who will sign-off them off to the effect that they have been produced in accordance with the Constitution of Pakistan 1973 and the Pakistan (Audit and Accounts) Order 1973. The Auditor-General’s audit observations are presented in a separate Audit Report, although he / she will provide in the Financial Statements a general opinion as to whether the accounts present a fair statement of the expenditures, receipts and other balances of the Government.

5.5.2.3 The annual financial statements include the following reports

- Statement of Assets and Liabilities
- Statement of Revenues and Expenditures
- Statement of Cashflows
- Notes to the Financial Statements
- Analysis of Surplus / Deficit
- Summary of Appropriation Accounts (by function as well as Division / Department and grant)
- Analysis of Revenues (by Division / Department).

5.5.2.4 Also on an annual basis, the Comptroller - General shall produce the Consolidated Financial Statements of the Republic, comprising the combined balances from each of the Provincial and the Federal Financial Statements. For example the Consolidated Financial Statement will present a consolidated Statement of Assets and Liabilities, showing for each line item, the balance for each Government and a combined balance. The same will be provided for each of the reports listed above.
5.5.3  Half-yearly and quarterly reports

5.5.3.1 The Financial Reporting Manual also specifies the requirement for half yearly and quarterly reports to be produced by the respective AG/AGPR offices. These are abbreviated versions of the annual Financial Statements, intended to provide PAD and Finance Division / Department with an indication of progress throughout the year. These reports assist in the production of the annual Financial Statements, particularly where exceptions can be identified and explained prior to the compilation of the annual figures.

5.5.4  Monthly reports

5.5.4.1 After the end of each month, all subsidiary accounting offices to the AG/AGPR office will produce monthly accounts for consolidation by the AG/AGPR. These offices include all DAO’s, and where applicable, treasury and sub-treasury offices. In addition, the accounts of self-accounting entities (those entities performing their own accounting function) shall be submitted to the respective AG/AGPR office.

5.5.4.2 The focus of monthly accounts is the reporting of receipts and payments. The monthly accounts are intended to provide progressive and month by month totals of actual expenditures against budget for each Division / Department and a similar analysis of receipts. Altogether, the monthly accounts prepared by the DAO shall consist of:

- Summary Schedule - Consolidated Fund
- Division/Department Schedule - Consolidated Fund
- Public Account Summary Schedule
- DAO Bank Reconciliation Report
- Grant Expenditure Analysis.

5.5.4.3 Each DAO will produce the monthly accounts from its own General Ledger account balances, however they must first agree these figures with DDO records and reconcile with the relevant bank branch’s monthly statement.

5.5.4.4 At the AG/AGPR level, the DAO’s accounts shall be consolidated to produce the same set of reports as indicated above, but at a Provincial/Federal level. These accounts are referred to as the ‘Consolidated Monthly Accounts’, and shall be submitted to the following:

- Auditor-General
- Finance Division/Department
- other Divisions/Departments in respect of their section of the report.

5.5.4.5 The Consolidated Monthly Accounts shall also include additional reports produced by the AG/AGPR office. These include revenue analysis, public debt and project expenditure statements. Reports of this nature are based on information provided by
the relevant agencies, such as Economic Affairs Division and the Central Board of Revenue.

5.6 **Chart of Accounts**

5.6.1 The Chart of Accounts is an essential component of the accounting framework. It provides the structure by which accounting transactions are coded, and thus used in financial reporting.

5.6.2 The chart of accounts structure consists of elements that each represent a ‘view’ or ‘dimension’ of financial information, considered useful for financial reporting. The chart of accounts elements are as follows:

5.6.2.1 **entity** - the organisation unit within GoP responsible for management and control of particular resources. In the budget process each entity shall receive an allocation of funds, with entity managers held responsible for the expenditure incurred. This code is further divided to provide meaningful financial information about the entity:

- Government - the Government within with the entity exists
- Division or Department - primary sub-units of Government
- Attached Department - a sub-unit of Division
- Drawing and Disbursing Officer - the lowest level within entity to which budget is allocated and controlled
- (in addition the district in which each transaction of an entity takes place is included).

5.6.2.2 **object** - the accounting classification, describing the item of expenditure, receipt, asset or liability. Each accounting classification is further sub-divided into a hierarchy, down to the level of detailed object head.

5.6.2.3 **fund** - the pool of money from which budgetary allocation is made (eg. Consolidated Fund), and is further sub-divided into grants (in the case of Consolidated Fund) or Public Account detailed heads - refer also Section 5.7 below.

5.6.2.4 **function** - the economic function, relating to the provision of a particular service, activity or Government program. The function code is directly related to IMF public sector reporting requirements.

5.6.2.5 **project** - an element used for identifying development projects.
5.6.3 The structure of the Chart of Accounts is provided in more detail in Chapter 4 of the Manual of Accounting Principles. More information on the detail coding can be found in the Chart of Accounts itself, which is a handbook listing the valid codes for each element down to detailed head level.

5.7 Classification of Funds

5.7.1 This section provides an overview of the classification used within the Consolidated Fund and the Public Account.

5.7.2 Consolidated Fund

5.7.2.1 The Consolidated Fund represents those moneys for which the Government is at liberty to appropriate for the operations of Government. The Consolidated Fund is sub-divided into several components of revenue and expenditure, to meet Constitutional requirements (e.g. requirement for voted and charged expenditures) and administrative requirements. The Annual Budget Statement follows this broad scheme of classification.

5.7.2.2 The following diagram is an overview of the scheme of classification adopted by the Government of Pakistan for the Consolidated Fund:
5.7.3 Public Account

5.7.3.1 The Public Account consists of those moneys received by the Government for which it has a fiduciary duty, but is not at liberty to appropriate for the general services of Government, unless provided for under an Act of Parliament or Presidential order. Unlike the Consolidated Fund, the balances in the Public Account are carried forward at year end, to be used for the specific purpose for which they are established.

5.7.3.2 The Public Account consists of trust accounts and special deposit accounts. Trust accounts are generally separate legal entities, and as such expected to produce financial statements. Examples of trust accounts are:

- general provident funds
- insurance funds
- benevolent funds
- relief and welfare funds
- reserves.

5.7.3.3 Special deposit accounts are accounts, which are established under the authority of Ministry of Finance for a particular purpose, but are not legal entities. Examples of special deposit accounts are:

- savings bank accounts
- national deposit accounts
- national deposit certificates
- revenue deposits
- court deposits
- personal deposits.

5.8 Overview of Administrative Arrangements

5.8.1 This section provides an overview of how the GoP is organised administratively to record, compile and reporting financial information. As mentioned above, the Manual of Accounting Principles sets out the broad responsibilities and accountabilities of Government officers and organisations within the accounting framework.

5.8.2 Auditor-General

5.8.2.1 The Auditor-General’s role and powers are established in the Constitution of Pakistan 1973 (Articles 168 to 171) and defined further in the Pakistan (Audit and Accounts) Order 1973. While retaining overall responsibility for the accounts of the Federation and Provinces, this responsibility is delegated to the Comptroller-General, in order to maintain independence between the audit function and the accounting function.
5.8.3 Comptroller-General

5.8.3.1 The Comptroller-General is responsible for matters of accounting policy and procedure in relation to the accounts of the Federation and Provinces, as delegated by the Auditor-General. The Comptroller-General is responsible for the overall operations of the accounting offices within Pakistan Audit Department and for the production of timely financial reports of the Government and its accounting entities.

5.8.4 Accountant Generals

5.8.4.1 The Accountant Generals are established in each Province and the Federal government, and each report to the Comptroller-General. These officers are responsible for the overall operations of accounting offices within their jurisdiction (e.g. a Province), and deal with matters of accounting policy and procedure in those areas.

5.8.4.2 In the case of Federal Government, the Accountant General Pakistan Revenues is located in Islamabad, with sub-office in each of the Provincial capitals and other designated areas. All AGPR sub-offices (now referred to as Deputy Generals Pakistan Revenues), report monthly accounting information, in respect of Federal transactions to AGPR Islamabad.

5.8.4.3 As well as performing a consolidation function, each AG office and the AGPR have their own accounting offices for processing accounting transactions arising within the locality of their office.

5.8.5 District Accounts Offices

5.8.5.1 Each Province is further divided into districts. Each district contains its own District Accounts Office (DAO). The DAOs are responsible for processing all accounting transactions from the various departments in that district. The DAOs maintain records of payments and receipts, for Federal and Provincial transactions (in separate ledgers) and submit consolidated monthly accounts to the respective AGPR sub-office or AG office.

5.8.5.2 A summary of the PAD structure is provided below:
5.8.6 Spending divisions and departments

5.8.6.1 Each spending division and department is responsible for allocating their own budget into the various controlling units, from the Principal Accounting Officer down to each drawing and disbursing officer (DDO). The DDO’s initiate accounting transactions (e.g. purchase orders and claim vouchers) for submission to PAD and maintain their own accounting records and subsidiary registers where appropriate, for departmental requirements.

5.8.7 Self-accounting entities

5.8.7.1 Certain divisions and departments of Government are established as ‘self-accounting’ entities. These entities process and record their own accounting transactions and at the end of each reporting period submit a report to the respective AG/AGPR office.

5.8.8 State Bank of Pakistan

5.8.8.1 The State Bank of Pakistan plays a critical role in the execution of Government financial transactions. Branches of the State Bank of Pakistan, along with the
National Bank of Pakistan acting as its agent, collects money and makes payments on behalf of the Government, and maintains a number of Government bank accounts.

5.8.9 Finance Division/Department

5.8.9.1 The Finance Division in Federal Government and Finance Divisions in Provincial Government play a key role in the accounting process insofar as they are a key user of financial information produced by the accounting system and in certain cases are a source of input to the accounting system (e.g. budget information, details of borrowings and other liabilities).
6 Accounting Records and Systems

6.1 Introduction

6.1.1 In this section the accounting records and systems adopted by the Government of Pakistan are described. The key change from the previous system of recording is the adoption of the General Ledger concept and double entry accounting on a formal basis.

6.1.2 The concepts discussed in this section are covered in various chapters of the Accounting Policies and Procedures Manual, including Chapter 4 ‘Expenditures’ and Chapter 16 ‘Maintenance of Accounting Records’.

6.1.3 The following is an overview of the primary accounting records used by accounts offices and the relationships between them:

![Overview of Primary Accounting Records](image-url)
6.2 General Ledger

6.2.1 The General Ledger is a summarised record of all account balances maintained by a DAO/AG/AGPR office. The General Ledger consists of all established account codes available to that office, (based on valid combinations of Chart of Accounts elements) each providing the sum of transactions for each month of the year.

6.2.2 The Monthly Accounts are directly prepared and submitted to the relevant AG/AGPR office from the General Ledgers of subordinate accounts offices.

6.3 Journal entries

6.3.1 The General Ledger can only be updated by journal entry vouchers, representing a particular group of subsidiary ledger transactions, in double entry format.

6.3.2 Each journal entry contains a unique journal identifier, to enable the transactions included in it to be traced from the General Ledger back to the subsidiary ledger. Furthermore the sum of all debits and credits in the journal must be in balance.

6.3.3 Journal entries are also used at period-end to make adjustments to the accounts, including those required under the modified cash model. These journals need not be sourced from a subsidiary ledger, but still require a source document of some description, such as an approved journal voucher form and supporting schedule.

6.4 Subsidiary Ledgers and Registers

6.4.1 A subsidiary ledger is a detailed record of individual accounting transactions that are subsequently summarised into a journal entry. For example, the receipts and payments recorded each day by a DAO shall be entered initially into the subsidiary ledger. There is no requirement to enter the opposing debits and credits in this case, as this is determined when the journal entry for the General Ledger is compiled.

6.4.2 Further detailed balances may be kept in registers by accounts offices, particularly where computerisation has not yet occurred, where alternative views are required of the accounting information. For example, registers of DDO-wise accounts are kept in DAO’s for periodic reconciliation to DDO’s own records. However, the need to maintain such registers should not be done at the expense of the primary books of account, being the General Ledger and Sub-ledger of date-wise receipts and payments.

6.4.3 Various other registers are required as processing controls. For example, all claim vouchers received in a DAO, must be first registered in a Claim Register, then as the voucher progresses through the various stages of authorisation, the Claim Register should be updated accordingly.

6.5 Permanent Accounting Records

6.5.1 These are records that are required to periodically generate accounting transactions but do themselves represent transactions. Such records are also referred to as ‘static data’
because they are established once, and then updated only as required. They are also very useful for expenditure analysis and reporting, when combined with financial data. The main types of permanent accounting records relate to employee related expenses. These records consist of:

- *establishment registers* - records of established posts, positions and current strength
- *payroll registers* - records of employees payroll details, used to generate pay bills
- *pension records* - records of pensioner details and entitlements
- *GP fund records* - records of employees contributions, advances and payments in relation to the General Provident Fund.

### 6.6 Maintenance of Accounting Records

6.6.1 All transactions recorded in subsidiary ledgers and summarised for reporting purposes must be capable of being traced back to an original source document. These source documents include claim vouchers, purchase orders and receipt vouchers. All such records should be retained on site in the DAO/AG/AGPR offices for future auditing purposes, for such a time as prescribed by the Auditor-General (normally up to 10 years).

6.6.2 Steps should be taken to ensure all source documents, books of account, and permanent accounting records are all adequately safeguarded against loss, theft or damage. In the case of computerised accounting records, system controls such as regular backups, data archiving and security should be place to protect the data contained in such systems.

### 6.7 Computerised Accounting Systems

6.7.1.1 Under the Project for Improvement of Financial Reporting and Auditing, a program of computerisation will be undertaken in all AGPR and AG offices and selected DAO’s. Under this project, core accounting and reporting systems will be developed, along with payroll and pension systems.
7 Core Accounting Processes and Controls

7.1 Accounting Policies and Procedures Manual

7.1.1 This chapter discusses some of the core accounting processes and controls, which operate within the accounting system for GoP. These topics include:

- internal controls
- receipts
- expenditures
- inter-entity transactions
- bank reconciliation.

7.1.2 In Appendix A of this handbook a summary of the accounting entries that are required to take place under these procedures is provided.

7.2 Internal Control

7.2.1 Internal controls are a plan of procedures and internal checks within an entity to ensure a particular function or process is properly carried out. Each PAO is responsible for ensuring adequate internal controls are in place, in light of the inherent risks, as assessed by the entity.

7.2.2 The general principles of internal control, applicable to the processing and recording of receipts, payments, inter-entity adjustments and all other accounting transactions are:

- well defined authorities and delegated authorities
- clear financial instructions
- developed processing systems, either manual or computerised
- verification of each officer’s work by another officer
- adequate segregation of duties (i.e. an person performing one task cannot perform another, because of the potential for fraud or misappropriation)
- rotation of officers in key control positions, and the taking of leave
- complete and up to date bank reconciliation
- use of control accounts
- reporting to management of breaches from, and weaknesses in, the control system.
7.3 Receipts

7.3.1 Policies

7.3.1.1 Revenue will be recorded after the receipt of cash or clearance of cheque at the bank. This will be reflected in the accounting records when the bank scroll is received by the AG/AGPR/DAO. In the case of receipts arising from borrowings, revenue will be recorded in the accounts on the date that the funds are received at the bank.

7.3.1.2 All moneys received, either for the Federal Consolidated Fund or Public Account must be deposited at branches of the State Bank of Pakistan or at the National Bank of Pakistan, acting as its agent, unless otherwise authorised by the Government.

7.3.2 Procedures

7.3.2.1 The processing of receipts is addressed in Chapter 5 of the Accounting Policies Manual ‘Receipts’. In summary, the processing of receipts must comply with the following internal controls:

- All amounts to be deposited into the Government’s bank account must be accompanied by a duly completed receipt voucher (or challan).
- Any person depositing money is entitled to receive proof of payment, through the issue of an official receipt.
- the correct receipt head of account must be nominated on the receipt voucher form before the deposit will be accepted.
- the officers receiving money must be different to officers raising demands and bills for payment
- the officers receiving money and recording the receipt in the accounting records must be different
- accounting records of receipts must be reconciled to the revenue collection authorities receipt records on a regular basis by a delegated authority, independently of the officer recording the transaction.

7.4 Expenditures

7.4.1 In this section, a summary is provided of the accounting policies and procedures in relation to expenditures. These are addressed in more detail in Chapter 4 of the Accounting Policies and Procedures Manual, ‘Expenditures’.

7.4.2 Policies

7.4.2.1 Under the modified cash accounting model, expenditure is recorded in the accounts when a payment has been issued. Although there are other forms of payment, such as direct credit payment of salaries, the principal objective is to record
expenditures on a consistent basis, (i.e. when it is certain that cash has or will be drawn from the bank account of the GoP.)

7.4.2.2 All expenditures above the specified limit, (as advised by the MoF) will be paid by cheque, apart from certain salaries and pension payments, GP fund payments and inter-government transfers. All expenditures below the specified limit should be made through an imprest (petty cash) account, which is reimbursed on a periodic basis.

7.4.2.3 When a commitment is recorded, the amount of commitment shall be deducted from ‘available funds’ against the relevant budget head, and added to ‘outstanding commitments’. Upon payment, the outstanding commitment shall be reversed.

7.4.2.4 The accounting policies in relation to modes of payment and recognition for each of the major categories of expenditure is shown in the following diagram:
7.4.3 Procedures

7.4.3.1 The Accounting Policies and Procedures Manual provide detailed accounting procedures for the following types of expenditure:

- contingent payments
- salaries
- GP fund payments
- loans and advances
- pension payments.

7.4.3.2 The following key internal controls must be observed in expenditure processing:

7.4.3.3 No expenditure should be incurred or commitment entered into by the Government unless it is provided for in the Schedule of Authorised Expenditure for the year and the expenditure has been approved by a delegated authority.

7.4.3.4 Claim vouchers must be prepared for supplies, services rendered and work done under a contract or other arrangement over the specified limit (as advised by the MoF).

7.4.3.5 Every claim voucher must be approved by a delegated authority within the entity incurring the expenditure. This officer will be held personally responsible for the correctness of all claim vouchers bearing his / her signature.

7.4.3.6 Every claim voucher must be certified by a delegated officer in the relevant District Account Office / Accountant General Office / Accountant General Pakistan Revenue Office. The certification process comprises two functions:

- verification - checking that the claim voucher has been validly prepared and is duly approved (required for all claim vouchers)
- pre-audit - scrutinising the claim for possible irregularities (required for all claim vouchers above a specified threshold).

7.4.3.7 Once certified, the claim voucher may then be authorised for payment by a delegated officer in the District Account office / Accountant General office / Accountant General Pakistan Revenue. This authorising officer must not authorise a claim unless it has been duly certified and sufficient funds are available in the relevant budget head to make the payment.

7.4.3.8 The functions of certification and authorisation can be performed by the same person where the size of the accounting office is small, as approved by the Accountant General.

7.4.3.9 All cheques must be signed by two delegated officers, whose specimen signatures have been registered with the bank. The cheque signing officers should be independent of officers involved in voucher certification, voucher authorisation and
cheque preparation, unless in the exceptional circumstances where the relevant DAO office is small, as approved by the Accountant General.

7.5 **Inter-entity Transactions and Other Adjustments**

7.5.1.1 Chapter 12 of the Accounting Policies and Procedures Manual covers transactions between various entities within Government. This section provides a summary of that chapter.

7.5.1.2 The two principal types of inter-entity transaction are those occurring between departments in the same Government and those occurring between different Governments (e.g. Provincial - Federal).

7.5.1.3 Inter-department transactions are subdivided further into transactions between departments centrally accounted for by the Government, maintaining the same bank account; and transactions involving self-accounting entities or exempt entities.

7.5.2 **Policies**

7.5.2.1 When an item is issued to or purchased on behalf of another entity by a stores / purchasing entity, the expenditure must be transferred to the entity receiving the item. Arrangements of this type should be included in purchaser / supplier agreements between the concerned entities.

7.5.2.2 However, Government entities (i.e. divisions / departments) shall not charge another for services provided unless authorised by the Ministry of Finance and provided for by a supply / service level agreement. Consequently the costs will remain with the entity providing the service and an inter-entity transaction will not be required.

7.5.2.3 Expenditure arising from inter-entity transactions shall be recorded in the accounts of the entity being charged, on the date that the settlement of the transaction takes place.

7.5.2.4 Inter-entity transactions within the same government involving self-accounting entities and entities outside the control of the Accountant General’s offices must be accounted for using the exchange account process. Under this arrangement the amount to be transferred is debited to the appropriate exchange account, to be credited when the transfer is accepted by the other entity.

7.5.2.5 Inter-entity transactions between governments must be accounted for through settlement accounts. Such transactions will arise as a result of amounts receivable or payable to another government through:

- Federal / Provincial receipts and payments at Provincial/ Federal account offices
- receipts / payments relating to departmental officers from other governments
misclassifications which subsequently require adjustment through the settlement account process.

7.5.2.6 Settlement transactions requires both the transfer of expenditure from one Government to another as well as the transfer of cash from one Government bank account to another.

7.5.2.7 All inter-entity transactions between governments shall be processed using settlement accounts apart from:

- the allocation from the general divisible pool of resources by the Federal Government to the Provinces (share of Federal taxes)
- grants paid to the Provinces by the Federal Government
- repayments of principal and interest by the Provinces for loans provided by the Federal Government.

7.6 Project Accounting


7.6.1.2 A development project is an approved scheme or activity provided within a development expenditure grant, with a fixed project duration, an appointed project manager and identified deliverables. Non-development expenditures and projects are identified by distinct grant / sub-grant numbers in the budget.

7.6.1.3 Each development project shall be classified according to the elements contained in the Chart of Accounts. Specifically, the following classification are used:

- development expenditure out of revenue account is distinguished from development expenditure out of capital account
- the development expenditure of a particular division or department is given by the allocated grant number(s)
- the expenditure for each development project within these grants is classified further by detailed function and object.

7.6.2 Policies

7.6.2.1 Although there are some procedural differences, the accounting policies for development expenditures are the same as those adopted for non-development expenditures. The expenditure must be recognised in accordance with the modified cash accounting model (i.e. on a cash or commitments basis, with assets duly recorded).

7.6.2.2 All development project expenditure incurred against an approved budget must be recorded in the Government accounting system, regardless of the source and flow of funding. Direct funding arrangements between donors and spending divisions /
Development project expenditures must include all direct costs of undertaking the project. These include:

- the cost of establishment, that is, salaries and allowances of permanent and temporary staff, including that of the project manager
- direct purchases of materials and items of plant and equipment acquired exclusively for the project
- direct services purchased exclusively for the project such as training, casual labour and other contract work
- any direct costs incurred and passed on from other departments or governments that relate to the project, as agreed between the Principal Accounting Officers of the concerned ministries and departments
- any other costs set out in the development project budget, included as part of the Schedule of Authorised Expenditure that have been incurred.

Where authorised by MoF, certain development projects are provided with an assignment accounts. These are special purpose bank accounts, with a prescribed cash limit, which can be drawn on under the authority of the project manager. Cheques drawn on these assignment accounts must be endorsed by a DAO/AG/AGPR office prior to encashment, thus allowing the expenditure to be duly recorded in the accounts.

On a monthly basis, project authorities are required to furnish project expenditure analysis reports to the AG/AGPR, as specified in the Financial Reporting Manual.

Where a development project results in the construction of physical assets, they should be progressively recorded in the fixed assets register as they are commissioned. Where an asset is partly constructed, the cost to date of that asset may be recorded at year-end against a ‘work-in-progress’ category in the fixed assets register.

Bank Reconciliation

The bank reconciliation is an essential component of the accounting system. Without it, there is no guarantee that accounts and reported figures are complete and reliable. Bank reconciliation should ensure all reconciliations are completed promptly and prompt action is taken to resolve the causes of imbalances.

Detailed procedures for the bank reconciliation process are provided in Chapter 6 of the Accounting Policies and Procedures Manual.

The bank reconciliation process consists of the following key stages:

- daily agreement of transactions between bank branches and DAOs
• monthly consolidation by AGs of DAO
• monthly reconciliation by AGs of overall balances derived from DAO reconciliations and bank HQ reports.

7.7.4 Transaction detail provided by the bank

7.7.4.1 The main branch dealing with a particular DAO/AG/AGPR office shall submit a daily return consisting of the bank scroll (a listing of transactions) and the relevant paid cheques, receipt vouchers and other source documents relating to the scroll.

7.7.4.2 The main branch shall submit a separate daily return for each government bank account and for:
- expenditure - federal government
- expenditure - provincial government
- receipts - federal government
- receipts - provincial government
- adjustments between government departments
- adjustments between different governments.

7.7.4.3 On a monthly basis, the DAO/AG/AGPR and the main bank branch that it deals with, shall agree the daily transaction totals of receipts and payments for each bank account. This stage is critical in ensuring that the accounting records and bank records have the same starting point, prior to consolidation.

7.7.5 Daily reporting of cash balances

7.7.5.1 The head office of SBP shall report cash balances of each government bank account on a daily basis to the following, as applicable to each government:
- Ministry of Finance
- Department of Finance (each Province)
- AGPR, Islamabad
- AG (each Province).

7.7.5.2 These daily balances are derived from branch daily balances submitted by NBP and SBP branches. Due to the remoteness of some of these branches, not all balances may be reported the next day.

7.7.6 Monthly reconciliation

7.7.6.1 Every DAO shall prepare a monthly reconciliation statement for expenditures and receipts. From this, the Accountant General shall then prepare a consolidated monthly reconciliation statement for each government bank account operated within
the Province / Federation. To facilitate the AG’s reconciliation, the SBP shall provide a monthly statement of date-wise balances for each NBP and SBP branch.

7.7.6.2 These reconciliation statements highlight any reconciling items that may have arisen, such as unpresented (i.e. uncleared) payments at the bank, or payments in AG records that are not in the bank statement.

7.7.7 Other reconciliations

7.7.7.1 In addition to the bank reconciliation, a number of other reconciliations are required to take place to ensure the accuracy and completeness of the accounting system.

7.7.7.2 The DAO’s figures should be verified/reconciled with those of the DDO on a monthly basis. This is imperative to ensure the DAO’s records are consistent with the source of transaction generation (the DDO).

7.7.7.3 The consolidated revenue figures reported by the AG/AGPR should be regularly checked against those of the relevant revenue collection authorities, such as the Central Board of Revenue. This ensures that the recording of revenue is not solely reliant on the transaction flow from the banks.

7.7.7.4 The reported balances of public debt, debt servicing and their related adjustments must be regularly reconciled between AG/AGPR and debt management agencies (i.e. Economic Affairs Division and MoF)
8 Other financial management processes

8.1 Introduction

8.1.1 This chapter discusses other aspects of financial management which are important in Government. These are:
- cashflow management and forecasting
- purchasing
- asset management
- liabilities.

8.2 Cashflow Forecasting and Analysis

8.2.1 Financial Reporting of cash information

8.2.1.1 A number of reports are specified in the Financial Reporting Manual which provide some analysis of the cash position of the Government. The relevant reports, which are principally designed for financial disclosure purposes are:
- cashflow statement
- statement of expenditures and revenues
- revenue analysis
- public debt report.

8.2.1.2 All of these reports are generated from the accounting system, and as a result are largely based on past transactions.

8.2.2 Principals of cashflow management

8.2.2.1 Cashflow management is a critical component of the overall financial management of the Government. In general terms, the objective of cashflow management is to effectively plan and monitor the use of cash held by the Government. To be successful, it involves not only central planning and decision making by regulatory bodies, but also operational support from many organisations in the Government

8.2.2.2 Sound cashflow management typically requires the following practices to be undertaken:
- planning the timing of cash outflows and inflows so that a solvent cash position is maintained. This can be assisted by the making of smaller, more frequent payments
- making effective use of available cash through risk-averse investment strategies
• paying revenues into the Government bank account as quickly as possible, to maximise interest earned
• making payments only as they fall due and avoiding unnecessary advance payments
• taking discounts only where there is a cash benefit in early payment
• establishing appropriate levels of cash reserves for contingencies.

8.2.3 Cashflow forecasting and analysis

8.2.3.1 There is a need for the GoP to forecast receipts and payments in order to manage cashflow and determine borrowing requirements. Cashflow forecasting and analysis requires a range of financial and non-financial information to be collected. These include:
• current cash balances (duly reconciled to the accounting system)
• budgeted levels of tax receipts and other income
• established patterns of cash collections
• current performance in cash collection
• schedules of debt retirement
• established patterns of current and capital expenditures
• outstanding commitments
• new policies (e.g. taxation policies)
• other factors (i.e. seasonalties, public holidays, and changes in economic activity and shifts in the tax base).

8.2.3.2 This information required for cashflow forecasting and analysis requires information to be collected from a number of sources and provided to Ministry of Finance / Finance Department, the central financial regulatory body of each Government. Information on cash balances is provided on a daily basis by the SBP. Information on tax revenues and collection patterns is provided by CBR (and revenue collecting authorities in the Provinces), public debt information is provided by Economic Affairs Division and other information provided by AG/AGPR.

8.2.3.3 Due to the large amounts often involved, it is imperative that the information provided by these sources is available on a timely and frequent basis, to allow proper investing and financing decisions to be made by the Government.
8.3 Purchasing

8.3.1 Most Government activities, either directly or indirectly involve the purchase of a diverse range of goods and services. Purchasing procedures are aimed at promoting an open and effective purchasing policy, and effective and efficient use of Government money.

8.3.2 Accounting policies in relation to purchasing are found in Chapter 13 of the APPM, ‘Procurement and Asset Management’, which are designed to support the more general purchasing policy and procedures issued by the Government.

8.3.3 The key stages involved in the purchasing process are as follows:

- a decision to purchase, taken and documented by a duly delegated authority
- selecting the best method of procurement, depending on the nature and size of the purchase and any specific requirements. (e.g. quotations sought, formal tender process or other procedure)
- selecting a supplier, based on established criteria (including value for money) and negotiating the purchase with suppliers. At this stage, sufficient funds must be available before entering into any commitments
- entering into a commitment by a duly delegated authority (e.g. signing of contract, placing orders – depending on the size and nature of the purchase).

8.3.3.1 Entities should ensure that there is an appropriate segregation of duties between staff who approve purchase orders, those who place orders, and those who receive the goods or services.

8.3.3.2 All delivered goods should be examined, by a delegated officer within the department/entity, on receipt to ensure that there is a valid purchase order, that the correct quantities and qualities have been received, and that they are in good condition. Appropriate action should be taken by the delegated officer within the department / entity if unsolicited goods are received or if quantities or qualities are wrong, or if the goods are not in good condition.

8.4 Asset Management

8.4.1 In Section 5.4.of this Manual, aspects of asset management were discussed in terms of their application to the modified cash model of accounting and the accounting system. This section provides some further guidance on the accounting treatment of assets and associated management issues.

8.4.2 Definition of assets

8.4.2.1 Assets provide economic benefits to the entity by being used to provide goods or services (e.g. land and buildings, plant and equipment), being exchanged for goods and services or by being used to settle liabilities. The control of an asset refers to an entity’s ability to use, regulate or deny access to it.
8.4.2.2 In public sector entities, assets are used to provide goods and services in accordance with the entities' objectives, even though they do not necessarily charge the public for those goods and services. For example, assets such as monuments, museums, mosques and historical treasures provide services to the public, typically at little or no cost. These assets benefit the entities by enabling them to meet their objectives of providing needed services to the public.

8.4.2.3 Certain characteristics are not essential in determining if an asset exists. For example, assets need not be physical in nature, such as patents, copyrights and receivables.

8.4.3 Classification of Assets

8.4.3.1 The classifications adopted in the financial statements and the Chart of Accounts are designed to provide adequate financial information about classes of assets, which are appropriate to Pakistan. The categories include

- land and buildings
- transport
- machinery and equipment
- furniture and fittings
- livestock.

8.4.3.2 When coding expenditure transactions in the accounting system it is important to distinguish between those expenditures, which create assets, and those that do not. Under GAAP, any expenditure that relate to the acquisition, construction or enhancement of assets should be shown as assets in the balance sheet. This includes any significant items of repairs and maintenance, which have enhanced the service capacity or useful life of an asset.

8.4.3.3 The distinction between asset-creating or enhancing expenditures and others is not necessarily equivalent to development and non-development expenditures. For example, training and administration undertaken in a development project does not constitute an asset-creating expenditure.

8.4.4 Maintenance of asset records

8.4.4.1 When a new asset is acquired or purchased, it is necessary to establish a proper record of the asset and its associated details. This includes physical details as well as financial. For example, it is standard practice to issue a unique asset number, and provide the description, location, category, supplier details, cost, useful life and date of acquisition/construction. These details should be updated each time the asset is updated in any way (eg. transferred to another department).

8.4.4.2 At the end of an asset’s useful life, or at any such time as management decides the asset is longer required, it should be disposed of in a proper way. This includes following the correct procedures for disposal, such as the issue of public sale notices.
and auction proceedings, where appropriate. When disposed of, the sale proceeds must be charged to the correct sale proceeds revenue account.

8.4.4.3 Physical assets should be periodically inspected to ensure the associated details in the asset register are still current, and updated where necessary (e.g. of an asset has received a major overhaul, transferred or disposed of).

8.4.5 Valuation of assets

8.4.5.1 Under the modified cash method of accounting, assets will be recorded in the books at historical values. However, this does not preclude the establishment of more meaningful values where it is of use to managers. For example, it would be prudent to record the market value or land and building assets in the asset register.

8.5 Liabilities

8.5.1 Definition

8.5.1.1 In accordance with the Manual of Accounting Principles, liabilities are defined as ‘future sacrifices of economic benefits that an entity is presently obliged to make as a result of past transactions or other past events’.

8.5.1.2 More detailed accounting policies in relation to liabilities are set out in Chapter 15 of the APPM, ‘Accounting for Liabilities’.

8.5.2 Categories of liabilities

8.5.2.1 The major categories of liabilities reported in the financial statements are as follows:

- public debt (consisting of domestic and foreign loans, Government securities and various deposits and reserve funds)
- deferred liabilities (consisting of various savings accounts, savings and deposit certificates, state provident and other funds)
- current liabilities (consisting of uncleared cheques).

8.5.2.2 These categories of liability are further sub-divided in the chart of accounts, under the object element ‘liabilities’.

8.5.3 Principles of liability management

8.5.3.1 Management of public debt and other liabilities is a centralised function, undertaken by Economic Affairs Division and MoF. The agencies operate their own debt management systems and procedures. Some of the aspects of liabilities management, in terms of accounting and cashflow management are:

- determining new borrowing requirements
• scheduling loan repayments, and distinguishing between interest and repayments of principal
• measuring realised and unrealised gains/losses on foreign loans and adequately protecting against such losses
• managing Government securities and other obligations in accordance with Government regulations. This includes raising, converting, redeeming and servicing these liabilities as required.
Appendix A - Table of Accounting Entries

This table provides a summary of the accounting transactions associated with the modified cash system, and the other effects of each transaction relevant to the accounting framework.

<table>
<thead>
<tr>
<th>Event</th>
<th>General Ledger entry</th>
<th>Modified Cash adjustment</th>
<th>other effects of transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>purchase order</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>delivery</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>claim voucher</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>payment</td>
<td>dr expenditure</td>
<td>dr asset account</td>
<td>- create commitment</td>
</tr>
<tr>
<td></td>
<td>cr bank account</td>
<td>cr equity</td>
<td>- reduce funds available</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>refund of purchase *</td>
<td>dr bank account</td>
<td>dr equity</td>
<td>- increase funds available</td>
</tr>
<tr>
<td>*(if paid for)</td>
<td>cr expenditure</td>
<td>cr asset account</td>
<td>- increase appropriation (cash) control</td>
</tr>
<tr>
<td>cancelled order</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2. Loans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>receive funds</td>
<td>dr bank</td>
<td>dr equity</td>
<td>- increase fund available to relevant budget head</td>
</tr>
<tr>
<td></td>
<td>cr capital receipts</td>
<td>cr liability</td>
<td></td>
</tr>
<tr>
<td>make repayments</td>
<td>dr capital expenditure (principal and interest)</td>
<td>dr loan liability (principal only)</td>
<td>cr equity</td>
</tr>
<tr>
<td></td>
<td>cr bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3. Loans and advances</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>advance loan</td>
<td>dr loans and advances (expense)</td>
<td>dr loans and advances (asset)</td>
<td>cr equity</td>
</tr>
<tr>
<td>receive repayment</td>
<td>dr bank</td>
<td>dr equity</td>
<td>cr equity</td>
</tr>
<tr>
<td></td>
<td>cr loans and advances (receipt)</td>
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<td></td>
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<tr>
<td><strong>4. Receipts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>issue demand notice</td>
<td></td>
<td></td>
<td>memorandum entry</td>
</tr>
<tr>
<td>collect receipt</td>
<td>dr bank</td>
<td>dr receipt head</td>
<td>- increase receivables</td>
</tr>
<tr>
<td></td>
<td>cr receipt head</td>
<td></td>
<td></td>
</tr>
<tr>
<td>refund receipt -planned</td>
<td>dr expenditure</td>
<td>dr receipt head</td>
<td>memorandum entry</td>
</tr>
<tr>
<td></td>
<td>cr bank</td>
<td></td>
<td>- decrease receivables</td>
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<tr>
<td>refund receipt - unplanned</td>
<td>dr expenditure</td>
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<tr>
<td></td>
<td>cr bank</td>
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</tr>
<tr>
<td>proceeds from disposal of asset</td>
<td>dr bank</td>
<td></td>
<td>- update asset register</td>
</tr>
<tr>
<td></td>
<td>cr receipt head</td>
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