Accounting Code for Self Accounting Entities
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1 Overview - purpose and scope of the Manual
1.1 Overview

1.1.1.1 This Manual sets out the Accounting Principles and the Financial Reporting Responsibilities which Self Accounting Entities are required to adhere to in pursuance of Articles 170 of the Constitution of the Islamic Republic of Pakistan.

1.1.1.2 Self Accounting Entities are required to prepare financial reports as prescribed in section 3 of this manual, under the Accounting Principles prescribed in sections 4 and 5 of this manual. There may be a transitionally phase, during which the Self Accounting Entities would be required to undertake an exercise at each month end to prepare additional financial reports for the purpose of meeting the requirements of the Auditor General. General guidelines for this transitionally phase is set out in section 6 of this Manual.

1.1.1.3 This Manual provides detailed instructions on the Accounting Principles to be adhered to by Self Accounting Entities together with detailed Financial Reporting formats, to be submitted to the AG/AGPR on a monthly basis.
1.2 Authority, applicability, distribution and maintenance of the Manual

1.2.1 Authority

1.2.1.1 This Manual is issued to set out the accounting principles and financial reporting responsibilities in accordance with which the accounts of Self Accounting Entities shall be kept, in pursuance of article, 170 of the Constitution of Islamic Republic of Pakistan.

1.2.2 Effective date

1.2.2.1 The effective date for application of this Manual is the date of issue of this Manual by the Auditor-General.

1.2.2.2 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.

1.2.3 Definitions

Accounting entity

1.2.3.1 An accounting entity is any unit of Government (e.g. 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 an Exempt Entity as set out at 1.2.3.7 of this section.

1.2.3.2 There are two types of accounting entities, namely centralised accounting entities and self accounting entities.

Centralised accounting entities

1.2.3.3 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.

1.2.3.4 Unless specifically stated otherwise the term accounting entity will include all centralised accounting entities.

Self accounting entities

1.2.3.5 A self-accounting entity is any accounting entity for whom the Principal Accounting Officer has primary responsibility for the accounting and reporting functions. Examples of these entities is given below:

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

1.2.3.6 Unless specifically stated otherwise, the term accounting entity will include all self-accounting entities.

Exempt entities

1.2.3.7 An exempt entity is any entity included in the definitions below:

1.2.3.8 Exempt entities are defined as those which fall outside the responsibility of the Auditor General of Pakistan for accounting and reporting purpose’s. 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

1.2.3.9 The term accounting entity excludes exempt entities.

1.2.4 Compliance

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

1.2.4.2 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.

1.2.5 Distribution, maintenance and update

1.2.5.1 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

1.2.5.2 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

1.2.6 Explanatory note

Statutory and legal requirement for compliance

1.2.6.1 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.

1.2.6.2 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.

1.2.7 Abbreviations used in this Manual:

• AGP Auditor General of Pakistan
• AGPR Accountant General Pakistan Revenue
• AG Accountants General - Provinces
• APPM Accounting Policies and Procedures Manual
• CBR Central Board of Revenue
• CG Comptroller General
• FCF/CF Federal Consolidated Fund / Consolidated Fund
• GAAP Generally Accepted Accounting Principles
• GOE Government Owned Entities
• CMA Consolidated Monthly Accounts
• CQA Consolidated Quarterly Accounts
• DAO District Accounts Office / Officer
• DDO Drawing and Disbursing Officer
• EAD Economic Affairs Division
• MAP  Manual of Accounting Principles
• MOF  Ministry of Finance
• PAO  Principal Accounting Officer
• PAD  Pakistan Audit Department
• PSDP Public Service Development Program
• SE   Self Accounting Entities
• SBP  State Bank of Pakistan
2 Use of this Manual
2.1 The need for a manual

2.1.1.1 It is envisaged that SE’s will ultimately adopt the accounting policies, procedures and financial reporting formats applicable to Centralised Accounting Entities. There is a need for a compact document that highlights the financial reporting responsibilities and accounting principles which must be adhered to by Self Accounting Entities.
2.2 How to use this manual

2.2.1.1 This manual commences with detailed guidelines on the financial reporting responsibilities applicable to Self Accounting Entities and the accounting principles to which they must adhere. This Manual also provides guidelines for Self Accounting Entities who are in a transitionally phase (as they may be in the process of aligning their financial reports and accounting principles as prescribed by this Manual).

2.2.1.2 It is essential that users and those involved in accounting for SE’s must familiarise themselves with the financial reporting formats and accounting principles applicable to all GOP budget entities (including the SE’s) - as set out in this Manual.
3 Financial Reporting Responsibilities
3.1 Overview

3.1.1 Introduction

3.1.1.1 This section of the Manual highlights the financial reporting responsibilities which must be adhered to by Self Accounting Entities as required by the Auditor General.

3.1.1.2 The Self Accounting Entities are responsible for preparing a Monthly Account Pack based on the General Ledger and other primary sources which contain accounting data at the transaction level. Certain entities may not have fully aligned their financial reporting responsibilities with the requirements of this section of the Manual and will be deemed to be in a transitionally phase in which case these entities may adhere to the financial reporting responsibilities as prescribed in this section of the Manual whilst adhering to their own internal financial reporting formats for a transitionally period.

3.1.1.3 It is envisaged that Self Accounting Entities will have adopted the Chart of Accounts as prescribed by the Auditor General which will facilitate adherence to the requirements of this section of the Manual.

3.1.1.4 The financial reports produced by Self Accounting Entities as required by this section of the Manual must conform the accounting principles prescribed by the Auditor General as set out in section 4 and 5 of this Manual.
3.2 Monthly Account Pack

3.2.1 Responsibility

3.2.1.1 All Self Accounting Entities (SE) will be responsible for producing the Monthly Accounts Pack.

3.2.2 Information source

3.2.2.1 All information for the monthly accounts would be available from the General Ledger and other primary sources which contain accounting data and transaction level details.

3.2.3 Key user and distribution

3.2.3.1 The key users of the monthly accounts are the Provincial AG’s and the AGPR.

3.2.4 Reporting deadline

3.2.4.1 The monthly accounts should be submitted with key users before the 7th of each month, for each preceding month.

3.2.5 Description

3.2.5.1 Components of the Monthly Accounts Pack for Self Accounting Entities:

- Revenue and Expenditure Statement - Consolidated Funds (specimen format 1)
- Division / Department Schedule - Consolidated Funds (specimen format 1)
- Public Account Summary Schedule (specimen format 2)
- Statements of Cash Flows (specimen format 3)
- Grant Expenditure Analysis (specimen format 4)
- Programs Report (specimen format 5)
- Project Expenditure Statement
- Statement Fixed Assets
- Revenues Analysis
- Debt Report
- Losses Report
- Bank Reconciliation Statement
3.2.5.2 The monthly accounts will present “Summary Schedules” for both Consolidated Fund and Public Accounts separately, supported by “Division / Department Schedules” for each Division / Department within the Consolidated Fund section (the “Summary and Division Schedules” in the CF section will be in identical format). Revenues, other receipts, “Expenditure met from revenue, and expenditure met from capital” and other disbursements for each Division / Department will be analysed to the Major object level for expenditure and Minor Object for receipts and will be compared to budget. Commitments will be disclosed as a separate line item under total costs by each Division / Department (this process will effectively assign commitments to each Division / Department).

3.2.5.3 The budget figures will be the aggregate budget at the disposal of the Division / Department (i.e. total of all grants available to DDO’s within that District, or Division / Department in the case of SE’s) and will be prorated to reflect the activity profile in the case of revenue expenditure. The figures will not be further analysed to each separate grant (grant wise analysis will be possible through the “Grant - Expenditure Analysis” Statement in the Consolidated Accounts).

3.2.5.4 The Consolidated Fund section will briefly disclose the amount and reasons for any "material" balances not reconciled with revenue collecting and expending Divisions/Departments (see specimen format 1).

3.2.5.5 There will be a separate section for Public Account heads divided into separate sub sections for Deposits and Trust Accounts. The main reporting document with regards to Public Account reporting is the “Public Account Summary Schedule”. For each Major account head there will be a movement analysis in this Schedule. Brief "one line" descriptions will be provided on the basic constitution of each account to provide users with an understanding of the mechanics of Public Account transactions in order to enhance the informational value of these accounts (see specimen format 2)).

3.2.5.6 In the Cash Flow Statement, periodic cash flows are analysed by type of activity. This statement will be consolidated on a Government level in the CMA / CQA. The specimen formats for “Grant Expenditure Analysis” and the “Programs Report” is self explanatory.

3.2.5.7 These statements will be included in appendices:
- Grant Expenditure Analysis (see specimen format 4)
- Programs / Function Report (see specimen format 5).

3.2.6 Project Expenditure Statement

3.2.6.1 For those projects in progress at the reporting date and those completed during the reporting period, the following information will be provided in the statement:
- brief description of the project
• life to date cost at the start of the reporting period
• costs during the period
• year to date costs at the reporting date
• budget for the project (including re-appropriations and supplementary budget) / budget for the reporting period
• all of the above information for the previous year, where applicable.

3.2.6.2 The Project Expenditure Statement will be submitted by Project Management before the 7th of each month. Following computerisation this statement may be prepared by the AG / AGPR for inclusion in the CMA / CQA.

3.2.6.3 The AG / AGPR will prepare an overview of the PSDP indicating therein the cost overrun, time overrun, unapproved projects, unfunded projects and completed projects etc. (refer to 10.4.6.7 of the Accounting Policies and Procedures Manual for details).

3.2.7 Statement of Fixed Assets

3.2.7.1 This statement will provide the following details:
  • "owner Division/Department"
  • asset categories
  • cost at beginning of the reporting period (for each category)
  • additions during the reporting period (at cost)
  • disposals during the period (at cost)
  • cost at end of reporting period (for each category).

3.2.7.2 This statement will be based on information supplied by the Division/Departments on a specified form (from their "Fixed Assets Registers" as set out in chapter 13 of APPM) before the 7th of each month. The form supplied by the Division/Departments shall be signed by the Principal Accounting Officer of each concerned Division/Department.

3.2.8 Revenues Analysis

3.2.8.1 This Analysis will provide information on actual revenue collections by Minor Object heads against forecasts for the period (forecasts may need to be prorated, where meaningful), identifying the collecting Division / Department and on a year to date basis.

3.2.8.2 This information will be generated from AG’s / AGPR’s own accounts as set out in chapter 5 of APPM.
3.2.9  Debt Report

3.2.9.1  This will provide an analysis of the national debt position at the end of each month. The following details will be included in this report:

- opening balances at the start of the reporting period for domestic debt (including floating debt) and foreign debt (at the Rupee and foreign currency values)
- additions during the reporting period
- retirements during the reporting period
- realised foreign exchange gains / losses on retirements
- unrealised foreign exchange gains / losses on translation / retranslation
- other adjustments (to be specified)
- closing balances in each category
- brief description, repayment terms, interest rates and purpose of loan for material items within each category.

3.2.9.2  The required information will be obtained from EAD / FD on an AG / AGPR specified format (see section 1.3, 1.3a of the Manual of External Reporting Requirements) and as set out in chapter 11 of APPM, within 7 days after the end of each month. The information supplied by the EAD / FD shall be signed by an appropriate responsible Officer within EAD / FD.

3.2.10  Losses Report

3.2.10.1  The Losses Report will identify the relevant Division / Department to which the loss relates, the gross amount of loss, amount of any recoveries there against, net loss (this month and year to date) and comments on nature of loss (e.g. Theft, fire etc.) and status (e.g. final amount of loss determined inquiry closed or legal action or inquiry / investigation being undertaken - final loss to be determined at a later stage). Where the amount of loss cannot be determined accurately, an estimate will be provided. This report will be based on information supplied by Divisions / Departments within 10 days after the end of each month.

3.2.11  Bank Reconciliation Statement

3.2.11.1  Each Self Accounting Entities will prepare and provide the following monthly reconciliation statement to the Accountant General Pakistan Revenue.

Outline of SE Monthly Reconciliation Statement
Expenditure

Total expenditure as per SE’s General Ledger X

Less: Unpresented (uncleared) cheques/payments:
   Item 1
   Item 2
Sub-total X

Add: Payments or transfers in bank statement/schedule but not in DAO’s General Ledger:
   Item 1
   Item 2
Sub-total X

Adjusted total expenditure of DAO’s General Ledger X

Total expenditure as per Main Designated Broad Statement X

Receipts

Total receipts as per SE’s General Ledger Y

Add: Payments or transfers in bank statement/schedule but not in DAO’s General Ledger:
   Item 1
   Item 2
Sub-total Y

Adjusted total receipts of DAO’s General Ledger Y

Total receipts as per Main Designated Broad Statement Y

3.2.11.2 The Policies and Procedures required to be adopted by the SE in order to prepare the Bank Reconciliation Statement.

3.2.12 Authority / Approval

3.2.12.1 The monthly accounts will be approved (signed) by the Chief Accounts Officer in the case of SE’s.

3.2.13 Responsibilities

3.2.13.1 The responsibilities referred to below incorporate both the Public Accounts Committee and the Provincial Public Accounts Committee.
3.2.13.2 The Public Accounts Committee is responsible for examination and reporting as detailed in the consolidated financial statements prepared by the Auditor-General.

3.2.13.3 The responsibilities of the Public Accounts Committee are governed by the Rules and Procedures of the National Assembly.

3.2.13.4 The Public Accounts Committee is required to submit their findings and recommendations to Parliament and to the Principal Accounting Officer of the concerned entity for action.

3.2.14 Constitution

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

3.2.15 Accountability

3.2.15.1 The Public Accounts Committee reports to Parliament, however, there are no legislative powers covering the accountability of the Public Accounts Committee to Parliament.
### 3.3 Specimen format 1: Summary Schedule (CF) / Division/Department Schedule (CF)

- Revenue and Expenditure Statement - Consolidated Funds (in Monthly Accounts Pack)
- Division/Department Schedules - Consolidated Funds (in Monthly Accounts Pack)

<table>
<thead>
<tr>
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<th>CURRENT YEAR</th>
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<th>PRIOR YEAR</th>
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<tr>
<td></td>
<td>Amount</td>
<td>Budget</td>
<td>Variance / %</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>Tax revenue</strong></td>
<td>This month</td>
<td>Year to date</td>
<td>This month</td>
<td>Year to date</td>
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<tr>
<td>Major object heads</td>
<td></td>
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<td></td>
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<tr>
<td>e.g. Direct taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Minor object heads</td>
<td></td>
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<td></td>
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<tr>
<td>e.g. Taxes on income</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total direct taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunds</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Total tax revenue</strong></td>
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</table>

| **Non Tax receipts** |                      |                     |                      |                      |
| e.g. Income from property | This month | Year to date | This month | Year to date |
| Minor object heads |          |         |             |          |         |             |
| e.g. Profits |          |         |             |          |         |             |
| Total income from property |          |         |             |          |         |             |
| Refunds |          |         |             |          |         |             |
| **Total non tax receipts** |            |         |             |          |         |             |

| **Total revenues** | A+B |                      |                      |

| **“Expenditure met from revenue”** | | |
| Current | | |
| Development | | |
| Major object heads | | |
| e.g. Operating expense’s | | |
| **Total “Expenditure met from revenue”** | C | |

| **“Expenditure met from capital”** | | |
| Current | | |
| Development | | |
| Major object heads | | |
| e.g. Physical assets | | |

| **Total “Expenditure met from capital”** | D | | |

"This Quarter" in the case of CQA

Budget figures will be prorated to reflect the activity
Total expenditure (C+D)  

Budget and variance columns will be completed only by SE’s in the Monthly Accounts and by AG / AGPR in the CMA / CQA.  

Budget figures will be prorated on the basis of activity profile for each Division / Department which may be obtained from the MOF at the start of each financial year.

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<table>
<thead>
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<th>CURRENT YEAR</th>
<th>PRIOR YEAR</th>
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<td>Balance</td>
<td>Budget</td>
</tr>
<tr>
<td>This month</td>
<td>Year to date</td>
</tr>
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SURPLUS / DEFICIT (E) = (A+B) - (C+D)

Capital receipts
- Major object heads
  - e.g. Public debt
- Minor object heads
  - e.g. Domestic debt

Total public debt
- Total capital receipts (F)

NET SURPLUS / DEFICIT (E + F)

NOTE ON COMMITMENTS

Total commitments outstanding as at -------- amounted to Rs.----------.

Rs.------ as reported in these accounts under the --------head is subject to dispute. This matter is under review by the Office of the Auditor General and any adjustments that may be necessary will be reflected in subsequent accounts.

Borrowings from the Public Account at the reporting date amounted to : Rs.----------.
### 3.4 Specimen format 2: Public Account Summary Schedule

#### 3.4.1.1

The Public Account Summary Schedule will be produced for every “Special Deposit” and “Trust” Major head of account.

<table>
<thead>
<tr>
<th>Balance (opening)</th>
<th>Major head</th>
<th>This Month</th>
<th>Payments</th>
<th>Receipts</th>
<th>Net movement</th>
<th>Balance (closing)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxxxx</td>
<td>e.g. Invest. Dep.</td>
<td>xxxxx</td>
<td>xxxxx</td>
<td>xxxxx</td>
<td>xxxxx</td>
<td>xxxxx</td>
<td>Constitutes Govt. saving schemes.</td>
</tr>
<tr>
<td>Xxxx</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Brief comment on constitution of account</td>
</tr>
</tbody>
</table>

Amounts transferred to the Consolidated Funds at the reporting date amounted to Rs.----------. These amounts are receivables to the Public Accounts and liabilities to the Consolidated Fund.
### Specimen format 3: Statements of Cash Flows

#### 3.5.1.1
This statement will be presented in the same format at every level of reporting (i.e. in the Monthly Accounting Pack Financial Statements).

<table>
<thead>
<tr>
<th>Statement of Cash Flows - Consolidated Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flows</td>
</tr>
<tr>
<td>Taxes and other revenues (to be specified)</td>
</tr>
<tr>
<td>Revenue expenditure (other than interest repayments)</td>
</tr>
<tr>
<td>Net cash from operations</td>
</tr>
<tr>
<td>Investing and financing cash flows</td>
</tr>
<tr>
<td>Fixed expenditure other investment</td>
</tr>
<tr>
<td>External debt</td>
</tr>
<tr>
<td>Domestic debt</td>
</tr>
<tr>
<td>Floating debt</td>
</tr>
<tr>
<td>Debt repayment</td>
</tr>
<tr>
<td>Interest repayments</td>
</tr>
<tr>
<td>“Expenditure met from capital” (other than debt repayment)</td>
</tr>
<tr>
<td>Net cash from investing and financing activities</td>
</tr>
<tr>
<td>Cash flows from other activities</td>
</tr>
<tr>
<td>Other receipts</td>
</tr>
<tr>
<td>Other expenditure</td>
</tr>
<tr>
<td>Net cash from other activities</td>
</tr>
<tr>
<td>Net increase / decrease in cash held</td>
</tr>
<tr>
<td>Add : cash at beginning</td>
</tr>
<tr>
<td>Cash at end of month / as per General Ledger</td>
</tr>
<tr>
<td>Add / less : reconciling items</td>
</tr>
<tr>
<td>Cash at end of month / quarter as per Bank</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current year Total</th>
<th>Prior year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>This month / quarter and progressive</td>
<td>This month / quarter and progressive</td>
</tr>
</tbody>
</table>
2 Statement of Cash Flows - Public Account

Public Account Deposits

for each major category of deposits:
- cash received during the reporting period
- cash paid during the reporting period
- net cash deposited / withdrawn (A)

Public Account Trust Funds

for each trust account
- cash received during the reporting period
- cash paid during the period
- net increase / decrease in cash (B)

Net increase / decrease in cash (A+B)
add: Balance opening
   Balance as per General Ledger

Add / less : reconciling items
   Balance as per Bank

Net increase / decrease in cash (A+B)
add: Balance opening
   Balance as per Bank
### 3.6 Specimen format 4: Grant Expenditure Analysis

Information needs will drive the level to which grant information may be captured.

<table>
<thead>
<tr>
<th>GRANT. DEVELOPMENT / CURRENT</th>
<th>DDO No.</th>
<th>DISTRICT</th>
<th>ECONOMIC FUNCTION</th>
<th>MINOR FUNCTION</th>
<th>DETAILED FUNCTION</th>
<th>DIVISION/DEPARTMENT</th>
</tr>
</thead>
</table>

In a manual system, this statement effectively allows the AG/AGPR to establish an accounting database which allows the AG/AGPR to organise accounting information under any of the specified Chart of Account elements.

<table>
<thead>
<tr>
<th>Major object</th>
<th>Grant</th>
<th>Actual expenditure to date</th>
<th>Balance</th>
<th>Grant</th>
<th>Actual expenditure to date</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>e.g. Employee related expense’s</td>
<td>XXXXX</td>
<td>XXXXX</td>
<td>XXXX</td>
<td>XX</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

“This Quarter” in CQA
### 3.7 Specimen format 5: Programs Report

<table>
<thead>
<tr>
<th>Program Title</th>
<th>Actual expenditure - this month</th>
<th>Budget</th>
<th>Variance</th>
<th>Actual expenditure - this month</th>
<th>Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>xxxxxxxxxxx</td>
<td>xxxxxxx</td>
<td>xxxxxxx</td>
<td>xxxxxxxxxxx</td>
<td>xxxxxxx</td>
<td>xxxxxxx</td>
</tr>
</tbody>
</table>

*“This quarter” in the CQA*
4 Accounting Concepts
4.1 Introduction

4.1.1.1 This section of the Manual highlights the accounting principles which must be adhered to by Self Accounting Entities as required by the Auditor General in preparing their financial reports as set out in section 3 of this Manual.

4.1.1.2 The individual components that form the accounting principles prescribed by the Auditor General can be sub-divided into Accounting Concepts and Accounting Policies. The individual components which form the Accounting Concepts and Accounting Policies are summarised below:

(i) Accounting Concepts
   • Consolidated Fund and Public Account
   • Accounting Model
   • Internal Control
   • Budgeting

(ii) Accounting Policies
   • Accounting Period
   • Accounting Records
   • Accounting Elements
   • Banking
   • Reporting
   • Inter entity transactions

4.1.1.3 These Accounting Concepts and Accounting Policies have been set out as individual components in the remainder of this section and section 5.

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

4.2.1 Introduction

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

4.2.2 Certain funds and accounts to be kept by Governments

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

4.2.3 Consolidated Fund

Definition

4.2.3.1 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

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

4.2.4 Public Account

Definition

4.2.4.1 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

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

4.2.5 Explanatory note

Constitutional requirements

4.2.5.1 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.
4.2.5.2 The Constitution further provides that:

- all moneys received by that Government, all loans raised by that Government and all moneys received by it for the 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.

4.2.5.3 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.

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

4.2.5.5 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**

4.2.5.6 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**

4.2.5.7 The Public Account consists of those specific purpose monies 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**

4.2.5.8 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.

4.2.5.9 The Constitution also requires that the Schedule of Authorised Expenditure lapse with the passing of each financial year.
4.2.5.10 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 and non-cash or accrual item (e.g. commitments or creditors, not against the Consolidated Fund (until such time as the cash payment is made)).

4.2.5.11 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.
4.3 Accounting Model

4.3.1 Introduction

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

4.3.2 Accounting elements

4.3.2.1 Revenues, expense’s, 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.

4.3.3 Revenues

4.3.3.1 All revenue will be accounted for on an as received basis. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 3.3.5 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.

Example

4.3.3.2 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.

4.3.4 Expenditure and commitments

Expense’s

4.3.4.1 All expenses will be accounted for on a cash basis or on a committed basis. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 3.3.6 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.

Commitments

4.3.4.2 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.

4.3.4.3 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.
4.3.4.4 Commitments will be reversed when and only when any of the following conditions are met:
   - the cash payment is made
   - the authorisation to make the payment lapses (i.e. end of financial year)
   - the obligation to make a future payment ceases to exist.

4.3.4.5 All commitments will lapse in accord with the Schedule of Authorised Expenditure to which they relate i.e. 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.

4.3.4.6 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**

4.3.4.7 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.

4.3.4.8 Explanatory Note

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

4.3.4.9 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.

4.3.5 Assets

4.3.5.1 All assets will be accounted for on a modified cash basis. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 5.3.2 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.

   **Example**

4.3.5.2 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 expense’s
e.g. 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.

4.3.6 Liabilities

4.3.6.1 All liabilities, other than commitments (which will be accounted for on a modified cash basis), will be accounted for on a cash basis. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 3.3.3 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.

Example

4.3.6.2 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 (i.e. the balance of Rs 20,000) will be recognised as Deferred Liabilities.

4.3.7 Equity

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

4.3.7.2 Equity will be accounted for in accordance with the definitions and directives laid down in section 5.3.4

Example

4.3.7.3 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 i.e. the Consolidated Fund.

4.3.8 Double entry book keeping

4.3.8.1 All accounts will be maintained on a double entry basis. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 3.3.18 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.
4.3.9 Classification of transactions

4.3.9.1 All transactions will be classified in accordance with the Chart of Accounts as outlined in Chart of Accounts. Self Accounting Entities will be permitted to introduce additional classifications which are subsidiary to the classifications prescribed by the Chart of Accounts in order to assist with their own internal financial management needs. (For detailed guidelines on matter refer to the Chart of Accounts).

4.3.10 Explanatory note

**Modified cash basis of accounting**

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

**Adoption of a modified cash basis of accounting in Pakistan**

4.3.10.2 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.

4.3.10.3 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.

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

**Accounting elements**

4.3.10.5 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.

4.3.10.6 The Government of Pakistan has adopted a modified cash basis of accounting, however, the accounting elements (as defined in section 6.3 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.
4.3.10.7 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**

4.3.10.8 The Government of Pakistan has two distinct roles within the modified cash model. The first is as the owner of all accounting entities (section 6.3.4 Equity). The second role is as the funder of services. This distinction is important in determining the entity / Government relationship.

4.3.10.9 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.

4.3.10.10 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**

4.3.10.11 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.

4.3.10.12 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.

4.3.10.13 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.

4.3.10.14 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 reinstated against the following year’s Schedule of Authorised Expenditure.
4.3.10.15 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

4.3.10.16 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

4.3.10.17 The base for transaction recognition and reporting is modified cash. This necessitates that certain assets and liabilities be recorded and reported.

4.3.10.18 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 e.g. the Government of Pakistan.

4.3.10.19 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

4.3.10.20 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

4.3.10.21 Taxes, fees and fines collected on behalf of the Government will not form revenues of the collecting agency (section 5.3.7.7), unless otherwise specified by the Government.
**Expenditures of entities not to be met direct from Consolidated Fund**

Revenue

4.3.10.22 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**

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

**Explanatory Note**

4.3.10.24 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.

4.3.10.25 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.
4.4 Internal Control

4.4.1 Introduction

4.4.1.1 The purpose of this section is to provide general principles regarding internal control as they relate to the accounting procedures of all accounting entities.

4.4.1.2 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.

4.4.2 Definition

4.4.2.1 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.

4.4.2.2 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.

4.4.3 Explanatory note

4.4.3.1 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.
4.5 Budgeting

4.5.1 Introduction

4.5.1.1 The purpose of this section is to set out the principles for the authorisation of the annual budget of the Government of Pakistan.

4.5.2 Budgeting

Submission of estimates

4.5.2.1 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

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

Budget statement disclosure

4.5.2.3 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.

4.5.2.4 The annual budget statement shall distinguish expenditure on revenue account from other expenditure.

4.5.3 Explanatory note

The Budget

4.5.3.1 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 (i.e. expenditure) and how much and in what way, money will be raised to finance the expenditure (i.e. revenue).

4.5.3.2 The budget consists of a number of documents:

- Annual Budget Statement - summary of the overall budget position (revenue and expenditure)
- 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 (e.g. amendments to tax rates, introduction of new taxes etc).

The budget cycle

4.5.3.3 The budget cycle consists of six phase’s:

- 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 6.5)

- 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.
5 Accounting Policies
5.1 Accounting Policies

5.1.1 Introduction

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

5.1.2 Accounting period

Definition

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

5.1.3 Explanatory note

5.1.3.1 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.
5.2 Accounting records

5.2.1 Introduction

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

5.2.2 Definition

5.2.2.1 “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.

5.2.2.2 “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.

5.2.2.3 It is conceivable that, in the case of self accounting entities which require specialised accounting for internal reporting purposes, records in addition to those prescribed by the AG/AGPR may be required.

5.2.3 Making of proper entries

5.2.3.1 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.

5.2.4 Errors omission and corrections

5.2.4.1 Erasures (including the use of correction fluids or chemicals) are not permitted in any books of account.

5.2.4.2 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.

5.2.5 Maintenance of accounting records

5.2.5.1 Books of account will use pre-numbered pages and primary books of accounts e.g. cash books and ledgers, are to be bound.

5.2.5.2 Under no circumstances are pages to be removed from any primary book of account.

5.2.5.3 All electronic records will be backed up on a regular basis (preferably daily and at least weekly).
5.2.5.4 All backups will be stored in a secure location.

5.2.5.5 Periodic backups (monthly) will be made and stored at a secure off-site location.

5.2.6 Minimum periods for retention

5.2.6.1 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.
5.3 Accounting elements

5.3.1 Introduction

5.3.1.1 The purpose of this section is to establish definitions of the elements for the classification of transactions (namely assets, liabilities, equity, revenues and expenses).

5.3.1.2 The Federal and Provincial Government operate 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.

5.3.2 Assets

Definition

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

Recognition criteria

5.3.2.2 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

5.3.2.3 All assets will be expensed, that is charged against the current years’ appropriation, at the time of purchase.

5.3.2.4 Expenditure which relates to physical assets will be recorded as memorandum items in an “Physical Assets Register”. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 2.2.4 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.

5.3.2.5 Expenditure which relates to financial assets will be recorded as memorandum items in an “Financial Assets Register”. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 2.2.4 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.
5.3.3 Liabilities

Definition

5.3.3.1 “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

5.3.3.2 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

5.3.3.3 Liabilities will be recognised on a cash or on a 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 along with obligations, whose liquidation is expected within one year of the reporting date
- Long term liabilities are the obligations which are expected to be liquidated after a period of one year of the reporting date.

5.3.3.4 Commitments will be recorded as memorandum items in the commitment section of the “Budget Head Register”. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 2.2.4 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.

5.3.3.5 Liabilities other than commitments will be recorded as memorandum items in a “Liabilities Register”. Policies and procedures have been prescribed to meet with the requirements of the Auditor General in this regard for Central Accounting Entities and are set out in section 2.2.4 of the Accounting Policies and Procedures Manual for Centralised Accounting Entities.

5.3.4 Equity

Definition

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

Application

5.3.4.2 Equity will not be recognised in accounting records.
5.3.4.3 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.

5.3.5 Revenues

Definition

5.3.5.1 “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

5.3.5.2 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

5.3.5.3 Revenues will be recognised on a cash basis (i.e. 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.

5.3.6 Expenses

Definition

5.3.6.1 “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

5.3.6.2 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

5.3.6.3 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.
5.3.7  Explanatory note

Definition of accounting elements

5.3.7.1  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.

5.3.7.2  Details regarding the classification of the accounting elements are contained in Chart of Accounts Manual.

Financial assets and liabilities

5.3.7.3  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 (e.g. bearer bonds).

Recognition of accounting elements

5.3.7.4  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

5.3.7.5  The term economic benefits refer 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 accounting for “actual cash”.

Control and present obligations

5.3.7.6  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.

5.3.7.7  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.

5.3.7.8 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**

5.3.7.9 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**

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

5.3.7.11 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, will be shown by way of note accompanying the Financial Reports.

5.3.7.12 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, will be shown by way of note accompanying the Financial Reports.

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

**Probability**

5.3.7.14 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**

5.3.7.15 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 represents the transactions that have occurred.

**Contributions by owners and distributions to owners**

5.3.7.16 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.
5.3.7.17 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.

5.3.7.18 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**

5.3.7.19 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 decrease’s in liabilities.

**Generally Accepted Accounting Principles (GAAP)**

5.3.7.20 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 addressee’s the definition and recognition of accounting elements.
5.4 Banking

5.4.1 Introduction

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

5.4.2 Banking

State Bank of Pakistan to be the sole banker

5.4.2.1 Government will only bank with the State Bank of Pakistan or its authorised agent(s) under the authorised agreement.

Operation of bank accounts

5.4.2.2 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.

5.4.2.3 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

5.4.2.4 All payments will be made by cheque, transfer or direct debit unless otherwise authorised by the Ministry of Finance or the Auditor-General.

5.4.2.5 Only official Government issued cheques will be used when making payments by cheque, unless otherwise specifically authorised by the Government.

5.4.2.6 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

5.4.2.7 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.

5.4.2.8 Cash receipts will be deposited on the day of the receipt, unless otherwise authorised by the Ministry of Finance.

5.4.2.9 Government department should keep the cash transactions to the minimum level.
5.4.2.10 All cash receipts will be retained in a secure location until such time as the monies are deposited.

5.4.2.11 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

5.4.2.12 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.
5.5 Reporting

5.5.1 Introduction

5.5.1.1 The purpose of this section is to set out the principles for reporting by accounting entities.

5.5.1.2 The timing and format of various periodic reports are set out in the Financial Reporting Manual.

5.5.2 Reporting

Preparation of financial reports

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

Purpose of financial reports

5.5.2.2 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.

5.5.3 Explanatory note

Purpose of financial reports

5.5.3.1 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.

5.5.3.2 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

5.5.3.3 Given the purpose of financial reports, it therefore follows that there are three broad groups of users of financial reports:

- the Federal and the Provincial Governments as providers of resources
- the public as the recipient of goods and services
- the Public Accounts Committee, the Federal and Provincial Government and the public, as parties performing a review or oversight function.
Objective of financial reports

5.5.3.4 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

5.5.3.5 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.

5.5.3.6 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 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

5.5.3.7 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.
5.6  Inter entity transactions

5.6.1  Introduction

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

5.6.2  Inter entity transactions

Definition

5.6.2.1  Inter entity transactions are accounting transactions performed by one Province or the Federation but belonging to a different Province or the Federation.

5.6.2.2  Inter entity transactions 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

5.6.2.3  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.
6 The Transition Phase
6.1 The Transition Phase

6.1.1 Transition arrangements

6.1.1.1 The financial reports prescribed by the Auditor General based on the classification as prescribed by the Chart of Accounts (which has a considerable degree of flexibility and which allows for additional subsidiary classifications to meet special reporting needs of the entity) should adequately meet the business needs of Self Accounting Entities.

6.1.1.2 There may be a transition phase, where certain Self Accounting Entities would continue to prepare financial reports in accordance with their established formats (although eventually for such Self Accounting Entities it is recommended that they migrate to the financial reports prescribed by the Auditor General since these are expected to meet with the financial management needs).

6.1.1.3 Notwithstanding this transition phase, the Auditor General is required to consolidate the financial reports of Self Accounting Entities with the financial reports of Central Accounting Entities on a monthly as well as quarterly basis.

6.1.1.4 In order to perform this consolidation exercise it is imperative that the financial reports received from both Central Accounting Entities and Self Accounting Entities are in an identical format. Therefore, where Self Accounting Entities are in a transition phase it would remain mandatory for Self Accounting Entities to provide the AG/AGPR with financial reports as required by the Auditor General (as prescribed in section 3 of this Manual in addition to their existing financial reports).

6.1.1.5 The preparation of such additional financial report is a mandatory exercise and must be performed in order to meet the Financial Reporting responsibilities of the Self Accounting Entities towards the AG/AGPR. This section of the Manual is intended to provide guidance to the Self Accounting Entities in the transitionally phase to meet these additional reporting requirements.

6.1.2 Meeting additional reporting requirements

6.1.2.1 Self Accounting Entities should meet with the additional reporting requirements in the transition phase by preparing the financial reports (as prescribed in section 3 of this Manual) by extracting data from the entities General Ledger as would be the procedure in preparing a financial report. (These procedures would be in addition to the procedures adopted by the entity in the transition phase involved in continuing to prepare their existing financial).

6.1.2.2 The additional financial reports prepared will then need to be submitted to the AG/AGPR in accordance with the procedures set out in section 3 of this Manual.
6.1.3 Conversion of existing financial reports

6.1.3.1 An alternate approach that could be adopted in order to meet with the additional reporting requirements for Self Accounting Entities in the transition phase would be to continue to prepare their existing financial reports and to "convert" these to the financial reports as required by the Auditor General thorough a conversion process.

6.1.3.2 It should be borne in mind that the conversion process involves an elaborate process and it remains simpler to produce the financial reports prescribed in section 3 of this Manual by extracting the data directly from the general ledger as discussed at 6.1.2. Also this process may result in a lack of audit trail together with resulting in potential less reliable and accurate financial data. It is for this reason that the conversion of the existing financial reports is not a recommended approach to meeting the Auditor Generals requirements and the procedure set out at 6.1.2 should be adopted.

6.1.3.3 Nevertheless, for the purpose of completeness guidance notes have been given on the conversion process in the remainder of this section.

6.1.4 Conversion process

6.1.4.1 It is assumed that all Self Accounting Entities will be producing internal financial reports with the same frequency as prescribed for reporting to the Auditor General. Self Accounting Entities will however be encouraged to adopt the financial reporting formats for reporting to the Auditor General for their internal financial management needs. As these reports are comprehensive documents, capable of meeting the business needs of most entities and will avoid the monthly conversion exercise.

6.1.4.2 The adjustments that are required to "convert" existing financial reports prepared by Self Accounting Entities to the format prescribed in section 3 of this Manual fall under the following broad categories:

(i) Adjustments to align principles
(ii) Adjustments to align form and content.

6.1.4.3 These adjustments are discussed in detail in the subsequent paragraphs.

6.1.5 Adjustments to Align Principles

6.1.5.1 The Accounting Principles described earlier in this Manual specify the generally accepted accounting principles under which the financial reports will be prepared. It is conceivable, although not encouraged, that certain Self Accounting Entities may not adhere entirely to these principles and in this regard a monthly exercise will need to be undertaken whereby adjustments would need to be made to the existing financial reports prepared so that the accounting principles are aligned to those specified by the Auditor General.
6.1.6 Adjustments to align form and contents

6.1.6.1 Once adjustments have been made to align the principles, if any, adjustments will need to be made to the form and content of the financial reports to align the format with the format prescribed by section 3 in this Manual.

6.1.6.2 A line by line comparison will need to be made of the existing financial reports and the financial reporting format prescribed by section 3 of this Manual. Additional disclosure of information together with deletion / consolidation of information will need to be identified so that there is a precise alignment between both reporting formats. This will form a conversion matrix.

6.1.6.3 The AG/AGPR shall review and approve the conversion matrix in which the re-arrangement of accounts shall be clearly set out with due regards to the substance of the transactions and balances that are sought to be re-arranged.

6.1.6.4 This conversion matrix will be used to convert the existing financial reporting formats to the format prescribed in section 3 of this Manual. The "converted" financial reports will then need to be submitted to the AG/AGPR in accordance with the procedures set out in section 3 of this Manual.