Conceptual and Statutory Framework for Public Sector Accounting - Pakistan

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Introduction:

1.1 Consequent upon the issuance of a communiqué (February 2013), by G20 Finance Ministers and Central Bank Governors, which includes tasking the IMF and World Bank with looking at transparency and comparability of Public Sector reporting, the IPSASB Governance Review Group is now established. Governments across the world are starting to amend their Public Financial Management (PFM) laws in order to make express provisions that the financial statements of public sector entities be prepared in accordance with or based on IPSAS.

1.2 Beyond governments, international organizations and independent non-governmental organizations are embracing IPSAS. Rightly or wrongly, IPSAS has come to be accepted as the flagship accounting and reporting standards for the public sector. Globally, the acceptance and adoption rate is increasing day by day. Recently, Pakistan has also started a project namely ‘P for R’ to improve the Public Finance Management for better service delivery to the national institutions and ultimately the nation.

1.3 Government of Pakistan in consultation with Auditor–General of Pakistan has to decide which basis of accounting system (Cash, Modified-Cash, Modified-Accrual or Full Accrual) and set of standards (IPSAS or National Standards to be prescribed) suit to Pakistan. Either to pursue the remaining (so far unimplemented) policies already approved by the President of Pakistan as New Accounting Model or to transit for the newly selected ones.

1.4 It is evident that the financial information provided by the present reporting system is insufficient and cannot win the confidence of the Public Finance Managers for effective decision making. At the ending part of this document a strategy is being proposed along with the Roadmap for its implementation. It is intended to provoke discussion and finally decide a consensus based decision for the Public Sector Accounting in Pakistan. Therefore, the readers of this document are expected to form a decision in this regard.

1.5 The more important and relevant factor in this regard will be the cost estimations. A recent study published by EUROSTAT based on a survey of EU Member States estimates the cost of such reforms for the EU as a whole at between €1.2 and €6.9 billion which represents 0.009 to 0.053 percent of the EU GDP. Outside the EU, Switzerland has estimated the cost of implementing accrual accounting and accrual budgeting at the Federal Government level to be around €40 million (0.005 percent of GDP) with approximately 80 percent of this cost being for the new IT system. The coverage of the departmentalized accounting entities into the SAP system will be the first step for adoption of Accrual Accounting from legacy and major cost intensive area for Pakistan.
UNDERSTANDING THE CONCEPTUAL FRAMEWORK - NAM

1. In a broad sense a conceptual framework can be seen as an attempt to define the nature and purpose of accounting. As the purpose of financial reporting is to provide useful information as a basis for economic decision making, a conceptual framework shall form a theoretical basis for determining how transactions should be measured (historical value or current value) and reported – i.e. how they are presented or communicated to users. The Framework is also of value to auditors, and the users of financial statements. Framework can be summarized as follows:

- Identifying the objective of financial statements;
- Identifying roles and responsibilities of the reporting entities;
- Identifying the parties that use financial statements;
- Identify the needs and requirements of the users and legal framework;
- The qualitative characteristics that make financial statements useful.

2. The Auditor-General of Pakistan is responsible to set the conceptual framework for accounting in the Public Sector Entities in Pakistan. Under Article 170 of the Constitution of Pakistan, on recommendation of the Auditor-General of Pakistan, President has approved the accounting system known as New Accounting Model (NAM) in the 2000 A.D. This system was started to implement in the country from 2005. The NAM accounting framework can be explained with the help of four key requirements i.e. Constitutional, International Accounting and reporting standards, Accountability and administrative arrangements and other stakeholders’ requirements. These are briefly explained as under:
3.

3.1. Constitutional and other Statutory Requirements:

3.1.1. Public Funds: Article 78 and 118 divide/classifies the public money into two parts i.e. Federal/ Provincial Consolidated Fund and Public Account. Consolidated Fund comprises of Revenue Receipts (Tax, Non-tax Receipts) and Capital Receipts (Domestic & Foreign Debts and Receipts of monies already lent with interest). Public Account includes the Special Deposits (bearing interest and not bearing interest) and Trust funds with Government including Courts.

3.1.2. Classification for Budgeting: Article 80, 81, 120 and 121 set the foundation for classification of Budgeting and reporting as under:

a) The expenditure charged (Servicing of Debt, and certain organs/ departments of states) upon the Consolidated Fund and expenditure other than Charged;

b) The Expenditure met from Revenue Receipts and Capital Receipts;

c) The Current Expenditure and Development Expenditure.

3.1.3. The Basis for Budgeting: Para 73 of the General Financial Rules sets the rule for Basis of Estimates. The Federal Budget is on disbursement basis and not on commitment basis. The estimates should, therefore, be prepared on the basis of what is expected to be actually received or paid (under proper sanction) during the ensuing year, including arrears of previous years and not merely the demand or the liability of expenditure falling due within the year.

3.1.4. The System of Accounting: Article 170 gives the Auditor General power for setting the Accounting Framework. According to this Article, 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.

3.1.5. Submission of Accounts: Article 171 of the Constitution says that the reports of the Auditor-General relating to the accounts of the Federation shall be submitted to the president, who shall cause them to be laid before the National Assembly and the reports of the Auditor General relating to the accounts of a Province shall be submitted to the Governor of the Province, who shall cause them to be laid before the provincial Assembly.

3.1.6. Certification of Accounts: Section 7 of the AGP Ordinance 2001, prescribes that the Auditor-General shall, on the basis of such audit as he may consider appropriate and necessary, certify the accounts, compiled and prepared by Controller General of Accounts or any other person
authorized in that behalf, for each financial year, showing under the respective heads the annual receipts and disbursements for the purpose of the Federation of each Province and of each district, and shall submit the certified accounts with such notes, comments or recommendations as he may consider necessary to the President or the Governor of a Province or the designated District Authority, as the case may be.

3.1.7. **Maintenance of Accounts:** Section 5 of the CGA Ordinance 2001 defines that Controller-General of Accounts is responsible to prepare and maintain the accounts of the Federation, the Provinces and district governments in such forms and in accordance with such methods and principles as the Auditor-General may, with the approval of the President, prescribe from time to time;

3.1.8. **Maintenance of other Accounts:** The CGA Ordinance 2001 further defines that CGA shall prepare and maintain accounts of such organizations and authorities established, set up or controlled by the Federation or Provinces as may be assigned to him by the President or, as the case may be, the Governor of a Province;

3.2. **International Accounting/Reporting Standards Requirements:**

3.2.1. In 1998 Department of the Auditor General of Pakistan modernized the legacy system established since 1935. The New Accounting Model (NAM) integrated the following features along with other requirements:

- **Elementary Accounting:** The classification based on four divisions of accounts changed to internationally accepted classification of business transaction known as Elements of Accounts (Revenue, Expenditure, Assets, Liabilities and Equity);

- **Functional Reporting:** All transactions are classified in 10 major, minor, detailed and sub-detailed classes in accordance with the Functional Classification prescribed under IMF’s System of National Accounts (SNA)/ Government Finance Statistic (GFS) Manual 1986/2001;

- **Departmental Performance Reporting:** The financial reports include the Departmental fiscal performance reports as prescribed under the INTOSAI Reporting Framework;

- **Responsibility Accounting:** Some of the features of Responsibility Accounting like reporting on Cost center, Fund Centre, Profit Centre have been included;

- **IPSAS-Cash basis:** The format of Cash-basis IPSAS has been adopted for reporting receipts and disbursements. The presentation of a Comparison of Budget and actual amounts in the form of

**Presentation of a Comparison of Budget and Actual Amounts**

An entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard.

(Paragraph1.7.8 of IPSAS-Cash basis)
Appropriation Accounts (now mandatory disclosure) is prepared on annual basis in ten volumes;

**IPSAS-Accrual basis:** The format of Accrual-basis IPSAS-2 has been adopted for reporting Statement of Cash-flows;

### 3.3. Accountability and Administrative Arrangements Requirements:

3.3.1. The legislators, representing the General Public, hold meetings of the Public Accounts Committee in the Parliament and the *Rules of Procedures and Conduct of Business in the National Assembly* require the Auditor-General of Pakistan to submit the following Accounts and his report as under:

i. **General Government Entities/ Departments (Rule 203(1))**:
   - Annual Appropriation Accounts;
   - Annual Finance Accounts

ii. **Public Sector Enterprises/ Corporations (Rule 203(3))**:
   - Statement of Accounts for Income and Expenditure;
   - Trading and Manufacturing, Statement of Accounts for Income and Expenditure with Balance Sheet of concerns and projects;

iii. **Autonomous / Semi Autonomous Bodies (Rule 203(3))**:
   - Statement of Accounts showing the Income and Expenditure.

### 3.4. Other stakeholders Requirements:

a. Various Stakeholders including the Principal Accounting Officers of Ministries/ Divisions/ Attached Departments are in need of accounting reports. Some of the reports generated on need basis, daily, monthly, quarterly and annual basis are as under:

   - Tax and non-tax Revenues confirmation reports;
   - Principal Debt and interest confirmation reports;
   - Expenditure confirmation reports;
   - Project/Program expenditure confirmation reports, etc.

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1 Discontinued to Publish, only Provincial AGs are preparing. Financial statements are now prepared and published.
CONCEPTUAL AND STATUTORY FRAMEWORK FOR PUBLIC SECTOR ACCOUNTING - PAKISTAN

November 25, 2018

Office of the CGA Islamabad

IMF GFS MANUAL 2001
(Functional classification adopted)
PART-2

NAM- FEATURES AND IMPLEMENTATION GAP ANALYSIS:

1. KEY FEATURES OF NEW ACCOUNTING MODEL

1.1. NAM provides three (3) dimensional accounting information:

   1.1.1. *Fund Accounting*: separate reports for cash inflows and outflows in Consolidated Fund and Public Accounts;
   1.1.2. *Elements of Accounts*: the system has been modernized from reporting for four divisions of accounts to five elements of accounts; and
   1.1.3. *Reporting for Fiscal deficit and surplus for the use of Fiscal Management*.

1.2. There are *five key elements of Chart of Accounts under NAM* on the basis of which multipurpose reports (including general purpose financial statements) are generated for stakeholders:

   1.2.1. Entity Element to report on the Economic Entities with their location;
   1.2.2. Fund Element to report on the sources and uses of Funds;
   1.2.3. Function Element to report on the ten key government functions as prescribed under IMF-GFS Manual 1986/2001; the codes classification is fully compliant;
   1.2.4. Project Element to report on the development program/projects (yet to be implemented);
   1.2.5. Object Element to report on the five elements of accounts i.e. Revenues, Expenses, Assets, Liabilities and Equity;

1.3. *Cash basis and standards of accounting*:

   1.3.1. The transactions under all the five elements of accounts are recognized mainly on cash basis.
   1.3.2. Although at the time of the drafting of NAM no formal set of IPSAS was available, however the system is Cash-basis IPSAS compliant with additional (non-mandatory) disclosure requirements to enhance its financial accountability and the transparency of its financial statements;
   1.3.3. The statement of cash flows is prepared on the format prescribed under Accrual IPSAS-2 for all the governments.

1.4. *Responsibility Accounting*:

   1.4.1. To report on the Departmental performance the structure is on Cost & Profit Centres;
   1.4.2. Over two hundred (200) profit centres report the spending and collection of above twenty thousand (>20,000) cost centres.
1.5. **Assets accounting:**

1.5.1. Physical Assets are recorded on Historical Cash basis without attributable costs (Rs. 100,000 threshold) of assets and depreciations;
1.5.2. The assets registers and reports are to be submitted to PAOs on quarterly and annual basis (yet to be implemented);
1.5.3. Financial Assets are recorded on cash basis i.e. on payment of cash;

1.6. **Accounting for Liabilities:**

1.6.1. Liabilities are recorded on principally cash basis;
1.6.2. Foreign debt is subject to adjustment of Foreign currency gain and losses;
1.6.3. Dollar equivalency reports are part of the financial statements disclosure.

1.7. **Accounting for Expenditure:**

1.7.1. All expenditure is recorded subject to budget in the relevant object heads;
1.7.2. Budget appropriation registers are updated on issue of P.O. to reduce the available budget for commitments against budgets;
1.7.3. On passing of the claims the expenditure are recorded as outstanding commitments which actually is of Accounts Payables in nature;
1.7.4. All cash outflows (either of revenue or capital in nature) are recorded as expenditure on payment of cash or issue of cheques;
1.7.5. Subsequently, the capital expenditure is recorded as Assets or reduction in Liabilities;
1.7.6. All refunds of revenue are treated as expenditure and need budget;

1.8. **Accounting for Receipts:**

1.8.1. The revenues are recorded on cash receipt basis;
1.8.2. The overpayments of the past year after close of the financial year are recorded as revenues in the current year;
1.8.3. Like expenditure, revenues are also recorded in accordance with functional and object classification;
1.8.4. All cash inflows (either of revenue or capital in nature) are recorded as revenues on receipt of cash or cash equivalents;
1.8.5. Subsequently, the capital receipts is recorded as Liabilities or reduction of Assets;
1.8.6. The gains on foreign currency valuation are treated as revenues;
1.8.7. The tied grants are recorded as liability (under Public Account) and the portion becomes untied is recorded as revenues;
1.8.8. The amounts collected on behalf of the other governments are recorded as liabilities.

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The Classification of Functions of Government (COFOG) is a detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of outlays. It is one of a family of four classifications referred to as classifications of expenditure according to purpose. There are 10 first-level, or two digit, categories, referred to as divisions. Examples are health (Division 07) and social protection (Division 10).

*(Chapter 6 of IMF- GFS MANUAL 2001)*
2. GAP ANALYSIS: NON IMPLEMENTATION OF NAM ACCOUNTING POLICIES IN CENTRALIZED ACCOUNTING ENTITIES (CAEs):

A. THE ACCOUNTING POLICIES:

<table>
<thead>
<tr>
<th>POLICY</th>
<th>DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Commitments</td>
<td>The commitments are not being recorded as envisaged;</td>
</tr>
<tr>
<td></td>
<td>The budgeting and reporting of commitments is not applied as prescribed;</td>
</tr>
<tr>
<td></td>
<td>Due to delayed release of budgets, the purpose of the commitments</td>
</tr>
<tr>
<td></td>
<td>accounting is not achievable.</td>
</tr>
<tr>
<td>2. Budgetary Controls</td>
<td>No budgetary check is currently exercised on pays and allowances;</td>
</tr>
<tr>
<td></td>
<td>Supplementary grants justified for one purpose are re-appropriated for</td>
</tr>
<tr>
<td></td>
<td>another purposes;</td>
</tr>
<tr>
<td></td>
<td>The local currency component of a project is consumed in anticipation</td>
</tr>
<tr>
<td></td>
<td>of foreign currency. No system based check is existent or active.</td>
</tr>
<tr>
<td>3. Misclassifications and one</td>
<td>A large number of entities are granted one line budgets each year. Due</td>
</tr>
<tr>
<td>line budgets</td>
<td>to non-availability of detailed and accurate classifications the</td>
</tr>
<tr>
<td></td>
<td>correctness of the accounting information is not achievable.</td>
</tr>
<tr>
<td>4. Project Accounting</td>
<td>Annual Development Plan (ADP) and Public Sector Development Programme</td>
</tr>
<tr>
<td></td>
<td>(PSDP) needs to be allotted a unique Project ID Codes by PC &amp; Fin. Div.</td>
</tr>
<tr>
<td>5. Asset and Stock Registers</td>
<td>The asset/stock forms are not provided by the DDOs of line departments</td>
</tr>
<tr>
<td></td>
<td>to account offices and data entry is not made in the SAP system;</td>
</tr>
<tr>
<td></td>
<td>A large number of entities are using assignment accounts. Detailed</td>
</tr>
<tr>
<td></td>
<td>transaction data is not available with account offices to record Assets</td>
</tr>
<tr>
<td></td>
<td>and Stock registers</td>
</tr>
<tr>
<td>6. Financial Assets</td>
<td>The detailed recording and reporting of the Financial assets is not done</td>
</tr>
<tr>
<td></td>
<td>due to lack of information with accounts offices;</td>
</tr>
<tr>
<td></td>
<td>The names of the entities and loan number (lent) are not recorded in</td>
</tr>
<tr>
<td></td>
<td>detail in the system;</td>
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<tr>
<td></td>
<td>Inconsistency of rules/ accounting policies with ERP system for</td>
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<td></td>
<td>recording financial assets. For example, recovery of interest starts</td>
</tr>
<tr>
<td></td>
<td>at the end of ten years.</td>
</tr>
<tr>
<td>7. Liabilities</td>
<td>The debt number-wise liabilities are not recorded in the system;</td>
</tr>
<tr>
<td></td>
<td>The loan amortization schedules are neither available with the account</td>
</tr>
<tr>
<td></td>
<td>offices nor entered in the system;</td>
</tr>
<tr>
<td></td>
<td>Due to non-availability of the opening balances of the Debt stock</td>
</tr>
<tr>
<td></td>
<td>(debt-wise) with the account offices the liabilities are not reported</td>
</tr>
<tr>
<td></td>
<td>accurately. Year-end adjustments for foreign currency rate adjustments</td>
</tr>
<tr>
<td></td>
<td>are not being made.</td>
</tr>
<tr>
<td>8. Interest Expenses</td>
<td>The interest accrued on debt is not recorded. The interest on GP Fund</td>
</tr>
<tr>
<td></td>
<td>and savings schemes is booked on estimation basis instead of accrued</td>
</tr>
<tr>
<td></td>
<td>on actual debt stock.</td>
</tr>
<tr>
<td>9. Third party payments</td>
<td>Complete and accurate information is to be provided by the concerned</td>
</tr>
<tr>
<td></td>
<td>projects/departments to AG offices for recording such transactions</td>
</tr>
<tr>
<td></td>
<td>regarding Liabilities and expenses/receipts of grants</td>
</tr>
</tbody>
</table>
### 3. GAP ANALYSIS: NON IMPLEMENTATION OF NAM ACCOUNTING POLICIES IN SELF-ACCOUNTING ENTITIES (SAEs):

#### THE ORGANIZATIONS NOT FOLLOWING NAM

<table>
<thead>
<tr>
<th>PART-A</th>
<th>GENERAL GOVERNMENT DEPARTMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>PMAD:</strong></td>
<td>The accounting policies are not fully implemented</td>
</tr>
<tr>
<td></td>
<td>Revenues are adjusted against Expenditure</td>
</tr>
<tr>
<td></td>
<td>Business processes are not consistent with NAM</td>
</tr>
<tr>
<td></td>
<td>Only mapping of chart of account to include data in civil accounts</td>
</tr>
<tr>
<td></td>
<td>Detailed transactional data is not available on Elements of Chart of Accounts coding scheme in SAP system.</td>
</tr>
<tr>
<td></td>
<td>A trial balance data sheet is inserted into government accounts</td>
</tr>
<tr>
<td></td>
<td>The accounting controls of NAM are not followed</td>
</tr>
<tr>
<td>2. <strong>PAK PWD</strong></td>
<td>The accounting policies are not fully implemented</td>
</tr>
<tr>
<td></td>
<td>Revenues are adjusted against Expenditure</td>
</tr>
<tr>
<td></td>
<td>Non cash transactions, even before occurrence, are also recorded and reported</td>
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<tr>
<td></td>
<td>The accounting controls of NAM are not followed</td>
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<td></td>
<td>Payment methods are treated as Liabilities</td>
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<tr>
<td></td>
<td>Works in progress are not recorded in the accounts</td>
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<tr>
<td>3. <strong>GEOLOGICAL SURVEY OF PAKISTAN (GSP)</strong></td>
<td>The accounting policies are not fully implemented</td>
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<tr>
<td></td>
<td>Detailed transactional data is not available in SAP system. A trial balance data sheet is inserted into government accounts</td>
</tr>
<tr>
<td></td>
<td>The accounting controls of NAM are not followed</td>
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<tr>
<td></td>
<td>Deposit works are recorded as Liabilities but not Revenue on completion of assignments</td>
</tr>
<tr>
<td>4. <strong>PAK MINT</strong></td>
<td>The accounting policies are not fully implemented</td>
</tr>
<tr>
<td></td>
<td>Detailed transactional data is not available on Elements of Chart of Accounts coding scheme in SAP system.</td>
</tr>
<tr>
<td></td>
<td>A trial balance data sheet is inserted into government accounts</td>
</tr>
<tr>
<td></td>
<td>The accounting controls of NAM are not followed</td>
</tr>
<tr>
<td>5. <strong>FOREST DEPARTMENTS</strong></td>
<td>The accounting policies are not fully implemented</td>
</tr>
<tr>
<td></td>
<td>Revenues are adjusted against Expenditure</td>
</tr>
<tr>
<td></td>
<td>The accounting controls of NAM are not followed</td>
</tr>
</tbody>
</table>

#### PART-B

<table>
<thead>
<tr>
<th>GOVERNMENT COMMERCIAL DEPARTMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Pakistan Post</strong></td>
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<tr>
<td>2. <strong>Pakistan Railways</strong></td>
</tr>
<tr>
<td>PART-C</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>Autonomous/ Semi-autonomous bodies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART-C</th>
<th>GOVERNMENT PUBLIC SECTOR ENTERPRISES</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSEs</td>
<td>The companies registered in the stock exchange are preparing financial statements using mostly IFRS or as prescribed under companies Act. The accounting data of the companies are not part of the government accounts. One line item, if Dividend is paid, is recorded in the government accounts.</td>
</tr>
</tbody>
</table>
PART-3

COMPARATIVE ANALYSIS OF ACCOUNTING BASIS

1. BENEFITS OF CASH AND ACCRUAL BASIS OF ACCOUNTING

1.1. The benefits of cash basis of accounting: Simple and Easy to understand by non-accountants; Transactions are recorded most on actual basis instead of estimates; Cash based budgeting and reporting is easy to find budget variance; Useful for monitoring and estimating a government’s cash resources; Information on cash raised and spent remains the best indicator of the impact of the public sector on the economy.

1.2. The benefits of Accrual basis of accounting: Accrual basis accounting is more popular than cash basis accounting because it produces more accurate, more faithful financial statements that constitute better representations of actual circumstances than its main competitor. Since accrual basis accounting records revenues and expenses together in the same time periods based on their causal relationships, it produces more accurate gauges of entities’ performance in any time period.

1.3. By contrast, the use of cash basis can lead to distortions due to the collection of cash and cash equivalents not aligning with the actual timing of sales. Accrual accounting-based financial statements provide additional information in describing a public entity’s financial position and actual results. Accrual accounting distinguishes expenditure which provides economic benefits in the short-term (i.e. for current consumption) from that which will benefit the citizens well into the future (i.e. capital expenditure). A large number of adjustments, measurements and estimates of valuation make the accrual accounting more complicated. The countries with large number of entities and system functionaries may face excessive costs of maintaining accounts.

2. NINE (9) BROADER BENEFITS OF ACCRUAL IPSAS

In some instances, information contained in cash based financial statements had been insufficient for countries to predict and prevent sovereign liquidity crises. To attract foreign direct investment, countries have initiated financial management reform programmes, including the adoption of accrual accounting as part of broader reform programmes.

2.1. Greater accountability and transparency: Financial statements prepared in accordance with IPSAS capture what a government receives and allocates, as well as what it owns and owes.

2.2. Better decision-making: Knowing both the financial position of an entity and the financial implications of a proposed policy measure helps decision-makers to make better financial
judgments about an entity and its activities. Public bodies and other stakeholders are assisted in planning for the future.

2.3. **Improved efficiency:** The adoption of IPSAS has become essential in improving efficiency and effectiveness in financial reporting and auditing processes across the sector. The use of IPSAS is instrumental in forging closer integration between financial and critical non-financial information, providing a more holistic understanding of the true performance of public sector entities.

2.4. **Data consistency and application:** Greater standardization of the reporting processes and underlying data provides more opportunities to analyze data and improve decision-making. Supreme audit institutions can access standardized information created through the use of IPSAS to make meaningful judgments and comparisons through the application of techniques such as data analytics.

2.5. **Sound financial management:** The adoption of IPSAS is instrumental in driving improved financial management practices in the public sector, providing a robust platform on which internal reporting practices can flourish, and acting as a catalyst for stronger financial capability and ‘value add’. The pillars of sound financial management practices such as budgetary control, cost accounting, financial performance management, strategic investment planning and forecasting are better supported.

2.6. **Professionalization and access to talent:** The adoption of IPSAS plays a significant part in increasing ‘professionalization’ of the finance function and accounting across the public sector. It presents significant opportunities to increase the influence of the finance organization, while capitalizing on the skills of younger entrants into the profession within the sector, ensuring that the public sector becomes a desirable career destination of choice for professional accountants.

2.7. **Broader economic and social advantages:** A key driver for IPSAS adoption is the importance of attracting ongoing inward investment into the public sector, particularly in emerging economies. Financial statements prepared in accordance with IPSAS provide confidence and comparability for investors at an international level. These investments potentially create spin-off benefits for the broader economy in terms of jobs, welfare and societal improvement.

2.8. **Government stability:** Reforms brought about through IPSAS adoption can help create a more stable government, leading to a better investment climate, more jobs and higher incomes. Adoption of IPSAS can support policy makers in explaining, and generating support for, their plans for government. Truer and fairer reporting, and greater disclosure, lead to more engagement from stakeholders and service users.

2.9. **International comparability:** Speaking the universal IPSAS language leads to better international comparability between public sector entities, while strengthening understandability through uniformity. The adoption of IPSAS also removes additional reporting requirements from donors, many of whom report using the standards.
PART-4

IMPORTANT CONSIDERATIONS FOR PAKISTAN

1. Finding the rationale to opt for Accrual IPSAS:

1.1 International Accounting Standards (IAS) followed by International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) for cash and accrual basis, INTOSAI reporting framework of accounting have put the governments into a situation of indifference. One important area to be noted is that selection of the accounting basis and the standards are to important decisions. The overriding benefits of the Accrual basis system cannot be denied in the present world. A large number of nations are falling between Cash basis and full Accrual basis of accounting. The recognition of the transaction is always based on a certain principle. However, due to full accrual accounting, certain options for numerical measurement/ assessments to make no-cash adjustments are the areas of subjectivity and of great concern for the stakeholders to ensure transparency.

1.2 History teaches that failure is not always the absence of ideas but the product of poor Implementation. Advocates show that up to 100 countries have adopted IPSAS. Analysis reveals that many of these adopters are in the developing world. Such a high level of adoption sounds like a good story. But we should see, have they completely and successfully implemented or they are adopted as signals to garner external legitimacy.

1.3 Pakistan is neither a small country nor in its infancy. It has its well established legal framework for PFM and internationally accepted accounting system which can produce reliable financial information through its IT system (ERP) for most of the decision makers. Pakistan has already achieved much more than the Cash basis IPSAS requirements. The complete implementation of the existing approved accounting framework is equally important before the introduction of new reforms. The cost of implementing accrual IPSASs and the financing available for PFM reforms are so significant and required to be compared in the proposed timeframes. The largest single cost associated with most moves to accrual accounting is the upgrading or replacement of IT systems-both hardware and software. However, like all IT systems, government systems become obsolete and need to be replaced or upgraded regardless of the government’s reform intentions.

1.4 One important factor to be noticed is that Constitution of Pakistan empowers the Auditor-General of Pakistan (AGP) to propose the accounting system with the approval of the President of Pakistan. The New Accounting Model (NAM) was the initiative of the AGP. At present no demand for any change in the accounting system has been received from the key stakeholders including the Finance Division (mainly responsible for PFM).

1.5 Pakistan needs to be aware that IPSASs are accounting standards, and do not provide guidance on a number of issues that they will have to deal with as part of a global PFM reform initiative. Adoption
of accrual accounting is likely to bring benefits in terms of incentives for better maintenance of assets, avoidance of costly expenditure arrears, and enhanced surveillance of fiscal risks, which need to be weighed against the costs but are difficult to measure. Once the adoption of accrual IPSAS is announced by Auditor-General of Pakistan, the pressures for early implementation as KPIs, DLIs may become part of international financing to Pakistan.

1.6 On the other hand, it is evident that the improvements in the existing system have become inevitable. For instance improved recording and reporting for Sovereign Debt; Financial Assets; Property, Plant and Machinery for sound financial management. This can help divert the dependence of the decision makers towards the accounting information from the statistical data. IPSAS implementation must therefore be well coordinated with other PFM reforms such as performance-based budgeting, cash management, procurement, audit modernization and payroll.

1.7 While taking the decision for accrual IPSAS the assessment of the cost of implementation is most important. First, it is really difficult to measure the benefits accruing from IPSAS. Second, excessive cost could be a deterrent to adopting IPSAS. Third, it creates sustainability risks. And lastly, if the IPSAS implementation turns out to be a huge budget undertaking, it risks becoming an avenue for corruption thereby defeating the accountability goal.

1.8 Another important area to be noticed is that the development of accounting standards by IFAC has been a continued process of reviews and revisions, ab-initio. For instance, IFRS are based on IAS and IPSAS are based on IFRS. A number of IFRS are in the phase of revision. Moreover, a number of areas relating to public sector, like accounting for coins and currency notes, have not yet been covered by the IPSAS. More importantly, the Cash based IPSAS have been under revision more than three times; firstly in 2003, secondly in 2007, thirdly in 2012 and lastly (so far) in 2016. Till date no final list of countries is available who have implementation the Accrual IPSAS, hundred percent.

2. Strategic decisions for the transition in Pakistan:

2.1. Setting the scope for Public Sector Reporting in Federal and Provincial Governments:
   ➢ Departmentalized Accounting Entities (SAEs)
   ➢ Government Commercial Entities/ Departments
   ➢ Autonomous Bodies and Bodies Corporate
   ➢ Public Sector Enterprises

2.2. Setting the Basis for Accounting in General Government Departments:
   ➢ Modified Cash Accounting (leftovers of NAM)
   ➢ Modified Accrual Accounting
   ➢ Full Accrual Accounting

2.3. Adoption of the Accounting Standards in line with nature of Public Entities:
   ➢ National Standards like India, European Union, UNDP, or;
   ➢ INTOSAI Reporting Framework, Cash-based IPSAS or Accrual –IPSAS;
   ➢ Remain on IFRS of shift towards Accrual-IPSAS for GBEs

2.4. Setting the methods and Basis for Budgeting for Annual Budget Statements:
- Cash basis (existing)
- Modified Cash basis
- Accrual basis and
- Performance based budgeting (Integration of MTBF)

2.5. Determination of Implementation Strategy
- Bring all entities (SAEs, EAEs) on NAM or Accrual basis
- Incremental or Direct adoption of Accrual basis.

2.6. Business Process Reengineering
- Centralization or Decentralization of Pre-audit function;
- Redefining the role of Chief Finance and Accounts Officers;
- Strategy for continuing with District Accounts Offices or otherwise;
- Single ERP system or Decentralized IT systems for each SAE.

2.7. Revision and approval of Rules books/ Manuals
- Rules of Procedures and Conduct of Business in the National Assembly
- General Financial Rules, Provincial Financial Rules; Budget Manuals
- Federal Treasury Rules, Treasury Order, Sub-treasury Rules, etc. and
- Revision of Manuals of New Accounting Model (NAM)
- Revision of Departmental Account Codes (Works Account Code, Military Account Codes, etc.)
1. GENERAL GUIDELINES BASED ON INTERNATIONAL EXPERIENCES:
Political support and technical capacity are important prerequisites for the reform. Following areas are to be considered generally to bring reforms for adoption of Accrual Based Accounting.

Step-1: Clarify the objectives of the reform:
- greater external transparency, more reliable internal management information,
- stricter controls over expenditure arrears and other liabilities,
- improved working capital management,
- more efficient management of government assets

Step-2: Establish a representative reform team:
- This should comprise all key stakeholders, including the:
  - Ministry of Finance (MoF/ Finance Departments),
  - Planning Commission/ Departments,
  - government accountants,
  - line ministries, local government,
  - Autonomous bodies
  - public enterprises,
  - statistics compilers,
  - Parliament,
  - Supreme Audit Institution and
  - accounting standard setters

Step-3: Survey existing accounting policies, systems, skills and practices:
- This survey should cover
  - the entire public sector including central government ministries, divisions departments
  - Autonomous Bodies and bodies corporate
  - Public Sector Enterprises
  - extra-budgetary funds and agencies,
  - local governments, and public corporations and
  - assess each sector’s current degree of compliance with the requirements of accrual accounting based on international standards.
  - The results should inform both the costing of the reform and phasing of the transition.

Step-4: Estimate the costs of reform:
The cost benefits analysis for:
- Enhancing institutional coverage (Departmentalized and Exempt Accounting Entities)
- Enhancing financial information data sources and storage
- Additional benefits from the reforms and relevant cost analysis
- The sources of additional funds and its costs, etc

**Step-5: Establish a mechanism for setting accounting standards:**
- Establishing independent boards designed to advise the government on the adoption or adaptation of international accounting standards (France, UK);
- Vesting responsibility for determination of public sector accounting standards in an independent national body (New Zealand, Australia, Canada, South Africa);
- Adopting standards developed by an international standard setter and
- Consulting the supreme audit institutions before enacting new accounting standards in the public sector
- In case of Pakistan, separate board with five committees are recommended:
  a) Budget Standards Committee
  b) General government- Accounting Standards committee
  c) Government Commercial Entities -Accounting Standards committee
  d) Autonomous bodies - Accounting Standards committee
  e) Public Sector Enterprises- Accounting Standards committee

**Step-6: Training and change management:**
- Significant training of preparers of the financial statements
- Ministers and senior officials in the MoF,
- Parliamentarians,
- Civil society, and
- The supreme audit institution (SAI)

**Step-7: Develop an action plan for the transition:**
- The plan should also consider whether pilot exercises or parallel running of cash and accrual systems are required.
- The implementation strategy by various organizations like IMF, CIPFA, IFAC or of a countries successful implementation strategy can be considered

**Step-8: The changing of legal framework to adopt/ implement the Transition Strategy:**
- In case of Pakistan, under Article 170 of the constitution, the AGP with the approval of the President may prescribe the said strategy.
- Rules of Procedures and Conduct of Business in the National Assembly
- Amendments in General/ Provincial Financial Rules, Treasury Rules and Budget and Accounting Manuals are inevitable.
PROPOSED TRANSITION STRATEGY FOR PAKISTAN

1. It is evident that the present system of accounting does not provide financial information sufficient to take timely decision for effective Public Finance Management. Decision makers have to take statistical data from other sources necessary for Cash Forecasting, Working Capital Management, Debt retirements, Debt stocks and Lending by the governments and future financial projections.

2. There is no hard and fast rule/road map for implementation. However, IMF's suggested four (4) steps strategy with an additional phase to fully implement, already approved framework, on the basis of Modified-Cash Basis is recommendable for adoption by Pakistan. However, following features of this strategy will be kept in mind for transition to Accrual basis of accounting:

2.1. Development of Consensus: The proposed strategy shall be consensus oriented. Deliberations will take place with all the stakeholders in self-accounting entities, finance departments State Bank of Pakistan, etc before finalization of this strategy.

2.2. Implementation will be in phases: Whether on a cash or accrual basis, IPSAS should be implemented in phases. It cannot be implemented all at once across all entities. The countries experienced at once implementation, have faced to changing timelines, cost overrun and project failure.

2.3. Compliance with the Legal Framework: Before implementation of the final outcome of this process, the approval of the President of Pakistan for Federal Government and of Governors for the respective Provincial Governments will also be sought.

2.4. Implementation in a structured, orderly and deliberate manner: Implementing IPSAS is an enormous and important task. For that reason, it must be implemented in a structured, orderly and deliberate manner. The first step in IPSAS implementation after obtaining the necessary approvals/consents is the preparation of definite implementation strategy and setting up of project management structures.

2.5. The Focus shall be on Economic Entities: A common mistake in IPSAS implementation is the undue emphasis on consolidation and the near neglect of the economic entity as the starting point. The transition towards accrual-IPSAS shall apply first to public sector units called economic entities except, of course, Government Business Enterprises to which IFRS apply. In case of Pakistan, there are five main groups of entities classified as General Government-Centralized Accounting Entities; General Government-Self Accounting Entities; General Government-Commercial Departments; Autonomous Bodies; and Public Sector Enterprises.

2.6. The resource Assessment: the cost of the IT infrastructure and maintenance costs, cost of training of staff and implementation capacity are critical in this implantation. The transition to
towards the accrual necessarily demands a reliable IT infrastructure for institutional coverage. The Self-accounting entities will be given option to procure, establish and maintain their own IT infrastructures. However, implementing separate database and reporting software, other than of SAP-ERP for IPSAS will not be recommended as most welcomed;

2.7. **Delineation of different implementation phases, milestones, and timelines:** the implementation of this strategy will take twelve to fifteen years in five well defined phases. However, the determination and support of the Government and the cooperation of the concerned departments can help to reduce the estimated timeframe.

2.8. Keeping in view all the above variables, following transition strategy is recommended for Pakistan:

### PAKISTAN- TRANSITION STRATEGY TOWARDS ACCRUAL- IPSAS

<table>
<thead>
<tr>
<th>IMPLEMENTATION PHASES</th>
<th>BALANCE SHEET</th>
<th>OPERATING STATEMENT</th>
<th>INSTITUTIONS (FEDERAL &amp; PROVINCIAL)</th>
</tr>
</thead>
</table>
| **Phase-0  
Cash Accounting**    | Cash Balances                                      | Cash Receipts                                            | None                                |
|                                | Bank overdrafts                                    | Cash Payments                                            | General Govt. ; Autonomous Bodies   |
| **Phase-1 (NAM)  
Modified Cash Accounting** | Lending-Stocks and Flows, Fixed Assets Registers  | Cash Receipts                                            | FC valuation changes in Foreign Debt (Disclosure) 3rd Party Payments |
|                                | Borrowing-Stocks and Flows, Public A/c and Grants | Cash Payments                                            | General Govt. , Autonomous Bodies & Commercial Entities |
| **Phase-2  
Elementary Accrual Accounting** | Trade Receivables Prepayments                     | Trade payables                                           | Accrued Trade Revenue                |
|                                |                                                    |                                                         | Accrued Expenses except Depreciation |
|                                |                                                    |                                                         | None                                |
|                                |                                                    |                                                         | General Govt. , Autonomous Bodies & Commercial Entities |
| **Phase-3 Advanced  
Accrual Accounting** | Equity Investment                                | Other Financial Long-term Liabilities                   | Accrued Non-tax Revenues             |
|                                |                                                    |                                                         | None                                |
|                                |                                                    |                                                         | Valuation changes in Fin. Assets and liabilities Provisions |
|                                |                                                    |                                                         | General Govt. , Autonomous Bodies & Commercial Entities |
| **Phase-4 Full2  
Accrual Accounting** | Fixed, Intangible Assets, Inventories Tax Receivables | Monitory Financial Instruments                           | Accrued Receivables                 |
|                                |                                                    |                                                         | Depreciation                        |
|                                |                                                    |                                                         | Evaluation changes in Non-Fin. Assets and liabilities |

2 Pakistan will adopt Accrual Accounting with modifications. For Example, Tax Revenues on Cash basis but disclosure of Tax expenditure, Physical Assets on Historical Acquisition Cost basis, Financial Assets on Accrual basis with revaluation disclosures. Neither actuarial gains/losses disclosures, heritage, intangible, Natural Assets will not be recognized nor will revaluations of certain non-financial assets on yearly basis be carried out.
PHASE-01 (FROM JANUARY 2019 TO JUNE 2022)

1. Implementation of NAM in General Government Departments:

1.1. To date, for majority of the centralized accounting entities, Budgetary controls, unified Chart of Accounts (for all the three tiers of Government), receipts and expenditure information, computerized workflow, employees’ Payroll & Pension data, online consolidation of data, etc. are some of the important milestones achieved. However, progress on implementing balance sheet items such as fixed assets, inventories, commitments and liabilities could not have been achieved. More importantly, the implementation of NAM Accounting Principles & Policies in self-accounting entities is the key areas of General Government demanding immediate coverage. The most critical decision in this regard will be the coverage/consolidation of financial information based on Work flows, transactional data, date-wise data or summary data (for example monthly trial balance—*as is basis*). All this will depend on the availability of I.T. Systems/ ERP which will be *Cost Intensive*.

1.2. This phase shall take three (3) years at the maximum. Pakistan has already complied with the primary cash based system i.e. recording the transactions of Expenses and Receipts on cash paid and received basis; the cash balances as assets and bank overdrafts as liabilities. This phase in terms of IMF proposed strategy is known as Phase-0. It is proposed that instead of moving directly towards next phase categorized as Phase-1-Elementary accounting, Pakistan should focus on Modified Cash Accounting already approved in the form of New Accounting Model (NAM).

1.3. Centralized Accounting Entities: In this phase the focus shall be on the implementation of the unimplemented NAM Accounting Principles & policies (i.e. Commitment accounting, recording of physical Assets, Financial Assets and debt-wise stocks and flows of domestic and foreign debts in the Centralized Accounting Entities). The implementation of the NAM in Self Accounting Entities (departmentalized) and Exempt Accounting Entities (the Autonomous Bodies at Federal and Provincial levels) needs extensive work. The will and courage to adopt and affordability of the investment costs for implementation of NAM at transactional level by these entities shall be a paradigm shift towards adoption of the Accrual-basis / IPSAS accounting.
1.4. To increase the utility of the FMIS for the accountability and transparency some modifications in the current structure of the Chart of Accounts has also become due. For instance, non-segregation of Controlling units from Spending units is one of the hurdles in preparation of Annual Appropriation Accounts. The coding for the development projects has not yet been started in reporting system. For the prevention and detection of ghost cost centres like schools and dispensaries and reporting for the allocation of national resources to the representative constituencies a sixth element, Geographical location(up to Union/Village Council level), of chart of Account is also required. A number of Object Element code ranges at detailed level have been exhausted and sub-detailed codes are maintained manually. This necessitates the creation of fourth level of Object Element.

1.5. Departmentalized Accounting Entities: The preferably targeted area, in this regard, is the departmentalized accounts (Self-accounting entities). These entities are of two types. Firstly, the General Government Departments (i.e. CAO foreign affairs, PWD, PMAD, CDNS, GSP, Pakistan Mint and FBR treasuries) and secondly, Government Commercial departments (i.e. Pakistan Railways and Pakistan Post Office Department). Presently, the accounting information of these entities is compiled in the main IFMIS/ SAP-ERP on a consolidated basis.

1.6. A dedicated study of these organizations, as a first step, is required to be conducted to understand the vision of the management and explore the feasibility for consolidation of information and implementation of NAM either through Workflow, Transactional Data, or Date-wise data (at least). The study will come up with the decisions of the concerned ministries to either establish their own IT systems having interface with CGA’s ERP-SAP or through extension of SAP system in these entities. In the second step, the departmental Account Manuals/ Codes need to be studied to identify the gaps between Departmental Codes (with CoA) and NAM Accounting Principles, Policies and Procedures. The study will come up with the decision and consequent revision to update these Manuals/ Codes, in consultation of concerned Ministries.

1.7. Autonomous bodies: The willfully neglected area with reference to financial reporting is Autonomous bodies. These entities have been declared as Exempt entities. These entities are exempt from pre-audit, providing initial, monthly and annual accounts to concerned Accountant Generals. Hundreds of billions of rupees are annually allocated out of Federal and Provincial Consolidated Funds to these organizations but there is no consolidated detailed financial information available in Pakistan. Only one line budget is allocated to these entities individually; detailed classification of accounts in the light of Chart of Accounts is not available with Accountant General Offices.

1.8. Accounts should be consolidated in accordance with the statistical concept of “general government. This includes the central, provincial and district government and social security funds but not public enterprises. Two key decisions in this regard are required. First, there should be a standardized accounting framework with basis and formats for these entities. Second, there should be a system of consolidation of monthly accounts of all such entities maintained by the respective Accountant General. Adoption of NAM in full is recommended for these entities. Moreover, FABS wing of CGA to create another company setup in ERP-SAP namely Autonomous Bodies with uploads for insertion of this information. The statement of sources and uses of funds will be critical in this case.
1.9. **Conclusion:** the ultimate objective of this phase is to bring all the entities on NAM compliance with, preferably, transactional data compilation.

**PHASE-02 (FROM July 2022 TO JUNE 2025)**

2. **Elementary Accrual Accounting**

2.1. This second phase in the transition to accrual accounting involves developing a system for recording some “in transit” receipts and expenses in the operating statement, and recognizing the related stocks of unpaid invoices from suppliers as liabilities and unpaid bills issued to customers for services rendered as assets on the government’s balance sheet.

2.2. The foremost inevitable change at this stage is the revision of existing chart of account (CoA). Once accrual elements are introduced into the accounts, the terminology changes from the terms “receipts” and “payments” (or expenditures) used in a cash accounting environment to the terms “revenue” (or “income”) and “expenses” used in an accrual accounting environment. Important is that at this stage the accounts begin to capture “other flows” for which there is no corresponding cash movement.

2.3. The financial statements at this stage will include the cash flow statement as described in the previous phase, a more developed balance sheet, and, for the first time, an operating statement and accompanying notes. **Pakistan has already included the Statement of Cash flows at phase-0.**

2.4. **Balance Sheet:** On the asset side of the **Balance Sheet**, Grants receivable and Trade receivables whereas on the Liabilities side Salaries and wages payables, Grants and subsidies payables and Trade payables will also be reflected. In case of **Pakistan, SAP ERP system is already supportive for these treatments. The object- head G01201-outstanding commitments in nature is a “Voucher Payable Account” backed by the Vendors ID Codes.**

2.5. **Operating Statement:** On the revenue side of the Operating Statement, tax revenues (non-exchange revenues) are shown on a cash basis, while non-tax revenues (exchange revenues), including receipts from sales of goods, fees and charges for provision of services, and capital receipts or investment revenues (e.g., sale of government’s shareholding), are shown on an accrual basis.

2.6. On the expenditure side, wages and salaries, grants and subsidies, purchase of goods (including fixed assets), and purchase of services will be accounted for on an accrual basis. However, amortization or depreciation of assets will not be accounted for at this stage.

2.7. The use of “net change in cash” as the summary aggregate in cash account (Phase 0) becomes the more familiar and useful “Surplus or deficit” under accrual accounting.

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3 *Implementing Accrual Accounting in the Public Sector* (Prepared by Joe Cavanagh, Suzanne Flynn, and Delphine Moretti), IMF Fiscal Affairs Department
2.8. The following items of Operating Statement will be reflected on accrual basis:

- Grants received
- Revenue from sales of goods and services
- Dividends and interest received
- Other revenue
- Salaries
- Purchase of goods and services
- Grants and subsidies
- Other expenses

PHASE-03 (FROM July 2025 TO JUNE 2028)

3. Advanced Accrual Accounting4:

3.1. The third phase of the transition completes the recognition of financial liabilities and financial assets in the balance sheet, records changes in the value of those stocks in the operating statement, and further extends the institutional coverage of financial statements to the consolidated general government. This phase gives government a complete picture of its financial balance sheet and its Net Financial Worth (or Net Financial Wealth).

3.2. Financial Statements: Financial statements produced at this stage would include the full set of statements required under accrual accounting. This includes a cash flow statement, a balance sheet which now includes all financial assets and liabilities, an operating statement which now reflects all transactions in financial assets and liabilities, and, for the first time, a statement of changes in net assets/equity reflecting all valuation changes in financial assets and liabilities.

3.3. Balance sheet: The nature of financial liabilities and financial assets included in the balance sheet will depend on the activities of a given government. They will typically include:

3.4. Financial assets: mainly equity shares owned by the government in public or private companies, over the long or short term; Complex financial instruments, such as derivatives; Government debt (lending).

3.5. Financial liabilities: Financial liabilities other than loans that the government may have entered into such as those related to public private partnerships. Long term liabilities, such as public service pension schemes and other pension schemes managed by the government.

3.6. Operating statement: With all financial liabilities and assets being recognized in the balance sheet, the operating statement needs to record changes in their values. These non-transactional “other

4 Implementing Accrual Accounting in the Public Sector (Prepared by Joe Cavanagh, Suzanne Flynn, and Delphine Moretti), IMF Fiscal Affairs Department

5 However, not all changes assets and liabilities’ values will be captured in the Operating Statement. Changes such as revaluation arising from unrealized foreign exchange differences, and retrospective adjustments to reflect changes in accounting policies, will appear in the Statement of Changes in Net Assets.
flows” include changes in the market value of financial instruments and in the equity value of the 
shares owned by the government that are not held to maturity. Impairments, and gain or losses on 
the sales of financial assets, will also be recorded in the operating statement.

3.7. Up gradation of chart of accounts: Entity element be included with Controlling and spending DDO 
level; An additional element namely ‘Geographical location’ as sixth element; Either the fourth level of 
Object- Element in the chart of account or the increase in the length from Six to nine Alpha-
numeric characters will be required to capture the IPSAS classification and disclosure 
requirements. An IFMIS will be (already) implemented to provide an automated environment for 
PFM reforms. As an integrated system, the IFMIS will serve as a central repository for a common 
chart of accounts and budget classification codes (COA) as well as budget and accounting data. 
Nearly all reports - whether budgetary, management, statistical or financial - are expected to be 
generated from the IFMIS this stage.

PHASE-04 (FROM July 2028 TO JUNE 2033)

4. Full Accrual Accounting:

4.1. This section discusses the reforms to government accounting policies, operations, and 
financial statements involved in moving from Phase 3: Advanced Accrual Accounting 
to Phase 4: Full Accrual Accounting. During this third and final phase of the transition, 
governments will publish a complete set of accrual-based financial statements including a full 
balance sheet and operating statement, provide a full set of disclosures in the financial statements, 
and expand the institutional coverage of the financial statements to the whole of the public sector. 
This will provide the government, parliament, and citizens a comprehensive overview of public 
sector revenues, expenditures, assets, liabilities, and net worth.

4.2. Asset and inventory records: Accounting for physical assets (property, plant and equipment) 
provides perhaps the largest practical challenges in this last phase of the transition. A significant 
effort may be needed to bring asset records up to date, to verify the existence and condition of 
such assets, and to determine initial valuations. However, lists of assets owned or controlled by 
public sector entities will have been already maintained in the information system in Phase-02 in 
the form of asset registers (Asset registers may be a simple spreadsheet or database).

4.3. Consolidation policies: The accounting information of general government departments 
(Centralized Accounting Entities, Self-Accounting Entities and Autonomous & Local Bodies shall be 
consolidated at the Federal and Provincial Levels. The financial information pertaining to Public 
Sector Enterprises (GBEs) shall not become part of the consolidated statements and such entities 
shall continue with the IFRSs. So far as the Public Sector Companies (not-for-profit) are concerned 
segmented reports shall be prepared for each Federal and Provincial governments. Such segment 
information will be provided as an adjunct to the main financial statements but is not part of them.

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6 Implementing Accrual Accounting in the Public Sector (Prepared by Joe Cavanagh, Suzanne Flynn, and 
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PART- 7

TASKS ASSIGNED TO IMPLEMENTATION TEAMS

1. **Steering Committee:**
   1.1. **Composition:**
   1. Controller General of Accounts
   2. Additional Auditor General-II
   3. Deputy Auditor General(Policy)
   4. Additional Finance Secretary (Budget)

   1.2. **Tasks (for Phase-0 to 2):**
   1. To submit final proposals to the Finance Secretary and Auditor General of Pakistan regarding Budgeting and Accounting System modifications and standards;
   2. To monitor the overall progress of the technical teams;
   3. To create liaison among other system functionaries and remove bottlenecks in implementation;
   4. To set timelines for implementation of various phases of transition.

2. **Team for General Government-Centralized Accounting Entities:**
   2.1. **Composition:**
   1. Deputy Controller General of Accounts
   2. Director General (Policy), AGP
   3. Joint Secretary (Debt Management), EAD
   4. Joint Secretary (Budget), Finance Division
   5. Joint Secretary, Planning Division/ Commission
   6. Director General MIS, CGA
   7. Director General (DM &E), AGPR Islamabad

   2.2. **Tasks(for Phase-0 to 2):**
   1. To get all the Projects codified with a unique number as per NAM in ADP and PSDP;
   2. To get all the Domestic debt, foreign debts and grants entered in the SAP system along with the opening and closing balances and loan amortization agreed schedules;
   3. To get all the payments through SAP system for Domestic and Foreign Debt repayments;
   4. To get the National Saving Schemes recorded in the SAP system with opening and closing balances;
   5. To establish a comprehensive system of recording Financial and Physical Assets in the SAP system

3. **Team for General Government-Self Accounting Entities:**
   3.1. **Composition:**
   1. Deputy Auditor General (Policy)
   2. Military Deputy Accountant General
   3. Joint Secretary, Defence Finance
4. Director Research and Statistics, FBR
5. Director General MIS, CGA
6. Director Accounts, CDNS

3.2. Tasks(for Phase-0 to 2):
1. Detailed mapping of Military-CoC with NAM-CoA
2. Gap analysis of Defence Account Codes with NAM
3. Removal of inconsistencies in Defence Codes and Revisions of Defence Account Codes
4. Simplification of Exchange and Settlement Account Procedures
5. Transactional/ Summarized date-wise data interface with CDNS, DBA and CAO-FA.

4. Team for General Government- Commercial Departments:

4.1. Composition:
1. Deputy Auditor General (Policy)
2. Chief Finance and accounts officer, Pakistan Railways
3. Chief Accounts Officer, Pakistan Post
4. Director General MIS, CGA
5. Director General Commercial Audit, AGP
6. Director Accounts, Pakistan Post
7. Accounts Officer (Accounts), CGA

4.2. Tasks(for Phase-0 to 2):
1. Detailed mapping of Pakistan Post and Pak Railways CoA with NAM-CoA
2. Gap analysis of PT&T Initial Account Code and Pak Railways Account Code with NAM
4. To Establish an interface with Pak Post for date-wise summarized data of 83 GPOs (Short-run solution)
5. To Establish an interface with Pak Railways for date-wise summarized data of 35 Accounting Units (Short-run solution)
6. Simplification of Exchange and Settlement Account Procedures
7. Transactional/ Summarized date-wise data interface with CDNS, DBA and CAO-FA.

5. Team for Budgeting Standards:

5.1. Composition:
1. Additional Finance Secretary (Budget)
2. Expert in MTBF, Finance Division
3. Director General MIS, CGA
4. JS Budget Implementation, Finance Division
5. JS Budget, Finance Division
6. DG (DM& E), AGPR, Islamabad

5.2. Tasks(for Phase-0 to 2):
1. To set budget policy aligned with the Fiscal Policy and Statutory requirements
2. To submit proposal for the basis of budgeting (Cash, Modified or Accrual)
3. To ensure the preparation of performance based budgeting
4. Capacity Building of line departments for budget preparation
5. To draft a budget manual for line departments, legislatures and compilers
6. Revision and review of Rules of budgeting in GFR and SFC and Budgeting
6. **Team for Autonomous/ Local Bodies:**

   **6.1. Composition:**
   1. Deputy Auditor General (Policy)
   2. Member/DG Finance NHA
   3. Member/DG Finance BISP
   4. Member/DG Finance HEC
   5. Member/DG Finance PTA
   6. Director General MIS/FABS, CGA
   7. DG (DM & E), AGPR, Islamabad

   **6.2. Tasks(for Phase-0 to 2):**
   1. To set the Financial Reporting Framework for the Autonomous/ Semi-Autonomous bodies;
   2. To establish a system for standardization and consolidation of financial data with AGPR/AG offices;
   3. To establish a reliable system for Budgeting and cash forecasting;
   4. To establish the MIS system with transactional/ date-wise summarized data for Fiscal Reporting with SAP;
   5. To establish and ensure the compliance with detailed budgeting policy and financial controls.

7. **Team for Public Sector Enterprises:**

   **7.1. Composition:**
   1. Deputy Auditor General (Policy)
   2. Deputy Auditor General (Commercial Audit)
   3. Director from SECP
   4. Registrar Companies
   5. Representative from ICAP
   6. Representative from ICMAP
   7. Representative from ACCA.

   **7.2. Tasks(for Phase-0 to 2):**
   1. To analyze the needs of the Government owned enterprises for Financial Reporting under legal framework;
   2. To submit recommendations for the adoption or development of accounting and reporting standards;
   3. To develop new standard(s) for Government business entities.

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