VI. Government Budgeting and Accounting

This chapter describes government budgeting and accounting arrangements. For the purpose of this report, Government is defined as Federal and Provincial government organizations. The chapter is structured as follows:

1 – Introduction
2 – Project for Improving Financial Reporting and Auditing
3 – Budget Procedures
4 – Corruption Issues in the Public Service

1. Introduction

The initial transaction of government receipts and payments and compilation of the accounts takes place at the Treasuries/District Accounts Offices and pre-audit counters of the Accountant-General and its sub-offices. In the case of Railways, Defense, Post Office, Public Works, Forest Department, the Pakistan Mint and other departments, the accounts of which are departmentalized, the receipts are paid into Treasury or the bank as received on behalf of those departments and paid by cheque to the departments concerned.

The treasury officers/district accounts officers and departmental officers render accounts of their transactions monthly to their respective accounts offices. The accounts relating to Defense, Railways and other departmentalized accounts are compiled by the departments themselves and submitted monthly to the Accountant-General Pakistan Revenues for amalgamation in the monthly Civil Account of the Federal Government.

From these monthly accounts the annual accounts, i.e., the Finance and Appropriation Accounts of the Federal and Provincial Governments are prepared. The Appropriation Account of Defence, Railways & other departmentalized accounts are prepared by the concerned departments/ministries and submitted to the Auditor-General for certification and onward submission to the Government.

The annual accounts of the Federal and Provincial Governments are consolidated in the Combined Finance & Revenue Accounts (i.e., General Financial Statement). This is prepared from the audited Finance Accounts of the Federal and Provincial Governments.

The accounts have been designed to present all government accounts on a common and comparable basis and the receipts and disbursements are classified by major and minor heads and functions.

A form of "Balance Sheet" is prepared which does not comply with International Accounting Standards. The balances do not allow for accrual accounting and assets stated in the "Balance Sheet" do not represent the value of all assets e.g., lands, buildings, communication systems, etc., where valuations are excluded.

An Audit Certificate is issued in the following form:

"The above Accounts have been compiled as required under Section 9(4) of Pakistan (Audit and Accounts) Order, 1973 read with Article 169 of the Constitution of the Islamic Republic of Pakistan, 1973. A test audit of the transactions incorporated therein has been carried out and the audit observations included in the Audit Report of the Auditor-General of Pakistan"

2. Project for Improving Financial Reporting and Auditing

The recommended accounting applications under PIFRA are as follows:

- All assets will be expressed at the time of purchase. Expenditure that relates to physical assets will be recorded as memorandum items in a "Physical Assets Register." Expenditure that relates to financial assets will be recorded as memorandum items in a "Financial Assets Register."
- Liabilities will be recognized on a cash or as committed basis, with the commitment or expense being made against the appropriation given for that expenditure. Commitments will be recorded as memorandum items in the commitments section of the "Budget Head Register." Liabilities other than commitments will be recorded as memorandum items in a "Liabilities Register."
- Equity will be recognized in accounting records as per codes stated in the Chart of Accounts Manual and procedures laid down in the Accounting Policy and Procedures Manual. 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.
- Revenues will be recognized 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 way of a note.

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

The proposed Chart of Accounts dissects the financial reporting and recording into five elements:

- The entity element enables reporting of transactions by the organizational structure. The use of the entity element is mandatory for all accounting transactions.
- The object element enables the collection and classification of transactions into expenditure and receipts and facilitates recording of financial information about assets, liabilities, and equity. The use of the object element is mandatory for all accounting transactions.
- The accounting element is a single alpha character sub-element and defines the accounting element to which a transaction will be classified.
- The fund element enables financial reporting by fund being either the Consolidated Fund or the Public Account. The use of the fund element is mandatory for all accounting transactions.
- The function element provides reporting of transactions by economic function and program. The function code is mandatory for transactions relating to expenditure and revenue.

3. Budget Procedures

Introduction

The coordination and compilation of the Annual Budget is the responsibility of the Ministry of Finance and the requirements are laid down in the Constitution, Articles 80 to 88.

The Constitution of the Islamic Republic of Pakistan

Article 80 of the Constitution states that the Federal Government will present to the National Assembly, on an annual basis, a statement of the estimated receipts and expenditure, to be referred to as the Annual Budget Statement (the Budget). The estimated expenditure charged on the Federal Consolidated Fund i.e., remuneration of the President, Judges, etc. will not be submitted to the vote of the National Assembly. All other expenditure from the Federal Consolidated Fund will be submitted to the National Assembly for its assent (Article 82). Where the amount estimated exceeds the original amount, or has not been previously estimated the National Assembly may approve a Supplementary Budget Statement or an Excess Budget Statement (Article 84). The expenditure of the National Assembly and the Senate is controlled by the National Assembly or Senate acting on the advice of the Finance Committee that consists of the Speaker and the Minister for Finance and other members elected by the National Assembly or the Senate (Article 88).

The Budget Cycle

a. Existing Government Procedures

The existing Budget Procedures are contained in the manual entitled “Revised System of Financial Control and Budgeting” issued April 1998 by the Finance Division, Government of Pakistan. The manual mainly outlines the responsibilities of financial officers and secretaries in the Finance Ministry.

b. Project for the Improvement to Financial Reporting and Auditing

Proposed Budget Cycle

The proposed Budget Cycle is similar to the existing cycle and is categorized broadly in six phases:

1. Cabinet determines policy, initiatives and priorities and communicates these to ministries and departments via the finance department or division and financial advisors;
2. Preparation and submission of budget estimates by departments and ministries and subsequent consolidation by finance department or division and financial advisors;
3. Submission of Annual Budget Statement to National and Provincial Assemblies, for approval and authentication by Prime Minister;
4. Implementation of Budget via communication of authentication back to finance departments or divisions and financial advisors;
5. Revenues and Expenditures (including commitments) are recorded and progress against Budgets is monitored;

6. Periodic review of financial performance and achievement of policy objectives by spending agencies. This includes audit review and review by Public Accounts Committees.

a. General Policies and Preparation of Budget

Spending ministries are responsible for their own budgets. Each ministry has a financial advisor who is under the administrative control of the finance division or department.

The Ministry of Finance nominates committees responsible for the review process and assistance is given by the Planning Commission, the Economic Affairs Division and the Accountant-General.

Revenue forecasts are prepared by entities responsible for the administration of those revenues, i.e., Central Board of Revenue and Excise and Taxation Departments in the Provinces, Economic Affairs Division for foreign aid and administrative ministries for miscellaneous receipts. Estimates of revenue and expenditure are done on a cash basis in line with the current accounting policy.

The Budget is compiled in order to be consistent with the Chart of Accounts.

Committed expenditure not met in the current year is allowed for as expenditure in next year's Budget.

Revised estimates are prepared for the current financial year (1 July to 30 June) based on the following:

- Actuals for the first four months of current year and actuals for last eight months of previous year;
- Commitments outstanding for current year;
- Twelve months actual for previous two years;
- Adjustment for reappropriations, new items approved through supplementary Budget, and surrenders; and
- Any other relevant factors.

Where the revised Budget exceeds the original grant, the department or ministry concerned must propose how the excess can to be met.

Where the revised Budget is lower by more than five percent of original Budget an explanation must be provided by originating department or ministry.

Estimates relating to approved establishments will take into account provisions for leave, expected vacancies, allowances payable to employees and other relevant factors.

Revised Budgets should be submitted by 1 December each year to the financial advisor or finance department or division. The Budget Orders are then copied to the Accountant-General by 1 January each year.

b. Development Budget

Development Project Estimates are only prepared for Projects previously approved by the Planning Commission.

Spending entities submit their proposals to the Planning Commission for inclusion in the Annual Development Program, copy of submission to financial advisor, by 1 December each year.

Submission must include physical targets to be achieved by each project, accumulated expenditure and percentage completion up to end of previous year, budget for next year, and physical targets for next year and basis of determination. Local and foreign costs to be shown separately. In relation to a foreign aid project, the following rules apply:

- All foreign aid, both loans and grants, must be included in the estimates. Economic Affairs Division must clear the estimates of foreign aid.
- Foreign aid component must be shown distinctly with source and type of aid.
- Foreign aid in the form of commodity assistance where it is included in a development project will be included in the local currency component of the project estimate.
- The estimated amortization schedule for each loan will be maintained by the Ministry of Finance in Rupee equivalent.

The financial advisor must obtain approval from the Principal Accounting Officer who signs off the budgets.

The estimates of development expenditure must be submitted to the budgets wing of the finance division or department by 17 December each year. The new item statement must include all details as to foreign aid applicable and countersigned by the delegated technical authority in the Planning Commission.

After submission to the finance division or department a review is carried out for each project, which includes the following:

- Overall resources position
- Sectoral priorities
- Phasing of projects
- Status of projects

- Availability of foreign aid
- Likelihood of completion in forthcoming year

The Federal Public Sector Annual Development Program is prepared by the Inter-Ministerial Priorities Committee and submitted to the Annual Plan Coordination Committee for review and final approval by the National Economic Council. This document incorporates the provincial foreign aid program and forms the basis of the development part of the Federal Budget.

c. Budget Consolidation and Authorization

Following review by the financial officer and approval by the Principal Accounting Officer, all budget estimates are forwarded to the budget wing of the finance division or department.

The finance division or department will review and consolidate the estimates to ensure that overall budget policy and objectives have been met after consultation with concerned ministries and departments when required. After completion, the final budget documents are produced for tabling before National or Provincial Assemblies.

Authorized budgets must be recorded in the Schedule of Authorized Expenditure with subsidiary information contained in the Details of Demands for Grants and Appropriations annual publication (both current and development expenditure).

d. Implementation

After legislative approval is granted, the finance division/department must formally communicate the Budgets to each ministry and respective Accountant-Generals. A separate release letter is sent to the spending ministries and departments, copies to Accountant-Generals, advising the funds being made available against the budgets. The Accountant-Generals advise the District Accounts Offices.

An appropriation ledger is maintained by the finance division or department that will record initial budget distributions and subsequent adjustments.

e. Reporting and Monitoring

The Principal Accounting Officer of each spending entity is responsible for controlling expenditure.

Drawing and disbursing officers must ensure that payment claims are duly approved as per the Schedule of Authorized Expenditure.

No transaction exceeding funds available can be approved for payment unless there is a legal contract. The Principal Accounting Officer must take appropriate action to find the extra funds.

Any spending entity required to incur expenditure on behalf of another spending entity must exercise proper control within the approved grants following advice from the original spending entity.

The Principal Accounting Officer must submit a statement of excesses and surrenders to the finance division or department at nominated times and in a form as required by the finance division or department.

Anticipated savings should be surrendered to the Government and excesses should only be approved out of grants in which savings have been made. The Principal Accounting Officer has the delegation to reallocate funds under certain circumstances. Reallocation between primary units may only be approved by the finance division or department. The Accountant-General must be immediately advised of any reallocation.

If funds are still not available within grants, a Supplementary Grant may be approved by the finance division or department provided the excess expenditure was beyond the control of the spending entity and cannot be legitimately postponed.

New services or programs should only be met from savings and not by Supplementary Grant. The Supplementary Grants can only be approved by National or Provincial Assemblies during the next budgetary cycle and interim expenditure can only be governed by standing orders issued by the Ministry of Finance or Finance Department.

f. Review

Annual Appropriation Accounts (expenditures against budgets) are prepared by Accountant-General Pakistan Revenues and Provincial Accountant-Generals.

Self-accounting entities prepare their own annual Appropriation Accounts, which are certified by Audit Department. The report is provided for each grant down to minor function and object level.

The review process includes the auditing function and may be both external (Auditor-General's Department) or internal (ministry or department itself).

The Public Accounts Committee should investigate cases where a material deviation has occurred and make recommendations to the

National or Provincial Assemblies. If the National Assembly approves the deviation this is done in the form of an Excess Budget Statement.

4. Corruption Issues in the Public Service

The current Government is making a concerted effort to reduce corruption in the Public Service. Measures taken include the following:

- The establishment of Anti-Corruption Committee in the public service which coordinates task forces to investigate areas of corruption and identify officers involved. More than 1,000 public servants have recently been identified and their service with the government has been terminated.
- The Civil Servants Act 1973 has been amended concerning the termination of civil servants.

National Accountability Courts have been enhanced with the addition of legislative amendments to facilitate court proceedings against people charged with official corruption, and additional accountants and legal officers have been employed to cope with the backlog. Corruption in the public service has been identified by the government as a serious problem in Pakistan and this aspect needs to be addressed as a major issue.