Financial Management and Governance Issues in Pakistan

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Foreword

This report describes financial management and governance arrangements in Pakistan, identifies deficiencies in those arrangements, and presents recommendations to address those deficiencies. For the purposes of this study, financial management and governance arrangements are narrowly defined as being accounting and auditing arrangements and practices.

The report was prepared for the Asian Development Bank (ADB) by Ted Godden, with overall guidance from Francis B. Narayan, Lead Financial Specialist. Research assistance was provided by Furqan Saleem, between May and June 2000 under Regional Technical Assistance (RETA) 5877 – *Strengthening Financial Management and Governance in Selected Developing Member Countries*. The contents of the draft report were discussed and debated with representatives from the Government, the private sector, and international organizations at a workshop that was held in Islamabad on 5-6 June 2000. The issues and recommendations were further discussed at an international conference at ADB headquarters in Manila on 16-18 October 2000.

This report should be read in conjunction with the Summary Report, which identifies and examines selected issues in relation to financial management and governance.[1]

The authors would like to offer their appreciation to the numerous officials, researchers and staff of agencies who gave their valuable time and made materials available during the course of the research. In particular, we would like to thank: Marinus F. Zijsvelt, Resident Representative, and the staff at the ADB Pakistan Resident Mission for their support; Shoaib Ansari, Accountant-General Pakistan Revenues, for chairing the Islamabad workshop; Marshuk Ali Shah, Manager Programs Division 1 (Region West), for moderating the Manila conference session at which this report was discussed; and Najamul Islam Chaudhri and Shoaib Ansari, again, for their attendance at the conference and their involvement in the study.

[1] Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa P. Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam.* Asian Development Bank.

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Currency Equivalents

(as at 5 November 2000)

Currency Unit	–	Pakistan rupee (PRe)
PRe 1.00	–	$0.01758
$1.00	–	PRe 56.88

The value of the Pakistan rupee is determined using a floating exchange rate.

Abbreviations

ADB	Asian Development Bank
AGP	Auditor-General of Pakistan
ASOSAI	Asian Organization of Supreme Audit Institutions
AusAID	Australian Agency for International Development
CAPA	Confederation of Asian and Pacific Accountants
CPA	Certified Public Accountant
CPE	Continuing Professional Education
IAAS	International Accounting and Auditing Standards
IAS	International Accounting Standards
ICAP	Institute of Chartered Accountants of Pakistan
ICMA	Institute of Cost and Management Accountants
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
MOF	Ministry of Finance
PAC	Public Accounts Committee
PAD	Pakistan Audit Department
PIFRA	Project for Improvement to Financial Reporting and Auditing
PIPFA	Pakistan Institute of Public Finance Accountants
PTCL	Pakistan Telecommunications Company Limited
RETA	Regional Technical Assistance
SAI	Supreme Audit Institution
SECP	Securities and Exchange Commission of Pakistan
SOE	State-owned Enterprise
TA	Technical Assistance
UNDP	United Nations Development Program

Notes

(i) The financial year of the Government, and most organizations, ends on 30 June.

(ii) In this report, $ refers to US dollars.

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Executive Summary

Background

Pakistan is an Islamic Republic and its capital is Islamabad. Its assets include a rich cultural heritage, abundant natural and human resources, a large and potentially more productive agricultural sector, and a strategic location for trade. Although Pakistan has been burdened by internal political instability and costly regional conflicts in its first 53 years of independence, it has still managed to achieve substantial economic growth.

While Pakistan's social welfare indicators have improved over the past two decades, progress remains slow and the challenges daunting. Only 40 percent of the population is literate, compared to the average literacy rate of 49 percent in South Asia and 53 percent in low-income countries worldwide.

The economy has been slowly recovering since the second half of 1999 because of improved agricultural performance. However, the balance of payments remains fragile and the long economic stagnation hampers the government's efforts to reduce rampant poverty. Medium-term economic prospects depend on political stability, structural reforms, and capital inflows.[2]

Developments

Since Pakistan gained independence in 1947, the Republic has been under military rule for 50 percent of the time. The current government is headed by a military regime that came into power on 12 Oct 1999. The Constitution was promulgated in 1973 and includes articles covering the Annual Budget, Federal Consolidated Fund and the appointment and duties of the Auditor-General.

In 1951 the Institute of Cost and Management Accountants was formed and legally established in 1966. In 1961 the Institute of Chartered Accountants of Pakistan was legally established. In 1984 the Pakistan Institute of Public Finance Accountants of Pakistan was legally established under the Companies Act. The accounting profession in Pakistan is strong and accounting and auditing standards are well established and based on International Accounting Standards (IAS).

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[2] Asian Development Bank. 2000. *Asian Development Outlook 2000.* p. 143.

Accounting and Auditing in Pakistan

The Government accounting system in Pakistan is governed by the Pakistan (Audit and Accounts) Order 1973 that requires submission by the Auditor-General of a General Financial Statement incorporating a summary based on the Consolidated Fund and the Public Accounts. The Auditor-General is responsible for both accounting and auditing in Pakistan, however a committee has been established to review this situation.

In the private sector, the Companies Ordinance 1984 requires that account books be kept and details the financial reporting requirements of listed companies and unlisted companies. The Act also contains details of audit requirements. Mandatory application of each International Accounting Standard (IAS) is also prescribed by issue of Special Regulatory Orders issued by the Securities and Exchange Commission.

The accounting basis of the public sector is cash and the private sector uses full accrual. The Auditor General is responsible for auditing and accounting and is a member of the International Organization of Supreme Audit Institutions (INTOSAI). All international big five accounting firms are represented and most have Pakistan citizens as their principals.

Professional Infrastructure

Three accounting organizations exist in Pakistan. These organizations are established legally and they are all members of the International Federation of Accountants (IFAC).

The Institute of Chartered Accountants of Pakistan (ICAP) has 2,400 members and is governed by a Council, through the Standing Committee, and other Committees. Members must pass pre-entry proficiency tests and foundation examinations.

The Institute of Cost and Management Accountants of Pakistan (ICMA) has over 1,400 qualified members. It instigated an active training program four years ago, and there are now 23,000 registered students. A Council, through the Steering Committee, and other Committees, governs ICMA. Members must have a degree or equivalent, for entry.

The Pakistan Institute of Public Finance Accountants (PIPFA) has 1,450 members who are mainly public servants. The PIPFA was formed to produce a second tier of professionals. A Board of Governors, through the Standing Committee and other Committees, governs it. The prerequisite entry is intermediate examination from a recognized education board, university or institution.

Accounting and Auditing Standards

The ICAP plays the major role in setting accounting and auditing standards. ICAP publishes Exposure Drafts and receives members' comments. ICAP then recommends acceptance of IAS to Securities and Exchange Commission and, if in agreement, a Special Regulatory Order is issued under S 234 (3) of the Companies Ordinance and all listed companies must comply with this Order. Almost all International Standards have been adopted in full. Public Sector Accounting Standards have not yet been considered for adoption.

Education and Training

There are 56 universities in Pakistan, the majority of which offer business and accounting degree courses. Public Sector training is mainly undertaken at the Audit and Accounts Training Institute in Lahore. Public Sector pre-service training is a requirement for all new entrants.

ICAP and PIPFA training is available at private colleges and ICMA training is available at the Institute's colleges. ICAP training is based on Pre-entry Proficiency Test, then two years Full-time Foundation Course, then four years training with Chartered Accountants, during which time two stages of the professional exams must be passed to become an associate member. ICMA training at its own colleges is based on passing Foundation and Professional exams and completing three years practical training before becoming a member. PIPFA training is in three stages – Foundation, Intermediate and Final. PIPFA courses are aimed at government accounting and students must complete two years practical training before becoming a member.

Government Budgeting and Accounting

The Constitution contains articles covering the National Budget and National Government Accounts. The Government Accounts are in two parts – Consolidated Fund and Public Accounts. The annual accounts are designed to present all Government accounts on a common and comparable basis. A "Balance Sheet" is prepared; however, the figures do not contain totals of all assets. An Audit Certificate is issued.

Under the Project for Improvement to Financial Reporting and Auditing (PIFRA), the Consolidated Fund and Public Account are maintained. A Modified Cash System is introduced then full accrual is recommended. A Physical and Financial Assets Register is also recommended. Budgeting is compiled in order to be consistent with the Chart of Accounts. Spending ministries are responsible for their own budgets and the coordination of the Budget is the responsibility of the Ministry of Finance.

Donor Assistance

The World Bank ($28.8 million) sponsors the Project for Improvement to Financial Reporting and Auditing (PIFRA). The highlights are:

- studies commenced in early 1990s and the project commenced in 1997
- the Project has two parts – To improve public sector accounting systems and to provide the basis for enhancing public sector accountability
- the Project includes provision of consultancy assistance to design and implement a core accounting and reporting system for financial reports and budgets. Consultants are currently being sought for these activities
- various manuals and a Chart of Accounts have been distributed for comment, and
- PIFRA does not cover Private Sector Accounting Infrastructure, and Accounting and Auditing Standards.

I. Introduction

1. Study Background

The 1997 financial crisis in Asia exposed structural weaknesses in the banking and corporate sectors of affected countries, owing largely to poor governance, lack of transparency, and weak supervision and regulation.[3]

The Asian Development Bank (ADB) has been taking a number of initiatives to assist Developing Member Countries (DMCs) in overcoming these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions in the DMCs. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

Regional Technical Assistance (RETA) No. 5877 – *Strengthening Financial Management and Governance in Selected DMCs* – was approved by ADB for the purpose of carrying out initial studies to identify gaps and weaknesses in financial management and governance and to recommend courses of action to overcome these problems.

2. Objectives

ADB has demonstrated its stand on the importance of good governance, through effective financial management, for sustained economic development. This RETA involved a diagnostic review of the existing accounting and auditing support, and standards in the selected DMCs. After carrying out this diagnostic review, the study assessed the need for assistance to improve the current situation. Objectives were to:

(i) assess the capability and capacity within each country to provide efficient and effective accounting and auditing support, to meet international standards and best practices, and address the issue of training and capacity enhancement

[3] Zhuang, Juzhong, David Edwards, David Webb and Ma. Virginita Capulong. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*. Asian Development Bank: Manila.

(ii) determine the existing accounting and auditing standards of each country

(iii) assess the degree of deviation from International Accounting and Auditing Standards (IAAS) while identifying weaknesses and possible corrective options

(iv) discuss the fieldwork findings and introduce the concepts of the international standards through workshops

(v) develop reference materials for potential users of the IAAS, and

(vi) determine the level and type of assistance needed by each country in order to provide acceptable accounting and auditing support to the private and public sectors.

3. Scope

The RETA involved an in-depth study of the key issues relating to accounting and auditing support in the selected DMCs, identified gaps and weaknesses that need to be addressed to improve accounting and auditing support, and developed assistance programs in collaboration with other donors to rectify the identified weaknesses. Pakistan was one of seven countries participating in the RETA.

4. Country Case Studies and Workshops

The first part of this study examined the current accounting and auditing structure and systems adopted in Pakistan. It also (i) analyzed the political, institutional, regulatory and legal framework on accounting and auditing practice in Pakistan, and the level of enforcement of existing laws, rules, and regulations, (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards, and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

The second part of this study disseminated the findings of the country research through in-country workshops. The workshops provided a cross-section of views on the findings of the research and established ways to move forward to improve financial management and governance in the country. After carrying out the assessment of accounting and auditing support in Pakistan, the study findings and recommendations were discussed at a workshop in Islamabad on 5-6 June 2000, and at an international conference at ADB Headquarters in

Manila from 16 - 18 October 2000. This report incorporates feedback from the Workshop and the Conference.

5. ADB Focus on Financial Governance in Pakistan

The main focus of ADB's operational strategy in Pakistan is poverty reduction and good governance is a core part of this strategy. This RETA complements other ADB initiatives that will lead to improved financial management and governance.

6. Pakistan

Pakistan is an Islamic Republic and its capital is Islamabad. Pakistan has four provinces: Baluchistan, North West Frontier Province (NWFP), Punjab and Sindh. Their respective capitals are: Quetta, Peshawar, Lahore and Karachi. In addition to these provinces is the Federal Administered Northern Area (FANA), which is divided into the districts Dramer, Ghanche, Ghizer, Gilgit, and Skardu. There are also Federally Administered Tribal Areas (FATA).

Pakistan has a population of over 140 million. At present, the growth rate is 2.8 percent per annum. The major cities are Karachi (10 million), Lahore (5.5 million), Faisalabad (2 million), Rawalpindi (928,000), Hyderabad (800,000), and Islamabad (340,286).

The density of religions is Muslim (97 percent), Hindu (1.5 percent), Christian (1 percent) and several other minor religious groups. The national language is Urdu while the official language is English.

Pakistan's major exports include raw cotton and cotton products, rice, fish, carpets and leather goods. Major imports include tea, petroleum, milk agricultural machinery, transport equipment and medicines. Major trading partners are the United States, Japan, Germany, United Kingdom and Hong Kong.

The metric system is used as the official system of weights and measures. The basic unit of currency is the Rupee and exchange rate is PRe56.88 = US$1.00 as at 5 November 2000.

Pakistan's assets include a rich cultural heritage, abundant natural and human resources, a large and potentially more productive agricultural sector, and a strategic location for trade. Although Pakistan has been burdened by internal political instability and costly regional conflicts in its first 50 years of independence, it has still managed to achieve substantial economic growth.

While Pakistan's social welfare indicators have improved over the past two decades, progress remains slow and the challenges daunting. Only 40 percent of the population is literate, compared to the average literacy rate of 49 percent in the South Asia and 53 percent in low-income countries worldwide.

7. Project for Improving Financial Reporting and Auditing

In the case of Pakistan, many improvements to financial reporting and auditing have been identified by the Pakistan Audit Department (PAD), the World Bank (WB) and selected consultants and included in the "Project for Improvement to Financial Reporting and Auditing" (PIFRA).

Internal and external studies for PIFRA commenced in the early 1990s and the Project eventually was approved and commenced in 1997. The Project has two main components:

- To improve the public sector accounting and financial systems; and
- To provide the basis for enhancing public sector accountability.

Where appropriate, reference has been made throughout this study to both the current system and the recommended systems and procedures with most emphasis being placed on the latter. Reference should be made to the chapter on Donor Assistance for a comprehensive analysis of the PIFRA Project.

II. Accounting and Auditing in Pakistan

This chapter presents an overview of accounting and auditing arrangements in Pakistan. It provides context for the following chapters on professional infrastructure, accounting and auditing standards, accounting and auditing training, and government budgeting and accounting arrangements. The chapter comprises ten sections, in two parts, as follows:

Part One: Accounting
1 – Introduction
2 – Public Sector Accounting
3 – Private Sector Accounting
4 – Financial Reporting Requirements
5 – Private Sector Reporting

Part Two: Auditing
6 – Introduction
7 – Auditor-General
8 – Public Accounts Committee
9 – Private Sector Auditing
10 – International Accounting and Auditing Firms

Part One. Accounting

1. Introduction

This chapter details the current and proposed Public Sector accounting procedures. Under the Project for Improvement to Financial Reporting and Auditing (PIFRA), it is recommended that a modified cash basis be used for the accounts and it recommends a move to full accrual at the appropriate time. Public Sector Guidelines for Accounting Standards have been taken into consideration when framing the Government Accounting model. Listed Companies are required to comply with International Accounting Standards (IAS) in accordance with the requirements of the Companies Ordinance 1984.

2. Public Sector Accounting

Accounting Basis and Procedures

In accordance with paragraph 10 of the Pakistan (Audit & Accounts) Order, 1973, the Auditor-General is required to submit to the President a General Financial Statement incorporating a summary of the accounts of the Federation and the Provinces annually. The Government accounts are kept in two parts: (i) Consolidated Fund, and (ii) Public Accounts.

All revenues received, all loans raised, all monies received in repayment of any loan and payments, form part of the Consolidated Fund of the Government. The receipts and payments in respect of which the Government incurs a liability to repay the money received or has a claim to recover the amounts paid form part of Public Accounts.

The Government accounts are maintained on a Cash basis. The accounts of the Consolidated Fund are kept on single entry system and closed off to “Government”.

Under agreements made by the Federal and each Provincial Government with the State Bank of Pakistan the treasury business of each Government is conducted by the State Bank. The Federal and Provincial Governments keep their own separate balance and separate account with the State Bank.

Project for Improvement to Financial Reporting and Auditing

The current accounting parameters for the Consolidated Fund and Public Account are maintained under PIFRA in accordance with the requirements of the Constitution. Under PIFRA, it is intended to introduce a Modified Cash basis system.

The system will record transactions on a cash basis but will also take into account commitments, acquisitions of fixed assets and incurrence of liabilities during an accounting period. The system will facilitate the transfer to a full accrual basis of accounting when appropriate. Some accounting theorists would argue that the system recommended tends more towards modified accrual than modified cash.

3. Private Sector Accounting

The Companies Ordinance, 1984

Section 230 of the Companies Ordinance, 1984 requires the following books of account to be kept with respect to: (i) Receipts and payments; (ii) Sales and purchases; and (iii) Assets and liabilities.

In the case of a company engaged in production, processing, manufacturing or mining activities, all particulars relating to utilization of material or labor or to other inputs or items of cost as may be prescribed, if such class of companies is required by the Securities and Exchange Commission (SEC) of Pakistan by a general or special order to include such particulars in the books of account.

Section 233 requires the directors of every company to submit a balance sheet and profit and loss account to the annual general meeting of the company within 18 months of incorporation and every year thereafter. These accounts are required to be audited and the auditors report attached to the financial statements. Twenty-one days before the annual general meeting, the accounts, auditors report and directors' report will be sent to every member of the company and, in the case of a listed company these accounts and reports will be sent to the SEC, the Stock Exchange and the Companies Registrar.

Section 234 requires that every balance sheet of a company will give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account will give a true and fair view of the profit and loss of the company for the financial year.

In the case of a listed company, the accounts are required to be compiled in accordance with the Fourth Schedule to the Companies Ordinance, 1984. The major disclosure features are as follows:

- All material information necessary to make the financial statements clear and understandable.
- If a fundamental accounting assumption, namely, going concern, consistency and accrual is not followed in preparation of financial statements, that fact together with the reasons therefore.
- Significant accounting policies preferably in one place.
- Change in an accounting policy that has a material effect in the current year or may have a material effect in the subsequent years together with reasons for the change and the financial effect of the change, if material.
- The basis of conversion or translation into rupees of assets and liabilities in foreign currencies and the accounting policy followed in respect of exchange gains or losses.
- Particulars of any charge on the assets of the company to secure the liabilities of any other person including, where practicable, the amount so secured.
- The general nature of any credit facilities available to the company under any contract, other than trade credit available in the ordinary

course of business, and not availed of at the date of the balance sheet.

Schedule Four also outlines comprehensive details of the requirements of the Balance Sheet including matters relating to Fixed Assets, Long-Term Investments, Long-Term Loans and Advances, Current Assets, Share Capital and Reserves, Surplus on Revaluation of Fixed Assets, Redeemable Capital, Debentures and Long-Term Loans, Lease Financing, Deferred Liabilities, Long-Term Deposits, Current Liabilities and Contingencies and Commitments. Comprehensive details of the requirements of Profit and Loss Accounts are also included.

In the case of unlisted companies, the accounts are required to be compiled in accordance with the Fifth Schedule to the Companies Ordinance, 1984. The main disclosure features are as follows:

- All material information necessary to make the financial statements clear and understandable.
- If a fundamental accounting assumption, namely, going concern, consistency and accrual is not followed in preparation of financial statements, that fact together with the reasons therefore.
- Change in an accounting policy that has a material effect in the current year or may have a material effect in the subsequent years together with reasons for the change and the financial effect of the change if material.
- The basis of conversion or translation into rupees of assets and liabilities in foreign currencies.

Schedule Five also gives comprehensive details of the requirements of Balance Sheets and Profit and Loss Accounts. Section 234 subsection (3) states that in the case of a listed company:

- International Accounting Standards and other standards will be followed in regard to the accounts and preparation of the balance sheet and profit and loss account as are notified for the purpose in the Official Gazette by the SEC;
- A statement of changes in financial position or statement of sources and application of funds (Cash Flow Statement) will form part of the balance sheet and profit and loss account; and
- Accounting policies will be stated and, where there is any change in such policies, the auditor will report whether he agrees with the change.

The Securities and Exchange Commission (SEC) of Pakistan issues special Regulatory Orders (SROs) that prescribe the mandatory application of (IAS) to listed companies and their subsidiaries. Each

SRO is issued under the authority of sub-section (3) of Section 234 of the Companies Ordinance 1984. Unlisted companies other than subsidiaries of listed companies have no mandatory direction to comply with IAS. However, in general practice these companies do follow IAS normally because of advice received from Institute of Chartered Accountants of Pakistan (ICAP) members who are responsible for the compilation or audit of the accounts.

Other relevant sections of the Companies Ordinance 1984 include Section 258 which allows the Federal Government to direct that a cost audit[4] be carried out on a company, Section 505 which empowers the Government to alter regulations and Section 506 which permits the Government to make rules and impose fines for hindrance and obstruction of the audit of the company.

Cost audits have been mandated by the Government for listed companies involved in cement, sugar and edible oil products and processing. These companies and other companies which may require to have a cost audit applied, are required to prepare the following:

- A statement of production capacity of the plant, in terms of machine hours and production units, the actual utilization of the capacity and reasons for the difference between the two; and
- A statement of stock-in-trade of the company as at the end of the financial year in terms of quantity and cost distinguishing between:
    - Stock of raw material and components;
    - Stock of work in process;
    - Stock of finished products; and
    - Other stocks.

The above statements are required to be signed by the Chief Executive and Chief Accountant of the company. The Cost Auditor is required to finalize his report within 60 days of his appointment and submit this to the SEC. The company is required to submit an explanation on any qualification or reservation contained in the report to the SEC within 30 days.

Banks and insurance companies are exempted from these arrangements and their accounting and financial reporting procedures are covered by separate enabling legislation.

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[4] In the case of a company engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labor or to other inputs or items of costs as may be prescribed, if such class of companies is required by the Authority by a general or specific order to include such particulars in the books of account – Section 230(e), *Companies Ordinance 1984.*

4. Financial Reporting Requirements

Introduction

This part outlines the major financial reports required to be submitted by the Public Sector and future reports recommended by PIFRA. The private sector financial reporting procedure and requirements are contained in schedules 4 and 5 of the Companies Ordinance 1984 and regulated by the SEC.

The Constitution of the Islamic Republic of Pakistan

Article 80 of the Constitution gives details of the requirements of the Annual Budget Statement and Article 171 refers to the reports required by the Auditor-General relating to the accounts of the Federation and the Provinces.

Public Sector Reports

The Public Sector major financial reports for the Federal and Provincial Governments are the Annual Budget Statement and the National Accounts.

The Annual Budget Statement is issued in total format and in summary style to the National and Provincial Assemblies. The Annual Budget Statement includes the following information:

- The overall Budgetary Position of the previous financial year including original and Revised Budget figures for Resources and Expenditure, Revenue Receipts, Capital Receipts, Development Expenditure and a summary of salient features.
- A comparative Budgetary Position including details for the previous years original budget, the previous years revised budget and current years budget, for the following:
    - Resources – both Internal and External
    - Expenditure – both Current and Development
    - Resource Position
    - Revenue Receipts Summary
    - Detailed Information on Revenue Receipts
    - Capital Receipts and Public Account
    - Provincial Share in Federal Receipts
    - Current Expenditure including Debt Servicing
    - Law and Order
    - Community Services

- Social Services
- Economic Services
- Grants to Provinces/Local Authorities
- Subsidies
- Public Sector Development Program
- Special Program
- Social Action Program
- Current Loans
- Development Loans and Advances by the Federal Government
- Federal Government Investments in Financial and Non-financial Institutions
- Budget at a Glance

A Supplementary Budget Statement is prepared for new items and an Excess Budget Statement is prepared for excess expenditure and presented to the National Assembly (Article 84).

A Summary of the National Accounts for the Federation and Provinces is presented to National Assemblies as:

- Appropriation Accounts for each Division and Department detailed under Functional and Object classifications. The figures are set out under the headings
  - Final Grant or Appropriation
  - Actual Expenditure
  - Excess(+) Savings (-)
  - Actual Expenditure for the Previous Year

  A comprehensive Audit Observations Report is given for each ministry detailing noncompliance with regulations.
- Finance Accounts which consist of a Summary at a Glance, Balance Sheet, Receipts and Payments Account, Audit Certificate and Fiscal Account. Details are provided for Consolidated Fund (Revenue Receipts and Expenditure and Capital Expenditure), Public Account and Accounts of Reserve Funds.

Project for Improvement to Financial Reporting and Auditing

Details of the Annual Budget Statement Reports recommended under PIFRA are included in the chapter headed Budget Procedures.

The Financial Accounting Reports for the Federation, Provinces and the Republic, recommended under PIFRA, are included in the Financial Reporting Manual (Exposure Draft) issued for comment by the Auditor-General of Pakistan in June 1999.

A brief summary of the financial and accounting reports recommended is as follows.

The accounting reports required on a monthly basis are:

- Revenue and Expenditures Statement – Consolidated Funds
- Division/Department Schedule – Consolidated Funds
- Public Account Summary Schedule
- Statement of Cash Flows
- Grant Expenditure Analysis
- Programs Report

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 Cash Flow Statement will be compiled on an activity basis and these statements will be included in the Grant Expenditure analysis and the Programs/Function Report. These Reports will also be consolidated into quarterly reports.

Project Expenditure Statements will also be prepared from the Monthly Accounts and will include:

- 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 reappropriations and supplementary budget) and budget for the reporting period
- all the above information for the previous year, where applicable

A statement of Fixed Assets will also be prepared which 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)

A physical stock-take, with valuations, will need to be done at or before implementation date in order to complete the statement of fixed assets.

A comprehensive Report will also be prepared showing the National Debt position at the end of each month, and a Losses Report will be prepared which will identify the Department concerned and the amount of the loss with comments.

The Annual Financial Statements of the Federation, Provinces and the Republic will include the following:

- Summary – Financial Statements
- Statement of Assets and Liabilities
- Statement of Revenues and Expenditures
- Statement of Cash Flows
- Analysis of Surplus/Deficit
- Notes to the Financial Statements
- Analysis of Revenues by Divisions/Departments
- Summary of Appropriation Accounts by Grants and Appropriations
- Appropriation Accounts by Economic Functions and Departments / Divisions
- Appropriation Accounts by Grant

The Annual Financial Statements can be produced on the basis of the Consolidated Quarterly Returns.

The draft Public Sector Accounting Standards Guidelines produced by the Public Sector Committee of the International Federation of Accountants (IFAC) have been taken into consideration when preparing these draft Annual Financial Statements.

Financial Control Reports will be produced on a monthly basis and these include the following:

- Revenue Confirmation Statement
- Disbursement Confirmation Statement
- Division/Department Statement
- Exchange and Settlement Control Account

The reports outlined above are required from Departments and Divisions which are currently the responsibility of the Pakistan Audit Department (PAD) to carry out the accounting function. Similarly reports will also be required from external sources as follows:

- Self-accounting Entities will produce similar reports to PAD except for Defense and Railways that will provide more simplified reports.
- Economic Affairs Department will provide comprehensive additional information on loans.
- Central Board of Revenue will supply a comprehensive summary of receipts and forecast of receipts.

- State Bank of Pakistan will provide a monthly reconciliation with PAD's accounts, for each bank account.
- Government-owned entities will provide information on a specified format at the end of each financial year.

5. Private Sector Reporting

The Companies Ordinance, 1984

The purpose of this Ordinance is to ensure the viability and growth of corporate enterprises, protection of investors and creditors, promotion of investment and development of the economy and matters arising out of or in connection with enterprises that render it necessary to take immediate action. This law conferred the powers to be enforced by the SEC of Pakistan formerly known as the Corporate Law Authority (CLA).

The Securities and Exchange Ordinance, 1969 and Securities and Exchange Rules, 1971 describe the matters relating to eligibility criteria for the registration of stock exchanges in Pakistan, allowed practices for dealing of securities on these exchanges and other matters including the qualification of members of the stock exchanges and rules relating to the form and content of their records and documents.

Stock Exchange Listing Rules provide the guidelines for the companies regarding listing on the stock exchange. (Refer to Appendix 15 for a summary of the Securities and Exchange Commission of Pakistan Act, 1997)

Part Two. Auditing

6. Introduction

The Auditor-General is appointed by the President and is responsible for the accounting function and auditing function of the Federation and Provinces. His Department is nominated as the Supreme Audit Institute of Pakistan. In the private sector members of ICAP and Institute of Cost and Management Accountants (ICMA) usually perform audits. No independent international body exists for the audit profession as distinct from accounting bodies.

7. Auditor-General

The Constitution of the Islamic Republic of Pakistan

The main Articles in the Constitution relating to the Auditor-General are as follows:

Article 168	The President will appoint the Auditor-General. The Terms and Conditions of appointment will be determined by an Act of Parliament or, until so determined, by the Order of the President [refer Pakistan (Audit and Accounts) Order 1973].
Article 169	The Auditor-General, as determined by an Act of Parliament, or until determined, by Order of the President, will perform such functions and exercise such powers in relation to the Accounts of the Federation and Provinces or any authority established by the Federation or Provinces.
Article 170	The accounts to be kept in such form as the Auditor-General directs.
Article 171	The reports of the Auditor-General will be submitted to the President or the Governors who will submit them to the Assemblies.

Pakistan (Audit and Accounts) Order 1973

Section 9(1)	The Auditor-General shall be responsible for keeping of the Accounts of the Federation and Provinces.
Section 9(3)	The President may, after consultation with the Auditor-General, make provision by rules relieving the Auditor-General of responsibility for keeping accounts of any class or character.
Section 11(1)	Audit all expenditure from the revenues of the Federation and Provinces. Audit all transactions relating to debts, deposits, sinking funds, advances, suspense accounts and remittance businesses. Audit all trading, manufacturing and profit and loss accounts and balance sheets. Audit the accounts of any authority or body established by the Federation or a Province.

Note: Accounts of Railways, Forests and Defense are excluded.

Organizational

The Auditor-General is appointed by the President and is responsible for both the accounting function and the auditing function of the Federation and the Provinces.

This situation gives rise to a serious conflict of interest which has been the subject of critical comment by ADB and other donors over recent years. To the credit of the Government, a high-level committee has been appointed to review this situation (The Committee's terms of reference are provided in Appendix 16).

The Deputy Auditor-General and the Controller General of Accounts report to the Auditor-General. The Accountant-General Pakistan Revenues and the Accountant-General of each Province report to the Controller-General of Accounts. The Director-General Audit for each Province report to the Deputy Auditor-General.

There are approximately 11,000 employees in the Auditor-General's Department with 60 percent working for Accounts and 40 percent working for Audit. There are approximately 1,500 qualified Accountants working in the Department, and almost all of these personnel are qualified through the Pakistan Institute of Public Finance Accountants.

Challenge to the Powers of the Auditor-General

There is a concerted effort being made at federal and provincial levels to at least bring into question the powers of the Auditor-General.

A major case in point involves the audit of Pakistan Telecommunications Company Ltd (PTCL). The Pakistan Government Telegraph and Telephone Department underwent two establishment changes, first to a Corporation, then to a Private Limited Company in accordance with the Pakistan Telecommunication (Reorganization) Act of 1996. It continues to remain a majority State-owned enterprise. The audit of the accounts by the Auditor-General was refused by PTCL on the grounds of Section 38(3) of the Act which PTCL contends refers to the audit being conducted in accordance with the provisions of the Companies Ordinance 1984. The Auditor-General contends that his Department is responsible for the audit of PTCL in accordance with the provisions of Articles 169 and 171 of the Constitution.

This dispute has serious constitutional overtones and needs to be resolved immediately.

8. Public Accounts Committee

The standing Public Accounts Committees (PACs) are established by Federal and Provincial Governments to examine the accounts of governments and their agencies and other matters brought to their notice by the Auditor-General. Each PAC consists of not more than 12 members elected by the Assembly and the Minister for Finance is an ex-officio member.

The functions of the Committee are to examine the accounts showing the appropriation of sums granted by the Assembly for the expenditure of the Government, the report of the Auditor-General of Pakistan and other matters as the Minister for Finance may refer to the Committee.

In accordance with the National Assembly Rules of Procedure on Standing Committees, the PAC is required to ensure that:

- the moneys shown in the accounts as having been disbursed were legally available for, and applicable to the service or purpose to which they were applied or charged
- the expenditure conforms to the authority which governs it, and
- every reappropriation has been made in accordance with the rules framed by the Ministry of Finance.

The PAC is also required to:

- examine the statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, concerns and projects together with the balance sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation trading or manufacturing scheme or concern or project and the relevant report of the Auditor-General of Pakistan
- examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Auditor-General of Pakistan either under the directions of the President or under an Act of Parliament, and
- consider the report of the Auditor-General of Pakistan in cases where the President may have required him to conduct the audit of any receipts or to examine the accounts of stores and stocks.

If any money has been spent on any service during a financial year in excess of the amount granted by the Assembly for that purpose, the

Committee examines the facts of each case, the circumstances leading to such an excess, and makes recommendations.

The report of the Committee is required to be presented within one year from the date on which the Assembly referred to it unless the Assembly extends the period by resolution.

Any report memorandum or note that the PAC may have prepared, or any evidence that the PAC may have taken before the dissolution of the Assembly, shall be made available to the new PAC.

The PACs should give the final decision or direction on Audit Reports. The Federal PAC has recently been reactivated; however, in the case of provincial PACs, most of these reports have not been considered due mainly to the following reasons:

- PACs are not constituted or intermittently constituted after long delays.
- Even when PACs are constituted, meetings are very seldom held.
- In some cases, a chairperson has not been appointed and therefore meetings are not called.
- It has been stated that responsiveness to Audit Reports has never been considered as a priority.

9. Private Sector Auditing

The Companies Ordinance, 1984, Sections 252 to 260 outlines the audit requirements in relation to companies.

Section 252 requires that every company will, at each annual general meeting appoint an auditor to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting. The first auditor of a company will be appointed by the directors within 60 days of the date of incorporation of the company and the auditor will hold office until the conclusion of the first annual general meeting.

Section 260 prescribes the penalties that may be imposed on the auditor or any other person who signs the report which is found to be not in compliance with the Companies Ordinance or if any untrue statements are made or if any material facts are not brought out in the report.

All new International Standards on Auditing (ISA) issued by the International Auditing Practices Committee (IAPC) are made known to members of the national accounting bodies through publication in accounting journals, e.g., “The Pakistan Accountant” and various newsletters.

10. International Accounting and Auditing Firms

The "big five" international accounting and auditing firms are represented in Pakistan through their local associated firms as follows:

International Firm	Local Associate
PriceWaterhouseCoopers	A. F. Fergusons
KPMG	Taseer Hadi Khalid
Arthur Andersen	Sadaat Hyder Qamar Maqbool
Deloitte & Touche	Khalid Majeed Hussain Shah Rehman
Ernst & Young	Ford Rhodes Robinson Morrow

Most of these organizations have Pakistani citizens as their senior partners, partners and managers.

III. Professional Infrastructure

This chapter describes Pakistan's professional infrastructure which comprises three accountancy bodies. The chapter is structured as follows:

1 – Introduction
2 – The Institute of Chartered Accountants of Pakistan
3 – Institute of Cost and Management Accountants
4 – The Pakistan Institute of Public Finance Accountants

1. Introduction

Pakistan has three national accounting bodies:

- The Institute of Chartered Accountants of Pakistan (ICAP)
- The Institute of Cost and Management Accountants of Pakistan (ICMA)
- The Pakistan Institute of Public Finance Accountants (PIPFA)

ICAP and ICMA are full members of the International Federation of Accountants (IFAC) and PIPFA is an associate member. Only the United Kingdom has more national accounting bodies belonging to IFAC with five members while Canada, France and the United States have three full members each. The three Pakistani bodies have limited reciprocal rights with their counterpart bodies in the United Kingdom. In addition, all the Pakistan bodies are members of the South Asian Federation of Accountants (SAFA).

2. The Institute of Chartered Accountants of Pakistan

Legal Framework

ICAP is a statutory autonomous body governed by its representative members constituted under the Chartered Accountants Ordinance, 1961. Included in its charter is the audit of limited liability companies.

Organization

ICAP had 2,376 members as of 30 June 1999. Twenty-one members are serving the public sector and Government-owned enterprises and the rest are located in industry or in public practice. There are 1,268 fellow members and 1,108 associate members.

The body has strong links with other accounting bodies within the country through the ICAP/ICMA Committee and being a co-sponsor of PIPFA with the Auditor-General of Pakistan and ICMA. ICAP has also entered into an arrangement involving bilateral exemptions with the Association of Chartered Certified Accountants (ACCA-UK) and the Chartered Institute of Management Accountants (CIMA-UK).

Members of ICAP have been represented on Technical Committees of IFAC. In 1998 two members of ICAP were nominated to the Information Technology Committee of IFAC, the first time nominations had been made to an IFAC committee from a developing country.

Council and Office Bearers

The Council comprises 16 members of whom the members elect 12 and four are nominees of the Federal Government. The Council is responsible for the overall control and direction of ICAP.

Standing and Other Committees

The following are the standing and other committees constituted by the Council:

- Examination Committee
- Executive Committee
- Investigation Committee
- Education and Training Committee
- Professional Standards and Technical Advisory Committee
- Accounting and Auditing Standards Committee
- Technical Advisory Committee
- Quality Control Review Committee
- Continuing Professional Education Committee
- Overseas Coordinators
- Joint Committee of ICAP/ICMA
- Committee on Accounting Standards for Islamic Financing and Investment
- Committee on Pakistan Economy
- Committee on Corporate Governance
- Other committees dealing with employees' and members' fund accounts

These committees are established for various purposes including:

- Education and training of the students seeking professional qualification and membership of the Institute.
- Investigation into any cases of violation of any ethical codes by the members or students and recommendation of the necessary disciplinary action.
- Provision of the professional input into the standards development process, either local or international, by the members and to provide the Council with appropriate recommendations to be forwarded to IFAC.
- To provide technical advice to the members on any accounting or auditing issues.
- Implementation of the quality controls and review procedures in the accounting and auditing practice in Pakistan.
- Continuing professional education of the members.
- Coordinate with the members working abroad and other similar bodies inside and outside the country.
- Development of accounting standards to account for the Islamic ways of financing and investments.
- Liaison with the government on economic and financial policy making decisions.
- Corporate governance.
- The administration of the employees and members benevolent and provident funds arrangements.

Regional Committees

Regional committees are organized to promote professional education activities at regional levels through seminars and workshops. Local chapters also contribute to the objective causes of the Institute's standing committees.

ICAP is a member of the Confederation of Asian and Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

Educational Requirements

The prerequisite entry requirement is "A" level examinations passed in Pakistan or outside Pakistan through any examining body in the UK with a minimum number of passes as determined by the Council.

Within Pakistan, the Higher School Secondary Certificate and the Intermediate Examinations are accredited prerequisite entry requirements. The candidates, after passing the Pre-Entry Proficiency Test also have to pass the Foundation Examinations of the Institute to be eligible for the four years' training with a registered firm of accountants. In addition, candidates have to pass two stages of Professional Examinations to be entitled to membership of the Institute.

Candidates who have passed ICMA, Chartered Institute of Management Accountants (CIMA – UK), Association of Certified Chartered Accountants (ACCA – UK) have to complete three years of training and further exemptions are available in the examinations.

Members of recognized accounting bodies can obtain direct membership of the Institute after passing the Corporate Laws & Practices and Taxation Subjects of Professional Examinations.

3. Institute of Cost and Management Accountants

Legal Framework

ICMA is an autonomous body that was established in 1951 and is constituted under the Cost and Management Accountants Act, 1966.

Organization

ICMA has over 1,400 qualified members of which more than 100 are in practice. An active training program commenced four years ago in public ICMA colleges and there are now more than 23,000 registered students.

The body is actively involved in developing and executing the standard practices of Cost Audits in the country.

The ICMA Council is responsible for the overall control and direction of the organization. The council comprises 12 members of whom the members elect eight and the Federal Government nominates the other four members. The committee structure is similar to that of ICAP.

ICMA is a member of the Confederation of Asian and Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

Educational Requirements

The prerequisite entry requirement is completion of the degree in B.A, B.Sc, B.Com or any other bachelor degree or Senior Cambridge “A” levels with five passes in both Ordinary and Advance Levels provided (i) that two passes have been obtained at Advance Levels, (ii) that passes be obtained in mathematics and English language at the Advanced and Ordinary Levels.

4. The Pakistan Institute of Public Finance Accountants

Legal Framework

PIPFA is an autonomous body recognized mainly in the Government sector and established under license from the Securities and Exchange Commission by the authority given under section 42 of the Companies Ordinance, 1984. The body is cosponsored by the Institute of Chartered Accountants of the Pakistan, the Institute of Cost and Management Accountants of Pakistan and the Auditor-General of Pakistan.

Organization

PIPFA has more than 1,450 members and a number of them are members of ICAP and ICMA. The Association was established to produce a second tier of professionals in Pakistan.

Board of Governors

There are 12 governors on the Board. Three governors are appointed by each of the three sponsoring bodies and the members of the Association elect three.

Standing and Other Committees

In addition to the Board of Governors, PIPFA has the following committees:

- Examination Committee
- Executive Committee
- Publication and Seminar Committee
- Board of Studies
- Regulation and Discipline Committee
- PIPFA Secretariat

These committees are established for the following purposes:

- Education and training of students seeking professional qualification and membership of the Association.
- Investigation of cases of unethical conduct by the members or students and initiate the necessary disciplinary action.
- Provision of technical advice to the members on any accounting or auditing issues.

Regional Committees

Regional committees are organized to promote the professional education activity at regional levels through seminars and workshops

Educational Requirements

The prerequisite entry requirement is Intermediate examination from a recognized education board, university or institution or any other qualification considered equivalent by the Board of Governors or “A” levels of General Certificate of Education.

Candidates who have passed ICMA or ICAP examinations are eligible for direct membership of the Association on completion of experience and other documentary requirements.

IV. Accounting and Auditing Standards

This chapter describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports. The chapter is structured as follows:

1 – Introduction
2 – Deviations from International Accounting Standards
3 – Public Sector Accounting Standards Board
4 – Pakistan Standards on Auditing

1. Introduction

The Institute of Chartered Accountants of Pakistan (ICAP) plays the major role in setting accounting standards in Pakistan. On the receipt of an Exposure Draft from the International Accounting Standards Committee (IASC), ICAP advises its members of the contents of the Draft either through a publication in "The Pakistan Accountant" (the official journal of ICAP) or by newsletter. Comments are invited from members on the Draft. If considered important enough, the draft Standard is debated at a conference or seminar before a decision is made as to its acceptance. Most International Accounting Standards (IAS) are accepted in full and some are accepted with slight amendments to suit the needs of Pakistan. When the draft is finalized, an order is issued by the Securities and Exchange Commission (SEC) directing that the International Accounting Standards will be followed in regard to the accounts and preparation of Balance Sheet and Profit and Loss Accounts of listed companies and subsidiaries of listed companies. The authority for the issue of this Order is conferred by subsection (3) of section 234 of the Companies Ordinance, 1984 (XLVII of 1984), read with clauses (a) and (c) of section 43 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLVII of 1997).

2. Deviations from International Accounting Standards (IAS)

The following IASs have all been adopted by the national accounting bodies and have also been adopted by SEC for mandatory application to listed companies and subsidiaries of listed companies.

The following Standards have been adopted:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 7 Cash Flow Statements
- IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.
- IAS 10 Contingencies and Events Occurring After the Balance Sheet Date
- IAS 11 Construction Contracts
- IAS 12 Income Taxes (effective in Pakistan after 1-1-2001)
- IAS 14 Segment Reporting
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing Costs
- IAS 24 Related Party Disclosures
- IAS 25 Accounting for Investments
- IAS 26 Accounting and Reporting by Retirement Benefit Plans
- IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- IAS 28 Accounting for Investments in Associates
- IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions
- IAS 31 Financial Reporting of Interests in Joint Ventures
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings Per Share
- IAS 34 Interim Financial Reporting
- IAS 35 Discontinuing Operations
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement

The following standards have not been adopted:

- IAS 15 Information Reflecting the Effects of Changing Prices – Has been classified as non-mandatory by IAS Committee and has not been adopted by Pakistan
- IAS 22 Business Combination – is being considered for adoption.
- IAS 29 Financial Reporting in Hyperinflationary Economies – Not relevant in the Pakistan context and has not been considered for adoption.
- IAS 40 Investment Property – Is being considered for adoption.
- IAS 22 and IAS 35 to IAS 39 have been adopted by ICAP but not yet notified by the Securities and Exchange Commission.

Most IASs have been adopted in full; however, some minor deviations occur in the following:

(i) IAS 1 – Not mandatory for banks and insurance companies. The accounting requirements for banks are covered in the Banking Companies Ordinance 1962 and insurance companies are required to have separate classes of insurance accounts under the Insurance Ordinance 2000. Only minor deviations occur from IASs.

(ii) IAS 12 – Becomes effective on 1 Jan 2001, until then the original IAS is applicable and not the 1996 revision.

(iii) IAS 16 – Allows for a revaluation of an asset to be offset against the devaluation of another asset, i.e., the offset is not restricted to the same asset in accordance with IAS.

3. Public Sector Accounting Standards Board Establishment

Pakistan Consortium on Governmental Financial Management

The Pakistan Consortium on Governmental Financial Management (the Society) was established on 28 August 1999. It is now an incorporated body with the registered office situated in Islamabad. The sponsors of the Society are ICAP, ICMA and the Auditor-General of Pakistan and the governing body consists of 12 members, four from each sponsoring organization.

Any person who is a member of ICAP, ICMA or any officer of the Auditor-General's Department holding a post of B-17 or above may be admitted by the governing body as a member of the Society. The main objectives of the Society are as follows:

- To promote and establish the Pakistan chapter of the International Consortium of the Governmental Financial Management to promote a better understanding of the professional financial management among public officials, at all levels of budgeting, data processing, debt administration, social safety net administration, tax administration and treasury management.
- To improve public financial management system by encouraging participation and affiliation of individuals and groups concerned with various specialized areas of activity of interest within a broad field of public financial management.
- To promote exchange of programs, information, documents and ideas relating to public financial management of systems nationally and internationally and develop and disseminate guidelines for professional public financial management.
- To provide a permanent organizational structure and mechanisms with national and international organizations, institutions and other bodies.
- To encourage sponsors, conduct or collaborate in appropriate research and publish results thereof, provide a clearing house of information relevant to financial management; undertake consultancy work both nationally and internationally and establish liaison with those organizations which are capable of promoting the objectives of the society.
- To promote understanding of public financial management as a basic responsibility of all public officials at all levels and providing a forum for discussion of common public financial management problems.
- To collaborate in the development of programs nationally and internationally involving sophisticated technologies, ensure professional quality and uniform criteria and provide quality control.
- To accept grants of money, sponsorships, donations, fees, securities or property of any kind, on such terms as deemed fit by the governing body.
- To provide help and assistance to Standing Committees of Senate, National Assembly and other committees whenever required.
- To organize training courses, seminars, workshops, technical meetings and other professional development events directed towards improving public financial management.

- To develop uniform, financial reporting formats, which ensure greater transparency, permit comparability and increase utilization of financial management information.
- To develop a code of ethics for establishing and maintaining high standards of integrity, honesty, morality, ethics and character among financial managers and staff members.
- To emphasize importance of professional management of scarce public financial resources and increase economy, efficiency and effectiveness of public sector activities, projects and programs.
- To send experts and representatives to other countries and invite representatives and experts of foreign countries, bodies, societies, institutions etc., having the same aims as the Society to attend conferences (local or international), meetings and functions to deliver lectures, etc.
- To make arrangements and take all necessary steps including entering into agreements with the governmental, national, provincial, local or municipal, or foreign institutions or individuals or other authorities at any place in which the Society may have interests and to carry on any negotiations or operations for the purpose of directly or indirectly promoting the purposes of the Society.
- The Society is in the establishment stage and Pakistan Audit Department is currently being used as the Registered Office and Secretariat. Arrangements are currently being made to hold an international seminar on one of the following topics:
    - Asset management and asset accounting in the Public Sector.
    - Towards a more efficient regulatory mechanism for the industrial sector.
    - Managing the transition towards a market economy.

It is recommended that the Society be used as the vehicle to create the Public Sector Accounting Standards Board.

4. Pakistan Standards on Auditing

Pakistan has adopted the International Standards on Auditing (ISA), issued by the International Federation of Accountants (IFAC), for use as a base in developing their own Standards. The Institute of Chartered Accountants of Pakistan (ICAP) coordinates the procedures in connection with the issue of Pakistan Standards on Auditing. ICAP receives the initial Exposure Draft and sends to all members and other interested parties for comment. The Draft is debated at a seminar if considered necessary. Comments are returned to IFAC and when the final Standard is issued, the Institute then considers if any changes are necessary before it is adopted.

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- IAS 19 Employee Benefits
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- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing Costs
- IAS 24 Related Party Disclosures
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(ii) IAS 12 – Becomes effective on 1 Jan 2001, until then the original IAS is applicable and not the 1996 revision.

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Any person who is a member of ICAP, ICMA or any officer of the Auditor-General's Department holding a post of B-17 or above may be admitted by the governing body as a member of the Society. The main objectives of the Society are as follows:

- To promote and establish the Pakistan chapter of the International Consortium of the Governmental Financial Management to promote a better understanding of the professional financial management among public officials, at all levels of budgeting, data processing, debt administration, social safety net administration, tax administration and treasury management.
- To improve public financial management system by encouraging participation and affiliation of individuals and groups concerned with various specialized areas of activity of interest within a broad field of public financial management.
- To promote exchange of programs, information, documents and ideas relating to public financial management of systems nationally and internationally and develop and disseminate guidelines for professional public financial management.
- To provide a permanent organizational structure and mechanisms with national and international organizations, institutions and other bodies.
- To encourage sponsors, conduct or collaborate in appropriate research and publish results thereof, provide a clearing house of information relevant to financial management; undertake consultancy work both nationally and internationally and establish liaison with those organizations which are capable of promoting the objectives of the society.
- To promote understanding of public financial management as a basic responsibility of all public officials at all levels and providing a forum for discussion of common public financial management problems.
- To collaborate in the development of programs nationally and internationally involving sophisticated technologies, ensure professional quality and uniform criteria and provide quality control.
- To accept grants of money, sponsorships, donations, fees, securities or property of any kind, on such terms as deemed fit by the governing body.
- To provide help and assistance to Standing Committees of Senate, National Assembly and other committees whenever required.
- To organize training courses, seminars, workshops, technical meetings and other professional development events directed towards improving public financial management.

- To develop uniform, financial reporting formats, which ensure greater transparency, permit comparability and increase utilization of financial management information.
- To develop a code of ethics for establishing and maintaining high standards of integrity, honesty, morality, ethics and character among financial managers and staff members.
- To emphasize importance of professional management of scarce public financial resources and increase economy, efficiency and effectiveness of public sector activities, projects and programs.
- To send experts and representatives to other countries and invite representatives and experts of foreign countries, bodies, societies, institutions etc., having the same aims as the Society to attend conferences (local or international), meetings and functions to deliver lectures, etc.
- To make arrangements and take all necessary steps including entering into agreements with the governmental, national, provincial, local or municipal, or foreign institutions or individuals or other authorities at any place in which the Society may have interests and to carry on any negotiations or operations for the purpose of directly or indirectly promoting the purposes of the Society.
- The Society is in the establishment stage and Pakistan Audit Department is currently being used as the Registered Office and Secretariat. Arrangements are currently being made to hold an international seminar on one of the following topics:
    - Asset management and asset accounting in the Public Sector.
    - Towards a more efficient regulatory mechanism for the industrial sector.
    - Managing the transition towards a market economy.

It is recommended that the Society be used as the vehicle to create the Public Sector Accounting Standards Board.

4. Pakistan Standards on Auditing

Pakistan has adopted the International Standards on Auditing (ISA), issued by the International Federation of Accountants (IFAC), for use as a base in developing their own Standards. The Institute of Chartered Accountants of Pakistan (ICAP) coordinates the procedures in connection with the issue of Pakistan Standards on Auditing. ICAP receives the initial Exposure Draft and sends to all members and other interested parties for comment. The Draft is debated at a seminar if considered necessary. Comments are returned to IFAC and when the final Standard is issued, the Institute then considers if any changes are necessary before it is adopted.

V. Accounting and Auditing Training

This chapter describes accounting and auditing education and training in Pakistan. It is structured as follows:

1 – Introduction
2 – Public Sector Training
3 – Institutional Training
4 – Continuing Professional Education (CPE)

1. Introduction

This chapter covers the accountancy training and education available in Pakistan. The Public Sector training is mainly undertaken at the Audit and Accounts Training Institute at Lahore. ICAP and PIPFA training is available at private colleges and ICMA training is available at the Institute's colleges or by correspondence.

The basic entry requirements to undertake the introductory examinations of ICAP and ICMA are possession of appropriate university degree or equivalent and to enter PIPFA the intermediate exam of any education board, university, or equivalent is required. There are 56 universities in Pakistan that are permitted to issue degrees by the University Grants Commission, the majority of which cater for business or commerce degrees. Most universities cover bachelor degrees, masters' degrees, and postgraduate diplomas.

2. Public Sector Training

Training Establishments

The headquarters of the Audit and Accounts Training Institute is established at Lahore and branches are established at Islamabad, Karachi, Peshawar, and Quetta. Training is also undertaken through the Performance Audit Wing, Lahore.

Accounting and Auditing Training

Pre-Service Training is a requirement for all new entrants and students are selected on the following bases:

- Training must be relevant to the job
- Attitude of the individual towards his job
- Preference is given to candidates aged less than 45 years

Probationer Officers (B-17) are given a one-year training program which is converted into an Executive MBA (Finance and Accounts) Program in collaboration with the Institute of Business Administration, Karachi University.

In-Service Training Programs are given at Pakistan Institute of Public Finance Accountants (PIPFA), which include accounting, auditing, management and computers. Emphasis is given to system-based audits, certification audits and performance audits. "Certification Auditing" is a two-week course and includes international students. The Performance Audit Wing runs a five-week intensive training course in "Performance Auditing". There are three courses per year and one for international students, 13 international training programs have been run to-date; 690 students have passed the performance audit exams, including 48 from other departments and 124 from overseas. These courses in certification and performance auditing have been delivered in China and Macau and requests from other countries are currently being considered.

A recent initiative includes the training of all senior officers in computers through the Computer Training Center of University Grants Commission and Institute of Business Administration, Karachi.

Officers are sent abroad to study degree programs for MS (Accounting), MBA, MS (Computer Science) and Ph.D. (Economics). Fifteen officers will soon be sent to the University of Stockholm to undertake the MS (Accounting and Computer Science). Officers are also pursuing MBA programs at local universities and attending courses run by ICMA of Pakistan. Officers also attend short courses abroad including those of Asian Organization of Supreme Audit Institution (ASOSAI) and other auditing bodies.

Attendance at international training programs of other Supreme Audit Associations (SAIs) include US General Audit Office (GAO) and National Audit Office (UK). One officer joined the US GAO International Auditor Fellowship Program – 2000 on 12 June 2000. Two officers were attached to Australian National Audit Office from 15 June to 1 August 2000, to undertake studies in Financial Statement Audit and Performance Audit. The Auditor-General of Pakistan also organizes other international and local courses for Certification Audit (two weeks), Audit of Procurement, Inventory and Contract Management (two weeks), Public Financial Management (five weeks), and Corporate Finance (two weeks).

There have been six joint seminars held with SAI of China and one with SAI of Bangladesh. Pakistan has hosted a number of international events including the Commonwealth Auditors General Conference, ASOSAI Conferences, International Seminar on Revenue Audit, etc.

Pakistan is also a member of the Environmental Auditing Working Group of International Organization of Supreme Audit Institutions (INTOSAI) and ASOSAI. Trainers are also lent to ASOSAI for conducting international training courses and workshops.

Auditor-General’s Department

The Auditor-General's Department has produced a very comprehensive set of auditing guidelines, including Performance Auditing, which consists of 18 volumes. These guidelines are used for training and reference materials. The Department also produces a quarterly journal called “PERFORMIT” which is distributed internationally to all SAIs. Courses in accounting, auditing, management and computers are conducted at training institutes at Lahore, Islamabad, Karachi, Peshawar, and Quetta.

Human Resources

There are approximately 11,000 employees in the Auditor-General’s Department. More than 150 senior level officers have professional degrees in business administration, commerce and management from foreign universities. Twelve officers have professional certification of ICMA and ICAP. More than 3,000 employees have passed the Subordinate Accounts Service (SAS) examinations, five officers are fellows of the Canadian Comprehensive Auditing Foundation (CCAF), and five officers have passed the fellowship requirements of the US GAO.

a. Future Focus

Future emphasis will concentrate on the following:

- Electronic Dial-up Processing /Information Technology audit
- Environmental auditing
- Audit of Public Debt
- Audit of Privatizations

b. Proposed Islamabad Accounts and Audit Academy

The Accounts and Audit Training Institute at Lahore was established in 1973 and is no longer able to cope with the training requirements of the public service. The Institute is unable to accommodate probationary employees with their in-service requirements and senior officers (B –18 to B – 21) with their professional training needs. The implementation of the PIFRA Project will place additional high learning and sophisticated requirements on the training needs of the Auditor-General's Department. The continuing requests for accounting and audit training from other SAIs in the region also place an additional strain on the present facilities at Lahore. The Government of Pakistan is of the opinion that a new academy needs to be constructed urgently to cope with the ever-increasing training requirements.

A Planning Commission Pro-form 1 (PC1) has been prepared and the following details are included:

- Land is situated at H-8/4, Islamabad, totaling 3.65 acres
- The complex will consist of an academic-cum-administrative block, hostel facilities for 40 students, guest rooms and a residential block to house the faculty and staff of the academy. The academy complex will consist of four blocks.
- The estimated capital cost is PRe212.23 million (June 1999)

3. Institutional Training

Institute of Chartered Accountants of Pakistan (ICAP)

After prerequisite qualifications have been met, ICAP is responsible for monitoring and regulating the teaching and training of students for the syllabus for both Foundation and Professional examinations.

The Foundation Education Scheme is designed to provide basic education in accounting and related subjects, over a two-year period, so as to strengthen the educational foundation of the student. To ensure the candidates entering the Chartered Accountancy profession have the necessary competence, the following subjects are included in the Modular Structure of Foundation Examinations:

- Module A
  - Functional English
  - Quantitative Methods
  - Introduction to Economics and Finance

- Module B
  - Financial Accounting 1
  - Mercantile Law
  - Information Technology 1
- Module C
  - Financial Accounting 2
  - Taxation
  - Business Communications and Behavioral Studies
- Module D
  - Company Law
  - Auditing
  - Cost Accounting
  - Information Technology 2

The following is a list of Registered Accounting Education Tutors (RAETs) which are acceptable to ICAP for the Modular Foundation Courses:.

- College of Accounting and Management Sciences
- The Center for Management Sciences
- Tabani's School of Accountancy
- Advanced College of Commerce and Management
- College of Business Professionals
- Al-Hamid Academy
- Accounting Edge Business School
- Professionals Academy of Commerce
- SKANS School of Accountancy
- Pakistan Finance College
- Excelsior College
- Eastern College of Accountancy
- Pioneer Finance College
- College of Commerce Professionals
- College of Financial and Management Sciences
- National College of Business and Management Sciences
- College of Accountancy
- Capital College of Finance and Accountancy
- Khyber College of Management Sciences
- Attock College of Business and Commerce

With the implementation of the Foundation Education Scheme, the education system is providing professional firms with students who have a greater potential to qualify as Chartered Accountants.

The Full-time Foundation Course (FTFC) is a 24-month program spread over two equal sessions with inter-session tests. There are two intakes of FTFC every year. Each session of FTFC is eight months of full-time classes with a four-week preparatory leave period at the end of each session before the Foundation Examinations.

Candidates for FTFC are required to pass a Pre-Entry Proficiency Test (PPT). They then seek admission in any of the ICAP Registered Accounting Education Tutors (RAETs) and register with ICAP as FTFC students. At the successful completion of each Session of the course, FTFC students will be eligible to take Foundation Examinations, conducted by ICAP.

After successful completion of the FTFC and passing ICAP's Foundation Examinations, students will be eligible to join chartered accounting firms for on-the-job training for four years and taking professional examinations as per the prescribed rules.

Chartered Accounting trainee students at the professional level undertake preparation for Professional Examinations through home study course material of any of two ICAP-approved course developers.

No student will be admitted to the first Professional Examinations unless he has passed, or has been exempted from the Foundation/Intermediate examinations and has completed such period of training as a student as is required under the Chartered Accountants' By-Laws 1983 (currently two years).

No candidate will be admitted to the second Professional Examination unless he first passes the first professional stage or has been exempted.

The exemption from a part(s) or any paper is subject to the conditions as the Council may determine.

Every student appearing for the Professional Examinations, for the first time, must produce to the Examination Directorate from his Principal to the effect that he is a fit and proper person to be admitted to the examination mentioning the period of training already completed. Professional Examinations cover the following:

- Advanced Financial Accounting
- Advanced Auditing
- Financial Reporting
- Corporate Laws and Secretarial Practices

- Management Accounting
- Strategic Financial Management
- Advanced Taxation
- Multidisciplinary Case Study (to be implemented later)

On successful completion of the training period and passing the Professional Examination, students are eligible to become members of ICAP subject to fulfillment of other conditions determined by the Council. The Professional Examination structure is currently under review and will shortly be introduced with an enhanced number of papers.

Institute of Cost and Management Accountants (ICMA)

ICMA has established regional training centers at Karachi, Islamabad, Lahore, Multan, Faisalabad, Quetta, Peshawar, Hyderabad, Mirpur (A.K.), Larkana, Sukkur, Abbotabad and Gilgit.

The basic qualifications required for appearing in the entry test is graduate (B.Com., B.Sc., B.A.), Senior Cambridge 'A' Levels with five passes in both Ordinary and Advanced Levels, provided (i) that two of the passes have been obtained at Advance Levels, (ii) that passes be obtained in mathematics and English language at the Ordinary and Advance Level, or an equivalent qualification approved by the National Council.

The candidates having the following qualifications will be exempted from the Entry Test:

Intermediate/FE-I and FE-II examinations of the ICAP, Intermediate of PIPFA subject to holding graduate degree, Institute of Corporate Secretaries of Pakistan, the Chartered Institute of Management Accountants of U.K., Society of Management Accountants of Canada, or any other professional institute approved by the Council, Masters degree, B.E., MBBS., LL.B., CSS., FPSC., PCS., and all first class graduates (any discipline).

After passing the entry test, students may then register with the Institute as a student member. The subjects and stages of ICMA Course are as follows:

- Foundation – I
    - Principals of Accounting
    - Computer Systems & Applications
    - Business English
    - Economics & Business Environment

- Foundation – II
    - Financial Accounting
    - Information Technology
    - Industrial & Commercial Law
- Professional – I
    - Cost Accounting
    - Business Communication & Report Writing
    - Quantitative Methods
    - Management Science Applications
- Professional – II
    - Advanced Financial Accounting
    - Operational Cost Accounting
    - Business Taxation
    - Corporate Laws & Secretarial Practices
- Professional – III
    - Financial Reporting
    - Strategic Management Accounting
    - Organizational Behavior & Strategic Management
    - Auditing
- Professional – IV
    - Strategic Financial Management
    - Corporate Performance Audit & Evaluation
    - Marketing Management
    - Information Management

It is compulsory for students to attend coaching classes at ICMA training institutes for Foundation Stage I and II. Students who are not located near an ICMA training institute may do the course by correspondence through Karachi, Lahore, and Islamabad institutes. ICMA students must also undertake two to three years of practical experience before becoming qualified.

ICMA has maintained a high standard, both in imparting education and testing, and has been meeting an important national human resource need through a steady flow of professional management accountants in the economy.

In the recent past, ICMA has adjusted its strategy after comprehensive appraisal of the emerging global business scenario. It has revised its educational program with a view to producing high caliber business managers who are equipped with specialized skills in cost and management accounting.

ICMA has over 1,400 qualified members, who hold senior positions in trade, commerce, industry and government organizations. A good number of them are employed abroad. The number of active registered students is over 23,000, which makes ICMA one of the largest professional training institutions in Pakistan.

Pakistan Institute of Public Finance Accountants (PIPFA)

The approved colleges for conducting PIPFA courses are as follows:

- National College of Business Management Sciences, Islamabad
- Standard College of Commerce, Sialkot
- Skans School of Accountancy, Lahore
- Zakariya College of Commerce, Multan

The educational program for accounting technicians is divided into the following subjects and stages:

- Foundation Stage
  - Business Communications & Behavioral Studies
  - Financial Accounting I
  - Mercantile Law & Economics
  - Business Mathematics & Statistics
- Intermediate Stage
  - Financial Accounting II
  - Cost Accounting
  - Auditing
  - Company Law & Taxation
  - Information Technology
- Final Stage
  - Advanced Financial Accounting
  - Cost & Management Accounting
  - Corporate Laws & Practices
  - Advanced Taxation

To complement the above course of studies, students receive business training linked to accounting practices, industry, commerce and the financial sector. This is geared towards helping trainees understand the place and role of accounting; where the accounting information originates in an organization; and the constraints under which it is produced. The emphasis of the course is on government accounting.

The entrance criteria is passing the intermediate examination from a recognized education board, university or institution or possesses any other qualification considered equivalent by the Board of Governors or has passed 'A' Levels of General Certificate of Education.

Before attempting any examination of PIPFA, the candidate is required to attend at least once the classes of that examination with an approved coaching center. The following candidates are exempt to attend these classes:

- Those who are stationed outside the limits of a city having arrangements for approved classes;
- At the initial stage, the Government-streamed students would also be exempted from classes covering government subjects;
- Those students who could not get admission due to lack of facilities in the available institutes;
- Those students who have attended the approved classes of ICAP or ICMA for the relevant level.

In order to become a member of PIPFA, a student is required to complete two years approved training before, during or after passing the PIPFA examinations. The following organizations have been approved for practical training:

- Firm of professional accountants, i.e., chartered accountants or cost and management accountants
- Government departments
- Industry and commerce

The head of approved government departments must be in the position of Director-General or Director falling under the ambit of Auditor-General of Pakistan, whereas in case of industry and commerce, the head of finance department must be a member of PIPFA, ICAP or ICMA.

The Pakistan Institute of Public Finance Accountants aims to encourage and provide the education in all aspects of accountancy, including in particular financial accounting, auditing, corporate laws and financial management. The objective is to impart training to individuals who are or are likely to be employed to assist in the duties customarily undertaken by members of the professional accounting bodies and officers of the Department of Auditor-General of Pakistan.

4. Continuing Professional Education (CPE)

Members of ICAP and ICMA are required to undertake at least 15 hours per year of CPE after qualification in order to retain their status and to keep abreast of modern technology. The CPE is usually organized by ICAP and ICMA through seminars and conferences.

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.

VII. Donor Assistance

This chapter describes donor coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

1 – Overview
2 – Donor Activities and Aid Coordination.
3 – Project for Improvement to Financial Reporting and Auditing.

1. Overview

Table 1: Overall External Assistance to Pakistan[5]

External Source (US$ million)	Past Three Years (Annual Average)		1997-98	
	Loan/ Credit	TA	Loan/ Credit	TA
Multilateral Assistance				
ADB	483.6	10.6	289.9	3.9
IBRD	360.3	..	250.0	..
IDA	136.4	..	535.2	..
UN System	..	12.3	..	7.7
IFAD	15.8	..	14.4	..
All others (OPEC Fund, IDB, NORDIC, EIB, EEC, etc.)	57.4	38.0	39.0	22.6
Subtotal	**1,053.5**	**60.9**	**1,128.5**	**34.2**
Bilateral Assistance				
Japan	374.5	66.7	250.0	40.1
Germany	73.2	23.5	30.5	10.6
France	48.1	-	-	-
Netherlands	-	17.3	-	-
People's Republic of China	41.5	2.0	-	6.0
All Others	667.5	69.9	599.2	11.3
Subtotal	**1,204.8**	**179.4**	**879.7**	**68.0**
Total	**2,258.3**	**240.3**	**2,008.2**	**102.0**

5 Asian Development Bank. January 2000. *Country Assistance Plan: Pakistan.* p. 26.

Table 2: Official Development Assistance[6]

	Cambodia	People's Republic of China	Mongolia	Pakistan	Papua New Guinea	Uzbek-istan	Viet Nam
Dollars per capita	36	2	99	5	78	6	13
Percentage of GNP	12.1	0.2	26.7	1.0	7.8	0.5	4.1

2. Donor Activities and Aid Coordination

Donor coordination in Pakistan is well structured. Donors' resident missions / representatives meet regularly, including through specific sector commitments such as forestry and environment. In addition to individual meetings, ADB's annual Country Programming Mission regularly convenes donor meetings to brief all donors on ADB's operational program, policy dialogue with the Government, and related issues to avoid duplication. The annual Pakistan Development Forum (PDF) is the main broad-based forum for aid coordination and involves substantial and frank discussions on the progress of macroeconomic reforms, aid utilization performance, and sectoral issues. The PDF format and instruments are currently under review by the World Bank and the OECD, in consultation with ADB, major bilateral donors and civil society groups to ensure their relevance, efficiency and effectiveness. The PDF was not held in 1999.

Cooperation between the ADB and World Bank benefits from regular exchanges at the programming, operational and policy levels. It has further strengthened with several envisaged key areas of coordination or joint efforts to support the ongoing economic reform program.

ADB also maintains close working relations with UNDP's good governance group in Pakistan. Cooperation between ADB and bilateral donors, including DFID, SIDA, CIDA, Netherlands, NORAD, Germany, and Japan has generated synergies through parallel financing of programs and projects in forestry, education, health, urban development, water supply, and sanitation.

[6] Data is for 1997 and is sourced from: World Bank. 2000. *World Development Report 2000*.

3. Project for Improving Financial Reporting and Auditing

The only major related financial management and governance project currently being undertaken in Pakistan is the World Bank sponsored "Project for Improvement to Financial Reporting and Auditing," commonly known as PIFRA.

Internal and external studies for the PIFRA Project commenced in the early 1990s and the Project eventually was approved and commenced in 1997. The Project has two main components:

- To improve the public sector accounting and financial systems; and
- To provide the basis for enhancing public sector accountability.

The following is a Summary of Cost Estimates (World Bank Staff Appraisal Report, 5 August 1996).

Project Component (US$ Millions)	Local Cost	Foreign Cost	Total Cost
Government Accounting and Financial Reporting	5.1	7.3	12.4
Government Auditing	3.2	3.5	6.7
Human Resource Management	0.7	0.6	1.3
Training	3.9	2.1	6.0
Administration	4.5	1.7	6.2
Other Policy Support	0.9	0.8	1.7
Total Baseline Costs	**18.3**	**16.0**	**34.3**
Physical Contingencies	0.4	0.5	0.9
Price Contingencies	1.4	0.6	2.0
Total Project Costs	**20.1**	**17.1**	**37.2**

It is envisaged that the successful implementation of these objectives will improve institutional capacity for economic policy making and financial management. The Project includes provision of consultancy assistance to design and implement a core accounting and reporting system, which would provide an integrated total system for the preparation of financial reports and budgets. The Project Financing Plan is as follows:

Source (US$ Millions)	Local	Foreign	Total
Government of Pakistan	8.4	..	8.4
International Development Assistance	11.7	17.1	28.8
Total	**20.1**	**17.1**	**37.2**

The first part of this Project was completed in June 1999 with the production and distribution by the Auditor-General of Pakistan (AGP) of the following Exposure Drafts:

- Accounting Policies and Procedures Manual
- Financial Reporting Manual
- Manual of Accounting Principles
- Chart of Accounts
- Accounting Code for Self-accounting Entities
- Handbook of Accounting Guidelines
- Accounting Policy and Procedures Manual – Book of Forms

These Exposure Drafts have been distributed for comment throughout AGP, MOF, the Planning Commission and other users. When the Drafts have been adjusted and agreed to, the implementation stage will commence.

In June 2000, the Auditor-General sought proposals from consultants for the following phases of the PIFRA Project:

- Development of Audit Manual and Guidelines
- Development of Software for Computerized Auditing
- Implementation of Audit Manuals and Software in the Field
- Organizing Seminars on Changes in Audit Standards, Procedures and Technology
- On-the-job Training in New Auditing Procedures
- Strengthening Internal Audit in the Government
- Collaboration with the Private Sector Auditing Firms

The PIFRA Project mainly involves financial and budgeting systems of the Federal and Provincial Governments.

TA5877-REG objectives not covered in PIFRA include the following:

- Private Sector
- Accounting Infrastructure
- Accounting and Auditing Standards

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. The issues and recommendations are divided into two parts as follows:

- Part One: Where the matter referred to may be considered and, if any action were to be taken, this would be better achieved with external assistance.
- Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

Part One. Where Donor Assistance Might be Appropriate

1. Islamabad Accounts and Audit Academy

The accounting and auditing training conducted at the Accounts and Audit Training Institutes at Lahore and the regions appears to be well documented and adequate for internal courses within the Government. The Institutes' headquarters was established in 1973 and now there is a problem of accommodation and facilities. Land is available at Islamabad for the construction of a new audit and accounts academy. There is also a need to introduce an accountant category into the public service, which does not require the successful completion of the examinations of the Pakistan Institute of Public Finance Accountants. A lower-level category, such as an Accounting Technician, with qualifications to match, would be appropriate.

It is recommended that assistance be provided to the Government of Pakistan for the feasibility study of the construction of an Accounts and Audit Academy at Islamabad and further, that technical assistance be provided for the purchase of equipment and training aids necessary to establish the Academy.

It is also recommended that, if the Academy is established, assistance be sought to cover course material and expert review of course content.

It is also recommended that, if the Academy is established, consideration be given to the introduction of an Accounting

Technician category, with appropriate qualifications, in the Public Service.

2. Accounting Training

The professional courses of ICAP, ICMA and PIPFA are comprehensive and appear to be adequate for each organization. It may be that further attention needs to be directed to Information Technology courses and it may be appropriate to have an expert in this field to review the syllabi of each course. It is also understood that the training institutions require assistance with the acquisition of teaching aids and equipment, especially in the computerization field. The enhancement of trained teaching staff to deliver the lectures and tuition at various accounting training institutions by the introduction of "train- the-trainer" courses would be an advantage.

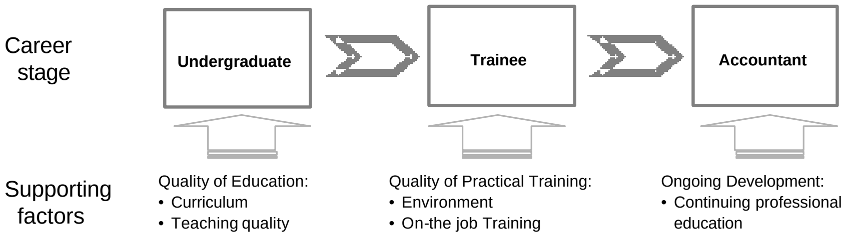
It is recommended that a Joint Committee of the three organizations be formed to review the following considerations:

- **The current and future needs in relation to training aids and equipment needed for the competent teaching of accountancy students at various training institutions;**
- **The current and future requirements for professional and competent trainers in the field of accounting teaching and tuition; and**
- **That an expert in the field of Information Technology be engaged to review the course content of ICAP, ICMA and PIPFA syllabi.**

3. Training for Accounting Lecturers and Professors

There is no specific advanced training provided for the continuing education of accounting lecturers and professors in Pakistan. Most accounting trainers in Pakistan rely on information provided by the member accounting bodies to keep them up to date. In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practises and trends. Figure 1 presents a simplified way of looking at the factors that support the development of competent accountants.

Figure 1: Developing Competent Accountants



The quality of undergraduate teachers is a key factor in developing competent accountants.

It is recommended that:

- **a specific training program for accounting professors and lecturers be developed and implemented. This training program should include present day best practices in accounting procedures and current information available on International Accounting Standards. Important matters such as information technology (including both hardware and software) should also be included; and**
- **a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.**

4. Security and Control of Non-current Assets

Security and control of Non-current Assets are lacking in the existing government accounting procedures. While a "Balance Sheet" is currently prepared, this document contains no figures or information relating to some major assets such as lands, buildings, communications systems, etc., brought forward from previous years. Apparently, when the Balance Sheet procedure was first introduced into the National Accounts no inventory of Non-current Assets was recorded and evaluated at the time. Although a Fixed Assets stock-take, including recording and evaluation would be a massive task (the total value of Fixed Assets could be at least PRe500 billion), the Government of Pakistan will never achieve proper security, monitoring, and control of its Non-current Assets until this exercise is done.

The PIFRA Project Accounting Guidelines has recommended that the physical assets will be recorded in a "Physical Assets Register" and it is also recommended that the Modified Cash Basis will be applied to the acquisition of fixed assets. This will enable Non-current Assets to be recorded at purchase or construction cost when they are physically received or completed. There is no mention in PIFRA Guidelines of the necessity for the transfer of accurate account balances for Non-current Assets at the time of implementation of the World Bank-sponsored Project.

It has been recommended that PIFRA Accounting implementation should commence at the beginning of a financial year and this is likely to occur on the 1 July 2002 or later. It is not possible to undertake a complete Non-current Asset stock-take before that date. Consideration should be given to conducting a physical stock-take of Non-Current Assets on a geographical basis, i.e., one year for each Province, then one year for central government Non-Current Assets. The exercise would take five years and it is presumed that full accrual basis of accounting would be adopted by this time. The stock-take would be massive exercise however most of the labor associated with this task could be sourced from within Pakistan. If this exercise is left for future years the successful completion of the task becomes even more difficult.

The application of the full accrual basis of accounting and the valuation of all Non-current Assets in accordance with IAS 16 would assist in formalizing the adoption of International Accounting Standards by the Government of Pakistan in its National Accounts.

It is recommended that the Government of Pakistan consider the undertaking of a total stock-take of all Government Non-current Assets, over a period to be determined by the Government, in order to facilitate proper recording, monitoring, security and financial control of these assets. Should the Government decide to undertake this stock take it is recommended that technical assistance be provided for this purpose. It is also recommended that the Government should consider the application of full accrual basis of accounting before the end of the completion of this stock-take.

5. Review of Commercial Laws

The enactment of the Securities and Exchange Commission of Pakistan Act, 1997 has added some modern impetus to the financial management and governance laws of Pakistan. The Companies Ordinance, although promulgated in 1984, is also reasonably comprehensive and covers at least the accounting requirements satisfactorily. However it would appear that there are many commercial Acts and Ordinances which, because of technical evolution and introduction of international best practices in many commercial fields, need to be reviewed and brought up to present day standards. An example is the Banking Companies Ordinance 1962, which needs to be updated with regard to accounting requirements.

The last time the laws of Pakistan were consolidated was in 1966 with the issuance of 16 volumes under the Pakistan Code. All Acts, Ordinances and Rules passed each year are published annually. The laws of Pakistan again need to be reviewed and consolidated for ease of reference by professionals and other users. In many cases, titles have changed and cross-references are either incorrect or out of date. It may be considered a massive task to update all the laws of Pakistan from an administrative and presentation point of view. However, it has been accomplished in other countries, including at least one DMC, and if it can be achieved in Pakistan, the benefits derived would be immeasurable.

It is recommended that the commercial laws of Pakistan be reviewed and amended to reflect best present day practices after taking account of local requirements and ideologies and that technical assistance be provided for this purpose.

It is further recommended that the laws of Pakistan be administratively reviewed and updated and consolidated for ease of reference.

Part Two. Where External Assistance Is Not Required

6. Separation of the Accounts and Audit Functions

In accordance with the *Pakistan (Audits and Accounts) Order 1973*, the Auditor-General is responsible for both accounts and audit functions of the Government. This situation gives rise to a serious conflict of interest which has been the subject of critical comment by ADB and other multilateral development agencies. In Gazette No. M302, issued on 20 April 2000, the Department of the Auditor-General established a committee to consider and make recommendations on the reform process leading to the functional separation of audits and accounts.

It is recommended that the Accounts and Audit functions of the Government of Pakistan be clearly separated and be established as two distinct departments. While this action would require amendments to the Constitution and the Laws of Pakistan, it would be in line with international best practices and would receive support from multilateral development agencies.

7. Amalgamation of Accounting Bodies

The three national accounting bodies appear to have a good working relationship and liaison with each other. This is evidenced by the fact that ICAP and ICMA jointly sponsored the establishment of PIPFA with the Auditor-General and the three organizations each have representatives on various committees, including the Pakistan Consortium on Governmental Financial Management, and the committee to review the separation of Audit and Accounts. The ICAP/ICMA Committee also has been established to cover matters of interest to both bodies.

The Council and members of these organizations should consider the amalgamation of these three bodies. Amalgamation has many advantages, for example,

a) One principal secretariat and one registered office in each district would result in the sharing of resources and reduction of costs;
b) One point of contact for external international organizations such as IFAC would facilitate communications and reduce costs; and
c) One society of accountants in Pakistan would facilitate better communication with, and less confusion for, the public especially small businesses.

The amalgamation could be achieved while still maintaining individual designations. For example, the Pakistan Society of Accountants (PSA) could be established with three classes of members:

- Chartered Accountants PSA (CA)
- Cost and Management Accountants PSA (CM)
- Public Finance Accounting PSA (PA)

A fellow of the present ICAP would become FPSA (CA). The Society could be established in a format that contains committees and subcommittees to meet the needs of the different designations and classes of membership.

Many countries have one national body representing accountants and one national body representing auditors, which is usually affiliated with the Institute of Internal Auditors (Recommendation 16 refers). Individual members may belong to both bodies if appropriately qualified. This system has a simple structure that is easily understood by non-accountants and has very clear lines of demarcation.

It is recommended that amalgamation of ICAP, ICMA and PIPFA be considered by the governing councils of the three organizations and, if considered appropriate, a steering committee be formed consisting of an equal number of members from the three accounting bodies to study and report on the feasibility of amalgamation. At this stage, if the governing councils viewed amalgamation as a feasible option, the matter should then be put to the vote of all members concerned.

8. Public Relations – National Accounting Bodies

The national accounting bodies have maintained a satisfactory relationship with the Government of Pakistan and there is evidence of a good working liaison. The PIPFA was formed and sponsored by ICAP, ICMA and the Auditor-General, and the PIPFA was mainly established to upgrade the quality of staff in the Government. Accountants from the national bodies have been included on a number of important Government-initiated committees including the:

- Corporate Governance Committee
- Consortium on Government Financial Management, and
- Committee to Review the Separation of Audit and Accounts.

At the business level, the accounting profession is well established and respected. The profession, as a whole, is perhaps the strongest in Pakistan.

At the lower levels of business, i.e., the small trading firms and self-employed tradesmen, it is difficult to assess the recognition afforded the accounting profession.

The Government is attempting to broaden its tax net through the medium of a national survey and it is at the lower end of the business scale that most attention is being directed. The Chamber of Commerce has advised that there are many small traders and businesspeople that simply do not know where to begin in order to meet their tax liabilities.

The lack of simple tax knowledge by small businesspeople in Pakistan appears to be a major problem. The accounting profession should mount a public relations campaign, directed mainly at the small businessperson, and advise the public of the professional services available. The accounting profession would be assisting the Government in broadening its tax net and enhancing the image of the profession especially in the small business sector.

It is recommended that the accounting profession mount a public relations campaign, directed mainly at the small businessperson, and advise the public of the professional services available. If implemented this scheme would assist the Government to broaden its tax net and enhance the image of the profession at the lower end of the business scale.

9. Independent Pakistan Accounting Standards Board

When application is made by ICAP to SEC to issue an order for the implementation of an IAS, the SEC undertakes a review before issuing the order. The SEC has qualified accountants on its Board of Commissioners and it seems appropriate that the SEC should be considered as the vehicle to establish an independent Accounting Standards Board. It is understood that a form of Accounting Standards Board may have existed at the same time as the Corporate Law Authority, which was superceded by the SEC with the enactment of the Act in 1997.

It is recommended that a steering committee be formed consisting of members of the corporate sector, ICAP, and the Auditor-General of Pakistan to review and report on the establishment of an independent Pakistan Accounting Standards Board.

10. Public Sector Accounting Standards Board

The establishment of the Pakistan Consortium of Governmental Financial Management represents a serious attempt to upgrade the quality and standard of accounting and auditing practices in the Public Sector, including Government-owned enterprises.

At present, there are only 12 members of ICAP/ICMA working in the Public Sector and most Government accountants are qualified through PIPFA.

The Society needs to be encouraged in achieving its objectives and the assistance of international finance institutions is a means of achieving the results required.

The fact that this Society is incorporated and is established slightly outside the government umbrella makes it a convenient vehicle for use by international finance institutions as an executing agency.

To have an impact on achieving its objectives it is considered that the Society should move to establish its own office and Secretariat outside the Auditor-General's Department.

In the PIFRA project the Auditor-General has stated that the Public Sector Accounting Standards draft guidelines issued by the Public Sector Committee of the International Federation of Accountants (IFAC) have been taken into account when developing the accounting model for the World Bank-funded Project. The implementation of this Project will commence most likely in 2002 and it seems opportune to formally develop Public Sector Accounting Standards in accordance with international guidelines. It seems appropriate for the Society to play a major role in this development and the Society should strongly consider the establishment of a Public Sector Accounting Standards Board from within the Society initially then eventually as a separate entity.

It is recommended that the Pakistan Consortium on Governmental Financial Management should consider the:

- **legal establishment and promotion of a Public Sector Accounting Standards Board, and**
- **establishment of an independent Secretariat.**

11. Pakistan Public Sector Accounting Standards

The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts for comment. The first eight IPSAS issued are based on accrual accounting and Exposure Draft No. 9 refers to Financial Reporting under the Cash Basis of Accounting.

It is recommended that the Pakistan Government establish the Pakistan Public Sector Accounting Standards and that these Standards be based on the International Public Sector Accounting Standards issued by IFAC.

12. Application of IAS for Unlisted Companies

Section 234 subsection (3) of the Companies Ordinance 1984 requires that listed companies must comply with International Accounting Standards (IAS) as directed by the SEC. Section 252 requires that every company must appoint an auditor at the annual general meeting who shall hold office until at least the expiry of the next annual general meeting. Section 254 requires that auditors must be members of ICAP or ICMA. Members of ICMA are authorized to conduct the audit of small private companies that have a paid-up capital of less than PRe 3 million.

In the course of their audit, the auditors encourage all companies to comply with IAS, including the unlisted organizations as well as the listed. If compliance is mandatory for the listed companies there appears to be justification in making it mandatory for unlisted companies especially if the companies have a large asset base or paid-up capital. This should apply especially in the case of large unlisted companies.

It is recommended that the procedures adopted for directing mandatory compliance with IAS for listed companies should also be applicable to unlisted companies, where the paid-up capital or the asset base is in excess of PRe 50 million.

13. Public Accounts Committees (PACs)

The PAC for the central government has recently been reactivated, however, it is understood that the PACs in the provinces have met on very few occasions in recent years and subsequently the examination of the accounts is up to 15 years overdue. The PACs should be constituted under a higher authority than that which exists at present and the powers, functions, rules and procedures regularized in order that the PACs have the confidence of the public and that they are performing their main function as the nation's overseer of the use of public funds.

It is recommended that the duties and responsibilities of PACs be legally constituted and that the PACs in the provinces be reactivated and be required to meet on a more regular basis as prescribed by legislation.

14. Additional Recommendation by a senior staff member of Auditor-General's Department

Because of the lack of examination of audit reports by PACs, serious concern has been expressed regarding the lack of attention given to audit findings of a serious nature that may require immediate attention. To overcome this major problem it has been recommended that the "AGP's Audit Committee" be established. The membership would consist of the following:

- Auditor-General of Pakistan as Chairman
- Principal Accounting Officer of concerned ministry/department
- Member of ICAP
- Member of ICMA
- MBA/IT Specialist nominated in consultation with Cabinet Division
- Additional Finance Secretary, Ministry of Finance
- Attorney (Deputy Auditor-General, Legal)
- Deputy Auditor-General (Audit) concerned
- Technical Expert co-opted by Auditor-General as required

This Committee would meet regularly (up to twice monthly) and examine the major audit findings that require immediate action. The Committee would also encourage and oversee the functions of the Departmental Accounts Committees in order that they may operate more efficiently and effectively.

15. Establishment of Internal Audit Function

Government ministries/departments do not have an internal audit function within their organizations. Auditing is left to the Auditor-

General's Department, which is mainly involved in compliance with procedures, accuracy of calculations, audit investigations because of special requests, and performance audits. There appears to be no formal procedures to ensure that effective internal control and risk management are being considered at department level.

It is recommended that the establishment of an internal audit function be considered for implementation in certain Government departments/ministries. The audit function should include internal control and risk management functions.

16. Joining the Institute of Internal Auditors

The Auditor-General of Pakistan is the Supreme Audit Institution (SAI) in this country and is a member of the Asian Organization of Supreme Audit Institutions (ASOSAI), which is a Regional Working Group of the International Organization of Supreme Audit Institutions (INTOSAI). The Public Sector therefore has an affiliation with an international audit association.

The accounting bodies, i.e., ICAP. ICMA and PIPFA are informed through the International Federation of Accountants Committee of any auditing development, issues of standards, etc., by the International Auditing Practices Committee (IAPC). However their role is mainly directed towards the accounting function.

Established in 1941, the Institute of Internal Auditors (IIA) is an international professional association with world headquarters in Altamonte Springs, Florida. The IIA has more than 60,000 members in internal auditing, governance and internal control, Information Technology (IT) audit, education and security, with representation from more than 100 countries. The Institute is the acknowledged leader in research, education, technology and certification and risk management for the profession worldwide. At this stage of development, it is appropriate for Pakistan to consider joining the international professional auditing association and establishing the Institute of Internal Auditors Pakistan (IIAP). This could conveniently be done through a joint steering committee of the three national accounting bodies and the Auditor-General's Department or through a subcommittee of the Pakistan Consortium on Government Financial Management.

The IIA has a network of 230 affiliates and is represented in more than 100 countries worldwide. Chapters and national institutes are presently organized in 17 regions.

Chapters and national institutes hold regular meetings, seminars, and district and regional conferences and encourage members to network with peers, develop professional contacts, and be aware of current issues and practices in internal auditing.

The IIA issues standards by which the operations of an internal auditing department can be evaluated. The standards are the same for private business and governments.

It is recommended that Pakistan join the Institute of Internal Auditors by forming its own national institute and that a steering committee consisting of the three national accounting bodies and the Auditor-General's Department be formed to evaluate this recommendation and, if agreed, establish the Institute of Internal Auditors Pakistan.

17. ADB Anti-corruption Policy

The ADB's anti-corruption policy centers on three objectives: (i) Supporting competitive markets, and efficient, effective, accountable, and transparent public administration, as part of the Bank's broader work in governance and capacity building; (ii) Supporting promising anti-corruption efforts on a case-to-case basis and improving the quality of ADB's dialogue with its developing member countries on a range of governance issues, including corruption; and (iii) Ensuring that ADB's projects and staff adhere to the highest ethical standards.

In order to combat corruption in the public service the following procedures should be considered:

- **Adequate accountability measures should be in place within the public service. These measures should be transparent to the individuals concerned and should be covered in position descriptions or included in finance instructions.**
- **Procedures should be in place for the detection and investigation of corruption. This may be achieved by strengthening internal control procedures or broadening the scope of the internal audit.**

- **The employment and training of accountants should be enhanced within the public service. All accounting bodies have a stringent code of ethics and deviations from this code could lead to dismissal from the accounting society. The employment of people committed to these ethical codes of behavior will enhance the overall integrity of public servants. Employees should be encouraged to further their careers by taking up additional training, which will lead to obtaining professional qualifications. The Government should undertake retraining and training in government procedures.**
- **Effective internal controls with properly constructed transparent guidelines should be established and adherence to these guidelines should be monitored. This monitoring process could be achieved by inclusion in the mandate for internal audit.**

IX. Main Deficiencies and Action Plan

Pakistan has made good progress in adopting international accounting and auditing standards. This study has identified several gaps and weaknesses that may be categorized as follows:

- Those deficiencies which are better able to be resolved with external assistance; and
- Those deficiencies that are able to be resolved without the need for external assistance.

Issue	Priority	Donor Assistance?	Country Support	2001 ~ 2005
Assisting in the feasibility study for the establishment of an accounts and audit academy at Islamabad	High	✔	✔	███████████
Assisting in the development of a specific training program for accounting professors and lecturers	High	✔	✔	████
Assisting a review of the asset recording system and complete fixed assets stock-take	High	✔	✔	██████████
The separation of the accounts and audit functions of government	High	✕	…	█████████
Supporting the review of all commercial laws	Medium	✔	✔	███
Assisting the enhancing of accounting training of institutions and accounting bodies	Medium	✔	✔	███████████
The absence of an independent Pakistan Accounting Standards Board	Medium	✕	✔	██████

Issue	Priority	Donor Assistance?	Country Support	2001 ~ 2005
The absence of a Public Sector Accounting Standards Board	Medium	✗	✔	██████
Absence of Public Sector Accounting Standards	Medium	✗	✔	████████████
The absence of the application of international accounting standards for unlisted companies	Medium	✗	✔	████████
The absence of effective Public Accounts Committees	Medium	✗	✔	████████
The absence of an effective internal audit function	Medium	✗	✔	██████████
Joining the Institute of Internal Auditors	Medium	✗	✔	████
The amalgamation of accounting bodies into one or two organizations	Low	✗	✗	██████
The absence of a public relations program directed at the small business person	Low	✗	✔	████████████

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Appendix 1. Interviewees

Our appreciation is acknowledged to the following people who gave their valuable time for discussions and interviews:

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Shoaib Ansari	Accountant-General	Auditor-General – Pakistan Revenues
Shazado Sheikh	Project Director PIFRA	Auditor-General – Pakistan Revenues
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Zafar-ul-Haq Hijazi	Commissioner	SECP
Waqar Masood Khan	Additional Secretary Finance	Ministry of Finance
Nehmatullah	Director-General, Accounting	Pakistan Telecommunications
Ali Noor M. Rattansey	Senior Partner	A. F. Fergusons
Suhail Mohammad Khan	Partner	A. F. Fergusons
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Shibli Islam Rehan	Partner	Sidat Hyder Qamar and Co.
Nauman Mahmood	Partner	Avais Hyder Zaman Rizwani

Mukhtar H. Jaffery	Member	Stock Exchange
Zahid Latif Khan	Member	Stock Exchange
Mohsin Shaikh	Director	Chamber of Commerce
Aquib Hussain	Tax Consultant	Aquib Hussain & Co.
Shahid Mohsin Sh. FCA	Principal	College of Accountancy
Muhammad Younes	Vice-President	RDFC
M. F. W. Zijsvelt	Resident Representative	Asian Development Bank
Katsuji Matsunami	Relieving Representative	Asian Development Bank
Tariq Rahim Anwar	Senior Control Officer	Asian Development Bank

Our appreciation is further extended to Nauman Mahmood of the accounting firm of Avais Hyder Zaman Rizwani for his valuable assistance and finally to Furqan Ahmad Saleem, the local consultant for this Study, for his untiring effort in connection with this Project.

Appendix 2. RETA-5877 (Regional Study) Information

1. Study Phases

The study had four broad phases as follows:

Phase I – Pakistan Case Study on Accounting and Auditing Support and Structures
Phase II – Islamabad Workshop (5- 6 June 2000)
Phase III – Development of Reference Materials
Phase IV – Formulation of Action Plan

2. Phase I: Case Study on Accounting and Auditing

This phase involved the examination of Pakistan's current accounting and auditing structure and systems. It also (i) analyzed Pakistan's political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

A structured questionnaire that covered the following areas, was used to collect descriptive information:

(i) Legal and regulatory framework (public and private sector)
(ii) Accounting infrastructure (professional bodies and accounting standards)
(iii) Institutional issues (public and private sector)
(iv) Government and administrative arrangements
(v) Financial reporting (public and private sector)
(vi) Accounting and computerization (public and private sector)
(vii) Accountancy education and training
(viii) Budgeting (public sector)
(ix) External audit (public and private sector)
(x) Previous studies and initiatives on financial management and governance.

The fieldwork for the study was conducted by Ted Godden, with the assistance of Furqan Saleem from 16 May to 14 June 2000. Financial management and governance arrangements were discussed with representatives from: the Ministry of Finance, other government organizations, professional accounting and auditing bodies, private sector businesses, tertiary institutions, and multilateral financing institutions.

3. Phase II: Islamabad Workshop

Issues arising from the study were discussed and debated at a workshop held in Islamabad on 5-6 June 2000. Shoaib Ansari, Accountant-General, Ministry of Finance, chaired the workshop. Francis B. Narayan, Lead Financial Specialist, ADB, participated in the Workshop as a resource person and provided overall guidance with respect to the objectives of the Study. Thirty-three participants, representing the following organizations, attended the workshop:

- Asian Development Bank (ADB) Resident Mission
- A. F. Fergusons
- Khalid Majid Hussain Shah Rehman
- Sadaat Hyder Qamar Maqbool
- Aquib Hussain and Co.
- College of Accountancy
- Auditor-General Pakistan, Revenues
- Securities and Exchange Commission
- Stock Exchange
- Dancom Pakistan
- Pakistan Telecommunications
- Economics Advisory Board
- RSM International
- Ministry of Power and Development
- AEAB Ministry of Finance

4. Phase III: Development of Reference Materials

In Phase III, reference materials on International Accounting and Auditing Standards (IAAS) were developed. In developing these materials, consideration was given to production of these materials in local languages.

5. Phase IV: Formulation of Action Plan

Phase IV assessed the roles that ADB and other funding agencies played in improving the current situation in the selected DMCs. The roles included policy intervention, projects and program assistance, and mobilization of cofinancing resources to address the identified problems and weaknesses. This activity was undertaken in close consultation with the Government, regulatory authorities, representatives of the accounting and auditing professions, and other local interest groups and funding agencies. At this stage of the RETA, the commitment in principle of each selected country to implement the findings and recommendations of the study was agreed. The findings of the RETA were disseminated and debated at a conference in Manila from 16-18 October 2000 and the developed action plan was finalized for implementation.

Appendix 3. Regulatory and Legal Framework

1. Introduction

Many of the laws of Pakistan were originally promulgated in pre-independence days during the British rule. With technological advancement and the requirement to institute laws which cater for Islamic ideologies, there have been many amendments and new laws introduced. However, a solid basis was formed over 50 years ago which laid the foundation for today's legal and regulatory framework in Pakistan.

A brief examination of the Constitution and laws and regulations which pertain to financial management and governance are covered in this chapter.

2. Process of Law Making

The process of law-making starts when the Ministry of Law, Justice, Human Rights and Parliamentary Affairs presents a draft bill to the National Assembly. The bill is discussed in the Lower House and after consent through a majority vote, it is sent to the Senate. The Senate considers the bill and, after approval, it is then directed to the President for assent. After assent by the President, the Bill is enacted in the form of an Act.

When Parliament is not in session or is adjourned, the President has powers under the Constitution to promulgate temporary laws in the form of an Ordinance. When Parliament resumes it must consider Ordinances which have been promulgated by the President and pass or reject this legislation. If Parliament does not consider an Ordinance within six months of resumption, it will lapse unless protected by the Constitution. Some Acts or Ordinances contain provisions for the enactment of Rules by the Federal Government and Regulations by the Federal Agencies. Rules and Regulations are notified to the public through the Gazette of Pakistan.

3. Laws and Regulations

Capital Issues (Continuance of Control) Act, 1947

This Act came into force on 18 April 1947. The purpose of this Act is to give authority to the Federal Government in order that no securities can be issued or prospectus or advertisements for the sale of shares be made without the approval of the Government thereby providing continuance of control over issues of capital. Rules made so far by the Federal Government relate to the Housing Finance Companies and Banking Companies. The majority of matters included in this Act are now superceded by the Companies Ordinance.

The Companies (Issue of Capital) Rules 1996 and Stock Exchange Rules

These provide rules for issue of capital by companies, premium on shares, issue of shares for consideration other than cash and related aspects.

Asset Management Companies Rules

The establishment and regulation of asset management companies (open-end mutual funds) are governed by the Asset Management Companies Rules 1995 which have been made under the Securities and Exchange Ordinance, 1969. The rules provide for matters relating to the procedure for establishment of asset management companies, registration, operational aspects including terms and conditions for any scheme, and other allied matters.

Venture Capital Companies and Fund Managers Rules, 1995

These prescribe procedures for the establishment and operation of venture capital companies i.e., those that engage in financing by direct equity investment in another company and providing it with management expertise. These rules were promulgated under the Capital Issues (Continuance of Capital) Act, 1947.

Credit Rating Companies Rules, 1995

The Credit Rating Companies Rules, 1995 were promulgated under the Securities and Exchange Ordinance,1969, which provide the rules for the companies engaged in the business of evaluating credit risk and assigning credit rating to present or proposed loan obligations of a company.

Leasing (Establishment and Regulation) Rule, 1996

The establishment and regulation of leasing companies is governed by the Leasing (Establishment and Regulation) Rules 1996 which came into force on 4 June 1996. The rule provides for matters relating to the procedures for the establishment of leasing companies, including licensing, operations, restrictions, and reporting.

Banking Companies Ordinance, 1962

Banking Companies Ordinance, 1962 describes the provisions pertaining to the preparation and audit of accounts of a banking company and covers the following:

- Accounts and balance sheet
- Audit
- Submission of returns
- Filing of accounts with the registrar
- Display of accounts by banking companies

Investment Companies and Investment Advisers Rules, 1971

The Investment Companies and Investment Advisers Rules, 1971 pertain to the establishment of investment companies (closed-end mutual funds) and the rules, appointment and remuneration of investment advisors, and investment policy and public offer by the investment company.

Insurance Ordinance 2000

The Insurance Ordinance 2000 describes the provisions relating to statutory and special audit and maintenance of accounts. The Insurance Ordinance requires that where an insurer carries on a business of more than one of the classes specified in that Ordinance, separate accounts must be maintained concerning the receipts and payments in respect of each class of the insurance business e.g., fire, marine, motor, life, etc.

Modaraba Companies and Modarabas Ordinances and Rules

The Modaraba Companies and Modarabas (Flotation and Control) Ordinance 1980 (the Modaraba Ordinance) and the Modaraba Companies and Modaraba Rules, 1981 describe the features pertaining to registration of *modaraba* companies, flotation of *modarabas* and other related matters. *Modarabas* are local investments groups.

Investment Finance Companies / Investment Banks

The investment finance companies / investment banks gazette notification no. 585 (i) /87 describes the establishment and commencement of business by investment finance companies / investment banks. Unlike "investment companies" which can only invest in listed securities, investment finance companies can undertake a much wider range of activities generally carried out by merchant banks.

Foreign Exchange Regulations Act,1947

The Foreign Exchange Regulations Act, 1947 (FERA) is the main Act governing foreign exchange matters, including, foreign-controlled companies. The FERA should be read in conjunction with the Foreign Exchange Manual containing operational rules and regulations.

Central Depository Ordinance, 1997

The Central Depository Ordinance, 1997 and the Central Depository (Establishment and Regulations) rules 1996 deal with the concept and framework of the Central Depository System and provisions for establishing Central Depository Companies (CDC) where the shares are transferred to the CDCs to exercise online (electronic) trading.

Foreign Private Investment (Promotion and Protection) Act, 1976

The Foreign Private Investment Act, 1976 provides for the promotion and protection of foreign private investment in Pakistan and allied matters.

Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970

This Ordinance describes the provisions relating to situations constituting undue concentration of economic power, registration of companies falling within the definition and powers of the Monopoly Control Authority.

Contract Act 1872

The sole object of the Contract Act, 1872 is to regulate the conduct of persons who have agreed to perform for each other for their respective considerations. The Contract Act covers general principles governing all types of contracts including contracts of indemnity and guarantee, contract of bailment and pledges, contract of agency, etc.

Negotiable Instruments Act, 1932

The law relating to "negotiable instruments" is contained in the Negotiable Instruments Act, 1881.This Act does not affect the provisions of the State Bank of Pakistan Act, 1965 and every negotiable instrument will be governed by the provisions of this Act.

Sales Tax (Amendment) Act, 1990

By virtue of the Finance Ordinance, 1990 the Sale Tax Act 1951 has been completely substituted by a new Act known as the Sales Tax (Amendment) Act, 1990, in order that it will be able to meet the country's economic conditions. In accordance with this Act, taxes are imposed on sales, purchases, consumption, importation, exportation, manufacture, and production of goods.

Partnership Act, 1932

The Partnership Act, 1932 provides the definition and arrangements, mercantile view of a firm's continuity, provisions relating to voluntary registration of firms, insolvency of partners, and its effect upon the partnership.

Other Acts and Ordinances

The following Acts, Ordinances and Rules have been covered in more detail in chapter II:

- Companies Ordinance, 1984
- Securities and Exchange Ordinance, 1969
- Securities and Exchange Rules, 1971
- Securities and Exchange Commission of Pakistan Act, 1997

Appendix 4. Constitution of the Islamic Republic of Pakistan

1. Introduction

The current Constitution was first enacted in 1973 and, in order to facilitate ease of reference by the courts and others, an up-to-date and authentic version of the Constitution was published on 19 March 1985 by the Ministry of Justice and Parliamentary Affairs. This edition covered all amendments to that date including the most recent ones amended by the revival of the Constitution of 1973 Order, 1985. The Constitution was further amended in august 1988 with the issue of an order entitled "Supplement to the Constitution of the Islamic Republic of Pakistan". The Constitution is divided into 11 parts as follows:

Part I	Introductory
Part II	Fundamental Rights and Principles of Policy
Part III	The Federation of Pakistan
Part IV	Provinces
Part V	Relations between Federation and Provinces
Part VI	Finance, Property, Contracts and Suits
Part VII	The Judicature
Part VIII	Elections
Part IX	Islamic Provisions
Part X	Emergency Provisions
Part XI	Amendment of Constitution

Individual Articles contained in the Constitution will be covered in various parts of this Study as they relate to each individual topic.

2. Political Climate

Since independence was granted to Pakistan in 1947, the Republic has been ruled by a military government for approximately half of its 53 years as a republic.

The current Government is a military regime which came into power on 12 October 1999 as a result of a relatively peaceful coup which ousted the then democratically elected civilian government. On 12 May 2000 the 12-member full bench of the Supreme Court unanimously validated the army action of 12 October 1999 and all executive actions taken thereafter. A Supreme Court Order was issued as a result of the previous government's legal challenge to the 1999 coup. The Court Order has given the ruling military government three years from 12 October 1999 in which to achieve its stated objectives and to hold democratic elections three months prior to the expiration of the three years. The following clauses in the Court Order are particularly relevant:

"However, where the representatives of the people, who are responsible for running the affairs of the State are themselves accused of massive corruption and corrupt practices and in the public as well as private sectors are benefiting therefrom and resist establishing good governance; where a large number of references have been filed against the former Prime Minister, Ministers, Parliamentarians and members of the Provincial Assemblies for their disqualification on account of corruption and corrupt practices; where there is a general perception that corruption is being practised by diversified strata including politicians, parliamentarians, public officials and ordinary citizens and that a number of parliamentarians and members of the Provincial Assemblies mis-declared their assets before Election Commission and Tax Authorities; where there was no political and economic stability and bank loan defaults were rampant and that as per report of the Governor, State Bank of Pakistan PRe356 billion are payable by the bank defaulters up to 12-10-1999, having no accountability and transparency; where economic stability in Pakistan was highly precarious and there was an overall economic slowdown as GDP growth during the past three years had hardly kept pace with the growth of population; where Pakistan has a debt burden, which equals the country's entire national income; where all the institutions of the state were being systematically destroyed and the economy was in a state of collapse due to self-serving policies of the previous government, which had threatened the existence, security, economic life, financial stability and credit of Pakistan;"

and

" *we accordingly hold as under*:

On 12 October 1999 a situation arose for which the Constitution provided no solution and the intervention by the Armed Forces through an extra constitutional measure became inevitable, which is hereby validated on the basis of the doctrine of State necessity."

And

"3. All past and closed transactions, as well as such executive actions as were required for the orderly running of the State and all acts, which tended to advance or promote the good of the people, are also validated;"

and

"4. That the 1973 Constitution still remains the supreme law of the land subject to the condition that certain parts thereof have been held in abeyance on account of State necessity;"

and

"9. That the government shall accelerate the process of accountability in a coherent and transparent manner justly, fairly, equitably and in accordance with law."

3. President, Parliament, and Federal Government

Pakistan has a federal structure of Parliament which consists of the Lower House (National Assembly) and the Upper House (Senate). Members of the National Assembly are democratically elected by the citizens of Pakistan and their term of office is five years. Each Province has been allocated seats in the National Assembly on the basis of its population. The National Assembly determines the major policy issues and passes an annual budget and other legislation. The Parliament elects the Prime Minister.

The Prime Minister forms the cabinet from among the members of the National Assembly and the Senate. Provinces have their own elected legislative assemblies and Chief Ministers.

The members of the Upper House are elected by the members of national and provincial assemblies.

The President (or Head of State) is elected by both Houses and Provincial Assemblies. The President is the executive authority of the Federation.

The President appoints Governors of each Province acting on the advice of the Chief Minister.

Part III of the Constitution refers to the President, the Parliament and the Federal Government. The more relevant Articles are as follows:

- The President shall be the Head of State elected by the Members of Parliament in a joint sitting (Article 41).

- The term of the President shall be for five years up to a maximum of two terms (Article 44).
- The Prime Minister must advise the President on Cabinet decisions and all other matters as required by the President (Article 46).
- The President shall act on the advice of the Prime Minister or Cabinet Ministers (Article 48).
- The Parliament of Pakistan shall consist of the President and two Houses (National Assembly and Senate) (Article 50).
- The National Assembly shall consist of two hundred and seven Muslim members elected by direct and free vote (Article 51).
- The National Assembly shall continue for five years unless dissolved before that time (Article 52).
- The Senate shall consist of eighty-seven members, eleven of whom are specifically appointed and seventy-six are elected by the Provinces (Article 59).

Appendix 5. Revival of the Economy

On 15 December 1999, the Chief Executive declared his seven-point agenda to revive the economy of the country as follows:

1. Rebuild national confidence and morale.
2. Strengthen the Federation, remove interprovincial disharmony.
3. Revive and restore investor confidence.
4. Ensure law and order and dispense speedy justice.
5. Depoliticise state institutions.
6. Devolution of power to grassroots level.
7. Ensure swift and across the board accountability.

The Chief Executive had previously announced a strategy for the decentralization of power as follows:

- The devolution of power for the genuine empowerment of citizens.
- The decentralization of administrative authority.
- The deconcentration of professional functions.
- The diffusion of power for checks and balances to preclude autocracy.
- The distribution of resources to the provincial and lower level.

At the local level, the Chief Minister has announced plans for the establishment of Union Councils, the members of which will be elected by the people. Each Union Council's committees will act as intermediaries between the community and higher levels of government. The members of the Union Council that represent a given village will constitute the Village Council. At the next ascending tier, a District Government will be formed, consisting of the District Assembly, a directly elected Chief Mayor and Deputy Chief Mayor who will contest as joint candidates, a district administration and district police. Each Union Council will elect a Chairman who will also be that Council's representative on the District Assembly. The District Assembly will have legislative functions limited to creating new taxes, bylaws and rules, and the district budget.

The District Administration will be headed by the Chief Mayor and the operations will be administered by a District Coordination Officer. Each Administration will consist of 13 departments as follows:

- Coordination, Finance, Planning, and Budget
- Agriculture
- Public Works
- Health

- Education
- Literacy
- Commerce and Industries
- Law
- Environment
- Democratic Development
- Information Technology
- Revenue
- Magistracy

The Department of Coordination, Finance, Planning and Budget will be headed directly by the District Coordination Officer and provide staff support for the Chief Mayor and the Deputy Chief Mayor.

Appendix 6. Tax Survey

In order to attract more taxpayers into the tax net, the Government has introduced a Tax Survey. For those who participate there will be 10 percent tax placed on the newly declared assets valuation and certain amnesties will be granted from fines and penalties for previous income not declared. For those who do not participate in the tax survey and are subsequently caught and fined for tax avoidance, the penalty could be 100 to 600 percent of tax avoided. The survey is being done in three parts – Business, Owners of Properties and Tenants. Government expectations are a further sales tax revenue of PRe100 billion in the next financial year and even more for the future years.

"Guidance Centers" have been established by the Government in order to assist the people to complete questionnaire and survey forms.

The Government is encouraging less contact between tax collectors and taxpayers and is simplifying the system by introducing the following:

- Sales and income tax will be subject to self-assessment;
- Random tax audits will be carried out;
- Taxpayer has the choice to opt for the external audit and will bear half of the cost;
- Gross Profit Rates will not be basis of assessment and new General Sales Tax parameters will be introduced;
- Additional tax on outstanding liability for sales tax reduced from 5 percent compounded to 1.5 percent simple per month; and
- Further tax on sales to unregistered firms reduced from 3 percent to 1.5 percent.

Appendix 7. The Public Sector

1. Introduction

The Public Sector of Pakistan consists of a Federal Government and four Provincial Governments, Punjab, Sindh, North West Frontier, and Baluchistan, each with its own establishment of ministries and departments. There are a number of bureaus which have been recently established as part of the current government's reform process. Privatization of the banking sector is also on the government's reform agenda.

2. Federal and Provincial Governments

The Federal Government consists of the President, the Prime Minister, the National Assembly and Senate, Cabinet Secretariat and 25 Ministries. The Cabinet Secretariat includes the Cabinet Division, Establishment Division, Prime Minister's Secretariat, Atomic Energy, Public Service Commission and others. The 25 Ministries are as follows:

- Commerce
- Communication
- Culture, Sports, Tourism, and Youth Affairs
- Defense
- Education
- Environment, Local Government, and Rural
- Finance, Economic Affairs, and Statistics
- Food, Agriculture, and Livestock
- Foreign Affairs
- Health
- Housing and Works
- Industries and Investment
- Information and Media Development
- Interior
- Kashmir Affairs, Northern Areas and States, and Frontier
- Labor, Manpower, and Overseas Pakistanis
- Law, Justice, Human Rights, and Parliamentary Affairs
- Petroleum and Natural Resources
- Planning and Development
- Population Welfare

- Railways
- Religious Affairs, Zakat & Ushar, and Minorities Affairs
- Science and Technology
- Water and Power
- Women Development, Social Welfare, and Special

The four Provincial Governments have been established with a similar structure to that of the Federal Government and the number of ministries has been reduced to suit the requirements of each Province.

Appendix 8. Self Accounting and Exempt Entities

1. Self-Accounting Entities

In certain State-owned entities the Auditor-General is not responsible for the maintaining of the books of account.

Self-accounting entities are defined as any accounting entity for whom the Principal Accounting Officer has primary responsibility for the accounting and reporting functions (i.e., as opposed to the Auditor-General's office). The Auditor-General may audit the books of these entities.

Examples of self-accounting entities are:

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

2. Exempt Entities

Exempt entities are defined as those which fall outside the responsibility of the Auditor General of Pakistan for accounting and reporting purposes. These entities do not require any direct contribution of Government in the compilation and finalization of the accounts. Examples of exempt entities are:

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

Appendix 9. National Reconstruction Bureau

The National Reconstruction Bureau (NRB) was established by the Government to formulate strategies and policies on the reconstruction of government institutions. The NRB strategies and policies require the approval of the National Security Council (NSC).

The NRB is led by a Chairman and the establishment contains up to six members and a secretariat. The procedure for producing proposals for the national reconstruction is as follows:

1. Develop a list of institutions which need to be reconstructed for approval by NSC
2. Recruit advisors and develop strategic plans for each approved institution
3. Submit strategic plans to NSC for approval
4. Develop a detailed strategic plan in the form of a Proposal for National Reconstruction (PNR)
5. The PNR will be presented by the NRB to Federal Cabinet and Provincial Governors for their comments
6. The PNR will then be finalized and presented by NRB to NSC for approval
7. The approved PNR will then be issued as a directive by the Chief Executive for implementation

The NSC has approved a list of Fields of Focus as follows:

- Political Structure and System
- Government Structure and System
- Law Enforcement Structure and System
- Public Employment System
- Primary Health Care System
- Educational Structure System
- Population Welfare Structure and System
- Public Information Structure and System
- Economic Structure and System

The NRB has currently engaged professional experts to start reviewing selected fields.

Appendix 10. National Accountability Bureau

The National Accountability Bureau was established under the National Accountability Ordinance 2000. The primary function of the Bureau is to hasten the detection of corruption and to facilitate the procedure of bringing corrupt officials before the courts.

Regional Offices and National Accountability Courts have been established at provincial level and additional accountants and legal officers have been recruited to assist with this government initiative.

Appendix 11. Corporate Governance Committee

The Corporate Governance Committee was formed for the purpose of ensuring that good governance is practiced by the companies and corporations and investigate any complaints of inappropriate practices. Some of the more specific functions as directed by the Securities and Exchange Commission are as follows:

a) To investigate companies which are not declaring dividends to shareholders although reasonable profits are being achieved;

b) To formulate rules and procedures regarding company takeovers. Specific reference is being directed at “hostile” takeovers of which there has been very few in Pakistan’s commercial history;

c) To introduce stringent measures for the detection of “insider trading” and the subsequent legal procedures for prosecution of offenders.

The Committee consists of past and current Presidents of ICAP Councils and ICMA, Chairman of the Securities & Exchange Commission of Pakistan and Chairmen of three Stock Exchanges.

Appendix 12. Banking Sector

The banks are established under the Banking Companies Ordinance, 1962. The State Bank of Pakistan regulates the banking sector by issuing the prudential regulations and circulars from time to time. This delegated legislation is mandatory for all banks and development and nonbanking financial institutions. The specialized financial institutions in Pakistan include:

- Agricultural Development Bank of Pakistan
- Industrial Development Bank of Pakistan
- National Development Finance Corporation
- Regional Development Finance Corporation
- Small Business Finance Corporation
- House Building Finance Corporation
- Federal Bank for Cooperatives
- Pakistan Industrial Credit and Investment Corporation (PICIC)

Government-owned commercial banks or banks where Government is the majority shareholder are the following:

- National Bank of Pakistan
- Habib Bank Limited
- Muslim Commercial Bank
- United Bank Limited
- Bank of Punjab
- Bank of Khyber
- First Women Bank Limited

There are branches of foreign commercial and investment banks operating in the major cities of Pakistan. These include:

- Citibank
- Bank of America
- American Express Bank
- Grindlays Bank
- Bank Al Falah
- Deutsche Bank
- Societe Generale Bank
- ABN Amro

In addition, there are about 39 other scheduled commercial and investment banks listed on the stock exchange. Scheduled banks are those for which account holders are under the guarantee of the State Bank of Pakistan.

The Small and Medium Enterprise Development Authority (SMEDA) has recently been constituted to perform the preliminary project appraisal for these specialized financial institutions. Youth Investment Promotion Society (YIPS) has been merged into the Small Business Finance Corporation having similar objectives. In addition these financial institutions are operating Equity Participation Funds (EPF) to invest in the equity of the projects financed by them.

The Government is committed to privatize Government-owned financial institutions but expects a reasonable consideration which equates with the value of the net assets of similar institutions quoted on the stock exchanges. The process of privatization is taking time because of this problem.

As regards the Y2K compliance, no major problems were reported since most of the banks use manual systems. Those that utilize computerized systems are mostly branches of foreign banks or part of some multinational groups and therefore were well prepared for the transfer.

There are approximately 39 mutual funds listed on the stock exchange in addition to the National Investment Trust (NIT) which is the largest open-ended mutual fund.

There are 48 *modarabas* listed on the Karachi Stock Exchange. These institutions are approved by the religious board constituted under the Modarabas Ordinance and can perform *musharika* (participatory trading and manufacturing) and *murahaba* (participatory leasing) transactions.

There are 41 insurance companies in Pakistan in addition to the State Life Insurance Corporation that is Government-owned and very successful in life insurance business. The insurance companies are audited annually by the Controller of Insurance in addition to their statutory annual audit.

There are 33 leasing companies listed on the stock exchange.

The Government, mainly with the assistance of the World Bank, has moved ahead with significant reforms, including increasing the authority and ability of the State Bank of Pakistan and the banking courts to impose financial discipline; pursuing loan defaulters; revising financial disclosure requirements and removing credit ceilings. An important factor in the reform and development of the financial sector is the privatization of banks and other Government-owned financial institutions.

Appendix 13. Federation of Chambers of Commerce and Industries

The various Chambers of Commerce play an important role in the development of Pakistan. One such Chamber is the Rawalpindi Chamber of Commerce and Industry (RCCI).

The RCCI was established in 1952 and recognized by the Government of Pakistan in 1959. Over the years the RCCI has played an important role in the development of commercial, industrial and economic activities in its territorial jurisdiction.

The affairs of the Chamber are looked after by the Executive Committee, headed by the President, and consisting of various subcommittees which are established to formulate proposals and make recommendations. Many of the projects of RCCI relate to the business training of small and medium size businessmen in the area. This is achieved through seminars, workshops and conferences. Training courses are conducted on accounting, tax and business management. The RCCI is also involved in assisting the Government in establishing the Rawalpindi Export Processing Zone, a project which will greatly enhance the economic development of the area.

Appendix 14. The Stock Exchange

There are three stock exchanges: Islamabad, Lahore and the main exchange at Karachi.

Listed Companies on Various Stock Exchanges (End June)

Exchange	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Karachi	724	764	782	781	778	781
Lahore	564	611	635	645	631	626
Islamabad	200	243	271	283	285	284

Appendix 15. Securities and Exchange Commission Act 1997

The Securities and Exchange Commission (SEC) is constituted under the Securities and Exchange Commission of Pakistan Act, 1997 to safeguard the investors and creditors and the development of the stock exchanges. SEC is equipped with professional and independent individuals appointed as Commissioners. There are seven Commissioners and the majority are from the private sector. Under the Act, the Securities and Exchange Policy Board is constituted to give advice to the public.

The Enforcement and Monitoring Department, working under the SEC, is responsible for evaluating and making constructive criticism to improve the accounting practices adopted by the companies which are required to submit accounts to the SEC. The powers and functions of the Commission are as follows:

(a) regulating the issue of securities;
(b) regulating the business in stock exchanges and any other securities markets;
(c) supervising and monitoring the activities of any central depository and stock exchange clearing house;
(d) registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with the securities markets in any manner;
(e) proposing regulations for the registration and regulating the working of collective investment schemes, including unit trust schemes;
(f) promoting and regulating self-regulatory organizations including the securities industry and related organizations such as stock exchanges and associations of mutual funds, leasing companies and other nonbanking financial institutions;
(g) prohibiting fraudulent and unfair trade practices relating to securities markets;
(h) promoting investors' education and training of intermediaries of securities markets;
(i) conducting investigations in respect of matters related to the Act and the Ordinance and in particular for the purpose of investigation of insider trading in securities and prosecuting offenders;

(j) regulating substantial acquisition of shares and the merger and takeover of companies;
(k) calling for information and undertaking inspections, conducting inquiries and audits of the stock exchanges and intermediaries and self-regulatory organizations in the securities markets;
(l) considering and suggesting reforms of the law relating to companies and bodies corporate, securities markets, including changes in the constitution, rules and regulations of companies and bodies corporate, stock exchanges or clearing houses;
(m) encouraging the organized development of the capital market and the corporate sector in Pakistan; and
(n) conducting research in respect of any of the matters set out in this subsection.

The approval of the Commission is required by:

(a) all public companies incorporated in Pakistan which intend to issue or offer for sale securities in markets outside Pakistan or to list such securities on a stock exchange outside Pakistan, in each case, whether directly or through an intermediary;
(b) all bodies incorporated outside Pakistan which, or persons who, intend to issue or offer for sale, securities to the public in Pakistan or to list such securities on a stock exchange; and
(c) all bodies incorporated outside Pakistan which are already listed on a stock exchange, for the listing of, and quotation for, any additional securities.

The Commission's obligations under the Act are as follows:-

(a) to maintain facilities and improve the performance of companies and of securities markets, in the interest of commercial certainty, reducing business costs, and efficiency and development of the economy;
(b) to maintain the confidence of investors in the securities markets by ensuring adequate protection for such investors;
(c) to achieve uniformity in how it performs those functions and exercises those powers;
(d) to administer laws effectively but with a minimum of procedural requirements;
(e) to receive, process, and store, efficiently and quickly, the documents lodged with, and the information given to it, under this Act, the Ordinance or any other law;

(f) to ensure that the documents, and the information referred to in clause (e) are available as soon as possible for access by the public; and

(g) to take whatever action it can take, and is necessary, in order to enforce and give effect to the Act and the Ordinance or any other law.

The functions and powers of the Board, after consultation with the Commission, to advise the Federal Government on all matters relating to:

- the securities industry;
- regulation of companies and corporate sector and protection of the interests of investors;
- measures to encourage self-regulation by the stock exchanges and nonbanking financial institutions by specifying the standards for such self-regulatory organizations;
- measures to promote the development of and to regulate the securities market; and
- other related matters.

Appendix 16. Committee to Investigate Separation of Audit and Accounts

The Gazette of Pakistan, Registered No M 302, issued from Karachi on 20 April 2000, under the authority of the Department of the Auditor-General authorizes the establishment of “a Committee to consider and make recommendations on the reform process, leading to functional separation between Audit & Accounts with the following terms of reference:

- To review and examine the existing system/functions of the audit and accounts within the preview of the Auditor-General of Pakistan in line with constitutional provisions and other laws and rules including issues pertaining to his independence as a Supreme Audit Institution in line with international best practices;
- To suggest an action plan and an organizational set up for separation of Audit from Accounts in line with the Project to Improve Financial Reporting and Auditing (PIFRA);
- To examine and recommend whether as a result of separation of Audit from Accounts under PIFRA, the accounts of the provinces should be provincialized or not;
- To examine and suggest how auditing and accounting functions will be separated at District Accounts Offices level and their administrative control;
- To make recommendations regarding proposed organizational set up of accounts and audit offices, its financial implications and the role and administrative control of the officers of the Accounts Group consequent to separation;
- To suggest a timeframe and phasing of the above reforms and address all Constitutional/Legal/Regulatory/Administrative and Procedural issues; and
- To formulate recommendations for establishing adequate internal controls in the ministries and subordinate entities including authorities.”

The Committee is required to submit their report within six months of being constituted.

Appendix 17. Participants List: Workshop 5 June 2000

Name	Title	Organization
Shoaib Ansari	Accountant-General	Auditor-General – Pakistan Revenues
Shazado Sheikh	Project Director PIFRA	Auditor-General – Pakistan Revenues
Javed Ghafoor	Director Investigation	Securities and Exchange Commission
G. A. Naqvi	Director Investigation	Securities and Exchange Commission
Ali Noor M. Rattansey	Senior Partner	A. F. Fergusons
Suhail Mohammad Khan	Partner	A. F. Fergusons
Mutee-ur-Rehman Mirza	Partner	Khalid Majid Hussain Shah Rehman
Miss Bushra	Manager	Khalid Majid Hussain Shah Rehman
Shibli Islam	Partner	Sadaat Hyder Qamar Maqbool
Nauman Mahmood	Partner	Avais Hyder Zaman Rizwani
Wiqar Avais	Senior Partner	Avais Hyder Zaman Rizwani
Mukhtar H. Jaffery FCA	Member	Stock Exchange
Zahid Latif Khan	Member	Stock Exchange
Aquib Hussain	Tax Consultant	Aquib Hussain & Co.
Shahid Mohsin Sh.	Principal	College of Accountancy
Tariq Rahim Anwar	Senior Control Officer	Asian Development Bank
Tahir Ahmed Khan	Senior Accounts Controller	Asian Development Bank

Appendix 18. Participants List: Workshop 6 June 2000

Name	Title	Organization
Amjad Sultan	Senior Accountant	Stock Brokers
Javed Alam	Accounts Manager	Dancom Pakistan
Anwer Jamil	A. G. M. Accounts	Pakistan Telecommunications
Iftikhar Ahmed	Cost Accountant	Pakistan Telecommunications
Asad Aleem	Consulting Specialist	Eco. Advisory Board – Finance Ministry
Muhammad Saleem	Section Officer	AEAB Ministry of Finance
A. R. Hassan	Associate Consultant	RSM International
Asim Hussain Syed	Section Officer	Ministry of Power and Development
Ehsan Bhutta	Section Officer	Ministry of Industries and Production
M. Shehbaz	Partner	Avais Hyder Zaman Rizwani
Ghulam Mustifa	Senior Partner	Avais Hyder Zaman Rizwani
Aazim Baig	Supervising Senior	RSM International
M. Fayyaz	Senior Partner	RSM International
Tariq Rahim Anwar	Senior Control Officer	Asian Development Bank