

Educational Planning and Management in the Earthquake Affected Areas



Introduction to Financial Management



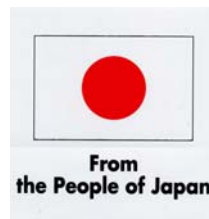
Provincial Institute of Teacher Education, NWFP

WORKBOOK

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Provincial Institute of
Teacher Education,
NWFP



United Nations
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Table of Contents

Timetable	2
Session 1: Introduction and objectives	4
Participant introductions	4
Session 2: Financial management responsibilities of district education officials	5
Session 3: Budget basics.....	7
Role of a budget	7
The budget cycle	8
The budget call letter	9
Performance based budgeting: stepping into a new era	10
Exercise: Links to first three training courses	12
Session 4: Budget basics, continued	15
Salient Features of the New Accounting Model (NAM)	15
Accounting methods	16
Explanation of Chart of Accounts Elements	18
Session 5: Estimating expenditures	21
How to estimate expenditures and complete BDC forms	21
Exercise: Budgeting for District Alpuram	32
Exercise: Budgeting for new expenditures	34
Calculating pension payments	36
Exercise: Calculating pension benefits.....	40
Session 6: Financial control	41
Internal control systems	41
Exercise: Review of internal controls.....	44
Exercise: Can internal controls be strengthened?.....	45
Session 7: PTC financial roles and responsibilities	46
Excerpts from Guide for Parents Teachers Council, 2007	46
Exercise: PTC internal control mechanisms.....	49
Exercise: Reviewing financial transactions of PTCs.....	50
Session 8: Audit	51
Audit	51
Exercise: Preparing for an audit	54
Session 9: Financial reporting and analysis.....	56
Exercise: Analysing expenditure statements.....	56
Reading: Re-appropriations and supplementary grants	58
Exercise: Re-appropriation case studies	60
Session 10: Review Exercise.....	61
Evaluation Form.....	63

Timetable

Time	Session/Activity	Key Learning Points/Objectives
DAY 1		
8:30-9:00	Registration	
9:00-10:00	Workshop Opening and Welcome	<ul style="list-style-type: none"> ▪ Opening of the workshop ▪ Welcome
10:00-10:30	Tea break	
10:30-11:30	1. Introduction and objectives	<ul style="list-style-type: none"> ▪ Workshop objectives and agenda shared ▪ Participant expectations and key issues to be discussed during workshop ▪ Participants introduced to one another ▪ Review of the project management cycle – where are the links to financial management?
11:30-13:00	2. Financial management responsibilities of district education officials	<ul style="list-style-type: none"> ▪ Review of roles and responsibilities of various levels of district education officials ▪ What differences, if any, arise due to reconstruction?
13:00-14:00	Lunch	
14:00-15:20	3. Budget basics	<ul style="list-style-type: none"> ▪ Why prepare a budget? ▪ Budget cycle ▪ Performance based budgeting
15:20-15:45	Tea break	
15:45-16:30	4. Budget basics, continued	<ul style="list-style-type: none"> ▪ Performance based budgeting, continued ▪ Major budget categories ▪ New Accounting Model ▪ Sources of funding: which potential sources exist?
16:30	Adjourn	
DAY 2		
8:30-9:00	Day 1 Review	
9:00-11:30	5. Estimating expenditures	<ul style="list-style-type: none"> ▪ Completing BDC forms ▪ Estimating expenditures for Personnel, Pensions, and other expenditures
10:30-11:00	Tea break	
11:30-13:00	6. Financial controls	<ul style="list-style-type: none"> ▪ What are internal controls? ▪ What is the role of district officials in making sure that financial transactions are properly recorded and assets safeguarded? ▪ How can education officials set up appropriate internal control mechanisms in their districts?
13:00-14:00	Lunch	
14:00-15:15	7. PTC financial roles and responsibilities	<ul style="list-style-type: none"> ▪ What records must PTCs keep? ▪ What internal control mechanisms are established via the PTC Guidelines? ▪ What is the role of district officials in monitoring the financial records of PTCs?
15:15-15:45	Tea break	
15:45-16:30	8. Audit	<ul style="list-style-type: none"> ▪ Who is responsible? ▪ Preparing for an audit
16:30	Adjourn	

DAY 3		
8:30-9:00	Workshop review	
9:00-10:30	9. Financial reporting and analysis	<ul style="list-style-type: none"> ▪ Analysing periodic statements of expenditure ▪ Monitoring budget utilisation ▪ Benefits of timely reporting ▪ Re-appropriation and supplementary grants
10:30-11:00	Tea break	
11:00-13:00	10. Review exercise	<ul style="list-style-type: none"> ▪ Practice using proper internal control procedures to make financial transactions ▪ Practice preparing Expenditure Statements ▪ “Audit” transactions prepared by another team
13:00-14:00	Lunch	
14:00-15:15	11. Workshop evaluation and closing	<ul style="list-style-type: none"> ▪ Review of participants’ initial objectives ▪ Completion of workshop evaluations ▪ Workshop closing ▪ Workshop certificates
	Adjourn	

Session 1: Introduction and objectives

Objectives

By the end of this session you will be able to:

- Identify other people in the course
 - Describe the course objectives
 - Identify the links to financial management in the project management cycle
-

This workshop is the fourth in a series of planning and management workshops for senior educational managers in the earthquake-affected districts of AJK and NWFP. The goal of the workshop is to contribute to the overall goal of “build back better” and to provide an opportunity for senior managers to discuss their roles and responsibilities with regard to the financial management of their districts. The workshop will provide senior managers with the knowledge and skills to prepare district education budgets and to monitor the utilisation of these budgets to ensure that educational resources are used for their planned purposes in order to improve the quality of education in the districts. The specific workshop objectives include understanding:

- The financial roles and responsibilities of district education staff
- The importance of and how to establish effective financial controls
- How to prepare and analyze budgets
- How to analyze financial reports
- The role of financial audits in ensuring accountability and transparency

Participant introductions

On a slip of paper, write the following:

- What specific financial responsibilities do you have as part of your work?

- Something interesting about yourself or something that identifies you but **not** your name, title or district.

After you find your partner, interview him/her so that you can introduce him/her to the group. Find out the following:

- His/her name, title and district

- His/her chief objective/expectation for this Financial Management workshop?

Session 2: Financial management responsibilities of district education officials

Objectives

By the end of this session you will have:

- Clarified the financial management responsibilities of different levels of district education officials
 - Identified areas where district managers need to improve their skills and understanding
-

Instructions:

1. In your district group, write on a card the title of each education official in your district who has financial responsibilities (one title per card).
2. Tape the cards to a flipchart.
3. Next to each card, write the specific financial activities for which each position is responsible.
4. Finally, for each position (or financial responsibility) rate the financial skills of the people in your district as follows:

1 = unsatisfactory does not understand what is expected and is not able to do the work	2 = below average makes many mistakes and does not fully understand what is required	3 = average has a basic concept of what is required and is usually able to perform most of the tasks, although with some errors	4 = good understands most of the financial responsibilities, and makes few errors	5 = excellent needs no additional help or training with these skills
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Space for your notes

Roles and Responsibilities per Budget Rules, February 17, 2003

The Head of Offices (DCO, Naib Zila Nazim, EDOs) is responsible for:

- (i) all matters relating to the budget for the offices under his administrative control;
- (ii) ensuring strict financial control;
- (iii) ensuring observance of all relevant financial rules and regulations both by his own office and by sub-ordinate disbursing offices;
- (iv) ensuring that the total expenditure is kept within the limits of authorized appropriation;
- (v) ensuring that the funds allotted are spent on the activities for which the money was provided;
- (vi) explaining any instance of excess or financial irregularity that may be brought to notice as a result of audit scrutiny or otherwise;
- (vii) ensuring that adequate provisions exist for systematic internal checks to prevent and detect errors and irregularities in the financial proceedings of his subordinate offices;
- (viii) ensuring that the internal controls are effectively applied;
- (ix) guarding against waste and loss of public money;
- (x) ensuring that satisfactory arrangements exist for systematic and proper maintenance of office accounts and other ancillary records;
- (xi) ensuring that the auditors are afforded all reasonable facilities in the discharge of their functions and furnished with the fullest possible information for which they may ask;
- (xii) ensuring that no such information or any books or other documents to which the Auditor General of Pakistan has a statutory right of access may be withheld; and
- (xiii) coordination with the Finance and Budget Officer.

The functions of the Drawing and Disbursing Officer are:

- (i) preparation of the estimates of expenditure for the offices under his/her jurisdiction;
- (ii) incurring of expenditure as per rules;
- (iii) coordination with the concerned higher level officials; and
- (iv) monitoring his/her budget.

Session 3: Budget basics

Objectives

By the end of this session you will be able to:

- Describe the budget cycle and identify key dates in the budget calendar
 - Describe the importance of the budget call letter and its functions
 - Define performance based budgeting
-

Budget

A statement of the estimated receipts and expenditures of the local government for a financial year.

Role of a budget¹

1	Policy Making i.e. identifying how to allocate resources between major outputs in terms of services and infrastructure and in determining what the Council can achieve.	It is a financial plan for keeping the local government solvent by ensuring that required expenditure is covered by sufficient revenue and/or reserves. It establishes Service Priorities for the local government.
2	Legal i.e. giving authority to the local government personnel to collect and spend money and to prescribe exactly how that may be spent.	It determines, within the law, the levels of taxation, fees and charges to be collected during the forthcoming year. It provides the legal authorisation for expenditure during the budget period.
3	Management i.e. allocating resources to particular services and functions to obtain inputs (personnel, equipment, buildings etc) required to achieve outputs (road maintenance, waste disposal, water supply)	Allocates resources among different activities and determines levels and directions of work to be undertaken during the budget period. It provides comprehensive information on the Financial Position and plans of the local government (historic, current and projected)

¹ Source: *Training in Local Government Budget Rules, 2003*, produced by the Decentralization Support Program.

The budget cycle²

Budget cycle starts with the issuance of call letter by Finance and Budget Officer on 1st September each year. This letter is finalized in consultation with relevant stakeholders which include councils, elected representatives, general public, women's organization, private sector, CCBs, District Mushavirat Committee, NGOs, CBOs, and other organizations.

The letter includes

- date-wise budget calendar;
 - instructions for preparing the budget;
 - forms to be used in the preparation of the budget; and
 - budget guidelines
1. On receipt of budget call letter, the Collecting Officers (COs) review the Revenue Base, prepare estimates of receipts expected to be collected in the ensuing year. These estimates are submitted to EDO (F&P) / TO(F).
 2. Similarly the DDOs prepare estimates of expenditures which are also submitted to EDO(F&P) / TO(F). The date for submission of estimate of receipts and expenditure to EDO (F&P) / TO(F) is 1st March.
 3. Simultaneous to estimation of receipts and expenditure, CCBs submit their schemes and prioritized list of development schemes by different offices is also submitted for inclusion in ADP.
 4. Also in the month of March, the statement of excesses and surrenders, revised estimate and supplementary budget is finalized.
 5. In the same month, the Statement of New Expenditure is finalized and the draft budget for the next year is finalized by Budget and Development Committee
 6. The draft budget prepared on receipt of estimates of transfers from provincial government is submitted to the Council on 1st of April.
 7. The proposals for current and development expenditure and receipts approved by the council are sent to provincial government for its input. Similarly the input of general public on these proposals is obtained. This process is completed in one month i.e. from 1st May to 1st June.
 8. Based on the input received from provincial government and general public, necessary amendments/revisions are made in the draft budget by the Budget and Development Committee in May and June.
 9. Final budget is submitted to the council on the basis of final estimates of transfer from the provincial government in June.
 10. The budget is discussed in the council and approved.
 11. On approval of budget, the current budget grants are communicated to the concerned offices and the accounts offices.
 12. The release of current budget to offices starts. Development releases are also made.

² Source: *Training in Local Government Budget Rules, 2003*, produced by the Decentralization Support Program.

The budget call letter³

- Legal requirement as per Budget Rules 2003
- Provides a common vision, direction and macro perspective
- Specifies timing of events in planning and budgeting process
- Defines where inputs are required from whom to enable the budget desk to compile the Local Government Budget Framework
- Provides information required by stakeholders to enable them to prepare their inputs

Functions of a Call Letter

- Informs departments of the timing of key events in the planning and budgeting process and deadlines for submission of inputs to the process
- Informs the stakeholders of any new elements in the budgeting process
- Gives indicative sector ceilings and indicative planning figures on the basis of resource projections, draft recurrent and development transfer budgets
- Provides minimum sector recurrent and development grant allocations to departments
- Provides the percentage flexibility, cuts and cost savings as indicated in the policy

Space for your notes

³ Source: *Training in Local Government Budget Rules, 2003*, produced by the Decentralization Support Program.

Performance based budgeting: stepping into a new era⁴

1. NWFP is a resource stricken Province. The Province has the highest number of people living below poverty line (about 44%) and the lowest per capita spending in the public sector. Literacy rate is already quite low and being further lowered with explosion in population, the highest in the country (about 2.8%). Employment opportunities are negligible and 86% of the population is dependent on remittances. The Province is not getting its constitutional share from the Federal Government, specially the royalty on the hydel power generation in the Province. The banks' credit is lowest in the Province (4% of the total lending). There is no special package for the province as compared to other Provinces. The Federal PSDP spending are the lowest in the Province. On the other hand the province is the front-line Province, exposed to extreme terrorism and continuously bearing the heavy burden of the Afghan Refugees.
2. In the above backdrop the meager resources available for the operational expenses of the public sector service delivery network are confronted with conventional non-responsiveness of the working culture. The network is deteriorating on the one hand and the performance of the individuals/institutions is degrading on the other. Many factors are responsible for the situation including political instability, lack of capacity, lack of accountability, lack of resources etc. Multi dimensional efforts are being made for improving the situation. Performance Based Budgeting is one of the same.
3. The present system of budgeting and budgetary control is input driven, concerned mainly with establishing financial limits for expenditure. It does not take into account how well the expenditure has been utilized in delivering the services. The performance of public sector institutions is deteriorating and the institutions becoming non-responsive in service delivery. By focusing on outputs, Performance Based Budgeting (PBB) enables budgets to be set in way, which will reflect more accurately the policies, objectives and priorities and provide a mean of measuring the extent to which these are achieved. Economy, efficiency, effectiveness and accountability are the hallmarks of the new system. It is a paradigm shift in the financial sphere of the Province and would bring change in the working culture, leading to improved service delivery and good governance.
4. The Provincial Government has assigned highest priority to the consolidation of the existing public sector service delivery network, specially, social sector, under the Provincial Reforms Programme. Major share of the Provincial current budget, goes to education (34%) and health (8%) sectors during 2006-07. Focus is social sector specially, gender sensitive primary education and preventive and primary health care. The system will also improve the performance of population planning department, by bringing the performance of the service delivery outlets into limelight.
5. Performance based budgeting is a step towards change in the financial system. It means, "Transforming the budgetary appropriations into targets, performance measures and standards." The objective is to ensure effective accountability; foster greater devolution, which should be efficient; transparent & cost effective. The new system is bringing efficiency, economy, effectiveness, accountability and transparency. Information is being made available about fast, slow and slower segments and corrective measures taken accordingly. A system of rewards & punishment is being introduced and an environment of healthy competition is being promoted.

⁴ Source: <http://www.nwfpfinance.gov.pk/PBB.php>

6. The role of performance based budgeting has increased with the devolution of Power to Local Governments. Districts have started making their own budget with grants flowing from province to districts. Formulating budget in a way such as to prioritize scarce resources towards desired outputs is a challenging task. Performance Based Budget offers opportunities to assist districts in producing budgets that are output driven rather than input driven. This introduces the culture of linking expenditure to performance and lead to poverty reduction and improved governance as embedded into the approaches of the new system.

In NWFP, PBB has been piloted in Peshawar, Kohat, Abbottabad and Bannu in the Departments of Agriculture, Education and Health. In education, 70 schools in each district are part of the pilot program (20 male primary, 20 female primary, 10 male middle, 10 female middle, 5 male high schools and 5 female high schools).

Example from Abbottabad

VISION
Provision of accessible, equitable and affordable quality education to each individual of NWFP.
GOALS
To increase literacy level To improve the quality of education To reduce dropouts To improve character building
OBJECTIVES
Increase enrolment through incentives to attend school Reduce dropout rate through improved school environment Improved quality of education through improved teachers' attendance Provide co-curricular activities to improve character building
PERFORMANCE IMPROVEMENT ACTION PLAN 2007-08
Provide incentives (books, etc.) for children to attend school Improve school environment through better management and positive approach Provide budget for co-curricular activities (PTC, games, debates) Provide online performance reporting facility Empower school based management (PTCs)

Indicators for each school (depends on level of school)

- Total number of students attending
- Number of students in Class 1, 2, 3, ... 10
- Number of students dropped out in Class 1, 2, 3, ... 10
- Number of students achieving A Grade in Class 1, 2, 3, ... 10
- Number of students achieving B Grade in Class 1, 2, 3, ... 10
- Number of students achieving C Grade in Class 1, 2, 3, ... 10
- Number of classrooms
- Number of teachers
- Percentage attendance of teachers
- Number of sports events
- Number of debating sessions
- Number of PTC meetings

Exercise: Links to first three training courses

Review the contents from the first three senior managers' training courses (these are reproduced on the pages that follow) and discuss in your groups how what you learned during the first three courses relates to the concept of performance based budgeting.

Appoint a member of your group to give a summary of your group's discussion to the plenary. You have 15 minutes for your discussion.

Module 1: Introduction to Education Project Planning and Management

Session/Activity	Key Learning Points/Themes
Introduction to education project cycle management	<ul style="list-style-type: none"> ▪ Steps in the project cycle ▪ Contextual analysis: effects of the earthquake on education in the affected districts
Using SWOT analysis	<ul style="list-style-type: none"> ▪ Introduction to the SWOT analysis tool ▪ Identification of educational problems in the earthquake-affected areas that can be analysed using SWOT ▪ Identification of strategies based on the SWOT analysis
The Learning System	<ul style="list-style-type: none"> ▪ The various components of the learning system and how they are inter-related ▪ The relationship between the learner, the teaching/learning system, the education sectors and the environment ▪ The link between values and rights and the learning system
Practical steps in ensuring a rights-based approach	<ul style="list-style-type: none"> ▪ Evaluate educational actions within the context of a rights-based approach ▪ Why a rights-based approach is particularly important in disaster/ emergency situations
Dimensions of educational quality	<ul style="list-style-type: none"> ▪ Discussion of the various components of quality education ▪ How certain inputs or processes affect educational quality ▪ Outline of priority responses to achieving educational quality
Introduction to Logical Framework Approach	<ul style="list-style-type: none"> ▪ Introduction to the Logical Framework Approach ▪ Objectives ▪ Results and activities ▪ Verifiable indicators and means of verification ▪ Assumptions and preconditions ▪ Use in project proposals
Problem tree analysis	<ul style="list-style-type: none"> ▪ Creating a problem tree ▪ Identification of potential projects
Objective trees	<ul style="list-style-type: none"> ▪ Development of objective tree for identified problem
Setting SMART objectives	<ul style="list-style-type: none"> ▪ Define and practice developing SMART objectives

Module 2: Management of Recovery and Reconstruction

Session/Activity	Key Learning Points/Themes
Situation Analysis	<ul style="list-style-type: none"> ▪ Situation analysis: access, retention, quality
Vision Statement	<ul style="list-style-type: none"> ▪ Introduction to and preparation of vision statements
Identification of Priority Responses	<ul style="list-style-type: none"> ▪ Identification of priority responses to achieve the Vision
SMART Objectives	<ul style="list-style-type: none"> ▪ Preparation of SMART objectives for priority responses
Objective Trees and Planning to Achieve the Vision	<ul style="list-style-type: none"> ▪ Preparation of objective trees based on SMART objectives
An Activity Timeline	<ul style="list-style-type: none"> ▪ Planning activities according to a timeline
Developing Indicators	<ul style="list-style-type: none"> ▪ Identifying verifiable indicators ▪ Establishing the means of verification for the indicators
Working Together	<ul style="list-style-type: none"> ▪ Working together to solve a problem
Introduction to Disaster Management	<ul style="list-style-type: none"> ▪ Introduction to disaster management terminology ▪ Identification of hazards, vulnerabilities and capacities
Disaster Preparedness Planning	<ul style="list-style-type: none"> ▪ Identification of disaster preparedness activities ▪ Who is responsible?
Working with Communities	<ul style="list-style-type: none"> ▪ Role of PTAs/SMCs in reconstruction
Role of District Managers in Reconstruction	<ul style="list-style-type: none"> ▪ Influencing other stakeholders
Overview of NESPAK Procedures	<ul style="list-style-type: none"> ▪ NESPAK presentation
Action Planning	<ul style="list-style-type: none"> ▪ Preparation of district (organization) action plans

Module 3: Monitoring and Evaluation

Session/Activity	Key Learning Points/Objectives
Why Monitor and Evaluate?	<ul style="list-style-type: none"> ▪ What is it? ▪ Why do we bother? ▪ Review of the project management cycle
What should we monitor?	<ul style="list-style-type: none"> ▪ Review of roles and responsibilities of various levels of district education managers
Components of a monitoring system	<ul style="list-style-type: none"> ▪ Selection of indicators ▪ Collection of data concerning the indicators ▪ Data analysis ▪ Reporting/presentation of information ▪ Using the information to improve the work
Review of key educational indicators	<ul style="list-style-type: none"> ▪ Enrollment ratios ▪ Completion and transition rates
Analysis of indicators	<ul style="list-style-type: none"> ▪ Analysis of scenarios ▪ What are your recommendations based on your analysis? ▪ What steps should be taken?
Creative problem solving	<ul style="list-style-type: none"> ▪ Finding multiple creative solutions to a problem
Developing a monitoring plan	<ul style="list-style-type: none"> ▪ Specifying indicators, responsibilities and frequency of monitoring
Effective supervision	<ul style="list-style-type: none"> ▪ Which qualities need reinforcing? ▪ Practice active listening
Giving feedback	<ul style="list-style-type: none"> ▪ How to give (and receive) feedback ▪ Using feedback to improve performance
Writing a monitoring report	<ul style="list-style-type: none"> ▪ Outline of a monitoring report ▪ Using a monitoring report as a management tool
What is the role of the community?	<ul style="list-style-type: none"> ▪ What is the community's role in monitoring educational quality? ▪ How can district officials increase community involvement? ▪ How can district officials monitor community involvement?
Evaluating educational projects	<ul style="list-style-type: none"> ▪ What type of evaluation (external or internal)? ▪ Who conducts the evaluation? ▪ What to evaluate? ▪ Evaluation tools ▪ Issues of causality and bias

Session 4: Budget basics, continued

Objectives

By the end of this session you will be able to:

- Explain how what you have learned in the first three courses applies to performance based budgeting
 - Describe the features of the New Accounting Model
-

Salient Features of the New Accounting Model (NAM)⁵

Accounting:

- Modified Cash Basis of Accounting.
- Double Entry Book Keeping.
- Commitment Accounting.
- Fixed Assets Accounting.
- Assets Register.
- New Chart of Accounts.

Reporting:

- Timely, Accurate, Relevant and Reliable Financial Reports.
- Consolidated monthly and quarterly accounts.
- Monthly and Fortnightly Cash Forecasting Reports.
- Trend Analysis Reports.
- Appropriation Accounts.
- Annual Finance Account.
- Combined Finance and Rev. Account.
- Investment Reports.
- Public Debt Profile.
- Report on Public Account.
- Report on Net Proceeds of Divisible Pool.

Budget Monitoring:

- Development Expenditure.
- Capital/Revenue Receipt.
- Tax/Non Tax Receipts.
- External/Domestic Borrowings.
- Program/Project Monitoring.

⁵ Source: <http://www.pifra.gov.pk/1/nam.html>

Accounting methods⁶

5.3.2 Cash Accounting

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

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

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

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

5.3.3 Modified Cash Accounting

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

- commitments
- fixed assets
- financial assets and liabilities.

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

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

5.3.4 Accrual Accounting

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

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

5.3.4.3 Similarly, in accrual accounting, revenues are recognised when it is probable that future benefits will be realised and the amount can be reliably measured. For example,

⁶ Source: *Handbook of Accounting Guidelines* available from the Auditor General of Pakistan at <http://www.pifra.gov.pk/1/nam.html>

demand notices issued can constitute revenue, but might not be collected until a future reporting period.

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

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

	Cash Accounting	Modified Cash	Accrual Accounting
Accountability requirements	to control cash against budget	to record certain assets and liabilities, to control cash and commitments against budget	to record all assets and liabilities, to measure financial performance through changes in net assets,
Recording of: - receipts - payments - assets - liabilities - expenses - revenues	Yes Yes No No No No	Yes Yes Yes Yes No No	Yes Yes Yes Yes Yes Yes
Financial reporting requirements	statement of receipts and payments	statement of receipts and payments, statement of assets and liabilities cash flow statement	operating statement balance sheet cash flow statement

5.4 Features of modified cash accounting

5.4.1 Commitments

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

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

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

5.4.1.4 Commitments can be shown in financial reports in more than one way; they can be added to cash expenditure or shown separately. To avoid complication, expenditure should

be reported in the main body of the accounts on a cash basis, and then adjusted for outstanding commitments at the end of the reporting period, after the overall cash position has been shown in the main body of the report.

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

5.4.2 Fixed Assets

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

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

5.4.2.3 Given the importance of asset management, all GoP entities that cost, location, date of purchase and category. Asset data falling outside the financial requirements may also be recorded by interested parties.

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

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

Explanation of Chart of Accounts Elements⁷

In NAM transactions will be classified according to a chart of accounts. The chart of accounts contains five elements. These are as follows:

- Entity
- Object
- Fund
- Function
- Project

Entity

Entity elements enable reporting of transactions by the organizational structure or in other words the organizational unit which is generating a transaction. The use of the entity element is mandatory for all accounting transactions.

⁷ Source: *Training in Local Government Budget Rules 2003*, produced by the Decentralization Support Program.

There are a number of sub-elements to capture information at more detailed levels. These are government, division, district and DDO.

Government represents the highest level at which entity information can be aggregated. Each government is represented by a single alpha character.

Division/Department: This is a sub-set of government and will reflect the ministerial departmental organizational responsibilities. Each division/department is represented by two numeric characters.

District represents the District Accounting Office.

Drawing and Disbursing Officer (DDO) is the lowest organizational level at which budgetary control occurs and organization information is collected and report on. It is an example of a cost centre. Each DDO is identified by four numeric characters.

Entity element structure – example

Entity	F	Federal Government
Division/Department	27	Education
District	ID	Islamabad
DDO	6666	Drawing and Disbursing Officer

Object element

Accounting element: The element is a single alpha character and defines the accounting element to which a transaction will be classified. Examples of accounting elements are:

- A0000 Expenditure
- B0000 Tax receipts
- C0000 Non tax receipts

Account number: The account number is five numeric characters. This sub element defines the detailed natural accounts to which a transaction will be classified, e.g. salaries.

The account number contains a further internal structure. This structure is shown as below:

- Major object
- Minor object
- Detailed object

Object element structure – example

Accounting element	A	Expenditure
Major object	A01	Employee related expenditure
Minor object	A011	Basic pay
Detailed object	A01101	Basic pay (officers)

Space for your notes

Session 5: Estimating expenditures

Objectives

By the end of this session you will be able to:

- Estimate current and new expenditures
 - Complete BDC forms 2-8
 - Calculate gross and net pensions and the commuted value of pensions
-

How to estimate expenditures and complete BDC forms⁸

Part A: Expenditure Estimation

Expenditure estimation begins with an examination of the existing expenditure base as the starting point of estimation. Budget officers will need to develop a rapid understanding of the existing base in order to estimate current and forthcoming expenditure.

Expenditure Base

Most Government budgeting, central or local, tends to be on an incremental basis. This is where existing costs are accepted as a base to which amounts are added for:

- Inflation
- Expansion in demand
- Identified service improvements

Q. What is the problem with this?

A: It accepts the historic costs of a service as a given and does not examine such questions as:

- Is the service provided by the expenditure allocated still justified in terms of service outputs or priority?
- Is the service being performed efficiently and economically?
- Is the service fairly distributed amongst its consumers/ local citizens? (geographic inequality in service provision is very common in local government especially in urban TMA areas in connection with infrastructure and environmental services)

Although it is not practical to construct a completely new expenditure base for each service in each budget year (zero based), nevertheless the existing expenditure base should not be accepted without question. This means that as part of good expenditure estimation involves asking questions about the existing expenditure base (see Budget Rules Part V on Estimates of Expenditure) which will generally refer to this requirement.

⁸ Source: *Training in Local Government Budget Rules 2003* prepared by the Decentralization Support Program.

Simple Analysis of Expenditure Base

In order to develop some understanding of the existing base it is usual to apply a simple form of unit costing to a given service or function. This would typically involve examining the expenditure per unit of service/ expenditure per capita where such data can be relatively easily found and applied.

- Rs per x cubic metre of water supply
- Rs per ton of refuse collected/ lifted
- Rs per kilometre of road maintained
- Rs per school pupil
- Rs per acre of park maintained

Once obtained this data can then be compared with:

1. Common standards (national or provincial standards) if they exist
2. Different geographic areas within the same service function
3. Different local governments of comparable size and scale
4. Historic data on service delivery (past to present)
5. Accepted levels of good practice

Note that some services may not be reducible to units of provision as outputs may not be quantifiable or sufficiently uniform in delivery. In such cases comparison over time or between local governments is still a reasonable proxy.

These comparisons do not prove anything in themselves but may help to identify:

1. Ideas on how efficiencies could be introduced (by examining the characteristics of lower cost service methods that could be more widely adopted).
2. Whether or not the service is aligned with needs by examining if higher cost services in some parts of the local government correspond to actual needs.
3. Whether rising costs correspond to improvement in quality or efficiency.

At the same time this exercise would help to establish performance targets and measures in line with the budget policy.

The findings to the above question on the prevailing costs and expenditures in different service areas can now be reflected in Forms BSF 1-3 which should indicate policies and proposed activities and service delivery proposed targets.

Routine Increases in Expenditure

Once the expenditure base has been determined a number of potential increases have to be examined.

1. Known or anticipated increase in the salary/ allowances of central/ provincial public employees and/ or any corresponding increases for local government employees. This is rarely more than 30% and may be on average around 15%.
2. Routine annual increment of employees. These vary from [Rs 75] per annum (Grade 1) to [Rs 1,655 (Grade 22)]. The BDC Form will indicate the designation of all employees so that it is relatively easy to budget for the respective increments applying to different grades.

3. Consumable/ durable goods that will be purchased in the forthcoming year in the light of new priorities as per call letter and budget policy (to be reflected in BSF Forms and BDC 8 Justification) and estimates of routine purchasable goods as per historic need.
4. Inflationary impact on:
 - Repair and maintenance of durable goods
 - Transportation including TA and POL charges
 - Communication (post and telecom) & utilities
 - Stationery and printing
 - Publicity and events (workshops)

Whilst the CSR (Composite Schedule of Rates) is applied to all Development budget estimation (irrespective of its accuracy e.g. 2003-04 the CSR was revised twice due to inability to predict actual prices changes in building materials) for current expenditure it is the task of the Drawing and Disbursing Officer to apply a rate. In the absence of a better technique, rates may be obtained by the Budget and Finance Officer and reflected in the Call Letter from a general prevailing rate of inflation/ consumer price index or analysis of specific commodity prices in areas such as wages, construction, fuel, general supplies etc. In certain cases it may be common for local governments to apply a general provision for inflation but this could be a problem.

Q: Why?

A: Because there is a danger that this, could be inflationary

5. Previous Years Liabilities: need to be factored into the forthcoming budget. The techniques for estimating this will be an examination of actual expenditure incurred but not yet paid. This data should be recorded in the respective register i.e. "Outstanding Bills Not Paid". Liabilities to private parties will generally be known given pressure from those parties in following up payments. Be careful not to omit the liabilities to government employees.
6. Charged Expenditure: in any grant there may be a charged expenditure component that should not be omitted e.g. a court decree to refund a contractor. Generally this should be kept in a register of liabilities but in practice these will most likely be already known by the Department Head.
7. Conditional Grants: these are certain expenditure given by Provincial or Central government for a particular purpose or earmarked expenditure. These need to be included in the estimation process.
8. Performance Incentive Bonus: some provision should be made for the application of a performance incentive bonus as per the Budget Rules. Ideally guidelines should be developed in the Budget Policy and Call Letter.

Increases in Scope of Expenditure

This relates to 2 key issues:

1. The first concerns the expenditure implications of the development budget arising from:
 - the completion of past projects in the concerned service area
 - anticipated current expenditure increases arising from planned new activities in the development budget.

These will normally relate to operations and maintenance activities and should be carefully budgeted to ensure adequate project sustainability.

2. The second concerns any expenditure implications arising from identified or desired 'improvements' in existing service provision or service levels such as:
 - increased effectiveness of services through greater levels of output (service coverage, service volume, frequency)
 - increased quality of services (higher standards, greater responsiveness, higher levels of accountability)

Such changes may be more difficult to predict (especially under item 2 above) but should, nevertheless, be considered in each budget year.

Part B: How to complete BDC (Budget Detail Current Expenditure) forms

BDC-2 Establishment Strength by Function DDO-wise

This table is the starting point for the compilation of the expenditure estimates based on the establishment costs of a department. The table shows the number of filled and vacant posts by designation and by gender breakdown (ie Male and Female).

This table provides the basis for calculating the estimates of establishment charges by indicating the total number of staff and their designation and grade upon which is based the calculation of salary and related allowances.

The table also shows the gender breakdown of the sanctioned and filled posts which allows a comparison and analysis of any variance.

Column 1 is a simple serial no

Column 2 is the Basic Pay Scale of the respective grade of officer/ staff

Column 3 is the designation which indicates the function they should be performing

Columns 4-18 provides a breakdown of male/ female and total according to:

- Sanctioned strength (ie approved as per finance dept notification)
- Filled (those actually in post)
- Vacant (sanctioned vacant posts)
- Recruitment planned
- Total (to include filled and planned)

FORM BDC-2
ESTABLISHMENT STRENGTH BY FUNCTION
 [See Rules 19, 28, 57 and 59]

Name of Local Government: _____ Grant No. _____ Detailed Function Code: _____

Sr. #	BPS	Designation	Sanctioned				Filled			Vacant			Recruitment Planned for Next Year			Total Establishment (Filled + Recruitment)		
			M	F	Male or Female	Total	M	F	Total	M	F	Total	M	F	Total			

Note: To be prepared by each DDO and consolidated by function and grant.

F = Female and M = Male.

BDC- 3 Establishment Budget by Function and Designation – DDO-wise

This form provides for the compilation of the establishment budget drawing information on establishment strength from the base Form BDC-2 already discussed. This will be done by:

Transferring information from BDC-2 into the first 6 columns of BDC-3 to include:

Column 1 = serial no as per BDC-2

Column 2 = designation of post as per BDC-2

Column 3 = basic pay scale to be applied to each post as given in BDC-2

Columns 4/5/6 = breakdown of Male/ Female/ Total as per total columns in BDC-2 (ie for all filled & planned posts)

Column 7 = establishment charges or the salary to be drawn (based on basic pay scale maximum, minimum and average levels to be applied in each case)

Column 8 = Leave salary or additional salary provision of temporary posts to cover any staff that will avail of long leave in the forthcoming budget year

Column 9 = Allowances as determined based on basic pay scale

Column 10 = Pension provision in those cases where employees' pensions are the responsibility of the local (as opposed to provincial) government

Column 11 = Total establishment budget

FORM BDC-3
ESTABLISHMENT BUDGET BY FUNCTION AND DESIGNATION
[See Rules 19, 28, 57 and 59]

Sr. #	Designation	BPS	Strength/# of Posts			Establishment Charges	Leave Salary	Allowances	Pension	Total
			Male	Female	Total					

BDC- 4 Establishment Strength by Function

This table provides for the Total Establishment Budget broken down by the Establishment Strength by Sanctioned, Filled, Vacant and Planned posts with gender breakdown in each case.

To fill the table simply aggregate the data in BDC-2 and add the Total Establishment Budget as per last column of BDC-3

FORM BDC-4
ESTABLISHMENT STRENGTH BY DESIGNATION
[See Rules 19, 28, 57 and 59]

Name of local government _____

Sr. #	BPS	Designation	Sanctioned			Filled			Vacant			Recruitment for Next Year			Total Establishment (Filled + Recruitment)			Total establishment (Rs.)	
			M	F	Total	M	F	Total	M	F	Total	M	F	Total	M	F	Total		

BDC- 5 Establishment Strength by Function

This table provides a consolidation of Form BDC-3 Establishment Budget by Function and Designation for the local government as a whole (rather than the Department as in Form BDC-3). Again the budget is calculated on the basis of:

- Establishment Charges
- Leave Salary
- Allowances
- Total Budget

FORM BDC-5
ESTABLISHMENT BUDGET BY DESIGNATION
[See Rules 19, 28, 57 and 59]

Name of local government _____

Sr. #	Designation	BPS	Strength/# of Posts			Establishment Charges	Leave Salary	Allowances	Pension	Rupees
			Male	Female	Total					Total

BDC- 7 DDO Wise Budget Distribution

This form provides a summary of last year actuals, current estimates, original and revised, and budget estimates for next year. Next year demand is broken down into Charged and Voted and further divided into Existing and New.

- “Charged” means such items of expenditure as are specified in the Ordinance, which are not subject to vote of the Council
- “Voted” means expenditure that is submitted to the vote of the Council
- New = new expenditure as per BDC-6 (new) relating to new inputs rather than routine increments in existing inputs.

FORM BDC-7
DRAWING & DISBURSING OFFICERS WISE BUDGET DISTRIBUTION
[See Rule 19, 28, 57 and 59]

Name of Local Government _____

Grant No. _____

Detailed Function Code	Name of Office	DDO Name & Code	Last Year Actuals	Revised Budget (Current Year)	Revised Budget (Current Budget)	Total Budget (Next Year)								
						Charged			Voted			Total		
						Existing	New	Total	Existing	New	Total	Existing	New	Total
Total														

BDC- 8 Justification and Explanation for Budget Estimates

This form should indicate a justification for all expenditure items by detailed budget head focusing on main changes increases and decreases.

FORM BDC-8
 JUSTIFICATION / EXPLANATION FOR BUDGET ESTIMATES
 (FOR EXPENDITURES)
 [See Rules 21, 28, 57 and 59]

Name of Local Government _____ Detailed Function Code _____ Grant # _____

Sr. #	Detailed Object Head	Justification / Explanation For Estimates

Note: This form to be used for providing explanation of estimates of expenditures.
 To be filled by each DDO and consolidated by Head of Offices.

Exercise: Budgeting for District Alpuram⁹

The Alpuram District Budget Call Letter has reflected a strong interest in Education. Particular priorities include an expansion in primary and elementary education for girls. This will require careful attention to the following aspects regarding the preparation of the estimates including adequate provision for certain routine increments as well as an expansion in the scope of the expenditure. The EDO Education has undertaken a simple cost analysis of the expenditure base for primary education in terms of Rs per capita. This analysis has revealed that the cost of primary schools per capita is much lower in Dagpur than elsewhere in the district in spite of similar teacher pupil ratios. A rapid investigation of Dagpur primary school efficiency has shown that operational costs are lower due to greater involvement of parents in Parent Teacher Committees resulting in more cost effective procurement practices regarding maintenance and supplies. Consequently, other tehsils are being encouraged to establish similar Parent Teacher Committee practices. It is hoped that this will result in a 15% reduction in expenses associated with both the purchase and repair of durable goods and works during the next fiscal year.

District officers will have to travel to numerous Tehsil schools to support and monitor this process, perhaps making as many as 25% more visits during the next year. For other items, the DAO is asking EDOs to budget based on the following average increases:

- Salaries and allowances 10% increase
- Telephone and trunk calls 15% increase
- Electricity 15% increase
- All other operating expenses 5% increase

Complete the BDC-6 shown on the next page.

⁹ Adapted from an exercise contained in *Training in Local Government Budget Rules 2003*, produced by the Decentralization Support Program.

Alpuram District Education Department: Estimates of Demand for Grant
FORM – BDC-6
ESTIMATES OF DEMAND FOR GRANTS (CURRENT EXPENDITURE)
(FY 2008-09)

Name of Local Government:

District Government Alpuram

1		2	3	4	5	6
Major/ Minor/ Detailed Object & Description		Actuals of the last year	Budget estimates for current year	Actual of first 8 months of current year	Revised estimate of the current year	Budget Estimates proposed for next year
A01101	Pay of Officers	6,056,000	6,619,000	4,412,700	6,619,000	
A01151	Pay of Staff	49,446,000	52,324,900	34,883,267	52,324,900	
Total pay		55,502,000	58,943,900	39,295,967	58,943,900	
Total regular allowances		7,932,600	8,814,000	5,876,000	8,100,000	
Total other allowances		101,700	113,000	75,333	92,000	
Total Estab. Charges		63,536,300	67,870,900	45,247,300	67,135,900	
Operating expenses						
A03201	Postage	10,000	25,000	12,900	17,000	
A03202	Telephone and Trunk Calls	210,000	227,000	159,000	289,000	
A03303	Electricity	180,000	290,000	197,000	290,000	
A03805	Travelling allowance	185,000	380,000	240,000	430,000	
A03807	POL charges staff cars, motorcycles etc	320,000	583,000	365,901	660,000	
A03901	Office Stationery	1,390,000	1,694,000	1,129,000	1,694,000	
A03902	Printing and Publication	623,000	824,000	320,000	824,000	
A03905	Newspapers, P/Books	7,200	12,000	4,000	8,000	
A03906	Uniform and Liveries	55,000	118,000	62,980	118,000	
A03917	Law Charges	36,000	50,000	35,000	68,000	
A03970	Others	49,000	67,000	57,000	72,000	
Total operating expenses		3,065,200	4,270,000	2,582,781	4,470,000	
Purchase of durable goods						
A09701	Furniture and Fixtures	320,000	693,000	788,200	480,000	
Repair and maintenance						
A13001	Transport	75,000	180,000	105,000	144,000	
A13201	Furniture and Fixtures	103,000	160,000	50,000	90,000	
A13301	Buildings	91,000	185,000	120,000	120,000	
Total repair and maintenance		269,000	525,000	275,000	354,000	
Total EDO Education District Alpuram		67,190,500	73,358,900	48,893,281	72,439,900	

Exercise: Budgeting for new expenditures

The construction of 5 new schools in District Alpuram will be completed by the end of this year and begin operating at the start of the next school year. (These are all new schools that need to be established.) Prepare a budget estimate for these new schools, considering the necessary expenditures for staff and durable goods. Further information on these new schools is as follows:

- One GPS, estimated attendance next year of 90
- Two GGPS, estimated attendance next year of 75 in each school
- One GMS, estimated attendance next year of 65. Attendance is estimated to increase by 15% each year since the District's objectives include increasing the number of children completing primary school by 50% over the next 3 years.
- One GGMS, estimated attendance next year of 60, estimated to increase by 20% each year
- One GGHS, estimated attendance next year of 125, estimated to increase by 15% each year.

Prepare a costed budget that shows your requirements for the next fiscal year. The government revised pay scale is included on the next page as a reference. Be prepared to explain your budget request. (This information is necessary to complete Form BDC 8.)

Revised Government Pay Scale, 2007

BP	B.Pay	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
1	2475	2550	2625	2700	2775	2850	2925	3000	3075	3150	3225	3300	3375	3450	3525	3600	3675	3750	3825	3900	3975	4050	4125	4200	4275	4350	4425	4500	4575	4650	4725
2	2530	2615	2700	2785	2870	2955	3040	3125	3210	3295	3380	3465	3550	3635	3720	3805	3890	3975	4060	4145	4230	4315	4400	4485	4570	4655	4740	4825	4910	4995	5080
3	2615	2715	2815	2915	3015	3115	3215	3315	3415	3515	3615	3715	3815	3915	4015	4115	4215	4315	4415	4515	4615	4715	4815	4915	5015	5115	5215	5315	5415	5515	5615
4	2700	2815	2930	3045	3160	3275	3390	3505	3620	3735	3850	3965	4080	4195	4310	4425	4540	4655	4770	4885	5000	5115	5230	5345	5460	5575	5690	5805	5920	6035	6150
5	2780	2915	3050	3185	3320	3455	3590	3725	3860	3995	4130	4265	4400	4535	4670	4805	4940	5075	5210	5345	5480	5615	5750	5885	6020	6155	6290	6425	6560	6695	6830
6	2860	3005	3150	3295	3440	3585	3730	3875	4020	4165	4310	4455	4600	4745	4890	5035	5180	5325	5470	5615	5760	5905	6050	6195	6340	6485	6630	6775	6920	7065	7210
7	2940	3100	3260	3420	3580	3740	3900	4060	4220	4380	4540	4700	4860	5020	5180	5340	5500	5660	5820	5980	6140	6300	6460	6620	6780	6940	7100	7260	7420	7580	7740
8	3055	3230	3405	3580	3755	3930	4105	4280	4455	4630	4805	4980	5155	5330	5505	5680	5855	6030	6205	6380	6555	6730	6905	7080	7255	7430	7605	7780	7955	8130	8305
9	3185	3375	3565	3755	3945	4135	4325	4515	4705	4895	5085	5275	5465	5655	5845	6035	6225	6415	6605	6795	6985	7175	7365	7555	7745	7935	8125	8315	8505	8695	8885
10	3295	3510	3725	3940	4155	4370	4585	4800	5015	5230	5445	5660	5875	6090	6305	6520	6735	6950	7165	7380	7595	7810	8025	8240	8455	8670	8885	9100	9315	9530	9745
11	3430	3660	3890	4120	4350	4580	4810	5040	5270	5500	5730	5960	6190	6420	6650	6880	7110	7340	7570	7800	8030	8260	8490	8720	8950	9180	9410	9640	9870	10100	10330
12	3630	3890	4150	4410	4670	4930	5190	5450	5710	5970	6230	6490	6750	7010	7270	7530	7790	8050	8310	8570	8830	9090	9350	9610	9870	10130	10390	10650	10910	11170	11430
13	3870	4155	4440	4725	5010	5295	5580	5865	6150	6435	6720	7005	7290	7575	7860	8145	8430	8715	9000	9285	9570	9855	10140	10425	10710	10995	11280	11565	11850	12135	12420
14	4100	4415	4730	5045	5360	5675	5990	6305	6620	6935	7250	7565	7880	8195	8510	8825	9140	9455	9770	10085	10400	10715	11030	11345	11660	11975	12290	12605	12920	13235	13550
15	4350	4700	5050	5400	5750	6100	6450	6800	7150	7500	7850	8200	8550	8900	9250	9600	9950	10300	10650	11000	11350	11700	12050	12400	12750	13100	13450	13800	14150	14500	14850
16	5050	5440	5830	6220	6610	7000	7390	7780	8170	8560	8950	9340	9730	10120	10510	10900	11290	11680	12070	12460	12850	13240	13630	14020	14410	14800	15190	15580	15970	16360	16750
17	8210	8825	9440	10055	10670	11285	11900	12515	13130	13745	14360	14975	15590	16205	16820	17435	18050	18665	19280	19895	20510										
18	10760	11535	12310	13085	13860	14635	15410	16185	16960	17735	18510	19285	20060	20835	21610	22385	23160	23935	24710	25485	26260										
19	16400	17210	18020	18830	19640	20450	21260	22070	22880	23690	24500	25310	26120	26930	27740	28550	29360	30170	30980	31790	32600										
20	19455	20715	21975	23235	24495	25755	27015	28275	29535	30795	32055	33315	34575	35835	37095																
21	21565	22980	24395	25810	27225	28640	30055	31470	32885	34300	35715	37130	38545	39960	41375																
22	23065	24720	26375	28030	29685	31340	32995	34650	36305	37960	39615	41270	42925	44580	46235																

Calculating pension payments

SECTION OF (4) CALCULATION OF PENSION/GRATUITY¹⁰

Length of total qualifying serviceyears
Emoluments/Average Emoluments	Rs.....
Amount of gratuity (in case where qualifying Service is 5 years or more but less than 10 years	Rs.....
Amount of gratuity on discharges from temporary Service where qualifying service is 10 years or more but Less than 25 years	Rs.....

Please see relevant rules/orders refer filling in this section.

Gross Pension [<i>see below</i>]	Rs.....
Benefit of extra service beyond 30 years	Rs.....
Total Pension	Rs.....
Less 1/4 th (in case of family pension for death while in service)	Rs.....
OR	
Less commuted portion of Pension [<i>see below</i>]	Rs.....
Net Pension	Rs.....

SECTION (6) COMMUTED VALUE OF PENSION

(i) Amount of pension to be commuted	Rs.....
(ii) Age next birth day years
(iii) Rate of commuted value for every one rupee (on age next birth day basis)	Rs.....
(iv) Commuted value of pension	Rs.....

¹⁰ Source: The West Pakistan Civil Services Pension Rules, Reprint- Corrected up to 28-02-2006, Chapter 10.

Supplementary notes on pension calculations

To calculate the **gross pension**, refer to the Revised Pension Table on the next page. The gross pension is calculated as:

Last pay (or average of pay for the last 12 months) x the value from the column “Scale of pension expressed as fraction of average emoluments” based on the applicant’s qualifying years of service.

The **commuted portion** of pension is 35% of the gross pension.

The **net pension** is the gross pension minus the commuted portion of the pension.

The **commuted value** of the pension is calculated as:

The amount to be commuted (35% of the gross pension)
X The value in the column “No. of years purchased” associated with the applicant’s age on his/her next birthday (see page 33)
X 12

Example

Mr. Mohammad Asif Khan has worked for the government for 27 years (uninterrupted service) and is retiring on his 60th birthday. His current pay is Rs. 10,085 per month. His pension is calculated as follows:

Gross Pension [10,085 x 189/300]	Rs...6,354
Benefit of extra service beyond 30 years	Rs...nil
Total Pension	Rs...6,354
Less 1/4 th (in case of family pension for death while in service)	Rs...
OR	
Less commuted portion of Pension [6,354 x 35%]	Rs...2,224
Net Pension	Rs...4,130

SECTION (6) COMMUTED VALUE OF PENSION

(i) Amount of pension to be commuted	Rs...2,224
(ii) Age next birth day60 years
(iii) Rate of commuted value for every one rupee (on age next birth day basis)	Rs...12.3719
(iv) Commuted value of pension [2,224 x 12.3719 x 12]	Rs...330,181

REVISED PENSION TABLE.

Completed years of qualifying service	Scale of pension expressed as fraction of average emoluments
10	70/300
11	77/300
12	84/300
13	91/300
14	98/300
15	105/300
16	112/300
17	119/300
18	126/300
19	133/300
20	140/300
21	147/300
22	154/300
23	161/300
24	168/300
25	175/300
26	182/300
27	189/300
28	196/300
29	203/300
30 and above	210/300

** Commutation Table further revised w.e.f 1-12-2001.

NEW COMMUTATION TABLE

<u>Age next Birthday.</u>	<u>No. of Years Purchased.</u>	<u>Age next Birthday.</u>	<u>No. of Years Purchased.</u>
20	40.5043	51	17.6526
21	39.7341	52	17.0050
22	38.9653	53	16.3710
23	38.1974	54	15.7517
24	37.4307	55	15.1478
25	36.6651	56	14.5602
26	35.9006	57	13.9888
27	35.1372	58	13.4340
28	34.3750	59	12.8953
29	33.6143	60	12.3719
30	32.8071	61	11.8632
31	32.0974	62	11.3684
32	31.3412	63	10.8872
33	30.5869	64	10.4191
34	29.8343	65	9.9639
35	29.0841	66	9.5214
36	28.3362	67	9.0914
37	27.5908	68	8.6742
38	26.8482	69	8.2697
39	26.1009	70	7.8778
40	25.3728	71	7.4983
41	24.6406	72	7.1314
42	23.9126	73	6.7766
43	23.1840	74	6.4342
44	22.4713	75	6.1039
45	21.7592	76	5.7858
46	21.0538	77	5.4797
47	20.3555	78	5.1854
48	19.6653	79	4.9030
49	18.9841	80	4.6321
50	18.3129		

Note: Applicable w.e.f 1.12.2001.

Annexure-II To Finance Department's Letter No.FD(PRC)1-1/2001 Dated the October 27, 2001.

Exercise: Calculating pension benefits

Calculate the pension costs for the following officials.

Mr. Ahmad ud-Din has been in government service for 26 years and is retiring on his 60th birthday this year. His current pay is Rs. 23,935. Calculate the following:

Gross pension:

Net pension:

Commuted value of pension (at 35%):

Mrs. Nasira Amir has been in government service for 27 years and is retiring at the age of 58 this year. Her current pay is Rs. 12,460. Calculate the following:

Gross pension:

Net pension:

Commuted value of pension (at 35%):

Mr. Basharat Ali has been in government service for 29 years and is retiring at the end of this year at age 55. His current pay is Rs. 6,140. Calculate the following:

Gross pension:

Net pension:

Commuted value of pension (at 35%):

Session 6: Financial control

Objectives

By the end of this session you will be able to:

- Describe what is meant by the term “internal control”
 - Describe the internal control mechanisms in place in your district
 - Take steps to strengthen internal control mechanisms in your district
-

Internal control systems

Internal controls: A term used to describe the system of checks, reports and procedures that are enforced in an accounting system to protect against fraud and to ensure complete and accurate financial information is produced (source: Government of Pakistan, *Accounting Policies and Procedures Manual*).

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

- well defined authorities and delegated authorities
- clear financial instructions
- developed processing systems, either manual or computerised
- verification of each officer’s work by another officer
- adequate segregation of duties (ie. a person performing one task cannot perform another, because of the potential for fraud or misappropriation)
- rotation of officers in key control positions, and the taking of leave
- complete and up to date bank reconciliation
- use of control accounts
- reporting to management of breaches from, and weaknesses in, the control system (source: Government of Pakistan, *Handbook of Accounting Guidelines*, February 1999).

Principles of financial control¹¹

The two main principles observed in any financial control system are economy and regularity. Economy means getting full value for money and regularity means the spending of money for the purpose and in the manner prescribed by law. The general and specific instructions for the control of finances of the Federal Government are contained in the General Financial Rules, Volumes I and II. However, the principles on which emphasis is essentially laid are:

- i. that expenditure is incurred with due regard to high standards of financial propriety
- ii. that funds allotted to Ministry or a Division, its attached Department or subordinate offices, are spent for the purpose for which they are allocated
- iii. that funds are spent in accordance with relevant rules and regulations
- iv. that the actual expenditure does not exceed the budgeted allocation

¹¹ Source: *Financial Management* module, prepared by Academy of Educational Planning and Management, 2007).

- v. that the expenditure is not prima facie more than the occasion demands and that every Government servant exercises the same vigilance in respect of expenditure incurred from public funds as an expenditure of his/her own money
- vi. that no authority exercises its powers of sanctioning expenditure or to pass an order which will be directly or indirectly to its own advantage
- vii. that public money is not utilized for the benefit of a particular person or section of the community unless:
 - a. the amount of expenditure involved is insignificant
 - b. the claim for the amount can be enforced in a court of law
 - c. the expenditure is in pursuance of a recognized policy or custom
- viii. that the amount of allowance (such as traveling allowance) granted to meet expenditure of a particular type is so regulated that the allowances are not, on the whole, a source of profit to the recipient

Key internal controls¹²

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

- a sequentially numbered purchase order shall be raised by each DDO for all contingent expenditures to be incurred
- all claim vouchers (bills) shall be approved by a delegated officer within the department/entity
- all claim vouchers (bills) shall be certified by a certifying officer and authorised for payment by an authorised officer in the District Accounts or the Accountant General office
- the cheque signing officers shall be independent of officers involved in voucher certification, voucher authorisation and cheque preparation
- all cheques shall be made out only to the claimant as indicated on the claim voucher (bill)
- all cheques shall be sent by registered post or other secure means to the payee
- the daily totals as per Daily Advice Note (DAN), (prepared from the Cheque Register) must be reconciled with the daily expenditures recorded in the Sub Ledger/Abstract
- a regular bank reconciliation must be performed (see Chapter 6)
- periodical financial reports must be produced and monitored by a delegated authority (see Chapter 7)
- accounting records of expenditure in the DAO/AG/AGPR must be reconciled with each DDO on a monthly basis.

The following key internal controls must be observed in processing of **payroll**.

- employees shall be paid by direct credit into their bank account regardless of their grade level and may apply to be paid through the cheque system
- employees below grade V may elect to be paid in cash. In this case, payment shall be made in cash through the relevant DDO. See Section 4.6.13 "Payment in cash to employee below grade V.

The following key internal controls must be observed in processing of **contractor/work payments**.

- all bills shall be signed by the contractor
- all cheques shall be signed by the Executive Engineer and another delegated officer
- all cheques to contractors and Daily Advice Note to banks shall be sent by a delegated officer (on behalf of the Executive Engineer)

¹² Source: Government of Pakistan, *Accounting Policies and Procedures Manual*.

- bank returns from the banks shall be received by the Divisional Account Officer (on behalf of the Executive Engineer)

The processing of **receipts** must comply with the directions laid out in previous sections of this chapter and observe the following internal controls:

- all monies received for the Government must be receipted
- the officers receiving money must be different to officers raising demands and bills for payment
- the officers receiving money and recording the receipt in the accounting records must be different
- accounting records of receipts must be reconciled to the tax authority receipt records on a regular basis by a delegated authority, independently of the officer recording the transaction
- a regular bank reconciliation must be performed (see Chapter 6)
- monthly financial reports must be produced and monitored by a delegated authority (see Chapter 7).

The following key internal controls must be observed in the **bank reconciliation processes**:

- there shall be a one-to-one relationship between the DAO/AG/AGPR and a designated branch of either SBP or NBP referred to as the Main Designated Branch
- all receipt vouchers shall be sequentially numbered by the bank
- the DAO/AG/AGPR shall check the bank scroll with the payment advice note on a daily basis
- the DAO shall prepare a monthly reconciliation statement for receipts and expenditures
- the Accountant General shall prepare a consolidated monthly reconciliation statement for each government bank account.

Exercise: Review of internal controls

Which assets do you have responsibility for in your districts?	What specific internal control procedures are in place to ensure these assets are safeguarded and used properly?

Exercise: Can internal controls be strengthened?

Consider the list of assets for which you are responsible, are there any areas where the internal controls are weak and need to be strengthened? What new procedures might you put in place?

Session 7: PTC financial roles and responsibilities

Objectives

By the end of this session you will be able to:

- Describe the financial responsibilities of PTCs as established in the 2007 PTC Guidelines
- Identify the internal control mechanisms inherent in the Guidelines
- Monitor financial transactions of PTCs to ensure necessary internal controls are in place and procedures are followed

Excerpts from Guide for Parents Teachers Council, 2007

b) Financial responsibilities.

- | | | | |
|--|---|--|---|
| <p>1) Every Council shall open and maintain a bank account which will be jointly operated by the Chairman/Chairperson and Secretary of the Council.</p> | <p>(۱) ہر کونسل ایک مشترکہ بینک اکاؤنٹ کھولے گی، جس کے دستخط کنندگان چیئرمین/چیئر پرسن اور سیکرٹری ہوں گے۔</p> | <p>5) PTC shall monitor the civil/other works executed through the said PTC funds.</p> | <p>(۵) ان قوم سے شروع کئے گئے کاموں کی نگرانی متعلقہ سکول کے پی ٹی سی ممبران ہی کریں گے۔</p> |
| <p>2) All funds provided by the government and all donations shall be deposited in the said account.</p> | <p>(۲) اس اکاؤنٹ میں تمام عطیات اور حکومت سے ملنے والے فنڈز رکھے جائیں گے۔</p> | <p>6) PTC shall maintain complete record of income and expenditure and shall submit copies thereof to the EDO concerned at the closure of the financial year.</p> | <p>(۶) پی ٹی سی آمدنی اور اخراجات کا حساب رکھے گی اور ان حسابات کی نقول مالی سال کے اختتام پر EDO کے دفتر میں جمع کروائی جائیں گی۔</p> |
| <p>3) Utilize the funds at the discretion of the PTC on individual need basis, according to the priorities set by the PTC. In this regard there shall be no bar of purchasing any particular item.</p> | <p>(۳) کونسل کو چاہیے کہ گئے قوم کو سکول کی انفرادی ضروریات کے مطابق خرچ کیا جائے گا۔ اس سلسلے میں کسی خاص شے کی خریداری کی شرط عائد نہیں ہوگی۔</p> | <p>7) The PTC funds shall not be lapsable and could be utilized during the succeeding financial year.</p> | <p>(۷) پی ٹی سی کے فنڈز Lapse نہیں ہونگے اور آئندہ مالی سال کے دوران استعمال کئے جاسکتے ہیں۔</p> |
| <p>4) PTC shall undertake minor civil works and repairs itself.</p> | <p>(۴) پی ٹی سی مرمت اور دیگر ترقیاتی کام (Civil Work) بھی خود ہی کرے گی۔</p> | <p>8) All the decisions related to general and specially financial matters shall be taken with majority vote.</p> | <p>(۸) اخراجات اور دیگر امور سے متعلق تمام فیصلے پی ٹی سی اکثریتی رائے سے کرے گی۔</p> |
| <p>9) PTC shall have the authority to utilize the funds on petty repairs, minor civil works, payment of utility bills, repair of bathrooms/latrines, white wash, purchase of tats/furniture, classroom consumables, laboratory equipment and consumables, gardening etc: and other requirements as determined by the PTC.</p> | <p>(۹) پی ٹی سی مرمت اور دیگر ترقیاتی کام (Civil Work) بھی خود ہی کرے گی۔</p> | <p>9) Signatures of both Chairman/Chairperson and Secretary shall be mandatory for the withdrawal and utilization of the PTC funds.</p> | <p>(۹) فنڈز کو خرچ کرنے کے لئے چیئرمین/چیئر پرسن اور سیکرٹری دونوں کے دستخط لازمی ہونگے۔</p> |
| <p>10) PTC shall have the authority to utilize the funds on petty repairs, minor civil works, payment of utility bills, repair of bathrooms/latrines, white wash, purchase of tats/furniture, classroom consumables, laboratory equipment and consumables, gardening etc: and other requirements as determined by the PTC.</p> | <p>(۱۰) کونسل کو یہ اختیار حاصل ہوگا کہ وہ فنڈز کو معمولی مرمت، چھوٹی نوعیت کے تعمیراتی کام، یوٹیلیٹی بلوں کی ادائیگی، عمارت کی سفیدی، ہاتھ روم/لٹرین کی مرمت، ٹاٹ/فرنیچر کی خریداری، کمرہ جماعت میں استعمال ہونے والی اشیاء، لیبارٹریوں کے آلات، کلاس روم میں استعمال ہونے والے اشیاء، باغبانی اور اسی طرح کے دیگر اشیاء اور ضروریات جس کو کونسل مناسب سمجھے پر خرچ کر سکے گی۔</p> | <p>10) PTC shall have the authority to utilize the funds on petty repairs, minor civil works, payment of utility bills, repair of bathrooms/latrines, white wash, purchase of tats/furniture, classroom consumables, laboratory equipment and consumables, gardening etc: and other requirements as determined by the PTC.</p> | <p>(۱۰) کونسل کو یہ اختیار حاصل ہوگا کہ وہ فنڈز کو معمولی مرمت، چھوٹی نوعیت کے تعمیراتی کام، یوٹیلیٹی بلوں کی ادائیگی، عمارت کی سفیدی، ہاتھ روم/لٹرین کی مرمت، ٹاٹ/فرنیچر کی خریداری، کمرہ جماعت میں استعمال ہونے والی اشیاء، لیبارٹریوں کے آلات، کلاس روم میں استعمال ہونے والے اشیاء، باغبانی اور اسی طرح کے دیگر اشیاء اور ضروریات جس کو کونسل مناسب سمجھے پر خرچ کر سکے گی۔</p> |

5) Responsibilities of the Chairman/Chairperson

The Chairman/Chairperson will ensure that:-

- 1) To preside all meetings him/herself
- 2) To give due attention to the views of all members and develop consensus on their suggestions.
- 3) To provide opportunity to all members to express their view point.
- 4) Open bank account for the Council in the nearest bank.
- 5) Work as co-signatory with the Secretary to run the financial business with mutual understanding and maintain record of the transactions.
- 6) Carry out all business with mutual understanding & consensus.
- 7) In case of emergency allow withdrawal of money from the bank account in writing. However approval must be sought in the subsequent meeting of the PTC.

**(5) عہدہ داران کی ذمہ داریاں:-
(الف) چیئرمین/چیئر پرسن**

چیئرمین/چیئر پرسن اس بات کو یقینی بنائے گا/گی کہ:-

- 1) ہر میٹنگ کی صدارت خود کرے۔
- 2) ہر ممبر کی رائے سنی جائے اور ان کو تجاویز پر باہمی اتفاق رائے پیدا کیا جائے۔
- 3) بحث میں ہر فرد کو شامل کیا جائے اور ہر فرد کو بولنے کا موقع فراہم کیا جائے۔
- 4) قریبی قریبی بینک میں کھلوا دیا جائے۔
- 5) چیئرمین/چیئر پرسن اور سیکرٹری (co-signatory) کے طور پر مل جل کر مالیاتی بین دین کا حساب رکھیں۔
- 6) تمام کام کوشس کے باہمی مشورے اور اتفاق رائے سے کرائے جائیں۔
- 7) ہنگامی صورت میں بینک سے رقم نکالنے کی تحریری اجازت دیں اور بعد میں اس کی توثیق کونسل کے اجلاس میں کرانی جائے۔

Responsibilities of the Secretary

The Secretary of the Council shall ensure that:-

- 1) Approval has been sought from the council before withdrawal of money from the bank.
- 2) Record of bills, vouchers and other documents has been kept in safe custody
- 3) All such documents have been signed by the Chairman/ Chairperson and the Secretary.
- 4) The income and expenditure statement has been presented in the PTC meeting and signatures of all the Members have been obtained thereon.
- 5) Detail of income and expenditure has been shared with all the PTC members at least on quarterly basis.
- 6) Minutes of the meeting have been recorded in a register, on the day of meeting and have been endorsed in the succeeding meeting. The minutes have been duly signed by all the members.

سیکرٹری کی ذمہ داریاں

سیکرٹری/سکرٹری برائہ ادارہ اس بات کو یقینی بنائے گا/گی کہ:-

- 1) بینک سے رقم نکالنے سے پہلے کونسل کی میٹنگ میں اس کی اجازت حاصل کر لی گئی ہے۔
- 2) آمدن اور اخراجات کی رسیدوں، بلوں اور دیگر کاغذات کا حساب کتاب اور دیگر ذمہ داریاں محفوظ رکھا گیا ہے۔
- 3) رسیدات پر چیئرمین/چیئر پرسن اور سیکرٹری کے دستخط کرائے گئے ہیں۔
- 4) آمدن اور اخراجات کا گوشوارہ اپنی اپنی کمیٹی کے اجلاس میں جانچی پڑتال سے لئے پیش کیا گیا ہے۔ اور اس پر تمام ممبران کے دستخط کرائے گئے ہیں۔
- 5) آمدن اور اخراجات کی تفصیل تمام ممبران میں از کم ایک بار تمام ممبران کو بتائی گئی ہے۔
- 6) ہر میٹنگ کی کارروائی اس دن لکھوائی گئی ہے اور اگلے میٹنگ میں مذمت میٹنگ کی کارروائی کی توثیق تمام ممبران سے کروائی گئی ہے اور دستخط کارروائی میں ممبران سے دستخط لے لئے گئے ہیں۔

Financial Reforms in respect of PTC:-

(8) مالیاتی اصلاحات بابت پی ٹی سی :-

- 1) The expenditure incurred through PTC has been exempted from Audit, however, in order to ensure transparency in the expenditure process, Third Party Validation audit system is being introduced. (۱) پی ٹی سی کے ذریعے اخراجات کو آڈٹ سے مستثنیٰ قرار دیا گیا ہے۔ البتہ اخراجات کے عمل کو شفاف بنانے کے لئے تھرڈ پارٹی آڈٹ کا نظام متعارف کرایا جا رہا ہے۔
- 2) PTC has been empowered to utilize the funds on its discretion on need basis without any bar of spending on any particular item. (۲) پی ٹی سی کو یہ اختیار دیا گیا ہے کہ وہ اپنی مرضی اور ضرورت کے مطابق اخراجات کر سکے۔ اور اس صورت میں کسی خاص شے کی خریداری کی کوئی قید لگائیں ہوگی۔
- 3) PTC shall have the powers to incur expenditure upto Rs. 200,000/- (Rupees two hundred thousands). (۳) پی ٹی سی کو دو لاکھ روپے تک غیر ترقیاتی مد میں خرچ کرنے کا اختیار ہوگا۔
- 4) The Financial Procedure issued by the Finance Department vide letter No.BOV/FD/3-10/2006-07 dated 9th June, 2007 shall be part of this Guide. (۴) پی ٹی سی کو مالیاتی اختیارات دینے کے حوالے سے منجملہ خزانہ کا جاری کردہ مالیاتی طریقہ کار (Financial Procedure) زیر نمبر No.BOV/FD/3-10/2006-07 مورخہ 9 جون 2007 اس گائیڈ کا حصہ تصور ہوگا۔
- 5) Any other Orders issued by the Govt: from time to time shall become part of this Guide. (۵) دیگر احکامات جو اس کے بعد وقتاً فوقتاً جاری کئے جائیں گے اس گائیڈ کا حصہ تصور ہوں گے۔
- 6) PTC has been authorized to spend Rs. 250,000/- on addition of class rooms, provision of Boundary walls, Group Latrine and electrification in schools. (۶) پی ٹی سی کو ترقیاتی مد میں اضافی کمروں کی تعمیر، چار دیواری، گروپ لیٹرین، واٹر سپلائی اور بجلی کی فراہمی کے لئے 250,000/- روپے خرچ کرنے کا اختیار حاصل ہے۔

Session 8: Audit

Objectives

By the end of this session you will be able to:

- Prepare more effectively for an audit
-

Audit¹³

1. To achieve parliamentary accountability in democratic countries, the legislature constitutes a standing committee on public accounts to oversee the implementation of Government policies and programs with the help of the audit institutions.

The Auditor General has a vital role in helping the legislature and the executive to ensure that public money is spent properly and to assure the taxpayers that they get value for money. The constitution of the Islamic Republic of Pakistan has conferred extensive powers on the Auditor General, to enable him to discharge his functions unhindered.

2. The Auditor General of Pakistan, in pursuance of the provision of the constitution of the Islamic Republic of Pakistan, 1973, article 11 (audit and accounts) order, executive orders and charters/ordinances/acts of parliament establishing various authorities and public sector corporations carries out the audit of:
 - i. All expenditures from the revenues of the federation and of the provinces and to ascertain whether money shown in the accounts as having been disbursed, were legally available for and applicable to the service or purpose, to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.
 - ii. All transactions of the federation and of the provinces relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business
 - iii. All trading, manufacturing, profit and loss accounts, and balance sheets kept by order of the President or of the Governor of a province in any department of the Federal Government or of a province
 - iv. The accounts of any authority or body established by the federation or a province and in each case to report to the president or as the case may be to the Governor on the expenditure transactions or accounts so audited by him.
 - v. The receipts of any department of Federal Government or as the case may be of the province.
 - vi. The accounts of stores and stock kept in the office or department of the Federal Government, or as the case may be, of the province.
 - vii. The revenue receipts of sea customs, land customs, federal excise, sales tax, income tax, etc.
 - viii. To study and analyze the conditions of state enterprises, according to the recognized business standards of performance.
 - ix. Performance audit of Government projects and programs

¹³ Source: *Financial Management* module, Academy of Educational Planning and Management, 2007.

- x. The accounts of the authorities, organizations and public sector corporations, in pursuance of the provisions of charters/ordinances and acts of parliament, establishing these organizations
3. The audit of the receipts and payments, as mentioned above, is conducted in the manner given below:
- A. Pre-audit
 - i. Payments are made after pre-audit. Pre-audit refers to the checks exercised by accountancy before making payment. Pre-audit is basically an accounting function. Therefore, statutory audit is carried out for all those transactions, which may have been checked in pre-audit.
 - ii. The Auditor General's department has organized its pre-audit functions at two levels: Central Audit and Local Audit Inspection.
 - B. Central audit

Central audit is post-audit function, which is carried out in the offices of Director General or Directors of Audit on an on-going basis. Usually, the accounts are test checked. A special type of post-audit is also known as concurrent as and when they take place.
 - C. Local audit inspection

Local audit inspection is carried out at the premises of the auditee. The Drawing and Disbursing Officers come across the auditors for most of the time.
 - D. Performance auditing

The Auditor General's department has started since 1981, performance audit of development projects. The performance audit ends up with a performance audit report which highlights strengths and weaknesses of the project. Most of the time, the performance auditors deal with project's executive staff.
 - E. Performance evaluation

Since 1978, the Auditor General's department has started performance evaluation of public enterprises as well. The evaluation is carried out in the general framework of economy, efficiency and effectiveness.
4. During the audit of accounts, the auditor verifies that the financial rules and orders satisfy the provisions of law and are properly applied. The criticism is restricted to the financial criticism of accounts. Audit also ensures economy in the expenditure from public funds and confines itself to calling upon the administration to furnish necessary information and does not approach the private individuals for the purpose. The results of the audit are embodied in reports called audit reports.

Preparing for government audit

The government audit starts with a letter from the Director General of Audit intimating the proposed dates of audit and the names of the auditors.

Documents and records often asked for by the auditors

<ul style="list-style-type: none">▪ Cash book▪ Log book▪ File on previous audit visit, remarks or observations (if any)▪ Acquaintance roles registers on the above items▪ Service books of staff▪ Attendance register of the establishment▪ Contingent bills▪ Contingent expenditure register▪ Contingent vouchers▪ File on quotations▪ Cuttings from newspapers on tenders or suppliers▪ Dead stock register	<ul style="list-style-type: none">▪ Service/laboratory or other special registers▪ Service stamp register▪ Dispatch register Daily collection book▪ Budget file▪ Expenditure statement file▪ Receipt statement file▪ Accounts register▪ Library allowances file/library stock register▪ Security bond▪ File of typewriters/duplicators▪ Telephone trunk call register▪ Pass book of the bank or post office▪ Stationery register▪ Order book, etc.
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Space for your notes

Session 9: Financial reporting and analysis

Objectives

By the end of this session you will be able to:

- Analyze expenditure statements and suggest follow-up actions
 - Describe what is meant by re-appropriation and supplementary grants
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Exercise: Analysing expenditure statements

Instructions: Review the expenditure statement for District Zaripur on the next page.

1. What questions do you have about the expenditures in District Zaripur?

2. What follow-up actions will you take based upon your review of the expenditure statement?

Office of the Executive District Officer (Schools & Literacy) Zaripur
Expenditure Statement for the Month of February 2008

Code	Description	Budget	Expenditure to Date			Balance	% expended
			Feb	Previous	Total		
000	Total Establishment Charges	499,859,164	41,298,701	251,657,437	292,956,138	206,903,026	59%
010	Total Basic Salaries	296,943,505	25,610,050	137,044,011	162,654,061	134,289,444	55%
A01101	Basic Pay (Officers)	56,647,605	4,587,472	31,583,421	36,170,893	20,476,712	64%
A01106	Pay of Contract Staff	744,798	30,081	294,030	324,110	420,688	44%
A01151	Basic Pay (Other Staff)	211,506,661	17,592,594	92,390,870	109,983,464	101,523,197	52%
A01156	Pay of Contract Staff	28,044,441	3,399,903	12,775,690	16,175,594	11,868,848	58%
020	Total Regular Allowances	202,915,659	15,688,652	114,613,426	130,302,078	72,613,581	64%
A01201	Senior Post Allowance	13,949	664	1,199	1,862	12,087	13%
A01202	House Rent Allowance	47,702,822	3,671,755	25,516,769	29,188,524	18,514,298	61%
A01203	Conveyance Allowance	9,527,973	623,050	3,449,430	4,072,479	5,455,494	43%
A01205	Dearness Allowance	41,222,093	3,269,418	22,288,280	25,557,697	15,664,395	62%
A01207	Washing Allowance	62,815	568	2,453	3,021	59,793	5%
A01208	Dress Allowance	79,400	521	10,442	10,963	68,438	14%
A01209	Special Additional Allowance	18,858,503	1,494,515	10,468,566	11,963,082	6,895,422	63%
A01217	Medical Allowance	16,141,650	1,318,631	9,054,131	10,372,762	5,768,888	64%
A01224	Entertainment Allowance	101,488	6,285	42,202	48,487	53,001	48%
A01226	Computer Allowance	7,079	625	4,854	5,479	1,600	77%
A01244	Ad hoc Relief	33,772,416	2,621,298	21,694,842	24,316,139	9,456,276	72%
A01262	Special Relief Allowance	33,772,416	2,621,298	21,694,842	24,316,139	9,456,276	72%
A01274	Medical Charges	918,785	4,490	33,678	38,169	880,616	4%
A012AE	Integrated allowance	734,272	55,535	351,739	407,274	326,998	55%
A03	Total Operating Expenses	6,331,587	403,645	1,439,792	1,843,438	4,488,150	29%
A03201	Postage and Telegraph	44,289	333	4,500	4,833	39,456	11%
A03202	Telephone and Trunk Calls	675,497	84,437	484,236	568,673	106,824	84%
A03204	Electronic Communication	8,057	-	-	-	8,057	0%
A03301	Gas	226,477	2,638	7,358	9,996	216,481	4%
A03302	Water	797,271	42,550	85,722	128,272	668,999	16%
A03303	Electricity	2,221,812	75,771	214,048	289,818	1,931,994	13%
A03304	Hot and Cold Weather Charges	211,114	3,243	8,531	11,774	199,340	6%
A03402	Rent for Office Building	63,333	2,250	13,750	16,000	47,333	25%
A03805	Travelling Allowance	578,869	75,359	396,825	472,184	106,685	82%
A03807	P.O.L Charges, Aeroplanes, Helicopters, Staff Cars, Motorcycles	307,324	33,088	133,032	166,120	141,205	54%
A03901	Stationery	643,532	64,247	62,334	126,581	516,951	20%
A03902	Printing and Publication	177,673	3,599	5,722	9,321	168,353	5%
A03905	Newspapers, Periodicals and Books	325,887	16,130	19,652	35,781	290,106	11%
A03906	Uniforms and Protective Clothing	7,083	-	1,214	1,214	5,868	17%
A03907	Advertising & Publicity	32,705	-	2,205	2,205	30,500	7%
A03917	Law Charges	10,667	-	667	667	10,000	6%
A13	Total Repairs and Maintenance	926,972	20,753	42,367	63,120	863,852	7%
A13001	Transport	141,785	5,407	21,018	26,425	115,360	19%
A13101	Machinery and Equipment	280,971	6,732	9,526	16,258	264,714	6%
A13199	Repair & Maintenance of Others	23,167	-	-	-	23,167	0%
A13201	Furniture and Fixture	481,049	8,613	11,824	20,437	460,612	4%
TOTAL		507,117,722	41,723,099	253,139,596	294,862,695	212,255,027	58%

Reading: Re-appropriations and supplementary grants¹⁴

Definition

Re-appropriation means the transfer of savings in the provision of expenditure made for a particular object to meet excess expenditure anticipated under another such object.

Powers to sanction-re-appropriations

All powers of re-appropriation of funds rest with the Local Council and in terms of section 111(3) of PLGO, 2001 (as amended) the officers of Local Governments shall exercise the powers of re-appropriation of funds in accordance to the extent delegated to them by the respective Council. In case the re-appropriation is beyond the limit set by the Council, it shall require the approval of the Council.

Procedural Matters

Ordinarily it is too early to make re-appropriations in the first half of the financial year, unless there is an urgent need for re-appropriation. In the second half of the financial year, the re-appropriations should be sanctioned generally on the basis of the second statement of Excesses and Surrenders. However, if need arises for any individual re-appropriation, the competent authority may sanction in prescribed manner. After the revised estimates are fixed by the Finance & Budget Officer (F&BO), the net surrenders under each grant are taken as "Surrenders or Withdrawals within the grant". If subsequently, excesses are likely to occur which are absolutely not possible to avoid the excess for which additional funds can be met from, "Surrender or Withdrawals within the grant". In such cases the re-appropriation cannot be sanctioned by the competent authorities but with the prior concurrence of the Finance & Budget Officer, District/Tehsil Development Committee.

Communication of sanctions for re-appropriations

1. When the sanctioning authority is F&BO	To the District Accounts Officer, Head of Office, who may communicate these orders to all concerned.
2. When the sanctioning authority is Head of Office.	To the District Accounts Officer, EDO (F&P) and other subordinate authorities.
3. When the sanctioning authority is other than mentioned above.	To the District Accounts Officer, Head of Office, F&BO and other authority concerned, if any.

Statement of Excesses and Surrenders

If the amount allowed to be spent during a financial year under the authority of the Schedule of Authorized Expenditure, relating to that financial year, is not expected to be spent completely before the close of the financial year, the savings expected are surrendered or otherwise not matching the actual requirements of the financial year, the excess funds are demanded through statement of Excesses and Surrenders.

Under Rule 71 of District/Tehsil Budget Rules 2003, annually one statement of Excesses & Surrenders shall be prepared in the month of March each year and submitted by the Head of offices to the Finance & Budget Officer along with explanatory memorandum. Form BM-13 has been prescribed for the purpose. It shall be completed in the prescribed manner, after taking into account the requirements of excess funds and surrender of surplus funds.

¹⁴ Source: *Training in Local Government Budget Rules, 2003* produced by the Decentralization Support Program.

Based on the information contained in the statement of Excesses & Surrenders, Revised Estimates of a financial year (Receipts / Expenditure) are fixed. The revised estimates are instrumental for estimating the Budget Estimates for the next financial year, besides, formulating the demands for additional funds, if required.

The consolidated statement of Excess & Surrenders is submitted to District Development Committee for approval. The revised estimates so approved shall be reflected in the budget estimates of the next financial year, and shall also be approved by the council while approving the budget estimates.

Supplementary Budget Statement

A statement to be laid before the Council showing the estimated amount of the additional expenditure to be required during a financial year, over and above the expenditure already contemplated in the schedule of authorized expenditure for that year.

The supplementary grant, if considered necessary, may be sanctioned by the officer of a local government authorized by the Council, in anticipation to the subsequent approval by the Council.

The procedure for approval of the Supplementary Budget Statement by the respective Council is the same as prescribed for normal budget estimates. Subsequent to approval by the Council and intimation for the same by the Finance & Budget Officer of the supplementary grant, the Head of Offices concerned, in terms of rule 73(1) of Budget Rules 2003, shall distribute the supplementary grant and communicate the breakup of grant to DDOs and the Accounts Officer concerned.

Exercise: Re-appropriation case studies¹⁵

District Council has delegated the following powers of re-appropriation to different offices:

No.	Office	Max Reappropriation Powers (Rs.)	Remarks
1	DDO	10,000	Only within the unit of appropriation under DDO's control
2	Head of Office	20,000	Only within offices under his control
3	EDO(F&B)	50,000	If re-appropriations involve two different grants
4.	F&B Committee	Rs. 100,000	
5.	Council	Unlimited	

Cases of Re-appropriation

For each of the cases described below, decide whether the re-appropriation done by each of the officers is justified under the powers delegated to them. Justify your answer.

1. A DDO of Secondary Education Office is faced with a problem, he is about to exhaust the budgetary allocation of Rs. 50,000 under **Travelling Allowance** for the current financial year. He still needs Rs. 15,000. He has sufficient funds available under **POL charges**, which he will not be able to use as two of the three vehicles of his office are unserviceable / condemned. He re-appropriates the amount and goes on to expend the additional expenditure.
2. An EDO(S&L) has received a request from a DO(S&L) for additional funds of Rs. 20,000 for **Repairs and Maintenance of Durable Goods and Works** to get his vehicle repaired as he does not have sufficient funds available under other heads for re-appropriation. EDO(S&L) has funds available in another office under his control. He re appropriates the amount and allows the DO(S&L) to incur the expenditure.
3. During his visit to the district, the Chief Minister on popular demand of the community directs the Zila Nazim to construct a new school in Usmaniabad. The orders of the Chief Minister are conveyed to EDO(W&S) by Zila Nazim with direction that the work should be started immediately. The total cost of the project is Rs. 0.5 million. After reviewing the ADP allocation the EDO found that sufficient funds were not available with him to start the work. He requests the EDO(F&P) for re-appropriation from other sectors for completion of the school in accordance with the directive of the Chief Minister. EDO(F&P) reappropriates an amount of Rs. 100,000 to the new scheme for the current fiscal year from another sector.

¹⁵ Adapted from an exercise in *Training in Local Government Budget Rules, 2003* produced by the Decentralization Support Program.

Session 10: Review Exercise

Objectives

By the end of this session you will have:

- Practiced using proper internal control procedures to make financial transactions
 - Practiced preparing Expenditure Statements
 - “Audited” transactions prepared by another team
-

Space for your notes

Space for your notes

Evaluation Form

Introduction to Financial Management

Dates:

Check (✓) the most appropriate box.
Please rate the following categories on a scale of 1 – 4, where 1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree.

	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly agree
The workshop achieved its aims and objectives.				
The content of the workshop is relevant to my work.				
What I have learned will impact on the way I work.				
The quality of the learning materials and aids was useful.				
The facilitation and presentation during the workshop were open and helped me to learn.				

What parts of the workshop were most useful for you?

What improvements/changes would you suggest for similar workshops?

Please give any other comments/suggestions.

**Thank you for taking the time to fill in this form.
Please return it to the workshop facilitator.**