POLICY FRAMEWORK

Guidelines on matters regarding **Finance & Accounting** of Public Sector Companies and Autonomous Bodies in Khyber Pakhtunkhwa

GOVERNMENT OF KHYBER PAKHTUNKHWA

FINANCE DEPARTMENT

http://www.finance.gkp.pk

CONTROL TABLE			
Version	**Section**	**Remarks**	**Date of issue**
1.0			21.02.2022

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NOTIFICATION

The Provincial Government is pleased to approve the following policy framework to be followed by Public Sector Companies and Autonomous Bodies for matters relevant to the Finance & Accounting.

Aspect	Framework
Finance Manual	• To be prepared by the Head of Finance department of respective entities • Comprising policies, processes, and procedures • To be prepared within 90 days of this notification • Distribution of manual to various process owners within entity
Delegation of Authority Matrix	• Entity to frame its financial and administrative authorities keeping in view the KP Delegation of Financial Powers Rules, 2018 • Activities classified into distinct categories • Level of authority and financial limits, where applicable • Clear authorities with respect to expenditure authorization, payment authorization and signing of cheques • No activity or transaction shall be divided into smaller activities or transactions
Accounting Policies	• Prepare financial statements in accordance with accrual basis of accounting. • PSC to prepare them according to requirements of Third Schedule of Companies Act • The Autonomous Body shall prepare its financial statements in accordance with International Financial Reporting Standards (IFRS), any deviation from the IFRS shall be explained in notes to the financial statements.
Planning & Budgeting	• Carry out an exercise annually to update business plan & annual budget • Preparation to be initiated at least five months before end of the organization's financial year • Business plan & annual budget shall be approved by the Board at least 15 days before the organization's financial year end • Entity to establish transaction level and periodic controls to ensure actual expenditures in line with budgetary limits
General Ledger	The entity shall frame policies for the following: i. Chart of Accounts ii. Processing of journal vouchers iii. GL period end processing iv. Management of suspense account v. Financial Record keeping
Internal Controls	• Board of Directors shall establish and maintain a sound system of internal controls in order to protect assets and ensure compliance with applicable laws and regulations

<table>
<tr><td>Financial Reporting</td><td>The Financial Statements shall comprise the following:
Statement of financial position
Statement of profit or loss and other comprehensive income
Statement of cash flows
Statement of changes in equity
Explanatory notes to the financial statements
The entity shall close its books of accounts on a monthly basis & shall prepare monthly financial statements duly approved by the Head of Finance, no later than 10th of the month following end of month
The entity shall prepare quarterly financial statements duly approved by the Board of Directors, not later than 25th of the month following end of the quarter
The entity shall submit annual financial statements duly audited by Chartered Accountants and approved by the Board of Directors to the Administrative Department & Finance Department within 90 days following close of financial year of the entity
The Organization shall comply with the guidelines issued by the Finance department for electronic reporting of variance analysis, actuals and other reports as determined by the Finance department</td></tr>
<tr><td>Annual Report</td><td>The Board of Directors shall submit an Annual Report to the Administrative Department and Finance Department comprising the following:
Compliance with principles of Corporate Governance & reasons for non-compliance
Financial statements of the entity
Proper books of accounts have been maintained
Appropriate accounting policies have been applied
Establish & maintain sound internal control systems
Where the organization is reliant on a subsidy or other financial support from the Government, a detailed disclosure of the fact
Explanation for any significant deviations from last year in operating results
Summary of key operating & financial data of the last six years
Key performance indicators of the entity & a comparison of actual results against budgeted figures
Where any statutory payment on account of taxes, duties, levies and charges is overdue or outstanding, the amount together with a brief description and reasons for the same shall be disclosed
Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, shall be outlined along with future prospects, risks and uncertainties surrounding the organization
A statement as to the value of investments of provident, gratuity and pension funds, based on their respective audited accounts
The numbers of Board meetings held during the year and attendance by each director
Disclosure of shares held by the Government, associated companies, directors, CEO, and their spouse & minor children, public sector companies & corporations, banks &</td></tr>
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	financial institutions etc.
Revenue & Accounts Receivable	• Entity shall identify all key revenue streams and shall frame policies & procedures for recording of revenue including recognition & measurement criteria
Capital Expenditure & Non-current assets management	The entity's policies & procedures shall ensure that: • All fixed assets are recognized, measured & disclosed in books of account • Any impairment to the value of fixed assets is recognized & treated in the books of account • Depreciation is correctly calculated & charged • Fixed assets are legally and physically in possession • Assets are classified, codified and properly recorded in fixed assets register • Assets are in existence, in good condition & are tagged • Items recorded in fixed assets qualify the capitalization criteria set by the organization • Assets that are considered no longer useful may be demolished, destroyed or disposed off subject to the recommendation of Disposal committee, constituted by the entity for this purpose. • Disposal of tangible assets shall be approved by the Board of Directors.
Treasury Policy	• The entity shall not open and/or close bank accounts without approval of its Board • The Board shall designate combination of authorized bank signatories & the bank accounts shall be operated by at least two joint signatories along with financial limits approved by the Board • Finance department of the entity shall prepare a bank reconciliation statement of each bank account at the end of each month
Procurement	• Entity shall have a separate procurement department responsible for purchase of goods and services • Procurement department shall prepare a detailed annual procurement plan within 10 days of the start of the financial year • The entity may register the vendors intending to supply goods or services and maintain all necessary documentation in this regard • The entity shall monitor vendor performance and carry out performance appraisal at least annually by the purchase committee • For every purchase, there shall be a raised purchase requisition by the designated person specifying the reasons along with category, cost center and budget line item code against which the expenditure is to be incurred. Purchase requisition shall be approved by the authorized official(s) as per the delegation of authority matrix and forwarded to the procurement department • The entity policies & procedures shall specify the turnaround time for each procurement stage

Insurance Management	• The entity shall take measures for safeguard of its assets including insurance of assets after identifying risks/threats to assets, risk(s) to be transferred, type of insurance required, sum to be insured
Retention of documents	• The entity shall retain all books, record & documents for a period higher of at least 10 years or as per the law applicable to the entity • Upon expiry of the retention period, the documents shall be destroyed • Retention period shall begin at the end of the financial year in which the document was created and settled, where a document is being disputed then the retention period shall begin at end of the financial year in which the dispute and document are settled. • Retention period shall end at the end of the financial year in which the document completes the retention period, after which the document shall be destroyed. • Where a document is to be maintained forever then the retention period shall be 'Indefinite'
Storage of documents	• Documents shall be stored in fire resistant filing cabinets for one year, within the access of the employees using the documents • The contents of the cabinet shall be labelled clearly • After completion of the external audit for a particular year, the documents shall be moved to fire resistant filing cabinets in the Archives section • Where possible, the documents shall be digitized
Method of Destruction	The method of destruction shall be at the discretion of the entity however the following principles shall be observed: • All confidential documents must be either burned or shredded • All other documents shall be disposed off in the fastest, most economical and environmentally friendly manner

2. The Provincial Cabinet is further pleased to approve the following:

- The activities mentioned above shall be applicable with prospective effect
- Detailed guidelines on matters regarding Finance & Accounting can be downloaded from https://www.finance.gkp.pk/articles/about/wings/corporate-governance-unit-cgu
- In order to operationalize the policy framework, the Finance department may issue guidelines within the broad scope of this policy framework from time to time
- As far as practicable, and prospectively, the administrative departments shall align the provisions of respective legislation of autonomous bodies in-line with principles laid out in these policy frameworks.

3. The Cabinet further directed that all the administrative departments shall take a review of their respective public sector companies / autonomous bodies on these policy framework parameters and shall submit a compliance report to the Chief Secretary office within 60 days from the date of notification of these policy frameworks.

4. It is therefore requested that necessary action may kindly be taken accordingly.

1. Background

1.1. Public Sector Companies (PSCs) and Autonomous Bodies (ABs) have been established to increase efficiency, reduce costs and improve effectiveness of public service delivery across various sectors in Khyber Pakhtunkhwa. There are 168 PSCs and ABs under the ownership and control of the Government of Khyber Pakhtunkhwa (GoKP). These entities have been set-up under different modes such as not for profit companies under section 42 of Companies Ordinance, 1984 (superseded by Companies Act, 2017), as well as statutory bodies under special enactments. The performance, effectiveness and operational efficiency of entities is lacking, with significant scope for improvements in the management of entities. PSCs/ABs have low levels of own source revenue, and they are significantly reliant on funding from the GoKP. The aggregate costs of funding PSCs and ABs to GoKP is likely to be rising substantially. In the absence of a functioning mechanism to track performance and costs of PSCs/ABs, the Finance Department has initiated an exercise to determine the cost of PSCs/ABs by collecting data from entities across departments.

1.2. As a first step to improve the performance of PSCs/ABs, the Finance Department is developing policy guidelines for PSCs/ABs to adopt corporate governance best practices in aspects relating to boards, Chief Executive Officers (CEOs), human resources management, financial management, accounting, Government oversight and performance management. The guidelines are being developed by reviewing relevant legislation, sub-legislation in Pakistan, Corporate Governance Assessments of PSCs in Khyber Pakhtunkhwa conducted by the Finance Department, and international practice, including from Organization for Economic Co-operation and Development (OECD) countries and non-OECD countries.

2. Rationale

2.1. The Finance department serves as a central function of an organization and thus, its significance and contribution towards good governance and performance of the organization cannot be overstated. Finance department has a list of functions including but not limited to financial reporting and control, budgeting, bookkeeping and tax and compliance. Since the finance department takes care of functions crucial to keeping the organization liquid and running, standardizing its relevant processes and reviewing them from a governance context will help ensure operational efficiency.

2.2. The details of each financial component whether in the reporting, budgeting or expenditure domain needs to be comprehended on. This policy framework entails broad guidelines on preparation of financial policies, procedures and processes including but not limited to: accounting policies, planning and budgeting, general ledger maintenance, financial statement closing process, financial reporting, revenue and account receivables, capital expenditure and non-current assets management, cash management and financing, procurement to payments, corporate taxation, insurance management, and inventory management.

3. Finance and Accounting Policies

3.1. The Board of the Autonomous Bodies / Public Sector Companies (herein after referred as "entity") shall prepare and approve Finance Manual comprising of policies and processes for the areas stated below within 90 days of notification of this policy.

3.2. The Head of Finance of respective entity shall be responsible for the:

a. Preparation of policies, procedures, and processes

b. Distribution of respective policies, procedures, and processes to various process owners within the entity.

3.3. The organization shall develop policies and procedures for following at the minimum:

- Delegation of Authority Matrix
- Accounting Policies
- Planning & Budgeting
- General Ledger
- Internal Controls
- Financial Reporting
- Revenue & Accounts Receivables
- Capital Expenditure & Non-Current Assets Management
- Cash Management and Financing
- Treasury policy
- Procurement to Payments

- Taxation
- Insurance Management
- Inventories / material Management

A. Delegation of Authority Matrix

The PSC/AB shall frame its financial and administrative authorities, giving due consideration to Khyber Pakhtunkhwa Delegation of Financial Power Rules, 2018, considering its business operations and organization structure. The authorities shall address the following:

- The activities may be classified into distinct categories.
- Level of authority and financial limits, wherever applicable.
- Segregation of duties.
- Clear authorities with respect to expenditure authorization, payment authorization and signing of cheques.
- No activity or transaction shall be divided into smaller activities or transactions in order to lower the authority levels required to approve them.

B. Accounting Policies

a. The AB/PSC shall prepare its financial statements in accordance with accrual basis of accounting.

b. The Public Sector Company registered under the Companies Act 2017 shall prepare its financial statements in accordance with the requirements contained in the Third Schedule of the Companies Act.

c. The Autonomous Body shall prepare financial statements in accordance with International Financial Reporting Standards, any deviation from the IFRS shall be explained in notes to the financial statements

d. The Accounting policies shall cover the following:
   - Basis of preparation of financial statements
   - Basis of measurement
   - Going concern
   - Qualitative characteristics and other consideration for preparation of financial statements
   - Significant accounting policies
   - Significant accounting estimates and judgements

C. Planning & Budgeting

a. The Organization shall frame policies for Planning and Budgeting activities, broadly divided into following four categories:

   i. Long term planning in the form of a Business Plan for next five years;

   ii. Short term planning in the form of an Annual Budget;

   iii. Forecast;

   iv. Special project budgets.

b. The Organization shall, every year, carry out an exercise for updating of business plan along with annual budget.

c. The preparation of business plan and annual budget shall be initiated at least five months before end of the organization's financial year.

d. The Business Plan and Annual Budget shall be approved by the Board of Directors at least 15 days before end of the organization's financial year.

e. The Organization shall establish transaction level and periodic controls to ensure that actual expenditures are in line with approved budgetary limits.

D. General Ledger

The Organization shall frame policies for the following**:**

vi. Chart of Accounts

vii. Processing of journal vouchers

viii. GL period end processing

ix. Management of suspense account

x. Financial Record keeping

E. Internal Controls

a. The Committee of Sponsoring Organization (COSO) framework defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives relating to operations, reporting and compliance with applicable laws and regulations.

   - Operations objectives: Pertain to effectiveness and efficiency of operations of any entity, including financial performance objectives and safeguarding assets against loss;

- Reporting objectives; Pertain to reliability of reporting. They include internal and external financial and non-financial reporting;
- Compliance objectives: Pertain to adherence to Laws and regulations.

b. The Board of Directors is responsible to establish and maintain a sound system of internal control in order to protect assets and ensure compliance with applicable laws and regulations.

F. Financial Reporting

a. Financial reporting is a process of systematic recording, reporting, and analyzing financial transactions of the Company. This process comprises gathering, compiling and reporting of information to management and other stakeholders of the Company for the purpose of controlling the business, making the business decisions and informing them about the true and fair view of financial position and performance of the Company.

b. The Financial Statements shall comprise the following:

   i. Statement of financial position
   ii. Statement of profit or loss and other comprehensive income
   iii. Statement of cash flows
   iv. Statement of changes in equity
   v. Explanatory notes to the financial statements

c. The Organization shall close its books of accounts on a monthly basis and shall prepare monthly financial statements duly approved by the Chief Financial Officer / Head of Finance, not later than 10^{th} of the month following end of the month.

d. The Organization shall prepare quarterly financial statements duly approved by the Board of Directors, not later than 25^{th} of the month following end of the quarter.

e. The Organization shall comply with the guidelines issued by the Finance department for electronic reporting of variance analysis, actuals and other reports as determined by the Finance department.

f. The Organization shall submit annual financial statements duly audited by Chartered Accountants within the meaning of the Chartered Accountants Ordinance, 1961 and approved by the Board of Directors to the Administrative Department, Corporate Governance Unit established under Finance Department within 90 days following close of financial year of the organization.

g. The Board of Directors shall submit an Annual Report to the Administrative Department and Corporate Governance Unit established under Finance Department within 90 days following close of financial year of the organization. The Annual Report shall consist of the following:

   i. Compliance with the principles of corporate governance and reasons for non-compliance;
   ii. The financial statements prepared by the Organization and approved by the Board, present fairly its state of its affairs, the results of its operations, cash flows and changes in equity;
   iii. Proper books of account of the organization have been maintained;
   iv. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
   v. They recognize their responsibility to establish and maintain sound system of internal control, which is regularly reviewed and monitored;
   vi. The appointment of chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interests of the organization as well as in line with the best practices;
   vii. Where the organization is reliant on a subsidy or other financial support from the Government, a detailed disclosure of the fact;
   viii. Significant deviations from last year in operating results of the organization shall be highlighted and reasons thereof shall be explained;
   ix. Key operating and financial data of last six years shall be summarized;
   x. Key performance indicators of the organization and a comparison of actual results with the budgeted figures. Such indicators shall

focus on as to how well the organization has responded to accountability requirements, improved service delivery, reduced costs and adherence to the principles of environmental and corporate social responsibilities;

xi. Where any statutory payment on account of taxes, duties, levies and charges is overdue or outstanding, the amount together with a brief description and reasons for the same shall be disclosed;

xii. Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, shall be outlined along with future prospects, risks and uncertainties surrounding the organization;

xiii. A statement as to the value of investments of provident, gratuity and pension funds, based on their respective audited accounts, shall be included;

xiv. The numbers of Board meetings held during the year and attendance by each director shall be disclosed; and

xv. Where applicable, the pattern of shareholding shall be reported to disclose the aggregate number of shares (along with details, stated below) held by:

a. Government;
b. Associated companies, undertakings and related parties (name wise details);
c. Mutual funds;
d. Directors, Chief Executive, and their spouse and minor children (name wise details);
e. Executives;
f. Public Sector Companies and corporations;
   banks, development finance institutions, non-banking finance companies, insurance companies, takaful companies, and modarabas; and
g. Shareholders holding five percent or more voting rights in the Public Sector Company (name wise details).

G. Revenue & Accounts Receivables

The Organization shall identify all key revenue streams and shall frame policies and procedures for recording of revenue including recognition and measurement criteria.

H. Capital Expenditure & Non-Current Assets Management

The organization policies and procedures shall ensure:

i. That all fixed assets are recognized, measured and disclosed in books of account.
ii. That any impairment to the value of fixed assets is recognized and treated in the books of account.
iii. That depreciation is correctly calculated and charged.
iv. That fixed assets are legally and physically in possession.
v. That assets are classified, codified and properly recorded in fixed assets register.
vi. That assets are in existence, in good condition and are tagged.
vii. That items recorded in fixed assets qualify the capitalization criteria set by the organization.
viii. Assets that are considered no longer useful may be demolished, destroyed, scrapped or disposed off subject to recommendation of Disposal committee, constituted by the organization for this purpose. Disposal of tangible assets shall be approved by the Board of Directors (BoD) and disposal committee shall also determine minimum assets base price for the assets to be disposed by the Disposal Committee.

I. Treasury policy

a. The Organization shall not open and/or close bank accounts without approval of its Board.
b. The Board shall designate combination of authorized bank signatories. The bank accounts shall be operated by two joint signatories along with financial limits approved by the Board of Directors.
c. At the end of each month, the finance department of the organization shall prepare a bank reconciliation statement for each bank account.

J. Procurement

a. The Organization shall have a separate procurement department, responsible for purchase of goods and services.

b. The procurement department shall prepare a detailed annual procurement plan within 10 days of the start of the financial year based on the purchase requirements received from the concerned departments.

c. The Organization may register the vendors intending to supply goods or services and maintain all necessary documentation in this regard.

d. The Organization shall monitor vendor performance and carry out performance appraisal at least annually by the purchase committee.

e. For every purchase, there shall be a raised purchase requisition by the designated person specifying the reasons / justification along with category, cost center and budget line-item code against which the expenditure is to be incurred. Purchase requisition shall be approved by the authorized official(s) as per the delegation of authority matrix and forwarded to the procurement department.

f. The Organization policies and procedures shall address for turnaround times for each procurement stage.

K. Insurance Management

The Board and management are responsible for safeguarding of the organization’s assets. The Organization shall take all measures for safeguard of its assets including insurance of assets after identifying risks / threats to assets, risk(s) to be transferred, type of insurance required, sum to be insured.

4. Retention of documents

4.1. The Entity shall retain all books, record and documents for a period of at least 10 years or for such longer period as given in any law, statue, rules or regulations applicable to the respective organization. Upon expiry of the retention period, the documents shall be destroyed.

4.2. Retention period shall begin at the end of the financial year in which the document was created and settled. Where a document is being disputed then the retention period shall begin at the end of the financial year in which the dispute and the document are settled.

4.3. Retention period shall end at the end of the financial year in which the document completes the retention period, after which the document shall be destroyed.

4.4. Where a document is to be maintained forever then the retention period shall be ‘Indefinite’.

5. Storage of documents

5.1. Documents shall be stored in fire resistant filing cabinets for one year, within the access of the employees using the documents. The contents of each cabinet shall be labelled clearly to allow quick retrieval of documents when required.

5.2. After completion of the external audit for a particular year, the documents shall be moved to fire resistant filing cabinets in the Archives section (Stores). Where possible documents shall be digitized / scanned and stored on a computer or compact discs for easier access.

6. Method of Destruction

6.1. The method of destruction of documents shall be at the discretion of the Entity but the following principles must be observed:

6.1.1. All confidential documents must be either burned or shredded.

6.1.2. Other documents shall be disposed of in the fastest, most economical and environment friendly manner.

7. Effective date and scope of policy

7.1. This Policy framework is effective from 01.02.2022 and PSCs/ABs shall comply with this policy framework on or after effective date of this policy framework.

7.2. This policy is appliable to Public Sector Companies / Autonomous Bodies owned by the Government of Khyber Pakhtunkhwa and notified by the Finance Department from time to time.

7.3. The Finance department, Government of Khyber Pakhtunkhwa, may issue guidelines with respect to finance related documentation and reporting from time to time and the ABs/PSCs shall comply with such guidelines.