

Government of Pakistan
Finance Division
(Budget Wing)

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No.F.2(1)BR-II/2007-88

Islamabad, January 17, 2012

OFFICE MEMORANDUM

Subject: Revised Accounting Procedure for Revolving Fund Accounts (Foreign Aid Assignment Account).

P-3090

The undersigned is directed to refer to this Division's O.M.No.F.2(1)BR-II/2007-1618 dated 27th July, 2011 on the subject cited above and to state that the Revised Accounting procedure for Revolving Fund Accounts (Foreign Aid Assignment Account) issued vide this office O.M No. referred to above have been amended.

2. Revised Accounting Procedure for Revolving Fund Accounts (Foreign Aid Assignment Account), after making amendments/corrections is enclosed herewith. It is also clarified that the Revolving Fund Accounts (Foreign Aid Assignment Account) is also applicable to the existing Revolving Fund Accounts.

3. Kindly acknowledge receipt, at the earliest.

Qamar
17/1/2012
(M.Qamar-Uz-Zaman Farooqui)
Deputy Secretary (BR-II)
Tele: # 9209346

To All Ministries/Division, Islamabad/Rawalpindi.

Secretary Finance
Khyber Pakhtunkhwa
Diary No. 1490
Date 25/1/12

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S. S. / PFC / DS / NPC / BOFL
[Handwritten signatures and initials]
BO (F) / Supab

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Copy forwarded for information and similar action to: -

1. The Secretary Finance Department, Government of the Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, Gilgit Baltistan (Lahore, Karachi, Peshawar, Quetta, Gilgit).
2. The Secretary, Planning & Development Department, Government of the Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, Gilgit Baltistan (Lahore, Karachi, Peshawar, Quetta, Gilgit).
3. Auditor General of Pakistan, Constitution Avenue, Sector G-5/1, Islamabad
4. Controller General of Accounts (CGA), CGA Complex, Sector G-5/2, Islamabad.
5. Accountant General Pakistan Revenues, (Foreign Aid Section), G-8/4, Islamabad.
6. Additional Chief Secretary, FATA Secretariat, Peshawar.
7. All Financial Advisers/Deputy Financial Advisers, Islamabad/ Rawalpindi.
8. AGPR, Sub-Offices, (Lahore, Karachi, Peshawar, Quetta, Gilgit).
9. All Accountant Generals of the Provinces, Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, (Lahore, Karachi, Peshawar, Quetta).
10. The Director General, Pak PWD, Islamabad.
11. Director General, Pakistan Postal Services, Islamabad.
12. Chief Accounts Officer, Ministry of Foreign Affairs, Islamabad.
13. The Director, Accounts Department, State Bank of Pakistan, (Central Directorate), I.I. Chundrigar Road, Karachi (Registered).
14. The Chief Manager, State Bank of Pakistan, I.I. Chundrigar Road, Karachi (Registered).
15. Executive Vice President, National Bank of Pakistan, I.I. Chundrigar Road, Head Office, P.O. Box 4937, Karachi.
16. Director of Accounts, Economic Affairs Division (Accounts Wing), 'C' Block, Pak: Secretariat, Islamabad.
17. Deputy Chief(R&S), Economic Affairs Division, Islamabad.
18. Deputy Secretary(World Bank), Economic Affairs Division, Islamabad
19. Deputy Secretary (Asian Development Bank), Economic Affairs Division, Islamabad.
20. Deputy Secretary(DM), Economic Affairs Division, Islamabad
21. All Joint Secretaries of the Finance Division, Islamabad.

Qamar
17/1/2012
(M. Qamar-Uz-Zaman Farooqui)
Deputy Secretary (BR-II)

(2)

REVISED ACCOUNTING PROCEDURE FOR REVOLVING FUND
ACCOUNTS(FOREIGN AID ASSIGNMENT ACCOUNT)

- (I) For a foreign donor-assisted project, a Revolving Fund Account(RFA) in respect of donor financing under loan/credit/grant shall be established at a branch of the National Bank of Pakistan(NBP), separately from the account to be established for the government's share of project financing (counterpart funds) if any required. Such Accounts shall be in the nature of Assignment Accounts.
- (II) The NBP shall be the designated bank for handling all transactions of Revolving Fund Accounts. The foreign currency amounts received under a foreign credit/loan/grant for RFAs shall be translated/converted into Pak Rupees at the State Bank of Pakistan (SBP) Weighted Average Buying Rate of exchange prevailing on the date of transfer of funds the Donors. The payments out of RFAs by way for reimbursement to NBP would be translated notionally at the aforesaid SBP rate of exchange prevailing on the date of Receipt from the RFAs. The RFAs at NBP branches shall show debits, credits and balances in PAK Rupees along with the US Dollar/Foreign Currency equivalent. However for the utilization/expenditure, the funds available to the Project management would be PAK Rupees while the equivalent US Dollar/Foreign Currency debit/credit and balance amounts shall be used by the project management for reporting to reimbursement/disbursement from and reconciliation with the Donors.
- A) The ' Foreign Currency' for the purposes of this Procedure would mean the United States Dollar (USD), Euro (EUR), Pond Sterling (GBP), Japanese Yen (JPY), Australian Dollar (AUD), Canadian Dollar (CAD), Swiss France (CHF) and any other foreign currency which may be permitted specifically or generally later on by the Finance Division (Budget Wing) in consultation with State Bank of Pakistan (Finance Department), Karachi.

(III) Separate Revolving Fund Accounts shall be established by the project management at the NBP for each of the Loans/Credit/Grants, and each Revolving Fund Account will be designated a special Sub-Fund Identification Number upon establishment of the account. These individual sub accounts will together constitute a single but separate account (Child A account) under Central Government Account No.1 (Non-Food) held presently with the SBP. The transactions against individual assignment accounts will be recorded and reported along with the other Government balances by the respective office of SBP Banking Services Corporation (SBP-BSC) to SBPKarachi (Finance Department-Government Accounts Division) on daily basis. The reimbursement for payments made by the NBP shall be claimed by NBP from SBP-BSC respective office on daily basis. The State Bank of Pakistan will ensure the reimbursement to NBP within two working days. The balances of the RFAs will be reported in SBP Finance Department Karachi's daily report of the consolidated balances of the Federal/Provincial Government Account along with other Government balances to the Federal /ProvincialGovernment (Finance Division/Finance Department/Respective AGs). The CGA will issue a Code Classification in the chart of Account for RFA's. The code for assignment Accounts for the Government counterpart funding is already allocated/available i.e.G01191.The SBP BSC respective office after making re-imburement to NBP shall prepare a separate Debit (payment) Voucher for each payment out of RFAs for onward submission to FTO Karachi. The Federal Treasury Officer Karachi shall pass the following journal entry:

| | |
|---------|--|
| Debit: | G01-Cheque Clearing Account-Foreign Aid Assignment Account |
| Credit: | F01-Central Government Account-I-(Non-Food) |

(IV) The balance of Revolving Fund Accounts for Donor's share of financing shall be maintained in Pak Rupees as well as in the US Dollar/Foreign Currency but the funds available for utilization/expenditure to the project management would be the Pak Rupee balance. This Account shall also be

- lapsable. However the lapsed balance in one year will be protected through the budgetary allocation in the next year.
- (V) If the funds from donors are received in currencies other than US Dollars, these shall be credited in respective Revolving Fund Accounts in Pak Rupees at the prevailing rate of exchange.
- (VI) Deleted
- (VII) On receipt of the credit advice in respect of a disbursement of foreign currency funds to the project from donors that must be routed through the SBP Karachi, the SBP's Finance Department will advise the Chief Manager (SBP-BSC) Karachi, to credit Pak Rupee equivalent of the Foreign Currency To the Assignment Account (sub account of Central Account-I) under the appropriate Debt or Grant head. The Chief Manager will in turn, and at maximum by the next business day, authorize amount in Pak Rupee credit into the relevant Revolving Fund Account of the project.
- a. In the books of FTO/AGRP:
- | | |
|---------|--|
| Debit: | F01-Central Government Account-I(Non-Food) |
| Credit: | E03301-Prmanent Debt (Foreign)-Direct or |
| Credit: | C036-Foreign Grants (under relevant detailed head) |
- (VIII) The (SBP-BSC) Karachi will immediately report the receipt in the Pak Rupee and the equivalent foreign currency to NBP HQ with a copy to respective NBP branch, the relevant Project Director, Planning & Development Division/Department (as the case may be), Economic Affairs Division and Finance Division/Department and AGPR/AG No Accounting Entry shall be made in the books of DAO/AG/AGPR at this stage.
- (IX) On intimation of receipt of funds from SBP BSC Karachi, the respective branch of NBP will record it in the Revolving Fund (Proforma) Account both in Pak Rupee and Foreign Currency equivalent under intimation to SBP

Karachi, local office of SBP – BSC, relevant Project Director and NBP head office.

- (X) In case of receipt on account of projects under the control of Provincial Governments, Local Governments, Financial and Non-Financial Institutions under the administrative control of the provincial Government, the SBP will simultaneously transfer the funds for credit to the concerned Provincial Government Account. The Provincial Finance Department shall ensure that the Budget allocations are available in the Provincial Schedule of Authorized Expenditure. The following Journals Entries will be passed.

1. In the Books of Federal Government:

a. In the books of AGPR.

(i) On receipt of funds from donor:

Debit: F0i-Central Government Account-1(Non-Food)

Credit: E03301-Permanent Debt (Foreign) – Direct or

Credit: C036-Foreign Grants

(ii) On transfer of funds to Provincial Government:

Debt: Demand No. & Function – A08-Loans and Advance
to Province (under the relevant detailed head of
account) or

Debt: A052- Grants Domestic (under the relevant detailed
head of account)

Credit: F01-Central Government Account-1 (Non-Food)

2. In the Books of Provincial Government AG:

Debt: F01-Provincial Government Account-1(Non-Food)

Credit: E03302-Provincial Debt (Foreign) – received from Federal
Government Or

Credit: C036-Foreign Grants.

3. On issue of Payment/Cheque following entry shall be made (Govt. Department Only)

Debit: Demand No. & Function Code-A Expenditure (under the relevant detailed head of account).

Credit: G01-Cheque Clearing Account-Foreign Aid Assignment Account.

- (XI) All payments from the Revolving Fund Accounts shall be effected through NBP Cheque/Authorization issued by at least two persons authorized to sign. The payments into the account in respect of donor funds shall be initiated through withdrawal application signed by such persons as may be nominated by the project management with the approval of the administrative Ministry/Division/Department. Each project management shall submit, through its appropriate administrative Ministry/Division/Department, its budget for the following year as required for all budgets that will be included in the 'Schedule of Authorized Expenditure' and such budgets shall be prepared and submitted with the information including Grant/Loan No.(Project Id), Project Name/Description, FundCode, CostCenter, Sub-detailed function, Detailed Object, consistent with the Government Chart of Accounts and within the Government budget calendar
- (XII) A. Each project shall prepare its own annual financial statements comprising expenditure from Revolving Fund Account and Direct Payment (showing in three separate columns for RF Account, GOP Assignment Account and Third Party Payments) and submit the same to Donor/Credit/grant agreements. Nevertheless, the project accounts, being sub accounts of receipts and expenditures under the consolidated fund of government(s) will be subject to certification as part of the consolidated government financial statements by the Auditor General of Pakistan.

B. Recording of Commitment:

- i. The Commitment i.e an obligation to make a future payments, funds for which are allocated in the budget, shall be recorded on

memorandum basis against the funds authorized from Assignment Account in accordance with the criteria laid down as under:

- a) Where a valid purchase order is raised and where applicable, a purchase contract (legal undertaking or legally binding) has been entered with the supplier. The amount involved shall be clearly nominated in the purchase order/contract.
 - b) The officer in accordance with the delegation of Financial powers (who shall be deemed to be the approving officer) shall authorize the commitment.
 - c) The commitment shall be recorded when amount involved (expenditure) is above Rs.0.5 million or 10% of total budget head, whichever is higher.
 - d) It shall exclude the following types of payment:-
 - Salaries and related deductions
 - Pension
 - GP fund
 - Loans and advances to employees
- ii. Commitment shall only be raised for those expenditures expected to be paid in the current financial year.
- iii. A commitment advice form (Annexure-B) shall be completed by the officer authorized by the delegated authority. The form shall be sent to the DDO along with the relevant purchase order which is in sequential order as set out below:
- a) A sequentially numbered purchase order (Annexure-C) shall be raised for all contingent expenditures (excluding salaries and utilities etc.) by the department/entity/project.
 - b) Purchase order shall be approved by the officer who has authority to incur the expenditure.

- c) The budget availability review clearance form and purchase order (where applicable) will represent the sanction for the expenditure and must shall be sent to DDO.
- iv. A copy of any contract/agreement shall also be sent with the commitment advice form.
- v. Commitment shall be entered into and approved by the delegated authority (approving officer), it shall be recorded by the DDO.
- vi. A section to record commitment shall be maintained within the appropriation Control Register (Annexure-D) by the DDO. On receiving Commitment Advice form from the officer authorized the delegated authority; the DDO shall record the commitment in this register.
- vii. When the claim voucher related to commitment previously entered into by the delegated officer is received by the DDO, he shall reverse the original commitment entry in commitment section of the appropriation control register upon authorizing payment.
- viii. Except as sent in such Para ix below, a commitment once recorded, must not be reversed unless.
 - a) Payment has been made, or
 - b) The purchase order or other legally binding contract has been cancelled and the same-delegated authority entering into the commitment has approved the reversal.
- ix. At the close of the financial year, all outstanding commitment made during that year dully scrutinized by the DDO/MoF and provision made in the next year appropriation (through supplementary budget process) shall be allowed for the reinstatement of valid commitments in the next financial year.
- x. Commitments which are not renewed shall be cancelled.

(XIII) After the internal agreement containing provision for the opening of Revolving Fund Accounts have been signed , the concerned Ministries/Divisions/Departments and the project implementing agencies will arrange immediate opening of the Assignment Accounts at a branch of

the NBP and special instructions for operation of the Accounts, if any shall be provided to all parties concerned. NBP will, however, open the account after obtaining necessary permission from Exchange Policy Department of SBP Karachi, and will provide a monthly statement of account to the project management by the end of first week of the succeeding month. It shall be mandatory of the NBP, in all cases, to mention clearly the name and Account No. of the payee on the Monthly Bank Statement. NBP shall send copy of the Bank Statement on 5th of the following month to SBP which shall be returned by SBP to NBP duly verified by 10th of the month. Even 'Nil' balance shall also be reported by NBP to SBP.

- (XIV) Withdrawal Applications will be prepared and submitted to donors by the project management, requesting the amount of initial deposits/subsequent funding to the Revolving Fund Account through the foreign currency account of SBP Karachi for further simultaneous credit to the Revolving Fund Account (a named sub-account of the Central Account-I) at the concerned branch of NBP. The assigned identification number of the Revolving Fund Account will be indicated on the Withdrawal Applications. The Person authorized to sign Withdrawal Application, simultaneously, to their respective Administrative Ministries/Divisions as well as to the Economic Affairs Division, NBP Head Office, and Karachi, relevant branch of NBP, SBP Finance Department, Karachi and concerned AG/AGRP Office.
- (XV) (a) The Finance Managers of the respective projects (or the persons so authorized) shall perform the role of DAO to the extent of authorization for payment within the available budgetary limits. He will also be responsible for the reconciliation with NBP, reporting of authorized direct payment to the contractors/suppliers through the donors, and financial reporting. All payments except for an authorized petty-cash to be notified in writing by the Project Director to the relevant NBP branch, shall be made directly to the recipients through crossed- cheques. Cash payments or funds transfer from Assignment Accounts to any DDO-account or any other account for the sake of onwards disbursement shall be strictly prohibited. The following

entries will be made at the time of issue of payment/cheque out of each Assignment Account.

Debit: Demand No. & Function Code Expenditures (under therelevant detailed head of account).

Credit: G01-Cheque Clearing Account- Foreign Aid Assignment Account (for separate Assignment Account).

(b) In case of projects which have PIFRA connectivity, the recording of expenditure shall be made in real time through system instead of submission of schedule to AGPR/DAO for this purpose after approval the revised procedure/arrangement between AGPR and PIFRA on this subject.

(XVI) The 'direct payment' shall be noted as a 'third party transaction' for the purposes of reporting and an equivalent amount shall be entered as 'contra' receipt from the donor to ensure that the fiscal balances match the monetary balances of the project. The project Finance Manager shall be responsible for reporting of third party payments. The project authorities shall make sure that the detail of this payment has been communicated in written to EAD/Finance Division and respective AG/AGPR. The following entry shall be passed for direct payments:

Debit: Demand No. & Function Code Expenditure (under the relevant detailed head of account).

Credit: E0331-Foreign Debit or C036-Foreign Grants (as the case may be).

(XVII) The consultancy charges payable by the donors shall be paid after verification of service rendered by the consultants, by the concerned Project Director/Ministry/Division or by the Provincial Governments. However, in case of foreign training prior approval of concerned Ministry/Division will be required.

(XVIII) In case there is balance available in US Dollar/Foreign Currency at the close or short-close of the project which is required to be refundable to the Donor, the following procedure shall be adopted for refund of unspent balance:-

- i. The project authority shall reconcile the account with the SBP/NBP at the close of the project to work out exact amount of unspent, both in PKR and USD/Foreign Currency, within two of the close of a project.
- ii. The project authority shall close Revolving Fund Assignment Account (RFA) with NBP and surrender unspent PKR balance to the government, within two weeks of the close of a project. For this purpose the project authority shall approval SBP (Finance Department). Karachi through respective NBP branch along with detailed Federal Government account.
- iii. The SBP shall close the PFA and shall intimate to project authority, NBP and Economic Affairs Division (EAD). The SBP shall intimate the reconcile/exact amount of outstanding balance to project authority and EAD within two weeks of the close of a project. Upon approach by the project authority in writing through respective NBP branch, SBP (Finance Department) shall arrange closing of RFA by the respective branch of SBP – BSC within two week time and would intimate the same to the project authority, NBP respective branch, NBP Head Office, Exchange Policy Department – SBP AND Economic Affairs Division along with the reconcile/exact amount of outstanding balance in PKR and USD/Foreign Currency.
- iv. After receipt of intimation from SBP as at (iii) EAD will reconcile unspent balance with concerned donors within one week's time. The Finance Division shall provide necessary funds in the block allocation of EAD in the Demand "Repayment of Foreign Debt" for refund of loan through normal budgetary process and all refunds in respect of foreign loans shall be charged to this Demand. In case of refund of foreign grants, the concerned Ministry/Division/Department shall arrange/provide the budget shall intimate the Head of Account and Demand Number to State Bank of Pakistan, Economic Affairs Division for accounting/booking of refund.
- v. After receipt of necessary documentation, the EAD shall ensure that the authorization / payment instruction to SBP in the form of standard central payment authority addressed to the Chief Manager, SBP – BSC (Bank), Karachi are issued within 10 working days.

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- vi. The SBP shall refund outstanding balance to respective donor within 07 days after receipt of complete documentation.
- (XIX) In order to record expenditure upon issue of cheques, the concerned Project Authority/ DDO shall ensure that the copy of the schedule in the format at Annex-A is received to the concerned AGPR/AG Office on daily basis (or as the cheques are drawn depending on the volume). The copy of the schedule will also be sent to the NBP by the DDO. The Project Authority/DDO shall also provide/submit a statement of account to AGPR/AG on monthly basis.
- (XX) The controlling Ministries/Division shall reconcile expenditure on account of Foreign Aid with a AGPR and EAD on monthly basis. The controlling departments of the Provincial Government will similarly reconcile the expenditure on foreign aided projects with the AG/Provincial Finance Department. In case of non-reconciliation by 21st of the following month, AGPR/Provincial A.Gs to advise the donor through the EAD to take appropriate action as per the donor's "Financial Management Guidelines."