



FINANCIAL STATEMENTS
of the
Federal Government
Financial Year 2011-12

Government of Pakistan

Controller General of Accounts

CGA Complex

Sector G-5/2, Islamabad

Tel: (051) 9201322-25

Accountant General Pakistan Revenues

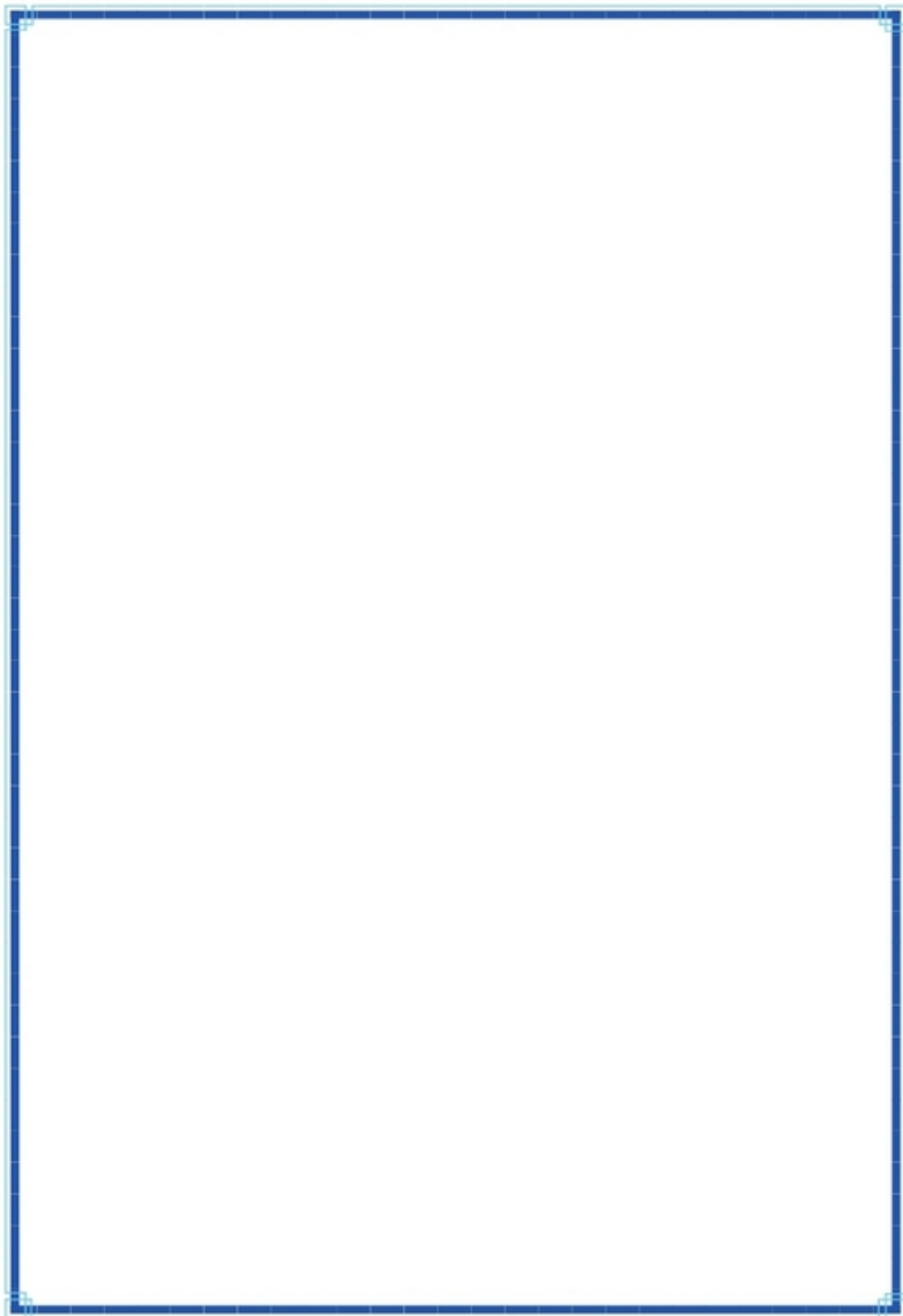
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PREFACE

I am pleased to present the Audited Financial Statements of the Federal Government for the year ended 30 June, 2012 together with the Auditors' Report thereon along with the management analysis report.

The Financial Statements of the Federal Government for the financial year 2011-12 have been prepared by the Accountant General Pakistan Revenues, Islamabad under Section 5 of the Controller General of Accounts (Appointment, Functions and Powers) Ordinance, 2001 and are the responsibility of the Controller General of Accounts.

In response to the changing nature of stakeholders' requirements for making informed decision making based on financial information and developments in the public sector accounting standards, the role of CGA has transformed. Stakeholders now expect high quality, reliable and relevant financial reports and the focus of CGA is not limited to reporting historical results, but is now constantly moving towards enhancing public value, by providing the legislature and the executive through the Financial Statements and Management Analysis report an insight of the government's financial performance.

In December 2000, Auditor General of Pakistan prescribed New Accounting Model (NAM) with the approval of the President of Pakistan under Article 170 of the Constitution of Islamic Republic of Pakistan. NAM, which conforms to international best practices, comprises seven volumes and is based on Modified Cash Basis of Accounting in which, though cash basis of accounting is followed, the following additional concepts were introduced:

- Commitment Accounting
- Physical and Financial Assets Accounting
- Liabilities Accounting

Commitment, asset and liability accounting practices are not yet implemented and these financial statements have been prepared on cash basis of accounting and do not include accrued receipts and liabilities.

The format of International Public Sector Accounting Standards (IPSAS) Cash Basis - Financial Reporting under the Cash Basis of Accounting has been adopted for the preparation of these Financial Statements.

These Financial Statements focus on reporting the budgetary activity of the Government for the financial year as laid down in the financial procedures of the Constitution which describes the Government as Federal Consolidated Fund and Public Account for which Annual Budget Statement is authorized by the Parliament in the form of budgetary grants.

Finally, it is important to emphasize the value of sustained and dedicated efforts towards excellence in public sector financial accounting and reporting. Moving forward, management and staff of CGA are working closely to address the challenges and issues which can limit the quality, transparency and reliability of financial reports. Through excellent financial reporting we are committed to support the decision making critical to the nation's fiscal future.



Controller General of Accounts

Islamabad, Pakistan

Date: **31 DEC 2012**

MANAGEMENT ANALYSIS

INTRODUCTION

The Financial Statements of the Federal Government provide a record of the Government's financial performance over the financial year 2011-12 in the statement of cash receipts and payments, its cash flows along with comparison with the revised budget approved by the Parliament in the statements of comparison of budget and actual amounts by function and actual expenditure by division.

The financial statements for the financial year 2011 - 12 have been prepared and presented in order to make a fair

presentation of all the relevant financial information without making any change in the fundamentals applied and all policies have been applied on a basis consistent with the previous year.

The financial statements have been prepared by the Accountant General Pakistan Revenues (AGPR) by consolidating the information relating to all Federal Government entities which it receives from AGPR sub offices and Self Accounting Entities.

FINANCIAL MANAGEMENT

The financial management cycle starts with the preparation of annual budget statement which is approved by the parliament. A detailed elaboration of the financial management cycle is as follows;

1. Each year Ministry of Finance receives budget estimates from the Government agencies.
2. Based on the resources available and priorities of the Government the annual budget is prepared.
3. Parliament approves the budget.
4. Principal Accounting Officer sanctions the expenditure.
5. Controller General of Accounts is responsible for the regulation of preparation of annual financial statements. This task is accomplished through Accountant General Pakistan Revenues (AGPR) who has the prime responsibility for disbursements, keeping a record of transactions and preparation of annual financial statements of the Federal Government whereas for self accounting entities this task is accomplished by the Principal Accounting Officer (PAO).
6. Each year Auditor General of Pakistan certifies the financial statements of federal, provincial and district governments.
7. Audited Financial Statements and Audit Reports are laid before the National Assembly. These reports are then discussed in the Public Accounts Committee who then reports back to the National Assembly.

Financial Management Cycle



GOVERNANCE STRUCTURE

Pakistan is a federal republic to be known as Islamic Republic of Pakistan and the territories of Pakistan comprises the provinces of Balochistan, Khyber Pakhtunkhwa, Punjab and Sindh, Islamabad Capital Territory and Federally Administered Tribal Areas.

As per the Constitution of the Islamic Republic of Pakistan, 1973, the President of Pakistan has the executive authority of the federation with a Cabinet of Ministers headed by the Prime Minister to aid and advise the President in the discharge of his duties and all executive actions of the federal government shall be expressed to be taken in the name of the President. The executive authority of the federation extends to the matters with respect to which Parliament has power to make law including exercise of rights, authority and jurisdiction in relation to areas outside Pakistan.

To perform the executive function and to carry out the functions and fulfill the responsibilities, the Constitution requires the President of Pakistan to

make rules for the allocation and transaction of the business of the Federal Government. Under the provision of Article 90 and 99 of the Constitution, Rules of Business 1973 were made which define the administrative structure, allocation and transaction of the business of the Federal Government.

A Division is the basic self contained unit for the conduct of the business of the Federal Government and a division or group of divisions can be constituted as a Ministry with a Minister-in-Charge under Rules of Business, 1973. Each ministry or division may have attached departments working directly under it to perform specific functions. In addition Federal Government includes subordinate offices, special purpose authorities and commercial enterprises which perform functions on behalf of the Federal Government. Prime Minister is responsible for important policy decisions and formulation of ministries or divisions and allocation of business amongst them.

Administrative Structure of the Federal Government



FINANCIAL ACCOUNTING AND REPORTING FRAMEWORK

Public Sector Accounting practices in Pakistan are currently undergoing major reforms aimed at increasing transparency, streamlining accountability and improving overall financial management in line with international standards and practices, which mainly include;

- Implementation and Use of SAP R/3
- Development and Implementation of New Accounting Model

The SAP R/3 solution being currently implemented on a nationwide basis covers all the District Accounts Offices (DAO) and Agency Sub-Offices at the lowest level. The solution covers all Accountant General (AG) Offices and Accountant General Pakistan Revenues (AGPR) sub-offices at the provincial level, the AGPR Head Office and the Controller General of Accounts (CGA) headquarters.

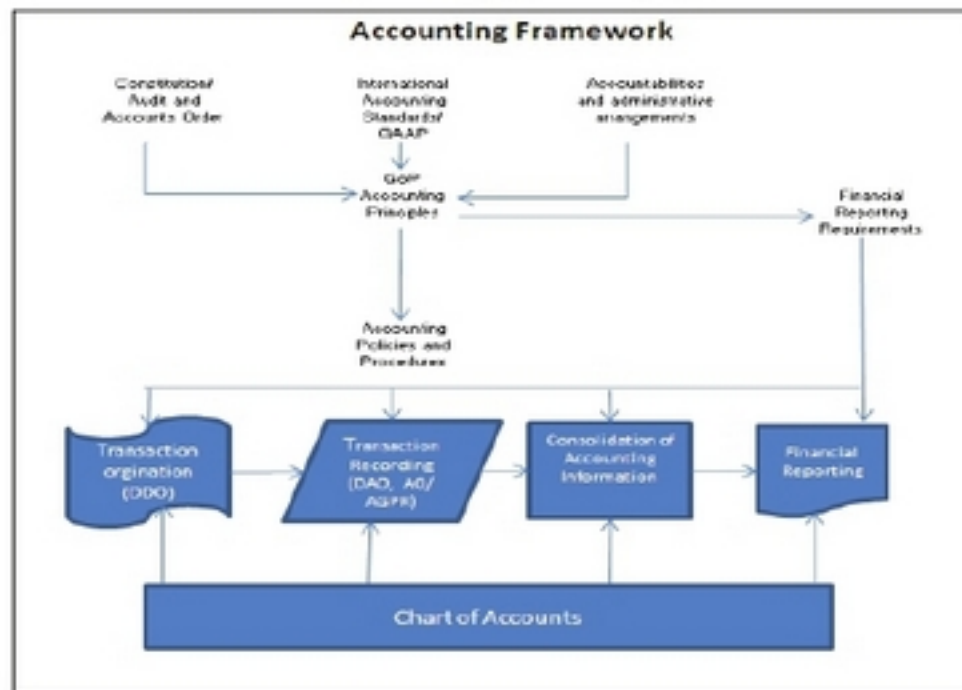
New Chart of Accounts was adopted from 1st July 2004. In December 2000, Auditor General of Pakistan prescribed NAM with the approval of the President of Pakistan under Article 170 of the Constitution of Islamic Republic of Pakistan. NAM is based on Modified Cash Basis of Accounting in which, though cash basis of accounting is followed, the following additional concepts were introduced:

- Commitment Accounting
- Physical and Financial Assets Accounting
- Liabilities Accounting

Commitment, asset and liability accounting practices are not yet implemented and these financial statements have been prepared under the cash basis of accounting that recognizes transactions and events only when cash is received or paid by the entity.

The accounting framework of the Federal Government focuses on reporting the budgetary activity of the Government for the financial year as laid down in the financial procedures of the Constitution which describes the Government as Federal Consolidated Fund and Public Account and consists of accounting principles, policies and procedures. The framework prescribes a particular basis of accounting, which is relevant and applicable to Pakistan, but also adopts, where applicable, the accounting concepts laid down in Generally Accepted Accounting Principles (GAAP) and International Standards.

The accounting framework integrates the accounting principles with the financial reporting requirements, the chart of accounts and the detailed accounting procedures. These linkages are shown in the following diagram:



The format of International Public Sector Accounting Standards (IPSAS) Cash Basis - Financial Reporting under the Cash Basis of Accounting has been adopted for the preparation of these Financial Statements.

The Financial Statements include;

- Statement of Cash Receipts and Payments
- Statement of Cash Flows
- Statement of Comparison of Budgeted and Actual Amounts by Function
- Statement of Comparison of Budget and Actual Expenditure by Division
- Statement of Appropriation of Grants by Object
- Notes to the Financial Statements

The statements of comparison of budget and actual amounts by function and actual expenditure by division are presented on a gross basis, whereas receipts and payments of floating debt in the Statement of Cash Receipts and Payments and Statement of Cash Flows have been netted off for which a reconciliation has been presented on a net basis as disclosed in the notes to the financial statements.

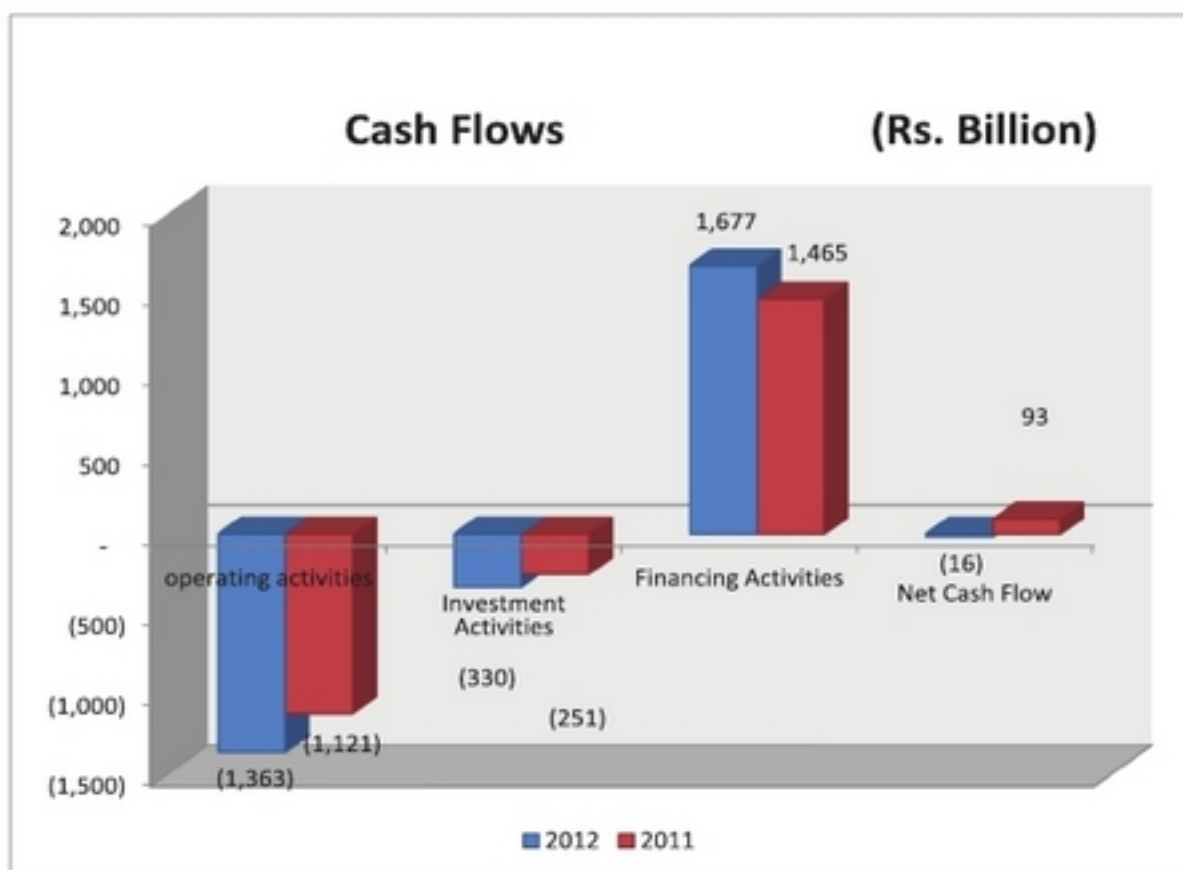
Assets and liabilities of the Federal Government are disclosed in the notes to the Financial Statements and are recorded on a historical cost basis and do not include accrued receipts and payments.

FINANCIAL REVIEW

CASH FLOWS

The net cash flows for the year have decreased by Rs. 15,862 million (2010: increase by Rs. 93,118 million), reducing the balance of cash and cash equivalents at end of the year from a balance of Rs.140,011 million last year to a balance

of Rs.124,149 million. Cash used in operating activities increased by 22% (2009: 25.15. The deficit in investing activities has increased by 32%. The cash flows from financing activities has increased by 14%.



RECEIPTS AND PAYMENTS

RECEIPTS

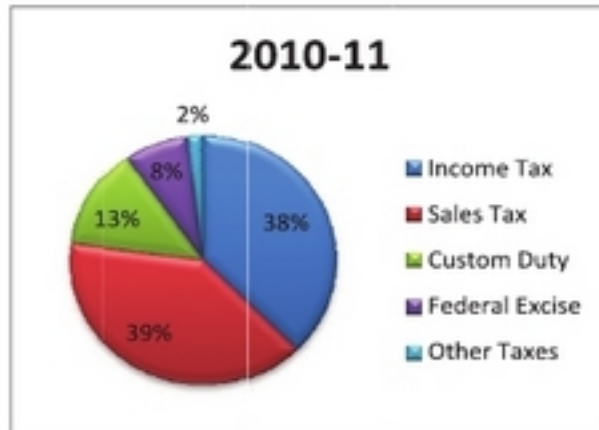
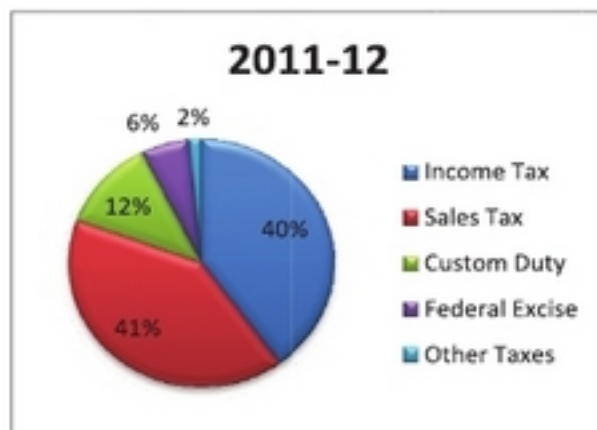
Taxation

During the year under review tax receipts were Rs. 1,868,226 million as compared to Rs. 1,540,095 million for the previous financial year, which represents an increase of 21.31%. Out of total tax collections for the financial year 2011-2012, the Federal Government has transferred Rs. 1,011,107 million to the provinces. These transfers are made from all heads of taxes in accordance with the NFC award. The net tax reported after the transfers leaves the Federal Government with a tax revenue of Rs 857,119 million against Rs.632,861 million in comparison with the previous financial year, thereby showing an increase of 35.44% at its entirety.

The reason for the increase of tax receipts has been attributed by Federal Board of Revenue (FBR) to be the result of a wide-ranging tax and tariff reforms implemented by FBR under Tax Administration Reform Program (TARP). TARP was reportedly effectively implemented by widening the tax base by

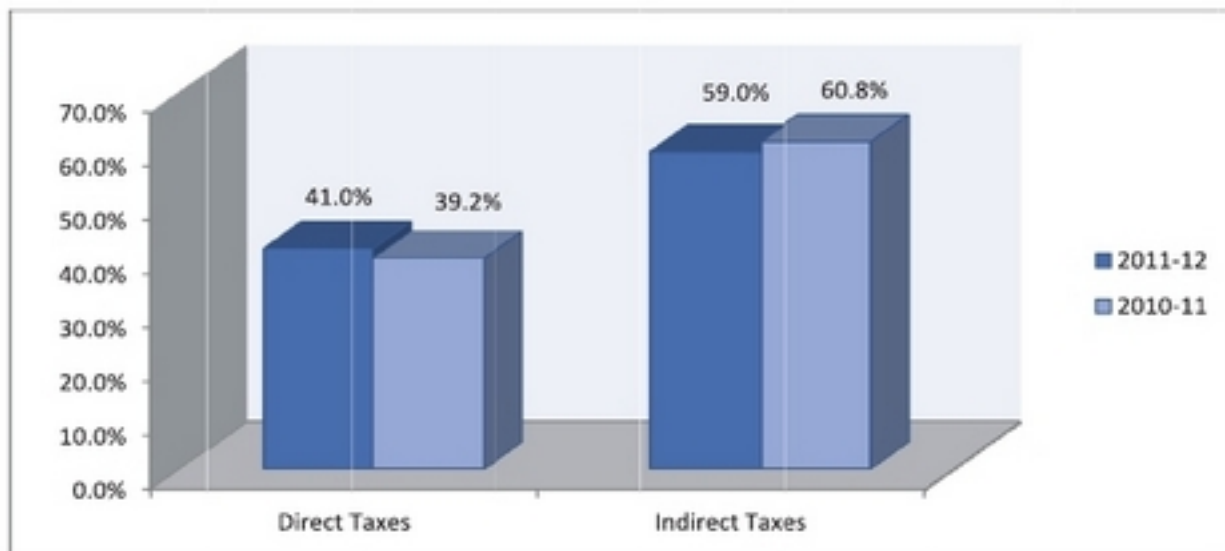
reducing exemptions, incentives and concessions, reducing multiplicity of rates, lowering tax rates, shifting the incidence of tax burden from production to consumption, moving away from the excessive reliance on manufacturing and taxing all value additions including services, enhancing the neutrality between present and future consumption, enhancing the neutrality of the tax system to forms of business organizations and sources of finance, and re-engineering business process of the tax system to overcome the culture of tax avoidance and evasion.

The basic philosophy of tax and tariff reform has been to move away from investment and production based taxes to income (Direct taxes) and consumption (Sales tax) based taxes. Pakistan has succeeded in changing the composition of its taxes but much more effort will be needed to enhance the share of direct taxes in total taxes. A bird eye view of the tax composition is presented below;



The composition of Direct taxes and indirect taxes for the year under review has been; Direct taxes 41.01% and Indirect taxes 58.99% (2010-11: Direct taxes 38.57% & Indirect taxes 61.43%) out of

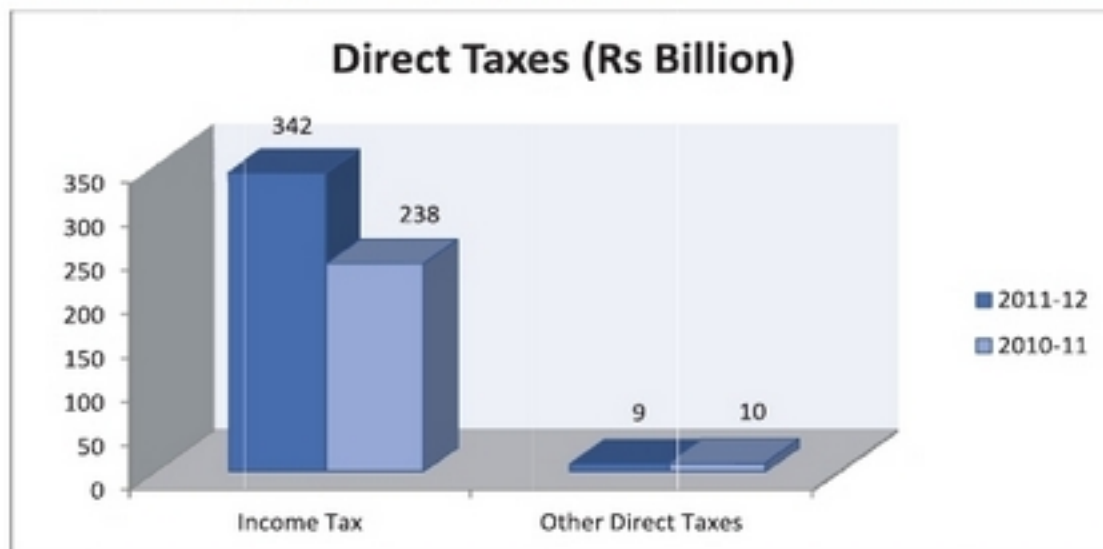
total taxes. Though there is an increase of 1.86% in share of direct still much more efforts are required to enhance the percentage share of Direct taxes in total taxes.



Direct Taxes

The Direct taxes are a major source of federal tax revenues after sales tax. Direct tax consists of Income Tax, withholding tax, capital value tax, tax on profession, trade and callings and other miscellaneous taxes.

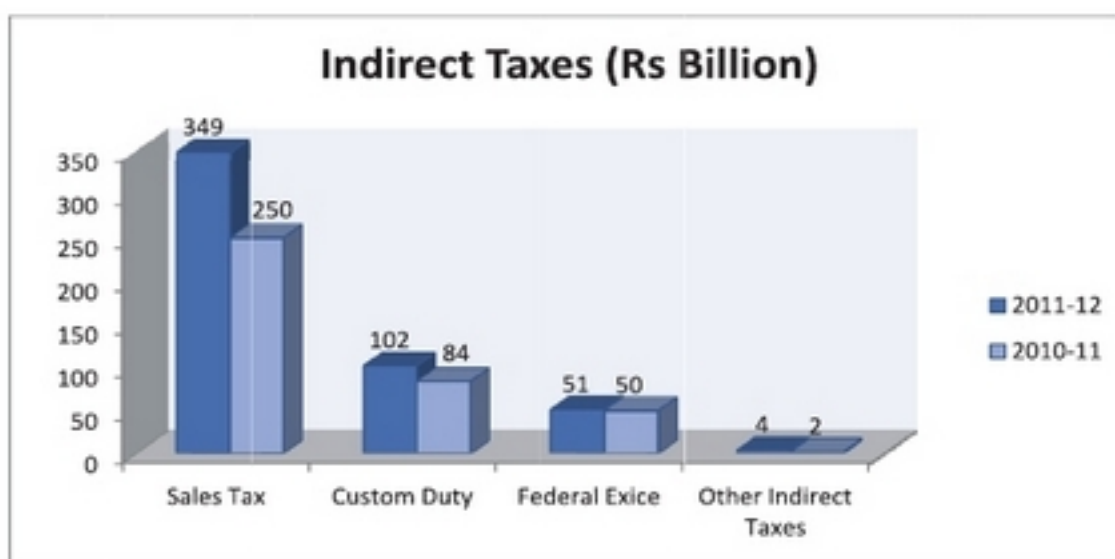
The net collection of Direct taxes has grown at pace of 41.86% from Rs. 258 billion in 2010 – 2011 to Rs. 352 billion in 2011 - 2012. The major change has been observed in Income tax with 43.98% increase. Composition of Direct taxes for the financial years is depicted below.



Indirect Taxes

Indirect taxes are the largest contributor to Federal tax revenues. Indirect taxes comprise sales tax, customs duty and Federal Excise Duty. The total revenue from Indirect taxes for the current year amounted to Rs. 505 billion which shows a 31.3% increase from the last year. Sales Tax has emerged as the leading revenue source in recent years. Due to its buoyant nature, the share of Sales Tax has come to 68.93% of the total Indirect Tax collected,

customs to 20.27% and Federal Excise 10.10% of the total Indirect taxes.



Development Surcharge and Royalties

Items exhibiting major movements here are development surcharge on gas showing 36.68% decrease from previous year, windfall levy on crude oil 42.99%

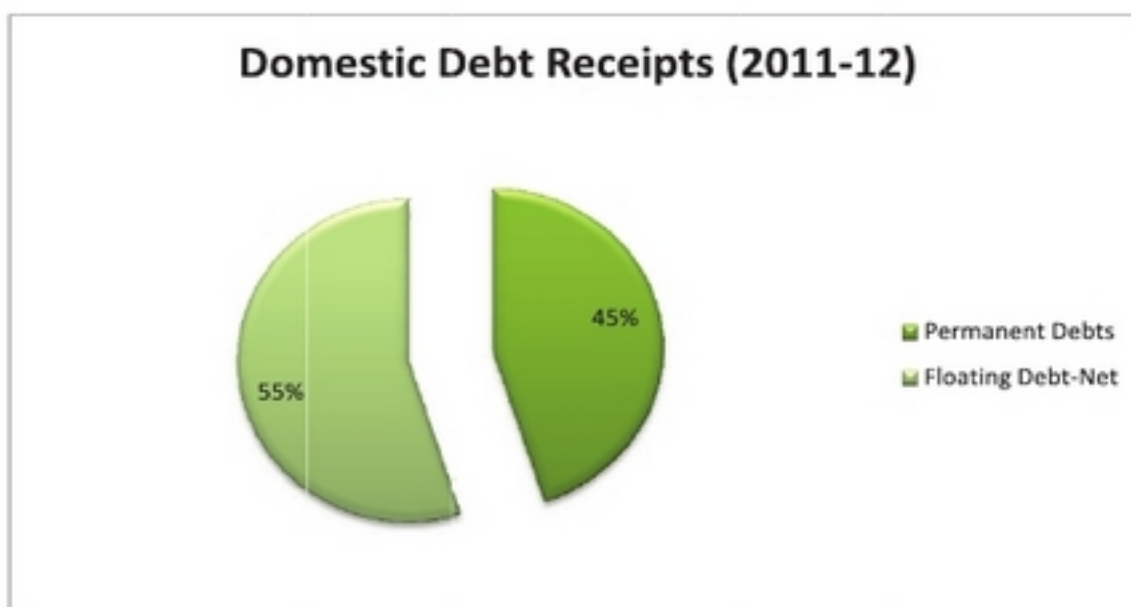
increase from last year. The discount retained on local crude price has decreased by 45.76%.

Borrowings

1. Domestic Debt

During the year under review Domestic Debt Receipts amounted to Rs. 1,664,056 million which consist of Permanent Debt and Floating Debt reported on a net basis. An increase of 27.16% in Domestic Debt Receipts was witnessed in the current year

as compared to the previous year. The composition of Floating Debt-Net and Permanent Debt was 55% and 45% respectively this year as highlighted below;



Permanent Domestic Debt raised during the current financial year was Rs. 756,978 million as compared to Rs. 476,155 million in the last financial year showing an increase of 58.98%. The major sources

were sale of National Prize Bonds (Rs. 162,881 million) , Pakistan Investment Bonds (Rs. 407,303 million) and Ijara Sukkuk Bond (Rs. 186,791).

2. Foreign Debt

In the year under review, the burden of Foreign Debt on the Federal Government has decreased by Rs 15,543 million. Receipts of Foreign Debt recorded were Rs. 214,223 million this year as compared to Rs. 229,766 million last year which represents 6.76% decrease. Amongst foreign lenders, Chinese Loan amounted to Rs. 91,208 million during the year. Other major donors were Asian Development Bank (ADB) Rs. 36,582 million, International Development Association (IDA) Rs. 47,996 million and Islamic Development Bank (IDB) Rs. 13,471 million.

Dividend and profit share

Dividend represents dividends received against the investments made by the Federal Government in financial and non-financial institutions. Non-financial institutions were the prime source of dividends received in the Federal Consolidated Fund. A decrease of 2.55 in total dividend receipts was recorded in comparison to the previous financial year, the current year's receipt amounted to Rs. 49,354 million. Out of total dividend income, dividend from OGDCL was Rs.22,572 million, i.e. 45.73% of total dividend income.

Share of profits represents distributable profits from the State Bank of Pakistan and Pakistan Post Office to the Federal Government against the appropriation of their net profits from their investment holdings. The profit share received during the year was Rs.204, 000 million was from State Bank of Pakistan. Profit share from State Bank of Pakistan has shown 15.25% increase from the previous year. The surplus profit of the SBP, after making provision of reserve fund dividend payments, is transferred to the Federal Government.

Recovery of loans and advances

This item has witnessed normal movement in aggregate. Compared to previous year, an increase of 17.55% in recoveries from provinces and a decrease of 4.02% in recoveries from financial institutions have been recorded. As far as recoveries from provinces are concerned, figure of last year stood at Rs. 30,747 million compared to Rs. 36,142 million during this year.

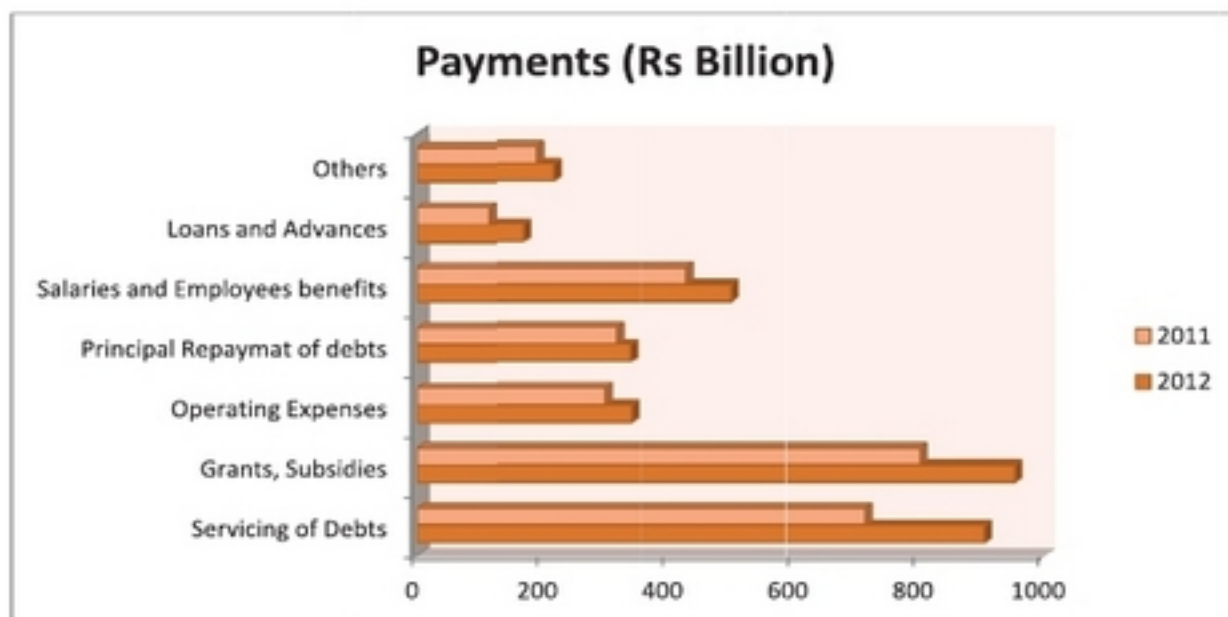
PAYMENTS

The Federal Government's plan of better fiscal transparency and improving expenditure management is still at the forefront of policy despite the impediments faced by the country during this fiscal year. Total payments made from Federal Consolidated Fund during the current year increased by Rs. 562,522 million (19.64%) over the previous year. Total payments made during the year amounted to Rs. 3,427,130 million as compared to Rs. 2,864,608 million last year.

The major payments include salaries and employees benefits amounting to Rs. 499,210 million, operating expenditure amounting to Rs. 340,606 million, servicing of debt Rs. 905,680 million, grants, subsidies and write-off of loans Rs.

953,656 million and Principal Repayment of Debts amounting to Rs. 338,619 million. The Principal Repayment of Debt consisted of Repayment of Domestic Debt of Rs. 203,333 million and Rs. 135,286 million for Repayment of Foreign Debt. Out of total debt servicing payments of Rs. 905,680 million, the Domestic Debt servicing cost was Rs. 837,751 million and Foreign Debt servicing cost was Rs. 67,929 million. Compared to the payments in the previous years, increases have been witnessed in the areas of salaries and employees benefits with 16.63%, Grant subsidies and write off of loans with 18.92%, servicing of debts with 26.8%, investments with 65.84% and loans and advances with 49.92%.

The composition of payments made has been detailed below;



Payments - Comparison of two years

THE BUDGET 2011-2012

The budget is the principal document by which the Government sets out its financial plan for each financial year, namely how much the plan will cost (i.e. expenditure) and how much and in what way, money will be raised to finance the expenditure (i.e. revenue). It consists of the following documents;

- Annual Budget Statement (article 80 of constitution)

Medium-Term Budgetary Framework (MTBF)

Previously the budget process was structured to provide only annual budget. This did not permit spending agencies to formulate their programs more than a year with uncertainty regarding the availability of resources beyond the annual budget. In order to allow these spending agencies to plan their programs in a consistent and coherent manner, the Government has initiated the process of putting in place a Medium - Term Budgetary Framework (MTBF). MTBF assists in improving the overall quality of planning and budgetary process and also enhancing the quality and effectiveness of public expenditure. It has introduced the concept of multi-year budgeting. MTBF will enable ministries to prioritize their spending plan within the indicated envelop and will, to a great extent, reduce the uncertainties that impede effective planning.

The MTBF reforms initiated in 2003 comprise two major components – the strategic or "top-down" component

- Schedule of Authorized Expenditure - detailed estimates of Consolidated Fund - current expenditure and detailed estimates of Consolidated Fund - development expenditure (Article 83 of the constitution)
- Finance Act - the legal instrument through which the budget becomes an act of law.

implemented in the Ministry of Finance and the "bottom up" component which

introduces strengthened budget preparation through output based budgeting, progressively across the Federal Ministries.

National Finance Commission (NFC) Award

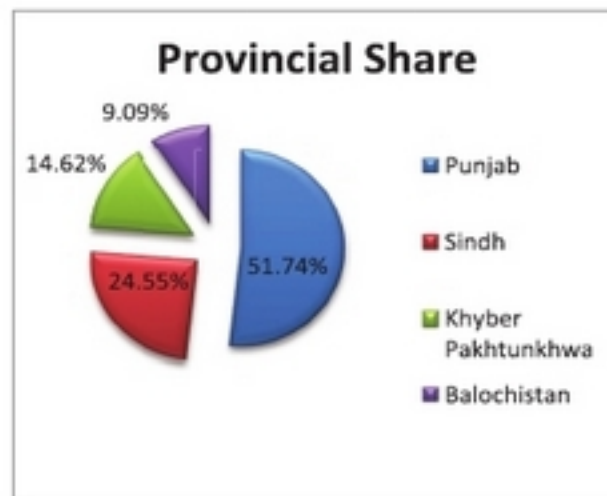
According to NFC award 1997 and its amendment under the Distribution of Revenue and Grant-in-Aid Amendment Order 2006, provinces shall be assigned in each financial year a share equal to the percentage of the net proceeds of the following taxes and duties levied and collected by the Federal Government:

- (a) Income tax
- (b) Wealth Tax
- (c) Capital Value Tax
- (d) Taxes on Sales & Purchase of goods
- (e) Sales tax on services (Central Excise Mode)
- (f) Export Duty on Cotton
- (g) Custom Duty
- (h) Federal Excise Duty
- (i) Any other tax which may be levied by the Federal Government.

The percentage decided to be transferred in the following years are as follows:



The balance was distributed amongst the provinces on the basis of their respective population in the percentage as shown in the graph below:



Grants in Aid

There shall be charged upon the Federal Consolidated Fund each year, as grants-in-aids of the revenues of the province of Sindh an amount equivalent to 0.66% of the provincial share in the net proceeds of divisible pool as a compensation for the losses on account of abolition of octri and zila tax.

Khyber Pakhtunkhwa to meet the expenses on War on Terror. Out of the balance amount of the net proceeds of divisible pool taxes, 56% shall be assigned to provinces during the financial year 2010-11 and 57.5% from the financial year 2011-12 onwards.

Provincial Share Calculation

Transfer to provinces from taxes fall under two categories

Divisible pool

Straight transfers

1% of the net proceeds of the divisible taxes shall be assigned to government of

Analysis of Budget - Comparison of Actual With Budget

Capital and Revenue are two major categories of receipts disclosed in the financial statements. An amount of Rs.

1,328,137 million was budgeted as revenue receipts against which actual receipts collected were Rs. 1,346,219 million. Capital receipts budgeted were Rs. 6,674,743 million and the actual receipts were of Rs. 7,700,470 million.

Budgeted Payments

The detail below depicts the allocation of original and revised budget of revenue expenditure. This entails distribution of original and revised budget on different

functions of the Government i.e. percentage of budget allocated originally and its subsequent revision in different functions.

	2012 (Rupees in million)			2011 (Rupees in million)		
	Budgeted Amounts		Actual Amounts	Budgeted Amounts		Actual Amounts
	Original	Revised		Original	Revised	
Revenue						
General public services	1,843,843	2,079,793	1,976,024	1,412,878	1,667,056	1,640,765
Defence affairs and services	496,705	511,572	511,150	443,464	444,950	453,916
Economic affairs	121,034	176,204	171,227	134,001	112,129	120,905
Public order and safety affairs	62,662	65,650	80,780	53,158	60,084	66,654
Education affairs and services	54,363	61,318	57,993	55,612	55,118	60,658
Health affairs and services	3,280	7,434	10,493	21,522	23,607	23,554
Housing and community amenities	4,999	5,013	1,694	6,625	3,352	2,961
Recreation, culture and religion	4,302	5,461	6,766	4,794	4,420	4,838
Social protection	2,100	34,872	43,416	2,312	3,707	21,082
Environment protection	577	599	634	448	448	488
Total revenue payments	2,593,865	2,947,916	2,860,177	2,134,814	2,374,871	2,395,821

In the revised budget, General Public service expenditure has increased by 20.43%. Major expenditures in this function are servicing of Foreign Debts, servicing of Domestic Debts, Foreign

Loan Repayment, Domestic Debt Repayment, superannuation, allowances and pension.

FINANCIAL SYSTEM, CONTROLS AND LEGAL COMPLIANCE

Financial System and Control

The effectiveness and credibility of government policies is critically dependent on the availability of timely and accurate financial and management information, a framework of financial and accounting principles and procedures designed according to internationally accepted standards. The Government has made significant progress in its efforts to re-engineer its economic and financial management function to include as key elements of its strategy:

- Modern accounting system designed according to internationally recognized accounting principles and standards, and based on modern information technology to ensure ready availability of relevant, Accurate and timely information required by economic managers as a decision support system.
- Implementation of the world's most advanced Enterprise Resource Planning (ERP) system, SAP has been implemented at AG offices. Two modules namely Financial and Controlling (SAP-FICO) and Human Resources (SAP-HR) are currently in use. This system has contributed a lot in the preparation of financial statements. Additionally, procedures of Payroll and General Provident Fund have become more effective. Burden

on the employees has been reduced and effectiveness ensured. Due to its advanced functionalities, tracking of each and every case of GP fund or payroll has become very easy and full information can be retrieved even after a number of years.

- Increasing professionalization of the elements of its civil services which deal with financial and economic management, requiring key competencies in staff training and appropriate human resource management policies emphasizing performance, experience and knowledge; and,
- Increasing partnership between the private and public sectors in their respective areas of comparative advantage.

The Government has implemented *New Accounting Model (NAM)* to improve expenditure management and fiscal transparency. NAM was approved subject to its implementation which is in process. Keeping in view the massive scale and complexity of government accounting significant progress has taken place. However, at present memorandum registers for assets and commitments do not exist and accounting of liabilities is still in the process of completion.

The CGA has circulated the Principles for Internal Financial Control (PIFC) to Ministry of Finance and the Provincial Finance department as required under section 5(d) of the Controller General of Accounts Ordinance, 2001. These principles have been based on the Committee of Sponsoring Organizations (COSO) Framework that confirms to best practices of internal controls standards.

These PIFC principles are discussed in twenty high levels internal financial controls governed by five major components namely control environment, risk assessment, control activities, information and communications and monitoring.

These concepts define the minimum level of quality acceptable for internal control in Government and provide the basis against which internal controls are to be evaluated.

These concepts apply to all aspects of an organization's operations. However, they do not intend to limit or interfere with duly granted authority related to developing legislation, rule making, or other discretionary policy making in an

organization and focuses on ensuring reliability of financial information being generated, safeguarding of assets as well as compliance with laws and regulations affecting financial reporting, disbursements and financial control.

The role of Principal Accounting Officers (PAO) and Chief Finance and Account Officers (CFAO's) is to establish a control mechanism to exercise oversight responsibility relating to financial management including financial control and reporting and as an effective member of the audit committee established by the management.

Legal Compliance

All Federal Ministries, Self Accounting Entities and Government Departments are required to comply with a wide range of laws and regulations, including budgetary appropriations, employment, health and safety and others. The responsibility of compliance primarily rests with the Principal Accounting Officers and its compliance with relevant laws is conducted by the Auditor General Office as part of its financial statement audit.

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Auditor General of Pakistan
Audit House, Constitution Avenue
Islamabad, Pakistan

Auditor's Report

The Office of the Auditor-General of Pakistan has audited the accompanying financial statements of the Federal Government, which comprises the statement of receipts and payments for the year ended 30 June, 2012, statement of cash flows, statement of comparison of budget and actual amounts by function, statement of comparison of budget, actual expenditure by division and statement of appropriation of grants by object for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements have been prepared by the Accountant General Pakistan Revenues under Section 5 of the Controller General of Accounts (Appointment, Function and Powers) Ordinance, 2001. These financial statements are the responsibility of the Controller General of Accounts.

Auditor's Responsibility

The responsibility of the Auditor-General's Office is to express an opinion on these financial statements based on the audit in accordance with the requirements of Article 169 of the Constitution of the Islamic Republic of Pakistan read with Section 7 of the Auditor-General's (Functions, Powers and Terms & Conditions of Service) Ordinance, 2001.

Basis of Opinion

The audit is conducted in accordance with the auditing standards issued by the International Organization of Supreme Audit Institutions. These standards require that audit is planned and performed to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit process includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, as well as evaluating the overall financial statement presentation. The audit results provide a reasonable basis for our opinion.

We report that:

1. The entity, Federal Board of Revenue, did not provide complete record of Computerized Payment Receipts, i.e. Receipt Vouchers (either in soft or hard) which are the underlying transactions of tax revenue component. The component may contain numerous errors which cannot be quantified, as we have detected some errors using alternative audit procedures. We could not satisfy ourselves regarding the completeness, occurrence, measurement and accuracy of the tax revenue component. Accordingly, we have not been able to determine whether any adjustments might be necessary to the tax revenue component.

2. A limitation was placed on the scope of our work by the entity, Accountant General Pakistan Revenues, due to extreme delay in submission of Financial Statements for which detailed audit tests and procedures could not be performed which were considered necessary to obtain reasonable assurance and audit evidence for the expenditure incurred.
3. Expenditure of Rs. 71,796 million booked in Functional and Object heads under various grants in the Financial Statements was not reconciled with the Principal Accounting Officers of various spending units of Federal Government for the financial year 2011-12. Therefore the authenticity of expenditure cannot be ascertained.
4. An expenditure of Rs. 123.977 million was booked in Functional and Object heads under various grants in lieu of cheques issued during the year which were not presented for clearance to the State Bank of Pakistan before 30.06.2012 by the spending units. The Ministry of Finance vide SRO(1)2010 dated 31.03.2010 had issued instructions that cheques drawn up to 30th June will not be allowed to be encashed after 30th June. Therefore, effectively the status of those cheques stands invalid after June 30, 2012. Resultantly, the expenditure in Appropriation Accounts is overstated by Rs. 123.977 under various Grants.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to conduct detailed audit tests and procedures and obtain reasonable assurance, these financial statements present fairly, in all material respects, the financial performance of the Federal Government for the year ended 30 June, 2012, its cash flows, comparison of budget and actual amounts by function, comparison of budget and actual expenditure by division and statement of appropriation of grants by object for the year then ended in accordance with the stated accounting policies of the Government of Pakistan.

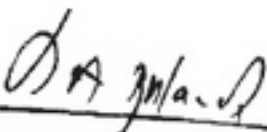
Emphasis of Matter

We draw your attention to Note 6.12 of the financial statements relating to payments by third parties. Under IPSAS Cash Basis, disclosure of third party payments is a mandatory part of the general purpose statements and should be disclosed separately on the face of the statement of receipts and payments of the Federal Government. The Federal Government has disclosed third party payments as NIL on the basis that neither the Federal Government has been formally advised by the third party or the recipients nor such payments have otherwise been verified.

Other Reports

Reports covering significant aspects of the financial governance or economical and effective utilization of public resources are submitted separately to the President by the Auditor General of Pakistan under Article 171 of the Constitution of the Islamic Republic of Pakistan for laying before the Parliament.

Islamabad, Pakistan
Dated: **31 DEC 2012**


Auditor General of Pakistan

FEDERAL GOVERNMENT
Statement of Cash Receipts and Payments
For the Year Ended 30 June 2012

	Note	2012 (Rupees in Million)		2011 (Rupees in Million)	
		Receipts / Payments Controlled by Federal Government	Payments by Third Parties	Receipts / Payments Controlled by Federal Government	Payments by Third Parties
FEDERAL CONSOLIDATED FUND					
RECEIPTS					
<i>Taxation</i>					
Income tax		342,215	-	237,675	-
Sales tax		348,493	-	249,919	-
Customs duty		102,474	-	83,720	-
Federal excise		51,068	-	49,823	-
Other taxes		12,869	-	11,724	-
	7	857,119	-	632,861	-
<i>Non-Tax Revenue and Other Receipts</i>					
General administration receipts	8	3,558	-	4,906	-
Economic services receipts	9	1,871	-	2,334	-
Defence services receipts	10	9,875	-	70,931	-
Development surcharge and royalties	11	107,278	-	116,877	-
Citizenship, nationalization, passport and copyright		10,962	-	9,894	-
Interest on loans and advances	12	23,449	-	29,170	-
Dividend and profit share	13	253,354	-	227,645	-
Others		48,528	-	27,450	-
		458,875	-	488,707	-
<i>Grants and Aid</i>					
Development grants	14	21,973	-	2,586	-
<i>Borrowings</i>					
Foreign debt	15	214,223	-	229,766	-
Domestic permanent debt	16	756,978	-	476,155	-
Domestic floating debt-net	17	907,078	-	832,436	-
		1,878,279	-	1,538,357	-
<i>Capital Receipts</i>					
Privatization proceeds	18	1,300	-	674	-
Recovery of loans and advances	19	47,864	-	42,451	-
Investment recovery		130	-	25	-
		49,294	-	43,150	-
<i>Trading Activities</i>					
	20	8,252	-	8,334	-
TOTAL RECEIPTS		3,273,792	-	2,713,995	-

FEDERAL GOVERNMENT
Statement of Cash Receipts and Payments
For the Year Ended 30 June 2012

	Note	2012 (Rupees in Million)		2011 (Rupees in Million)	
		Receipts / Payments Controlled by Federal Government	Payments by Third Parties	Receipts / Payments Controlled by Federal Government	Payments by Third Parties
PAYMENTS					
<i>Operations</i>					
Salaries and employees benefits	21	499,210	-	428,027	-
Operating expenses		340,606	-	298,639	-
		839,816	-	726,666	-
<i>Transfers</i>					
Grants, subsidies and write-off of loans		953,656	-	801,924	-
Other transfer payments		9,643	-	10,253	-
		963,299	-	812,177	-
<i>Expenditures on</i>					
Physical assets		132,884	-	121,325	-
Civil works		52,928	-	43,985	-
Others		4,397	-	3,820	-
		190,119	-	169,130	-
<i>Debt and Interest Payments</i>					
Principal repayments of debts	22	338,619	-	317,155	-
Servicing of debts	23	985,680	-	714,250	-
		1,244,299	-	1,031,405	-
<i>Other Payments</i>					
Loans and advances	24	170,338	-	113,617	-
Investments	25	19,259	-	11,613	-
		189,597	-	125,230	-
TOTAL PAYMENTS		3,427,130	-	2,864,608	-
NET PAYMENT OF FEDERAL CONSOLIDATED FUND		(153,338)	-	(150,613)	-
NET RECEIPT OF PUBLIC ACCOUNT	26	137,476	-	243,731	-
INCREASE / (DECREASE) IN CASH		(15,862)	-	93,118	-
CASH AT THE BEGINNING OF THE YEAR		140,011	N/A*	46,894	N/A*
INCREASE / (DECREASE) IN CASH		(15,862)	N/A*	93,118	N/A*
CASH AT THE END OF THE YEAR	27	124,149	N/A*	140,011	N/A*

The annexed notes 1 to 31 form an integral part of these financial statements.
N / A* = Not Applicable



Accountant General Pakistan Revenues

FEDERAL GOVERNMENT
Statement of Cash Flows
For the Year Ended 30 June 2012

	Note	2012 Rupees in million	2011 Rupees in million
CASH FLOWS FROM OPERATING ACTIVITIES			
Tax receipts	7	857,119	632,861
Non-tax revenue & other receipts		458,875	488,707
Development grants	14	21,973	2,586
Trading activities	20	8,252	8,334
Operations payments		(839,816)	(726,666)
Servicing of debt	23	(905,680)	(714,250)
Transfers		(963,299)	(812,177)
<i>Cash used in Operating Activities</i>		(1,362,576)	(1,120,605)
CASH FLOWS FROM INVESTING ACTIVITIES			
Privatization proceeds	18	1,300	674
Recoveries of loans and advances	19	47,864	42,451
Investments recoveries		130	25
Expenditure on physical assets, civil works & others		(190,119)	(169,130)
Investments	25	(19,259)	(11,613)
Payments of loans and advances	24	(170,338)	(113,617)
<i>Cash used in Investing Activities</i>		(330,422)	(251,210)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of domestic permanent debt	16	756,978	476,155
Receipt of foreign debt	15	214,223	229,766
Domestic floating debt-net	17	907,078	832,436
Principal repayments of debt	22	(338,619)	(317,155)
Net receipt of public account	26	137,476	243,731
<i>Cash from Financing Activities</i>		1,677,136	1,464,933
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		(15,862)	93,118
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		140,011	46,894
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27	124,149	140,011

The annexed notes 1 to 31 form an integral part of these financial statements.



Accountant General Pakistan Revenues

FEDERAL GOVERNMENT
Statement of Comparison of Budgeted and Actual Amounts by Function
For the Year Ended 30 June 2012

	Note	2012 (Rupees in million)			2011 (Rupees in million)		
		Budgeted Amounts		Actual Amounts	Budgeted Amounts		Actual Amounts
		Original	Revised		Original	Revised	
RECEIPTS							
Revenue							
Taxation		822,308	827,278	857,119	816,609	796,388	852,861
Non-taxation		706,523	590,859	489,100	560,741	471,800	499,627
Total revenue receipts		1,528,831	1,418,137	1,346,219	1,377,350	1,268,188	1,352,488
Capital							
Domestic debt		6,448,145	6,437,227	7,436,953	4,274,352	6,181,727	7,168,884
Foreign debt		287,236	180,523	214,523	288,934	254,720	229,766
Privatization proceeds		-	-	1,300	-	-	674
Recoveries of loans and advances		51,610	55,993	47,864	47,660	57,752	42,451
Others		-	-	130	-	-	25
Total capital receipts	29	6,786,991	6,674,743	7,700,470	4,608,746	6,494,199	7,641,800
TOTAL RECEIPTS		8,315,822	8,092,880	9,046,689	5,986,096	7,762,387	8,994,288
PAYMENTS							
Revenue							
General public services		1,843,883	2,879,793	1,976,024	1,412,878	1,567,056	1,640,765
Defence affairs and services		496,705	511,572	511,150	443,464	444,950	453,916
Economic affairs		321,034	176,294	171,227	134,001	112,129	120,995
Public order and safety affairs		42,662	65,650	60,780	53,158	60,084	66,654
Education affairs and services		54,563	61,318	57,993	55,612	55,118	60,658
Health affairs and services		3,280	7,434	10,493	21,522	23,607	23,554
Housing and community amenities		4,959	5,613	1,694	6,625	3,352	2,961
Recreation, culture and religion		4,302	5,461	6,766	4,794	4,420	4,838
Social protection		2,000	34,872	43,416	2,312	3,707	21,082
Environment protection		577	599	634	448	448	488
Total revenue payments		2,593,865	2,947,916	2,860,177	2,134,814	2,374,871	2,395,821
Capital							
General public services		6,441,522	6,395,660	6,335,773	4,510,742	6,223,374	6,324,855
Economic affairs		4,909	5,961	4,077	9,334	4,065	4,227
Total capital payments		6,446,431	6,401,621	6,340,850	4,520,076	6,227,439	6,329,082
TOTAL PAYMENTS	29	9,040,296	9,349,537	9,201,027	6,654,890	8,602,310	8,724,903

The annexed notes 1 to 31 form an integral part of these financial statements.



Accountant General Pakistan Revenues

FEDERAL GOVERNMENT

**Statement of Comparison of Budgeted and Actual Expenditure by Division
For the Year Ended 30 June 2012**

DIVISIONS	Note	2012 (Rupees in million)			2011 (Rupees in million)		
		Budgeted Amounts		Actual Amounts	Budgeted Amounts		Actual Amounts
		Original	Revised		Original	Revised	
Cabinet Secretariat		133,357	171,810	184,614	90,999	121,737	122,130
Establishment Division		3,646	2,870	2,995	2,335	3,932	3,525
Commerce Division		5,288	4,659	4,871	5,393	26,263	26,495
Communications Division		5,887	5,704	7,718	4,799	4,551	4,872
Culture Division		-	-	-	1,003	528	560
Capital Administration and Development Division		4,448	7,960	10,883	-	-	186
Climate Change Division		-	22	339	-	-	-
Defence Division		10,679	11,602	15,071	10,261	10,310	16,535
Defence Production Division		1,986	1,972	1,486	1,761	744	368
Defence Services		493,745	508,221	508,291	440,746	443,245	432,651
Economic Affairs Division		428,678	337,299	308,836	323,070	301,511	290,334
Education Division		-	-	-	9,385	4,108	7,696
Environment Division		-	-	-	1,321	636	612
Finance Division		7,658,458	7,914,407	7,880,763	5,476,274	7,036,458	7,145,022
Revenue Division		14,185	12,630	15,463	12,442	13,153	13,333
Food and Agriculture Division		-	-	-	12,713	17,446	14,848
Foreign Affairs Division		12,384	12,427	12,047	11,527	11,609	10,768
Health Division		-	-	-	19,246	21,314	21,001
Higher Education Commission		26,887	31,500	28,889	23,220	29,057	29,068
Housing and Works Division		4,408	5,662	5,456	6,160	4,075	4,656
Human Rights Division		111	276	241	101	62	75
Human Resource Development Division		-	224	260	-	-	-
Industries and Production Division		2,778	2,717	1,779	3,787	6,230	6,037
Information and Broadcasting Division		4,252	4,994	6,304	3,548	3,684	4,093
Information Technology & Telecommunication Division		3,332	3,310	3,167	3,098	2,222	2,824
Inter Provincial Coordination Division		336	1,662	3,804	26	48	131
Interior Division		55,607	57,622	72,181	49,338	53,774	59,246
Kashmir Affairs & Gilgit Baltistan Division		31,535	12,370	11,686	25,215	29,842	28,489
Labour and Manpower Division		-	-	-	450	427	436
Law, Justice & Parliamentary Affairs Division		3,453	3,870	2,766	2,900	2,990	2,476
Livestock and Dairy development Division		-	-	-	1,099	417	380
Local Government & Rural Development		-	-	-	5,226	9,136	6,858
Minorities Affairs Division		-	-	-	237	220	219
Narcotics Control Division		1,387	1,258	1,615	1,300	1,075	1,255
National Food Security and Research Division		-	1,480	1,344	-	-	-
National Harmony Division		-	84	72	-	-	-
National Heritage and Integration Division		-	285	422	-	-	-
National Regulations and Services Division		-	22	23	-	-	-
National Assembly		1,803	1,803	1,740	1,594	1,371	1,450
The Senate		1,041	1,041	1,016	968	896	843
Overseas Pakistanis Division		491	512	493	472	432	428
Pakistan Railways Division		12,500	10,948	8,870	9,874	3,617	3,615
Petroleum and Natural Resources Division		703	868	853	1,145	11,351	12,776
Planning & Development Division		32,482	32,954	3,582	9,932	2,161	2,534
Population Welfare Division		-	-	-	4,358	675	836
Ports and Shipping Division		1,239	1,266	614	929	815	850
Postal Services Division		10,987	10,984	12,457	8,786	8,705	10,117
Privatization Division		75	121	111	73	69	70
Professional and Technical Training Research Division		-	3,846	3,019	-	-	-
Religious Affairs Division		529	595	611	457	458	445
Scientific and Technological Research Division		4,834	5,410	5,411	4,968	4,303	4,225
Social Welfare and Special Education Division		-	-	-	2,948	2,107	2,456
Special Initiatives Division		-	-	-	1,056	83	252
Sports Division		-	-	-	778	696	803
States and Frontier Regions Division		26,471	27,106	31,760	19,514	26,292	31,125
Statistics Division		1,287	1,985	1,610	931	2,433	2,600
Textile Industry Division		275	292	297	366	7,699	216
Tourism Division		-	-	-	363	188	197
Water and Power Division		34,497	34,625	27,225	27,702	360,296	365,797
Women Development Division		-	-	-	253	172	165
Youth Affairs Division		-	-	-	3,782	1,333	1,502
Zakat And Ushr Division		-	-	-	90	26	26
Staff Household and Allowances of the President		483	483	649	427	463	438

FEDERAL GOVERNMENT
Statement of Comparison of Budgeted and Actual Expenditure by Division
For the Year Ended 30 June 2012

DIVISIONS	Note	2012 (Rupees in million)			2011 (Rupees in million)		
		Budgeted Amounts		Actual Amounts	Budgeted Amounts		Actual Amounts
		Original	Revised		Original	Revised	
Audit		2,300	2,300	2,452	1,832	1,709	2,060
Supreme Court		1,199	1,229	1,042	823	823	732
Election Commission		1,390	1,890	2,480	1,254	1,219	1,096
Wafaqi Mohtesib		273	270	260	260	219	259
Federal Tax Ombudsman		90	90	89	95	95	92
TOTAL PAYMENTS	29	9,040,296	9,259,537	9,200,027	6,654,890	8,602,310	8,724,902

The annexed notes 1 to 31 form an integral part of these financial statements.


 Accountant General Pakistan Revenues

FEDERAL GOVERNMENT

Notes to the Financial Statement

For the Year Ended 30 June 2012

1. REPORTING ENTITY

Federal Government – Islamic Republic of Pakistan (“the Government”) conducts its operations under the Rules of Business 1973. These rules were made pursuant to Article 90 and 99 of the Constitution of the Islamic Republic of Pakistan, 1973 (“the Constitution”) and envisages Federal Government as comprising of ministries, divisions and attached departments. Financial procedures of the Constitution describes the Government as Federal Fund and Public Account for which Annual Budget Statement is authorized by the Parliament in the form of budgetary grants. These financial statements focus on reporting the budgetary activity of the government for the financial year.

Article 170 of the Constitution confers the powers of defining the form, principles and methods of the accounts of the federation to the Auditor General of Pakistan, with the approval of the President. New Accounting Model was prescribed by the Auditor General of Pakistan in 2000 which describes Federal Government as an accounting and reporting entity comprising;

- a) Centralized Accounting Entities; for which the Accountant General Pakistan Revenues has the primary responsibility for accounting and reporting.
- b) Self Accounting Entities; for which the Principal Accounting Officer has the primary responsibility for accounting and reporting. The Self Accounting Entities are as under;
 - 1. Defence Services
 - 2. Pakistan Post Office Department
 - 3. Foreign Office
 - 4. Pakistan Public Works Department
 - 5. Central Directorate of National Savings
 - 6. Pakistan Mint
 - 7. Geological Survey of Pakistan
 - 8. Pakistan Railways
- c) Exempt Entities; special purpose authorities/ organizations and all the Government owned corporations/ companies which are required to prepare their financial statements under their specific statute or Companies Ordinance, 1984 are classified as exempt entities. Financial statements of these entities are not included in the financial statements of the Federal Government. New investments by the Federal Government in such entities are capitalized and any grants to the entities are classified as an expense of the Federal Government in the financial year to which they pertain. Return from these entities in the form of dividends or interest is classified as non-tax revenue.

These financial statements include all centralized and self accounting entities except for Pakistan Railways. Financial statements of Pakistan Railways are prepared on a basis other than cash and are separately presented.

FEDERAL GOVERNMENT

Notes to the Financial Statement

For the Year Ended 30 June 2012

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the New Accounting Model (NAM) which comprises of seven volumes. In December 2000, Auditor General of Pakistan prescribed NAM with the approval of the President of Pakistan under Article 170 of the Constitution of Islamic Republic of Pakistan and the implementation of NAM is an ongoing process. However commitment, asset and liability accounting practices have not yet been implemented and memorandum registers for assets and commitments do not exist and accounting of liabilities is not done in accordance with NAM.

3. ACCOUNTING CONVENTION AND BASIS OF PREPARATION

These financial statements have been prepared under the cash basis of accounting which recognizes transactions and events only when cash is received or paid by the entity. Assets and liabilities in the disclosed notes are on a historical cost basis.

These financial statements have been prepared as per the requirements of NAM that supports international best practices. The statement of receipts and payments, statement of cash flows, statements of comparison of budget and actual amounts by function, statements of comparison of budget and actual expenditure by division and notes forming parts thereof have been prepared on the format of Cash Basis IPSAS - Financial Reporting under the Cash Basis of Accounting. The statement of cash flows as required by IPSAS 2 - Cash Flow Statements has also been presented, as encouraged by Cash Basis IPSAS.

The Financial Statements for the financial year 2011-12 have been prepared and presented in order to make a fair presentation of all the relevant financial information without making any change in the fundamentals applied and all policies have been applied on a basis consistent with the previous year.

4. REPORTING AND BUDGET PERIOD

The reporting and budget period of these financial statements is the financial year 2011-12 (from 1 July, 2011 to 30 June, 2012).

5. REPORTING CURRENCY

The reporting currency of these financial statements is Pakistani Rupee.

6. SIGNIFICANT ACCOUNTING POLICIES

6.1. Revenue recognition

Revenue is recognized on the date of receipt of money by the bank or clearance of cheque. Revenue is recognized on a gross basis and any related costs are recorded separately. Receipts representing recovery of any previous overpayment are adjusted against relevant expenditure, if it occurs in the same financial year.

FEDERAL GOVERNMENT

Notes to the Financial Statement

For the Year Ended 30 June 2012

6.2. Recognition of expenditure

Expenditure is recognized on the date when payment is made or cheque is issued. Financial year to which the payments pertain is determined by the date on which a cheque or payment advice is issued. Policies for recognition of expenditure are as follows;

a) Payments made through cheque

Expenditure is recognized on the date the cheque is issued.

b) Inter government transfers

Expenditure is recognized on the date the transfer is made by the transferor.

c) Payments directly in bank accounts

Direct payments into bank account, expenditure is recognized on the date the payment is made by the bank.

d) Direct payments by State Bank of Pakistan (SBP)

Repayment of loans and other direct payments by the SBP, expenditure is recognized on the date State Bank of Pakistan advises the relevant accounting office.

e) Imprest payments

Expenditure is recognized when the required claim vouchers are submitted and imprest account is reimbursed.

6.3. Foreign currency transactions

Cash receipts and payments arising from transactions in foreign currencies are recorded in Pak Rupee by applying to the foreign currency amount the exchange rate between the Pak Rupee and the foreign currency at the date of the receipts and payments.

6.4. Employee benefits

The government has following plans for its employees:

a) General Provident Fund

An employee is compulsory subscribed to the General Provident Fund from the date of appointment and monthly subscription is by way of deduction from the monthly payroll at a uniform rate of subscription, as advised by the Government for a financial year as laid down in the Provident Funds Act (XIX of 1925) and General Provident Fund Rules. The Government pays interest on provident fund balance and is recorded as expenditure in the financial year.

FEDERAL GOVERNMENT

Notes to the Financial Statement

For the Year Ended 30 June 2012

b) Pension

It is the entitlement of government employees to a stream of payments after they retire from service. No liability for pension is recognized in the financial statements and pension payments made during the year are recorded as expenditure.

c) Encashment of leave

This represents liability arising from entitlements to the various forms of leave earned by government employees. No provision is made and the expenditure is recognized on the basis of payments made during the year.

6.5. Investments

Investments are initially measured at cost being the fair value of consideration given plus transaction costs that are directly attributable to their acquisition. Subsequent to initial recognition, investments are carried at historical cost. Any dividends received against investments are recognized when received in the Federal Consolidated Fund.

6.6. Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash with State Bank of Pakistan and federal treasuries.

6.7. Reporting on net basis

Floating debt includes treasury bills auctioned by the government in which the turnover is quick, the amounts are large and maturities are short. These have been reported on a net basis in compliance with IPSAS Cash Basis. A reconciliation of gross and net amounts is presented in note 29 to the financial statements.

6.8. Liability

Liabilities are future sacrifices of economic benefits that the government is presently obliged to make as a result of the past transaction. All liabilities are recorded at historical cash value.

6.9. Public Debt

Public Debt comprise cash inflows from banks, similar lending agencies, commercial institutions and amounts owing in respect of non-cash assistance provided by third parties and foreign borrowings. All debts raised are classified as either floating or permanent debts depending on the nature of the transaction.

6.10. Assets

Assets are future economic benefits controlled by the government as a result of past transactions or other past events. Assets are recorded at cost and currently no depreciation is charged.

FEDERAL GOVERNMENT

Notes to the Financial Statement

For the Year Ended 30 June 2012

6.11. Loans and advances

Loans and advances include loans and advances due from provincial governments, autonomous bodies, financial and non-financial institutions, government servants for housing building and purchase of conveyances and other loans. Loans to government servants are interest bearing and interest are calculated in accordance with the General Financial Rules.

6.12. Payments by third parties

The Federal Government also benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the period by way of loans and contributions, in the shape of grants and aids. The payments made by the third parties do not constitute cash receipts or payments controlled by the Federal Government as defined in the Cash Basis IPSAS - Financial Reporting under the Cash Basis of Accounting, but do benefit the Federal Government, as the Federal Government does not receive cash (including cash equivalents) directly from, or gain control of the bank accounts or similar facility established for its benefit by, the third parties. Payments by third parties, if any, are disclosed in the payments by third parties column on the face of Statement of Cash Receipts and Payments and notes to the financial statements.

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

7. TAXATION

	Note	2012 (Rupees in million)			2011 (Rupees in million)		
		Tax Collected	Transfers	Net Tax Collected	Tax Collected	Transfers	Net Tax Collected
Income tax	7.1	711,016	(368,801)	342,215	571,804	(334,129)	237,675
Sales tax	7.2	804,860	(456,367)	348,493	633,654	(383,735)	249,919
Customs	7.3	216,915	(114,441)	102,474	184,851	(101,131)	83,720
Federal excise	7.4	122,506	(71,438)	51,068	137,313	(87,490)	49,823
Others	7.5	12,929	(60)	12,869	12,473	(749)	11,724
		1,868,226	(1,011,107)	857,119	1,540,095	(907,234)	632,861

7.1. The Federal levy on income (Income Tax), with effect from July 01, 2002, is governed by the Income Tax Ordinance, 2001 and Income Tax Rules, 2002. It is an annual charge on the taxable income for a tax year, if it exceeds the maximum amount that is not chargeable to tax. Tax rates and method of calculating taxable income varies with fiscal status of the tax payer. The broad categories of taxpayers include companies, non salaried individuals, association of persons, Hindu undivided families and salaried individuals.

7.2. Sales Tax is a tax on consumption, levied on manufacturers and retailers as well as on the importers, wholesalers, distributors, dealers and specified services ranging from @ 17% to 22%(2009-2010 @ 16% to 21%). However, all the exports and other goods/ items mentioned in the fifth schedule to Sales Tax Act, 1990 or in a notification issued under section 4 of the Act are chargeable to tax @ 0%.

7.3. Goods imported into Pakistan are liable to custom duties at the rates specified in the first schedule to the Customs Act, 1969 (IV of 1969).

7.4. The federal excise duty is leviable under the Federal Excise Act, 2005 on exercisable goods produced or manufactured in Pakistan or imported into Pakistan or such goods as the Federal Government may, by notification in the official Gazette, specify, as are produced or manufactured in the non-tariff areas and are brought to the tariff areas for sale or consumption therein; and services, provided or rendered in Pakistan.

7.5. TAXATION OTHERS

Direct Taxes

Capital Value Tax	
Land Revenue	
Tax on Profession, Trade and Callings	
Other Direct Taxes	

Indirect Taxes

Receipts Under Motor Vehicles Act	
Stamp Duties	
Provincial Excise	
Others Indirect Taxes	

Note	2012 Rupees in million	2011 Rupees in million
	73	(608)
	192	77
	8	26
	9,051	10,630
	9,324	10,125
	1,375	1,065
	648	330
	136	127
	1,386	77
	3,545	1,599
	12,869	11,724

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

	Note	2012 Rupees in million	2011 Rupees in million
8. GENERAL ADMINISTRATION RECEIPTS			
Social Services		1,103	1,067
Community Services		731	867
Law and Order		676	713
Fiscal Administration		205	599
Economic Regulations		753	1,096
Organs of State		87	59
Statistics		3	5
		<u>3,558</u>	<u>4,406</u>
9. ECONOMIC SERVICES RECEIPTS			
Receipts under Oilfields and Mineral Development Act		547	345
Fisheries and Animal Husbandry		224	250
Special Communication Organization Receipts		924	1,602
Food and Agriculture		174	124
Forest and Irrigation		2	13
		<u>1,871</u>	<u>2,334</u>
10. DEFENCE SERVICES RECEIPTS			
Administrative Services		696	64,146
Air Force		1,399	996
General Headquarters		1	1,774
Military Engineering Services		1,614	1,309
Pakistan Navy		882	666
Defence Services Others		1,524	790
Receipts on certain measures of Inter-Services Nature		698	723
Purchase and Sale of Stores, Equipment and Animals		2,566	-
Procurement, Research & Product Development		301	265
Military Farms		194	262
		<u>9,875</u>	<u>70,931</u>

10.1. Defence services receipts mainly represent receipts realized on account of service charges in accordance with the protocol agreements, dues from civil agencies, sale & auction of obsolete stores, charges realized on account of use of army aviation facilities and leave salary etc. of armed forces personnel on deputation abroad.

	Note	2012 Rupees in million	2011 Rupees in million
11. DEVELOPMENT SURCHARGE AND ROYALTIES			
Petroleum Development Levy	11.1	60,371	72,325
Development Surcharge on Gas	11.2	19,224	30,358
Royalty on Crude Oil	11.3	23,275	23,355
Royalty on Natural Gas	11.3	39,530	38,433
Discount Retained on Local Crude Price	11.4	20,027	36,925
Gas Infrastructure Development Cess	11.5	12,685	-
Petroleum Levy on LPG		165	-
Mineral Royalties		40	29
Windfall Levy on Crude Oil		10,734	7,507
		<u>186,051</u>	<u>208,932</u>
Less: Provincial Share		<u>(78,773)</u>	<u>(92,055)</u>
		<u>107,278</u>	<u>116,877</u>

11.1. Petroleum development levy is imposed through Finance Ordinance, 2001 at per liter price of various selected products notified by the Government.

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

- 11.2. The development surcharge on natural gas is levied under the Natural Gas Development Surcharge Ordinance, 1967. In pursuance of the said ordinance, the federal government has to fix the sale price for the consumers and prescribe a price for the gas companies. The difference between the two prices is the margin available to the government as development surcharge. The surcharge on natural gas is transferred to the provinces according to the production of gas in a province.
- 11.3. Royalty on crude oil and natural gas is received under Pakistan Petroleum Production Rules, 1949 at the rate of 12.5% on the well head value of production.
- 11.4. Discount retained on local crude price is received from oil exploration companies selling petroleum products to refineries on the basis of prices prevailing at international markets. The profit margin available between sale price and cost of production is shared by exploration companies and Federal Government.
- 11.5. Gas Infrastructure Development Cess was levied vide "Gas Infrastructure Development Cess Act, 2011". The cess is chargeable from gas consumers, other than domestic sector consumers of the company aver and above the fixed sale price. The Cess shall be utilized for or in connection with Infrastructure Development of Iran Pakistan Pipeline Project, TAPI Pipeline Project, LNG or other projects or for equalization of other imported alternative fuel including LPG.

	Note	2012 Rupees in million	2011 Rupees in million
12. INTEREST ON LOANS AND ADVANCES			
Interest on Loans and Advances to Govt. Servants		60	57
Loans and Advances - Others		6,181	4,811
Provinces		12,875	19,340
Financial Institutions		3,101	4,165
Non-Financial Institutions		1,220	541
District Governments		12	256
		<u>23,449</u>	<u>29,170</u>
13. DIVIDEND AND PROFIT SHARE			
Dividends Receipts	13.1	49,354	50,645
Profit share	13.2	204,000	177,000
		<u>253,354</u>	<u>227,645</u>
13.1. Dividends Receipts			
Financial Institution			
National Investment Trust		23	-
Pak Oman Investment Company		108	-
Pak Brunei Investment Company		100	-
State Life Insurance Corporation		-	358
Pakistan Re-Insurance Corporation		404	404
Others		12	299
		<u>647</u>	<u>1,061</u>
Non-Financial Institution			
Oil and Gas Development Corporation		22,572	14,491
Pakistan Telecommunication Corporation		-	5,549
Govt Holding Pvt LTD		13,000	13,000
Pakistan Petroleum Ltd		6,358	11,917
Saindak Metal (Pvt) Limited		2,000	2,000
Pak Arab Refinery		2,400	600
Pakistan Security Printing Corporation		360	300
Pakistan State Oil Company Ltd		592	501
Fauji Fertilizer Co Limited		91	36
Sui Northern Gas Pipe Lines Ltd		174	348
Sui Southern Gas Company Ltd		1,115	535
Others		45	307
		<u>48,707</u>	<u>49,584</u>
		<u>49,354</u>	<u>50,645</u>

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

	Note	2012 Rupees in million	2011 Rupees in million
13.2. Profit share			
State Bank of Pakistan	13.2.1	204,000	177,000
		<u>204,000</u>	<u>177,000</u>

13.2.1. The share of profits from the State Bank of Pakistan represents distributable profits to the federal government against the appropriation of net profits of the bank.

	Note	2012 Rupees in million	2011 Rupees in million
14. DEVELOPMENT GRANTS			
Foreign Governments			
United States of America		9,082	-
United Kingdom		2,041	-
Saudi Arabia		172	-
Germany		720	-
Others		36	2,586
		<u>12,051</u>	<u>2,586</u>
Foreign Organisations			
International Bank for Re-construction and Development		8,496	-
Asian Development Bank		1,340	-
International Development Association		86	-
		<u>9,922</u>	<u>-</u>
		<u>21,973</u>	<u>2,586</u>

15. FOREIGN DEBT - RECEIPTS

International Monetary Fund		-	67,722
Asian Development Bank		36,582	39,587
Loans from International Development Association		47,996	66,392
Islamic Development Bank		13,471	4,685
Chinese Loan		91,208	27,110
Saudi Arabia		746	731
Loans from International Bank for Re-construction and Development		7,035	3,028
Yen Credit from Japan		12,892	12,793
International Fund for Agricultural Development		1,151	1,560
French Credit		233	1,258
Dollar Bond N.C.C.		-	1,874
German Export Credit		321	61
Kuwait		1,276	729
O.P.E.C. Special Fund Loan		812	207
Others		500	2,029
		<u>214,223</u>	<u>229,766</u>

16. DOMESTIC DEBT - RECEIPTS

Government Securities

Permanent Debt	16.1	756,978	476,155
Floating Debt-net	17	907,078	832,436
		<u>1,664,056</u>	<u>1,308,591</u>

16.1 Permanent Debt

National Prize Bonds		162,881	139,644
Pakistan Investment Bonds		407,303	154,153
Ijara Sukkuk Bond		186,791	182,355
Special U.S. Dollar Bonds		3	3
		<u>756,978</u>	<u>476,155</u>

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

	Note	2012 Rupees in million	2011 Rupees in million
17. DOMESTIC FLOATING DEBT-NET			
Floating Debt Receipts			
6 Months Market Treasury Bills purchased by SBP		3,263,503	3,007,201
6 Months Market Treasury Bills (Auction)		3,416,472	3,685,469
Treasury Bills for Ways and Means		-	59
		<u>6,679,975</u>	<u>6,692,729</u>
Floating Debt Payments			
6 Months Market Treasury Bills purchased by SBP		2,742,853	2,691,785
6 Months Market Treasury Bills (Auction)		3,029,350	3,167,608
Treasury Bills for Ways and Means		-	59
Promissory Note		694	841
		<u>5,772,897</u>	<u>5,860,293</u>
		<u>907,078</u>	<u>832,436</u>
18. PRIVATIZATION PROCEEDS			
Others		1,300	674
		<u>1,300</u>	<u>674</u>
19. RECOVERY OF LOANS AND ADVANCES			
Provinces		36,142	30,747
Financial Institution		5,703	5,942
Government Servants		1,897	1,736
Non-Financial Institution		1,679	1,570
Others		2,443	2,456
		<u>47,864</u>	<u>42,451</u>
20. TRADING ACTIVITIES			
Pakistan Post Office - Receipts		8,250	8,332
Sale of wheat		2	2
		<u>8,252</u>	<u>8,334</u>
21. SALARIES AND EMPLOYEES BENEFITS			
Pay and Allowances		351,057	314,167
Retirement Benefits		148,153	113,860
		<u>499,210</u>	<u>428,027</u>
22. PRINCIPAL REPAYMENTS OF DEBT			
Foreign Debt			
Asian Development Bank		63,861	53,560
Islamic Development Bank		630	28,192
International Bank for Re-construction and Development		13,949	13,691
International Development Association		17,180	14,442
Chinese Loan		12,708	9,675
Yen Credit from Japan		5,720	4,881
French Credit		3,038	2,645
German Loan		2,148	1,547
Saudi Arabia		9,603	15,311
Dollar Bond N.C.C.		670	1,874
Italian Credit		52	1,953
Korea		1,156	951
Others		4,571	5,429
		<u>135,286</u>	<u>154,151</u>

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

	Note	2012 Rupees in million	2011 Rupees in million
Domestic Debt-Permanent			
National Prize Bonds		107,079	100,219
Sukuk Bonds		27,848	-
Government Bonds Low Yield		-	4,957
Government Bonds to PSEs		-	1,538
Special U.S. Dollar Bonds		106	206
Federal Investment Bonds		-	2
Pakistan Investment Bonds		68,297	56,080
Others		3	2
		<u>203,333</u>	<u>163,004</u>
		<u>338,619</u>	<u>317,155</u>
23. SERVICING OF DEBT			
Domestic Debt		837,751	645,818
Foreign Debt		67,929	68,432
		<u>905,680</u>	<u>714,250</u>
24. LOANS AND ADVANCES			
Revenue Expenditure			
Capital Expenditure			
Non-Financial Institutions		-	-
Provincial Governments		76,488	39,372
District Governments		42,666	35,621
Government Employees		27,085	20,700
Others	24.1	3,786	2,950
		<u>20,313</u>	<u>14,974</u>
		<u>170,338</u>	<u>113,617</u>
		<u>170,338</u>	<u>113,617</u>
24.1. Government Employees			
House Building Advance		3,245	2,445
Motor Cycle Advance		266	268
Motor Car Advance		272	233
Cycle Advance		3	4
		<u>3,786</u>	<u>2,950</u>
24.2. Advances to government employees are provided according to Rule 252, 253, 256, 262 and 263 of the General Financial Rules as per their entitlements.			
25. INVESTMENTS - PAYMENTS			
Pakistan Railways		8,870	3,615
Karachi Electricity Supply Company		3,272	1,383
P.L.A. Corporation		2,840	2,867
E.C.O. Trade and Development Bank		2,196	2,072
Pak China Investment Company		-	66
Asian Development Bank		541	511
Islamic Development Bank		1,127	-
PASDEC Islamabad		54	-
PHPL		-	15
Karachi Shipyard and Engineering Works Ltd		-	517
NIP Karachi		249	120
Pakistan Dairy Development Co.		-	83
Pakistan Broadcasting Corporation		60	58
Pakistan Television Corporation		50	74
Pakistan Steel Mills Ltd.		-	232
		<u>19,259</u>	<u>11,613</u>

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

26. NET RECEIPT OF PUBLIC ACCOUNT

Receipts

Other Public Accounts	
National Saving Schemes	
Deposits	
State Provident Fund	

Payments

Other Public Accounts	
National Saving Schemes	
Deposits	
State Provident Fund	

Note	2012 Rupees in million	2011 Rupees in million
	1,010,282	1,517,677
	811,389	650,843
	595,481	731,577
	55,794	34,529
	2,472,946	2,934,626
	(1,066,684)	(1,503,183)
	(679,428)	(457,032)
	(557,247)	(706,814)
	(32,111)	(23,866)
	(2,335,470)	(2,690,895)
	137,476	243,731

26.1. The public account consists of those moneys received by the Government for which it has a fiduciary duty, but not at liberty to appropriate for the general services of Government, unless provided under an Act of Parliament or Presidential order. The balances in the public account are carried forward at year end, to be used for the specific purpose for which they are established.

27. CASH AT BANK AND TREASURIES

Cash with State Bank of Pakistan (SBP)	
Cash Balance with Treasuries	

Note	2012 Rupees in million	2011 Rupees in million
	124,351	140,229
	(202)	(218)
	124,149	140,011

28. ASSETS AND LIABILITIES

Assets

Long Term Assets	
Investments	
Loans and Advances	
Current Assets	
Cash at Bank and Treasuries	

Liabilities and Equity

Public Debt	
Special Deposits and Trust Accounts	
Deferred liabilities	
Capital Receipts	
Residual Equity	

	602,078	416,266
	532,011	512,882
	1,327,202	1,204,728
	66,438	58,802
	124,149	140,011
	2,651,878	2,332,689
	9,523,215	7,983,555
	1,924,859	1,795,068
	91,092	75,772
	265,981	264,681
	(9,153,269)	(7,786,387)
	2,651,878	2,332,689

28.1 These financial statements have been prepared under cash basis of accounting, the information of asset and liability have been presented which are not mandatory but encouraged disclosures as per international standards.

29. COMPARISON OF BUDGET AND ACTUAL AMOUNTS

The approved budget is developed on the same accounting basis (cash basis), functional classification basis and for the same period as for the financial statements. It encompasses the same entities as the financial statements – as identified in note 1 above.

The statements of comparison of budgeted and actual amounts by function and by division are presented on a gross basis, whereas receipts and payments of floating debt in the Statement of Cash Receipts and Payments have been netted off as explained in note 6.7 for which a reconciliation is presented below.

FEDERAL GOVERNMENT
Notes to the Financial Statements
For the Year Ended 30 June 2012

	Note	2012 Rupees in Million	2011 Rupees in Million
Actual receipts in Statement of Comparison of Budget and Actual Amounts by Function		9,046,689	8,574,288
Add: Floating debt-net	17	907,078	832,436
Less : Floating debt receipts	17	(6,679,975)	(6,692,729)
Actual receipts in Statement of Cash Receipts and Payments		<u>3,273,792</u>	<u>2,713,995</u>
Payments			
Actual payments in Statements of Comparison of Budget & Actual Amounts by Function and Actual Expenditure by Division		9,200,027	8,724,902
Less : Floating debt payments	17	(5,772,897)	(5,860,293)
Actual payments in Statement of Cash Receipts and Payments		<u>3,427,130</u>	<u>2,864,608</u>

30. AUTHORIZATION FOR ISSUE

Under section 7 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, read with Article 171 of the Constitution, the Auditor-General submits the certified financial statements of the federal government together with the audit reports on these financial statements to the President of the Islamic Republic of Pakistan who shall cause them to be laid before the National Assembly. These financial statements have been authorized for issue on 31 DEC 2012.

31. GENERAL

31.1. Level of Precision

Figures in these financial statements have been rounded off to the nearest million of rupees, unless otherwise stated.

31.2. Corresponding Figures

Corresponding figures, wherever necessary, have been rearranged and reclassified for the purposes of comparison.



Accountant General Pakistan Revenues