

# Network and Financial Management





# Banking Services to Governments and Banks



# 1 Banking Services to Governments and Banks

*As a statutory obligation on behalf of State Bank of Pakistan (SBP), the SBP Banking Services Corporation carries out the operational work relating to the Banker to Governments and Banks through its 16 Field Offices and a wide network of authorized branches of National Bank of Pakistan (NBP). Moreover, Bank of Punjab (BoP) is also providing collection service to the Government of Punjab. SBP BSC's Accounts Department prepares Annual Accounts of the Corporation, besides managing and monitoring its budget making process.*

## 1.1 Overview

SBP BSC provides banking services to the Federal, Provincial and District Governments through its Field Offices, National Bank of Pakistan and Bank of Punjab. Further, it provides banking services to banks falling within the domain of each Field Office.

(Reference: Section 21 of SBP Act 1956, read with Section 15 (3) e of SBP BSC Ordinance 2001)

### **Box 1.1: Services Provided to Governments, Banks and Non-bank Financial Institutions:**

- a) Collection of revenues and payments on behalf of departments of Federal and Provincial Governments.
- b) Reporting of transactions to Federal Board of Revenue (FBR) on daily basis vide Collection Automation Program (CAP).
- c) Facilitating Government departments for settlement of payments and receipts through agents of SBP i.e. National Bank of Pakistan and Bank of Punjab.
- d) Operational work relating to public debt transactions.
- e) Maintenance of current accounts of Commercial Banks and Non-bank Financial Institutions (NBFIs).
- f) Remittance facilities to Governments and financial institutions regarding transfer of funds.

## 1.2 Management of Governments' Accounts

As part of its core functions, SBP BSC maintains the accounts of Federal, Provincial & Local Governments and is responsible for consolidation of receipts and payments made on their behalf. Data pertaining to Governments' transactions is reported to the concerned stakeholders i.e. Finance Department-SBP, Accountant General of Provinces, Accountant General Pakistan Revenue (AGPR) and Pakistan Railways etc.

Being an operational arm of SBP and facilitator of payment and settlement system, the Accounts Department provides operational support to Payment Systems Department (PSD) - SBP. As part of SBP's Vision 2020, the Accounts Department and SBP's Finance and Payment Systems Departments are jointly working to introduce:

- a) Collection of Government taxes through Alternative Delivery Channels (ADCs) like Automated Teller Machines (ATMs), Internet and Mobile Banking etc.
- b) Integration and interoperability of various payment systems for establishing industry standards to ensure ongoing security.

In this regard, Sindh Revenue Board (SRB) has already started collection of its taxes through ADCs. FBR and Customs authorities collection through ADCs will be initiated shortly.

Accounts Department is working to strengthen the internal controls and bring about efficiency by obtaining Government payment schedules through Data Acquisition Portal (DAP), consolidation of cheques, standardization of Government instruments and enhancement of their security features.

Further, it is also coordinating with Finance Department and AGPR with a view to implementing a single solution for issuance of cheques by different Government departments and real time reporting & reconciliation of payment made against these cheques by different Field Offices. This E-cheque reconciliation system has been introduced across SBP BSC on test basis, which will not only improve the operational efficiency of SBP BSC, but also enable the Government to have the desired information on real-time basis.

During FY17, around 7.04 million transactions of Government payments/receipts were processed by SBP BSC Field Offices as compared to 8.01 million in FY16. (Table 1.1).

Table 1.1: Government Receipts/Payments Transactions (million transactions)			
Transactions	2016-17	2015-16	2014-15
Receipts	2.74	3.74	2.97
Payments	4.30	4.27	4.09
Total	7.04	8.01	7.06

### 1.3 Reporting of Zakat Balances

Consolidation, maintenance and reporting of Zakat Account to the Ministry of Religious Affairs is one of the important functions being performed by SBP BSC, especially after the 18<sup>th</sup> Constitutional Amendment, as the data is to be prepared/reported as per the source of deduction of Zakat by the authorized institutions. During the year under review, around Rs 8.14 billion Zakat was collected and deposited with SBP BSC by various institutions as compared to Rs 7.48 billion last year, showing an increase of 9%.

### 1.4 Reporting to Federal Board of Revenue

One of the vital tasks performed by SBP BSC is collection, consolidation and reporting of data pertaining to FBR taxes. In order to streamline the reporting of tax collected by the Field Offices as well as to facilitate the tax payers in obtaining evidence of tax deposit promptly, the SBP BSC has been using Collection Automation Project II (CAP-II) – a system of FBR – which has largely ensured reporting of tax collection to FBR on real time basis.

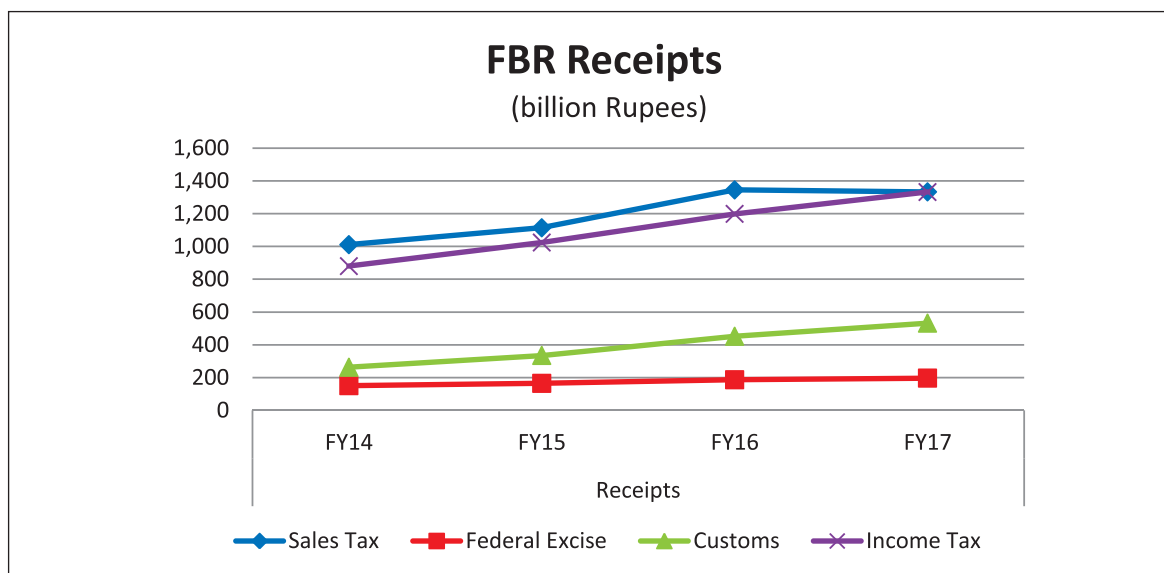
The tax revenue collected by SBP BSC Field Offices & network of NBP branches and credited to the concerned accounts of Federal Government during FY17 was around Rs 3,395 billion as compared to Rs 3,183 billion in FY16, depicting an increase of about 7%. Details are as under:

Table 1.2: FBR collection (In billion Rupees)				
Head of Account	Receipts			
	FY14	FY15	FY16	FY17
Sales Tax	1,011	1,114	1,345	1,333
Federal Excise	151	165	187	197
Customs	263	335	452	532
Income Tax	880	1,024	1,199	1,332
Total	2,305	2,638	3,183	3,395

Note: The totals may exhibit slight difference due to separate rounding off.



Figure 1



### 1.5 Banker to Banks

SBP BSC operates current accounts of banks to facilitate both cash reserve computations by SBP and their (banks) day-to-day operational requirements. These accounts are operated by the authorized representatives of banks according to the powers prescribed in Power of Attorney (POA) delegated to them by the competent authority of respective bank. In order to make the POA a sound legal document, a standardized Power of Attorney has been developed, which is under continuous review for improvement. By and large, this initiative has been appreciated widely by banks since various ambiguities pertaining to POA have now been resolved to a considerable extent.

### 1.6 Clearing House Services

SBP BSC supports SBP in carrying out the supervision of automated clearing services provided by National Institutional Facilitation Technologies (NIFT) in order to process and settle transactions between commercial banks across the country. During FY17, around 64.5 million instruments were processed through NIFT as against 66.9 million in FY16.

With a view to further integrating the financial and banking infrastructure, Clearing House membership has also been allowed to Central Directorate of National Savings (CDNS), which is a milestone achievement. Earlier, only the banks were allowed membership of the Clearing House.

### 1.7 GL/Reconciliation

Accounts Department, which is responsible for accounting and financial functions, issued the International Financial Reporting Standards (IFRS) compliant financial statements for FY16 during the year under review. In pursuit of implementing the best accounting practices at par with international standards, the Department has also developed / revised various policies in Budgeting, Reconciliation, Asset Management and Internal Monitoring etc.

## **1.8 Major Achievements:**

Major achievements of Accounts Department during the year under review are mentioned below:

### **Box 1.2: Major Achievements**

1. Implementation of E-Cheque Reconciliation System of Financial Accounting and Budgeting System (FABS) throughout SBP BSC. The system is expected to provide multiple benefits to Government & SBP BSC such as efficiency in business process, better time - saving, enhanced internal control and rationalization of workload.
2. Submission of Schedules in soft form through Data Acquisition Portal (DAP) by CDNS resulting in business process efficiency, prompt clearance of cheques, enhanced internal control and workload rationalization.
3. Consolidation of Controller Naval Accounts cheques whereby thousand of cheques would be reduced to less than hundred. Also developed Standard Operating Procedures (SOPs) for this consolidation.
4. To improve the cheque security features and standardizing Government instructions, Finance Division, Government of Pakistan (GoP) and Finance Departments of all provinces were approached.
5. Got approval for opening sub office/booth of SBP BSC at Custom House, Karachi.
6. Got approval for collection of custom duty at SBP BSC, Karachi Office.
7. Started collection of sales tax at SBP BSC Field Offices which resulted in saving of commission amounting to Rs 30 million for the Government.
8. Re-engineered the process of Online Transfer and Inter Account transfer for NBP to ensure early settlement of Government receipts.
9. Strengthened monitoring system to ensure timely submission of Government receipts by NBP and imposed significant penalty on delayed settlements.
10. Continuous liaison & monitoring of NIFT which resulted in considerable reduction in clearing time.
11. To get the schedules of military instruments through DAP, a meeting with Military Accountant General (MAG) and Controller Military Accounts-Officers' Pension (CMA-OP) was conducted and is likely to reduce significant workload and bring about efficiency.
12. Provided facilitation to Pakistan Railways through ensuring payment of monthly salary to railway employees and their pensioners across Pakistan in one day before Eid ul Fitr 2016. The entire payment was made through managing and ensuring all internal and other controls by working after office hours.

## **1.9 Future Outlook:**

The future outlook of SBP BSC in Banking, Payment Systems, Accounting and Finance is primarily derived from SBP's Strategic Plan for 2016-20. Some of the initiatives already undertaken and aimed to be undertaken by the Accounts Department would be in respect of following projects:

1. Opening of SBP BSC Booth at Custom House, Karachi.
2. Implementation of E-cheque reconciliation system for Government banking in coordination with Financial Accounting and Budgeting System Directorate of Controller General of Accounts.
3. Using Data Acquisition Portal to obtain confidential information such as schedules etc.
4. Standardization of Government cheques with adequate security features.
5. Appointing new agent(s) of SBP for conducting Government business.