Strengthening Public Accounts with IPSAS and IFRS Amid FX Volatility

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The move from cash-based to accrual-based public sector reporting, instituted in line with International Public Sector Accounting Standards (IPSAS), represents a pivotal shift in the field of public sector accounting in Pakistan, aiming for greater transparency and accountability (Gondal, 2025; Auditor General of Pakistan, 2025). But the ongoing transition is against a continued backdrop of Pakistani rupee (PKR) devaluation and volatility in the foreign exchange (FX) market (Ali & Khan, 2025; Fitch Ratings, 2025). This article discusses the challenges faced in public sector accounting presented by PKR depreciation and suggests specific policy/ capacity building steps that will help in answering these.

Introduction

The New Accounting Model in Pakistan has been functioning on the basis of cash for decades, and had the advantage of creating a simple model, but at the same time, it led to concealment of public assets and liabilities and fiscal risks. The Auditor General of Pakistan (AGP) started a pioneering change towards using accrual-based accounting which is similar to International Financial Reporting Standards (IFRS), but will include public sector characteristics in December 2025 (Auditor General of Pakistan, 2025; Daily Times, 2025). The reforms would have a positive effect on improving the quality, completeness and reliability of government financial statements (Gondal, 2025).

But there is a tough economic reality facing the new accounting system. In mid-2025, one PKR cost about 278 USD, with its value decline by almost 90% since 1995 (Masud et al., 2025). While exchange rate volatility has remained elevated, sovereign external debt continues to hurt the fiscal balances (Ministry of Finance, Pakistan, 2025, The News, 2025). This is a setting that is directly challenging the faithful representation as required by IPSAS/IFRS (Ocansey et al., 2025).

Foreign Exchange Translation and Functional Currency Determination: IAS 21 & IPSAS 4

Foreign currency transactions and financial statements should be translated in accordance with the standard IAS 21 The Effects of Changes in Foreign Exchange Rates (International Accounting Standards Board, 2025). Numerous public sector entities in a scenario of PKR that is weak and volatile are battling three key dilemmas.

Many government projects and SOEs operate with dual currency revenue and expenditure. Determining whether the functional currency should be PKR or a foreign currency has become a complex and contentious issue.

- **Translation of foreign-currency denominated debt:** Foreign debt denominated in foreign currency (such as from IMF, World Bank or bilateral lenders) needs to be re-translated on every statement date at the closing rate. A 10% depreciation of PKR adds 10% to the liability side of the balance sheet (assuming there is no additional borrowing) – resulting in significant balance-sheet volatility (Ministry of Finance, Pakistan, 2025).
- **The lack of exchangeability:** In 2025, the International Accounting Standards Board (IASB) issued recent amendments in IAS 21, which guide in the case of unavailability of exchangeability of the currency. Although the PKR is currently exchangeable, 'recurring episodes of liquidity squeeze' in the Pakistani interbank market at times approaches the 'lack of exchangeability' scenario (SBP, 2025).

One practical risk is that the same public entities might use different rates or estimation methods in developing financial statements, which can result in non-comparability of such statements, thereby negating the transparent aspect of IPSAS goal. (Ocansey et al., 2025; Center for Peace and Development Initiatives, 2026).

Financial Instruments, Expected Credit Losses and Public Debt: IAS 39 and IFRS 9

Public sector units (PSU) have financial assets (financial liabilities of PSUs) and Pakistan has financial liabilities (external sovereign bonds, foreign commercial loans). This accounting reform (SBP 2025) from IAS 39 to IFRS 9 can be called a big transition. The incorporation of IFRS 9 will change how future credit losses are recognized in the books of accounts by public sector accountants, subsidiary the expired incurred-loss model to an expected-credit-loss (ECL) model, which would involve predictions of future credit losses through forward-looking scenarios (Pakistan Today, 2025).

More and More ECL with Devaluation of PKR

Foreign receivables (e.g., loan to domestic power company in USD) re-translated at a higher closing rate of PKR will lead to higher nominal PKR value of the asset. But, the borrower's ability to pay back (PD) could potentially be affected negatively when the envisioned change in PKR further deteriorates its financial health (Ali & Khan, 2025). According to IFRS 9, ECL should be determined on a forward-looking basis taking account of reasonable and supportable information about the future economic conditions (International Accounting Standards Board, 2025). A devaluation scenario would lead to an increased ECL provision, which due to the direct impact would lead to a decrease in government’s net assets presented (K-Electric, 2025).

Governmental Receivables - IFRS 9 exemption

The Securities and Exchange Commission of the Pakistan (SECP) has awarded an exemption on implementation of the IFRS 9 model for ECL on financial assets finally due from the Government of Pakistan (GoP) to implement the IFRS 9 model of ECL for such financial assets till 31 December 2025 (K-Electric, 2025). It was argued that it might resulting in volatile financial statements and breach of loan covenants due to IFRS 9 (Pakistan Today, 2025). But the Government of Pakistan has proposed to not increase the exemption after 2025 (Ministry of Finance, Pakistan, 2025). As of that date, public sector entities would also have to switch to IFRS 9 which would hence require them to model ECL at volatile exchange rates posing a significant challenge technically and in data collection (State Bank of Pakistan, 2025).

Measurement of Assets and Revaluation – IAS 16

The revaluation model, which writes assets up to or down to fair value without their revaluation surplus being recorded in profit or loss, is allowed under IAS 16 (Property, Plant and Equipment) (International Accounting Standards Board, 2025). During a hyper-inflationary or high-volatility scenario, the fair values of goods and services purchased or used for the construction of imported capital assets, such as a power plant constructed with imported equipment, may experience significant fluctuations as a result of exchange rate variations even though no actual change in the good or service has taken place (Auditor General of Pakistan, 2025).

The observations from audit reports in other countries indicate that the omissions of asset 'understated' depreciation expenses negatively impact on the financial statements (Tsholotsho Council, 2025). Ensuring that revaluation is done regularly (standard recommends 3–5 years) and the revaluation for an asset class is done in the same way, are the issues that the public sector needs to solve in Pakistan's context (The Express Tribune, 2025). Revaluation of assets can be subject of volatability if not applied 'stringently' leading to a lack of transparency (Baloch, 2025).

Revenue Recognition (now, for most part superseded by IFRS 15): IAS 18

Historically, IAS 18 (Revenue) had the guidance of recognising revenue when the risks and rewards of ownership of the assets transferred, while IFRS 15 recognises revenue based on the transfer of control, which is evaluated for each performance obligation (International Accounting Standards Board, 2025). In Pakistan, there are numerous non-exchange transactions of the public sector which are not scope of typical IFRS 15 such as taxes, grants or fees. The IPSASB has been working on a public-sector specific revenue recognition standard (International Public Sector Accounting Standards Board, 2025).

Also from a PKR-volatility point of view, a government grant of USD 100m, disbursed at a rate of 200 per USD, may have a smaller PKR value if it is disbursed later when the rate of USD is 280. In the case of accrual accounting, the revenues should be recorded when the government has control of the resources, rather than when cash is received (World Bank, 2025). While devaluation has no effect on control, it does result in a measurement difference which needs to be disclosed. Presently, there are no effective policies and approaches in place to tackle non-exchange revenue measurement in the face of high exchange rate volatility within the public entities of Pakistan (IMF, 2025).

Employee Benefits—IAS 19, Public Sector Pensions

For defined benefit obligations, including government pension schemes, liabilities must be calculated using actuarial assumptions, one of which is the discount rate required by IAS 19 (Employee Benefits) (Príma Consulting, 2025). In Pakistan, where unfunded and partially funded pension schemes dominate, the liabilities are enormous (PIDE, 2025), and increasing devaluation further raises the cost of pensions. Linking discount rates to government bond yields, particularly when those yields rise due to currency risk premiums, reduces the present value of pension obligations, since a higher discount rate lowers the liability. Conversely, when the finance ministry applies a lower risk-free rate, such as PKR government securities, pension liabilities increase (Ministry of Finance, Pakistan, 2025). In an illiquid market like the PKR bond market, however, some degree of judgment is inevitable in determining the appropriate market-based discount rate for IAS 19 compliance (Príma Consulting, 2025).

Devaluation also interacts with other actuarial assumptions, such as salary growth and mortality or early retirement rates. When the PKR weakens, salary adjustments often accelerate to match inflation, which in turn raises future benefit payments (PIDE, 2025). This dynamic underscore the urgency for Pakistan's public sector entities to strengthen actuarial capacity and align with IAS 19, particularly as institutions like Pakistan Railways (2025) move toward IFRS 9 compliance.

Share-based Payment: IAS 22

Responding to this, IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) stipulates that a provision should be recognized if there is a present obligation that results from a past event, and an estimate of the obligation's costs can be made with reasonable accuracy (International Accounting Standards Board, 2025). In a devaluation scenario the contingent liabilities that may come back upon the Pakistani government may:

If the government guarantees a foreign currency loan for an SOE, and as a result of subsequent events, the Pakistan Rupee depreciates, the guarantee liability (in PKR terms) will increase, possibly forming a condition in IAS 37 (Ministry of Finance, Pakistan, 2025).

Because of this, the legal claims also need to be disclosed and sometimes recognized as provisions – as there could be claims from contractors or foreign investors for an exchange-rate loss (Ali & Khan, 2025).

IAS 37 requires the accounting for provisions with the time value of money if it is material. The discount rate should be a pre-tax rate and represent market judgements about the time value of money, including judgments about the additional risks that exist for the liability (International Accounting Standards Board, 2025). Chosen discount rates are very judgmental in high-volatility environments. Adopting sensible changes to IAS 37 that the IASB is currently proposing, may provide necessary clarity on the measurement of the provisions when uncertainty exists, and, therefore, could be an area of focus for all Pakistani public sector accountants (International Accounting Standards Board, 2025).

Don't let the above-mentioned challenges mean that IPSAS/IFRS has gone wrong. On the other hand, with accrual accounting, transparency is required as risks are evidenced that you may otherwise have not noticed (International Federation of Accountants, 2025). For Pakistan, however, three vital steps need to be taken to extract benefits.

Foreign-currency translation, calculation of ECLs and revaluation of assets can be automated with digital systems. Pakistan currently has an integrated financial management information system (IFMIS) in place to track actual expenditures at real-time, using the PIFRA SAP. New programs include the "Open Budget & Expenditure Initiative" (DDO Dashboard), which seeks to better equip citizens to monitor and oversee (Ministry of Planning Development and Special Initiatives, 2025). Restructuring and scaling these systems across all public entities, along with inserting exchange rates information from the State Bank of Pakistan (SBP), is the best approach to minimize manual errors and apply standards in a consistent manner (NIPA delegation, 2025; PPRA, 2025).

Improve Audit, PAC Oversight and Whistleblower Protection

The Public Accounts Committee (PAC) should account on this issue of misappropriation of funds by public entities with IPSAS/IFRS (Auditor General of Pakistan, 2025). A Civil Society Governance Diagnostic Assessment carried out by the Transparency International Pakistan in 2025 shows that the public grievance mechanism is dysfunctional and will suggest a strengthening of PACs at the national and provincial level. Furthermore, under the Whistleblower Protection and Vigilance Commission Bill, 2025 (Senate passed) an Independent Commission will be formed to safeguard whistleblowers reporting financial irregularities (Senate of Pakistan, 2025). The promulgation of such a law and formalization of its enforcement would go hand in hand with standard-setting.

The Capacity of Actuarial, Data and Training

For making the implementation of IAS 19, IAS 37 and IFRS 9, it demands expertise which is not available so far in the public sector of Pakistan in the era of volatile FX. The current staff and provincial accountants as well as the finance teams of the SOEs, including Pakistan Railways, should be provided with a speedy skill development program. Institute of Cost and Management Accountants of Pakistan (ICMA) could be a front runner in designing these programs and certification of IPSAS/IFRS accountants in public sector.

Climate Finance Transparency

The IPSASB also released a new Climate-related disclosures Standard (IPSASB SRS 1) which mandates that governments make climate-related disclosures in their general-purpose financial statement (International Public Sector Accounting Standards Board, 2025). Pakistan is extremely vulnerable to climate shocks and climate finance is generally in foreign currency (World Bank, 2025). The costs of climate grants and/or climate loans in PKR are directly impacted by devaluation. Climate disclosure along with existing standards will aid citizens and development partners in interpreting the impacts of FX fluctuation on climate investments (International Public Sector Accounting Standards Board, 2025).

Conclusion

The transition from conventional cost accounting and accounting systems to IPSAS/IFRS in the public sector is bold reform which would serve as model for developing countries, if implemented successfully (International Federation of Accountants, 2025 and Ocansey et al., 2025). But the route is riddled with technical hurdles, most tellingly the issue of the ongoing devaluation of the Pakistani rupee and volatility in the foreign exchange market (Ali & Khan, 2025; Fitch Ratings, 2025). To overcome these challenges, it is not only essential to adhere to IAS 21, IAS 39/ IFRS 9, IAS 16, IAS 18, IAS 19, and IAS 37, but concerted efforts are also needed to invest in digital infrastructure, audit oversight, actuarial capabilities, and transparent disclosure (PIFRA, 2025; Senate of Pakistan, 2025). The Centre for Peace and Development Initiatives writes that, if achieved, Pakistan's success will show how high-volatility economies can develop credible public financial management that is transparent and based on trust (2026). IMF (2025) writes in a paper that, if successful, Pakistan will prove that high-volatility economies can foster credible public financial management based on transparency and trust. It is important that over the next 24 months they be crucial, and the global public sector community will also be keeping a close watch on them (Wealth Pakistan, 2025; The News, 2025).

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